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STATEMENT BY THE CHAIRMAN OF THE BOARD

Dear stakeholders,

I am honoured to present to you the financial statements of the International Bank Group for the year 2015.

All around the world, 2015 was a year full of economic challenges. Also in this year, markets around the world continued in their efforts to recover from the financial crisis and its implications. Whilst in the United States there are positive signs of recovery, reflected in economic indicators, and even for the first time in several years we witnessed a move for the rise in the interest rate, in Europe the expansionary monetary policy continues and recovery still seems far away.

Also in the developing markets, and in China in particular, we witness crisis, which results in a low economic growth.

The global slowdown has not left out the Israeli economy, which is reflected mostly in a growth rate lower than forecasted and in a significant decline in investments.

This global slowdown, accompanied by fluctuations on the capital and currency markets, on background of the low interest environment, increases risk and uncertainty, which challenge the financial and banking systems.

In the era following the crisis, the banking system faces many challenges:

- Stricter regulation, reforms and many legislation initiatives.
- Ever increasing competition within the financial system.
- Expansionary monetary policy, reflected in insignificant interest rates.

All these burden the ability of the banking system to grow and require appropriate planning.

The International Bank Group continues to maintain its stability and strength and is successful in facing the challenges it encounters. This is reflected in a capital adequacy ratio that is one of the highest in the banking system, and in qualitative credit portfolio, derived from the strategy, which reflects an appropriate risk appetite.

Alongside this, the group continues to maintain a leading position in banking services pertaining to the capital market and private banking.

During the third quarter of the year, the Board of Directors approved the refreshing of the strategy for the years 2016-2018, and modified the supreme goals to changes stemming from the macro-economic situation. For the first time, the Bank has even determined a challenging goal for efficiency ratio.

In accordance therewith, the Group takes action for the implementation of a strategic efficiency outline, which would match the level of expenditure to the level of banking activity in this competitive era.

As part of the above, various actions have been performed, which include organizational and business changes.

Following the discontinuation of the London operations in 2014, the Bank successfully merged UBank on September 30, 2015, and PAGI Bank on December 31, 2015. The results of these mergers will have a positive impact on the efficiency of the Bank, both on the income side and on the expenditure side.

In the reported year, the Bank completed the construction of the MATAF Building, and has successfully moved the technological operations supporting the Bank services to a new and modern building, thus significantly upgrading its preparations for the facing of the many challenges in this field, and for functioning in cases of emergency.

Within the framework of the contribution to the community, the International Group encourages its employees to volunteer for community work, and also donates funds for various activities of assistance and contribution for the welfare of the community, with an emphasis on children and youth in distress situations.

In July of this year, the Bank published the second corporate responsibility report, prepared in accordance with global standards, thus indicating its commitment to this subject.

Finally, the results of the Group and its achievements, have been obtained thanks to the work and dedication of the employees and Management, and for this, I and the Board of Directors convey our gratitude and much appreciation.

Tel-Aviv, 28, February, 2016



Rony Hizkiaho
Chairman of the Board of Directors

Report of the Board of Directors and Management

GENERAL OVERVIEW, GOALS AND STRATEGY

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REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT FOR THE YEAR 2015

The meeting of the Board of Directors held on February 28, 2016, resolved to approve and publish the audited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), at December 31, 2015.

GENERAL OVERVIEW, GOALS AND STRATEGY

The Bank Group is one of the five large banking groups in Israel.

The business operations of the Bank Group focus on several principal areas:

- Financial brokerage between depositors and borrowers, which is the basis for commercial banking. Income from such operation is reflected in net interest income comprising the main source of profit of the Group.
- Financial and banking services producing commission income in a variety of operations in the foreign currency, international trade, securities, information services, credit cards, derivative financial instruments, etc.
- Investment and pension consulting.
- The "nostro" investments of the Bank and market and liquidity risk management.
- Operational banking services for the capital market with respect to provident funds and mutual funds.
- Trusteeship services for private and institutional customers through the Bank's trust company.

The Bank Group operates through three principal business divisions:

- The corporate division, which conducts all operations relating to corporate and middle-market customers, as well as business and institutional customers active on the capital market. Operating within this division is the business region, covering the operation of all business branches of the Bank.
- The banking division, which conducts all operations relating to private customers of the Bank, including private banking, households and small business. The division operates through 104 branches (of which seven UBank branches, which merged into the Bank on September 30, 2015 and twenty-two PAGI Bank branches which was merged into the Bank on December 31, 2015), while in addition, Otzar Hachayal Bank operates forty-six branches and Massad Bank operates twenty-two branches (a total of 172 branches in the whole Group).
- The customer asset division which conducts deposit and capital market operations, including dealing rooms specializing in transactions with the branches, with professional customers and with institutional bodies.

FORWARD-LOOKING INFORMATION

Part of the information detailed in this report which does not refer to historical facts is forward-looking information as defined in the Securities Law, 1968. Actual results are likely to be substantially different from those included in the context of forward-looking information due to a large number of factors, including changes in legislation and supervisory directives, macroeconomic developments in Israel and abroad and their effect on the liquidity position and stability in the capital markets at business companies in Israel and abroad, exceptional economic developments such as extreme changes in interest rates, exchange rates and inflation, stock prices, bond prices, competitors' behavior and changes in the terms of competition.

Forward-looking information is notable for such words or expressions as: "forecast," "expected," "in the Bank's estimation" and "the Bank intends," as well as expressions such as "will be able," "might be" and "will be." These forward-looking expressions involve risks and uncertainty because they are based on the Management's assessments regarding future events that may not occur or that may occur in a different manner than expected as the result inter alia of the aforementioned factors or as the result of the materialization of one or more of the risk factors detailed in the table of risk factors presented in this report.

The information in this report is based, among other, on the publication of the Central Bureau of Statistics, the Treasury department and the data from the Bank of Israel, as well as on public information given by different factors operating and connected with the capital and money markets.

Net profit attributed to the Bank's shareholders amounted to NIS 446 million, compared with NIS 455 million in 2014, a decrease of 2.0%.

Net return on equity attributed to the Bank's shareholders amounted to 6.5% compared with 6.8% in 2014.

Set out below are the central factors which affected the profit of the Group in 2015, in comparison with 2014:

- Decline in interest income, net, in the amount of NIS 148 million (7.0%), stemming from the decrease in market interest rates.
- Decline in non-interest financing income of NIS 81 million, due mainly to the decrease in gains on realization of bonds amounting to NIS 113 million, and from an expense of NIS 37 million, regarding a Court verdict in a legal action recognized in non-interest financing expenses.
- Decrease in credit loss expenses of NIS 71 million. The rate of credit loss expense amounted to 0.02%, as compared to 0.13% in 2014. Credit loss expenses in 2014 included an increase in the collective provision of NIS 45 million, in respect of the implementation of the instructions of the Supervisor of Banks in the matter of "Collective provision for consumption credit to private individuals".
- Decrease of NIS 48 million in other income, stemming mostly from the gain on sale of the shares of FIBI London, which was recognized in the corresponding period last year.
- Decrease in operating and other expenses in the amount of NIS 202 million (6.9%), affected mostly by the decrease of NIS 151 million in payroll and related benefit expenses (8.5%), explained, inter alia, by the implementation of the special collective labor agreement, and from the reduction in the number of staff in the Group, and from a decrease of NIS 43 million in other expenses and in maintenance and depreciation expenses of buildings and equipment, stemming also from efficiency measures applied by the Group. Operating expenses in 2015 include an amount of NIS 30 million in respect of the merger of UBank.

Basic earnings per NIS 0.05 share amounted to NIS 4.45 compared with NIS 4.54 in 2014.

Net earnings attributed to the bank's shareholders totaled NIS 117 in the forth quarter of the year compared with NIS 86 million in the third quarter of the year and NIS 51 million in the forth quarter of last year.

Return of net profit on capital attributed to the shareholders of the Bank amounted in the fourth quarter of the year to 6.8%, as compared to 5.0% in the third quarter and with 3.1% in the fourth quarter last year.

The Bank Group's total assets on December 31, 2015 amounted to NIS 125,476 million compared with NIS 117,807 million on December 31, 2014, an increase of 6.5%.

Credit to the public, net on December 31, 2015 amounted to NIS 72,555 million compared with NIS 68,931 million at the end of 2014, an increase of 5.3%.

Deposits from the public on December 31, 2015 amounted to NIS 103,262 million, compared with NIS 95,155 million at the end of 2014, an increase of 8.5%.

Capital attributed to shareholders totaled NIS 7,035 million on December 31, 2015, compared with NIS 6,797 million and at the end of 2014, an increase of 4.1%.

The ratio of comprehensive capital to risk components amounted to 13.26%, as compared to 14.24% at the end of 2014.

The ratio of Tier I equity capital to risk component as of December 31, 2015 amounted to 9.81%, as compared to 9.69% at the end of 2014.

On June 30, 2015, the Bank signed a merger agreement with UBank Ltd. (hereinafter - "UBank"), a wholly owned subsidiary of the Bank, and an additional merger agreement was signed between the Bank and Poalei Agudat Israel Bank Ltd. (hereinafter - "PAGI"), also a wholly owned subsidiary of the Bank. According to these agreements both UBank and PAGI would merge with and into the Bank, in a way in which all assets and liabilities of each of these banks, as of the merger date, would pass to the ownership of the Bank at no consideration, and UBank and PAGI would be eliminated without liquidation, being struck-off the records of the Registrar of Companies.

According to the merger agreements, the merger with UBank was set for September 30, 2015, and the merger with PAGI was set for December 31, 2015.

Following the merger, the PAGI branches would continue to focus mainly on the orthodox and ultra-orthodox customer sectors, while the UBank branches would continue to specialize in providing private banking and advanced capital market services (for additional details - see Note 15 F to the financial statements).

In addition to the Bank, the Group operates today two additional commercial banks in Israel, which cater to unique customer populations: Otzar Hachayal Bank, specializing in services to retail and commercial customers, mostly employees and retirees of Israel's Ministry of Defense agencies; and Massad Bank, specializing in providing services to teaching staff population in Israel. The Group has a subsidiary in Switzerland - FIBI Bank (Swiss) - located in Zurich and specializing in private banking.

PRINCIPAL DATA

Profit and profitability	For the year ended December 31			Change vs.	
	2015	2014	2013	2014	2013
			NIS million		in %
Financing profit ⁽¹⁾	2,102	2,331	2,387	(9.8)	(11.9)
Fees and other income	1,392	1,437	1,464	(3.1)	(4.9)
Total income	3,494	3,768	3,851	(7.3)	(9.3)
Of which: Fees	1,378	1,375	1,418	0.2	(2.8)
Expenses from credit losses	18	89	97	(79.8)	(81.4)
Operating and other expenses	2,710	2,912	2,860	(6.9)	(5.2)
Net profit attributed to the shareholders of the bank	446	455	538	(2.0)	(17.1)

Balance Sheet	As of December 31			Change vs.	
	2015	2014	2013	2014	2013
			NIS million		in %
Total assets (Total Balance Sheet)	125,476	117,807	111,025	6.5	13.0
Credit to the public, net	72,555	68,931	68,680	5.3	5.6
Securities	16,439	12,554	10,799	30.9	52.2
Deposits from the public	103,262	95,155	89,122	8.5	15.9
Bonds and subordinated notes	5,862	4,903	5,702	19.6	2.8
Capital attributed to the shareholders of the bank	7,073	6,797	6,673	4.1	6.0
Net total problematic credit risk	2,219	2,864	2,762	(22.5)	(19.7)

Main financial ratios	2015	2014	2013
Capital attributed to shareholders of the bank to total assets	5.6%	5.8%	6.0%
Expenses from credit losses to credit the public, net	0.02%	0.13%	0.14%
Ratio of equity capital tier 1 to risk assets	9.81%	9.69%	9.98%
Ratio of total capital to risk assets	13.26%	14.24%	14.66%
Leverage ratio ⁽²⁾	5.43%		
Liquidity coverage ratio ⁽²⁾	104%		
Credit to the public, net to total assets	57.8%	58.5%	61.9%
Deposits from the public to total assets	82.3%	80.8%	80.3%
Deposits from the public to credit to the public, net	142.3%	138.0%	129.8%
Operating and other expenses to total income	77.6%	77.3%	74.3%
Net return on equity attributed to shareholders of the bank	6.5%	6.8%	8.4%

(1) Net financing profit includes net interest income and non-interest financing income (expenses).

(2) According to instructions of the Bank of Israel the Leverage ratio and the Liquidity coverage ratio were calculated since 2015. Therefor no comparative data is stated.

CONSOLIDATED STATEMENTS OF INCOME - MULTI-PERIOD DATA

(NIS million)

	Year ended December 31,				
	2015	2014	2013	2012	2011
Interest Income	2,260	2,664	3,322	3,787	4,096
Interest Expenses	307	563	1,135	1,537	1,919
Interest Income, net	1,953	2,101	2,187	2,250	2,177
Expenses from credit losses	18	89	97	134	93
Net Interest Income after expenses from credit losses	1,935	2,012	2,090	2,116	2,084
Non Interest Income					
Non Interest Financing income (expenses)	149	230	200	150	(94)
Commissions	1,378	1,375	1,418	1,362	1,447
Other income	14	62	(1)46	35	39
Total non Interest income	1,541	1,667	1,664	1,547	1,392
Operating and other expenses					
Salaries and related expenses	1,629	(1)1,780	(1)1,746	1,676	1,677
Maintenance and depreciation of premises and equipment	428	444	438	435	451
Amortizations and impairment of intangible assets and goodwill	131	139	145	146	141
Other expenses	522	549	531	557	576
Total operating and other expenses	2,710	2,912	2,860	2,814	2,845
Profit before taxes	766	767	894	849	631
Provision for taxes on profit	326	(1)328	(1)366	315	205
Profit after taxes	440	439	528	534	426
The bank's share in profit of equity-basis investees, after taxes	38	35	30	51	55
Net profit:					
Before attribution to noncontrolling interests	478	474	558	585	481
Attributed to noncontrolling interests	(32)	(19)	(20)	(22)	(19)
Attributed to shareholders of the Bank	446	455	538	563	462
Primary profit per share attributed to the shareholders of the Bank					
Net profit per share of NIS 0.05 par value	4.45	(1)4.54	(1)5.36	5.61	4.60

(1) Restated in respect of the retroactive application of the US accepted accounting principles regarding employee rights. See note 1.C.1 to the financial statements.

CONSOLIDATED BALANCE SHEETS - MULTI-PERIOD DATA

(NIS million)

	As at December 31,				
	2015	2014	2013	2012	2011
Assets					
Cash and deposits with banks	30,727	29,182	26,100	22,939	18,443
Securities	16,439	12,554	10,799	9,756	11,872
Securities which were borrowed	353	477	990	932	1,510
Credit to the public	73,379	(1)69,807	(1)69,507	(1)68,689	(1)65,830
Provision for Credit losses	(824)	(876)	(827)	(836)	(878)
Credit to the public, net	72,555	68,931	68,680	67,853	64,952
Credit to the government	669	658	23	3	10
Investments in investee companies	438	(1)396	(1)373	(1)368	(1)390
Premises and equipment	1,229	1,222	1,180	1,185	1,201
Intangible assets	272	335	407	471	545
Assets in respect of derivative instruments	1,636	3,015	1,462	1,219	1,674
Other assets	1,158	(1)1,037	(1)895	(1)843	(1)797
Assets held for sale	-	-	116	-	-
Total assets	125,476	117,807	111,025	105,569	101,394
Liabilities, temporary equity and Shareholders' Equity					
Deposits from the public	103,262	95,155	89,122	84,365	81,387
Deposits from banks	1,565	1,469	1,335	1,385	860
Deposits from the Government	511	556	650	685	553
Bonds and subordinated capital notes	5,862	4,903	5,702	5,620	5,010
Liabilities in respect of derivative instruments	1,659	3,162	1,789	1,710	1,870
Other liabilities	4,954	(1)5,519	5,515	5,136	5,809
Liabilities held for sale	-	-	11	-	-
Total liabilities	117,813	110,764	104,124	98,901	95,489
Temporary equity - noncontrolling interest	326	-	-	-	-
Capital attributed to the shareholders of the Bank	7,073	(1)6,797	(1)6,673	(1)6,459	(1)5,720
Noncontrolling interests	264	246	228	209	185
Total equity	7,337	7,043	6,901	6,668	5,905
Total liabilities, temporary equity and shareholders' equity	125,476	117,807	111,025	105,569	101,394

(1) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C. to the financial statements.

The Bank group activity involves exposure to risk, the more significant of which are: credit risk, including credit concentration (borrower and sectorial), credit risk in the "nostro" portfolio, market risks, the principal of which is interest rate risk (a cross-system risk), liquidity risks and operating risks.

All material risks are managed by and the responsibility of appointed members of Management. A regulatory requirement for capital adequacy exists in respect of credit, market and operating risks, according to the instructions of Pillar I of Basel.

Within the framework of the Internal Capital Adequacy Assessment Process ("ICAAP"), the Group performs an intensive process for the identification of additional risk centers and the challenging of identified risk centers, in accordance with Pillar I. Where required, a supplementary allocation of capital is made in respect of Pillar I risks, and an additional allocation of capital in respect of other risks and sub-risks.

Following is a summary review of leading risks and the more material developing risks involved in the operations of the Group:

1. Cyber risks (being a part of operating risks) Proper Management of Banking Business Directive No. 361

Potential damage stemming from a cyber event, considering its probability level and severity of its implications, a cyber event being defined as an event, during the course of which, computer systems and/or computer embedded systems and infrastructure are being attacked by or on behalf of external or internal rivals of the banking corporation. This definition includes also attempts of attacks even if no damage had been actually caused. The Group has a policy with respect to cyber risks, which includes actions that may minimize the potential for the realization of reputation risk upon occurrence of a cyber event. The Bank has a cyber defense policy and a cyber defense strategy.

2. Information technology ("IT") risk (being part of operating risk) - IT management risk - Proper Management of Banking Business Directive No. 357

The fear of realization of potential risks and a loss to the Bank stemming from damage to the IT management layout, including: the failure to use updated technologies, deficient outsourcing policy and supplier relations, operation and maintenance of systems that do not properly support the business activity (thus damaging also the competitive capabilities of the Bank), deficient policy for the management of computer equipment inventory and communication, and more.

The Bank monitors the risks stemming from the use of advanced technologies in order to obstruct the possibility of transacting business with no face-to-face meeting, and avoid identification, verification and documentation required by law. Monitoring is performed within the framework of the forum for the monitoring of operating risks, and a designated policy exists in respect of the management of this risk. Outsourcing is being used as part of the IT risk management. Outsourcing comprises a possible additional tool in obtaining the business goals of the Bank, while improving the service to customers and reducing operating expenses. In managing the risk, the Bank operates as follows:

- Outsourcing with respect to IT is conducted according to the provisions of Proper Management of Banking Business Directive No. 357.
- As to the other fields of operation, the Bank acts with respect to outsourcing in accordance with the provisions of Proper Management of Banking Business Directive No. 350.

As a general rule, where outsourcing is involved, the Bank performs a business due-diligence review of the recommended supplier, including his financial stability, proof of relevant capabilities and qualification, opens a program for the management and monitoring of risk involved in the outsourcing arrangements, as well as the creation of an effective control environment (at the Bank and at the supplier).

3. Regulation risk

A cross-organization risk managed mostly as part of legal risk and compliance risk. This risk stems from restrictions applying to the Bank and/or from the preparation required from the Bank with respect to changes and developments in legislation, regulation and Court decisions. Changes, the implementation and integration of which may result in heavy costs. Furthermore, extensive regulation, which changes often in a way that might create difficulties concerning legal certainty and orientation in the regulatory world, makes the task of risk management more complex. The risk is expressed within the framework of the legal risk policy and the compliance policy.

Exposure to possible future regulation, which might impact the strategy of the Bank, is being managed within the framework of the strategic risk.

Management of the Bank is guided and directed by the Board of Directors and its committees, with respect to the strategy and business policy of the Bank. In this framework, the Board of Directors approves the quantitative and qualitative targets and goals as well as the lines of operation of the Bank.

On the basis of the multi-annual strategic plans of the Bank, Management presents to the Board of Directors annual work plans and budgets, giving quantitative and qualitative details of the income, expenses and investment mix, which Management had determined as the long-term goals and specific targets for the current year of operation.

The Board of Directors and its committees supervise and control the work of Management in everything relating to the implementation of the strategy and business policy, as approved by them. The Board of Directors approves also the comprehensive risk management policy, including the determination of different limitations to exposure regarding credit risk and market and liquidity risks. The various units of the Bank, of the branch layout and of the Head Office, operate within the framework of written procedures and circular letters, guiding them in their current operations. These procedures define, among other things, the authority of the different units of the Bank and the manner of operation which they have to adopt.

The Bank operates according to a multi-annual strategic plan, validated by the Board of Directors at half-yearly intervals. The plan is based upon appropriate conduct in all areas of operation, with aspiration for proper and stable profitability over a period of time.

The Bank has a strategic plan for the years 2016-2018, which was approved by the Board of Directors in September 2015. The supreme goals of the plan are in terms of return on capital in excess of riskless interest rate and efficiency ratio.

Within the framework of the plan, the Bank would continue to focus on private banking, on financial wealth customers, on promoting the retail banking sector and on medium to large businesses, by providing a comprehensive response modified to the needs of the customer; the Bank is to maintain the leadership of its subsidiaries (Otzar Hachayal and Massad) and the merged banks (UBank and PAGI) in their unique operating

niches, mostly in the retail and small business sectors. The Bank is to maintain leadership in the capital market; would conduct actions leading to efficiency in expenses, while improving its manpower position, improving procedures, continue efficiency measures in the branch layout and increase the use of online banking channels, and support performance directed culture and measurement in the Group.

As stated, the Bank reviews the plan at half-yearly intervals, in relation to the macro-economic environment, to developments in market competition, to the regulatory environment, to technological developments, as well as to changes occurring in the Bank Group, and if necessary updates the plans and the moves stemming from the strategic plan.

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

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EXPLANATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

PRINCIPAL ECONOMIC DEVELOPMENTS IN ISRAEL

Nonfinancial developments

The economic indicator data for the first nine months of 2015 and prior periods, as well as preliminary data published for the fourth quarter of 2015, point at a slowing down trend in economic growth. According to the most recent estimate published in February 2016 by the Central Statistical Bureau (hereinafter – "the CSB"), the economy grew during the second half of 2015 by 2.2% (annualized), following a growth of 2.9% in the first half of the year, and a growth of 2.6% in the second half of 2014. The growth in the product in the second half of the year, reflects an increase in expenses for public consumption, private consumption, export of goods and services, and a growth in investment in fixed assets.

The per capita expense for the consumption of durable goods increased by 3.9% in the second half of 2015, following a decline of 11.2% in the first half of the year and a growth of 21.6% in the second half of 2014. The public consumption expenditure increased in the second half of 2015 by 5.2%, following increases of 0.7% in the first half of the year and 5.0% in the second half of 2014. Despite the fact that the main economic growth engine continues to be private consumption, signs of improvement are noticed in the fourth quarter of the year also with respect to industrial production with a continuing improvement in the labor market. The published preliminary estimates also reflect a growth of 3.3% (annualized) in the fourth quarter of 2015, following a growth of 2.5% in the third quarter and a growth of only 0.4% in the second quarter of the year.

The research division of Bank of Israel reduced in December 2015 the product growth forecast for 2016 to 2.8%, in contrast to the previous forecast of 3.3%, published in September, this, on background of the reduced growth forecasts for global trading and for imports into the OECD countries, as well as the downward updating of estimates concerning the level of activity in the second half of 2015.

State budget

According to a preliminary estimate, the Government deficit for 2015 amounted to NIS 24.5 billion, comprising 2.2% of the GDP, in contrast to NIS 29.9 billion, comprising 2.7% of the GDP in 2014. The original budget for 2015 included a planned deficit of NIS 31.4 billion, comprising 2.8% of the GDP. The deviation in the amount of deficit in relation to that planned in the original budget, reflects higher revenues than forecasted, in an amount of NIS 3.6 billion, stemming mostly, from the surplus in tax revenues due to the accelerated activity on the real-estate market, while maintaining a high level and even increasing property prices, and the growing enforcement and collection efforts on the part of the Tax Authority, with lower than planned expenditure in the original budget by an amount of NIS 3.3 billion, mainly due to underperformance on the expenditure side of the non-defense Government offices.

In September 2015, on background of an updated tax revenue forecast, it was decided to reduce the Value Added Tax (VAT) rate from 18% to 17%, as from October 2015 and thereafter, following which the profit tax and payroll tax rates applying to financial institutions were reduced to identical rates. At the beginning of January 2016, it was decided to reduce also the corporation tax rate as from the tax year 2016 by 1.5% to a level of 25%.

Inflation

The Consumer Price Index (CPI) declined in 2015 by 1%, following a decline of 0.2% in 2014. In 2015, price increases were recorded in three items only: fruit and vegetable – 13.2%, housing – 2.2% and miscellaneous – 0.1%. Most of the decline relates to housing maintenance, transportation and communication items. According to Bank of Israel, the decline in energy prices in 2015, contributed to a 1.0% decrease in inflation, due to the steep decrease in oil prices in the world, while lower prices initiated by the Government, inter alia, the reduction in the VAT rates and the elimination of levies contributed to a 0.7% decrease. Eliminating the direct effect of energy prices and Government initiatives, the CPI rose by 0.6%, still below the targeted annual inflation rate. The research division of Bank of Israel estimated in December 2015, that the inflation in 2016 would amount to 0.6%, mainly on background of the effect of decreasing prices in the world and due to non-recurring price reductions in the first quarter of the year, though the moderating effects are expected to dwindle in the course of 2016. Inflationary expectations derived from the capital market for the coming twelve months are significantly lower, comprising a negative rate of 0.1%

Housing market

In accordance with estimates of the housing price index of the CSB, housing prices returned to rise in October and November 2015. Comparison of transactions effected in October-November 2015 with those effected in September-October 2015, shows that housing prices increased by 1.1%. In comparison with the corresponding period last year, prices increased by 7.6%.

Construction of 35,850 new housing units was started in the first nine months of 2015 (an increase of 3.6% in comparison with the corresponding period last year), and the construction of 32,330 new units was completed (an increase of 3.2% in comparison with the corresponding period last year). During the period from January to November, the demand for housing increased and 29,930 new housing units were sold, an increase of 48% in comparison with the corresponding period last year.

In December 2015, the public received mortgage loans in an amount of NIS 5.6 billion, following NIS 5.2 billion received in November 2015. The total amount of mortgage loans received by the public in 2015 amounted to NIS 64.7 billion, an increase of 28% over the year 2014, this, on background of the cancellation of the plan for zero VAT rate on new housing units, the increase in the rates of acquisition tax at the end of June 2015, and the low interest environment.

Labor market

Unemployment data continued to be positive, with noticeable stability in the rate of unemployment in the fourth quarter of 2015 (among those of 15 years of age and over) amounting to 5.3%, similarly to the third quarter of the year and in contrast to 5.0% in the second quarter and 5.4% in the first quarter of the year. Notwithstanding the above, the rate of unemployed among members of the principal working age group (age 25-64) increased to 4.6% in the fourth quarter of 2015, in contrast to 4.5% in the third quarter, 4.3% in the second quarter and 4.7% in the first quarter of the year. The labor market in 2015 was characterized by a fast growth in the number of employees, in particular in the services, construction and communication sectors. Since the beginning of the year and until the month of November ninety thousand new employees were added. In addition, the rate of participation in the economy increased from 64.2% in January of 2015 to 64.5% in November.

Exchange rate

The exchange rate of the shekel against the US dollar remained stable in 2015, while against the Euro the shekel strengthened by 10.1%. The appreciation of the shekel against the Euro was the result of the increase in the current account and the growing nonfinancial investments in the economy.

Bank of Israel purchased during 2015 US\$ 8.7 billion (of which: US\$ 3.1 billion in order to offset the effect of the natural gas production in Israel on the rate of exchange). In November 2015, Bank of Israel announced that within the framework of the plan for the offsetting of the effect of gas production in Israel on the rate of exchange, it will purchase US\$ 1.8 billion in 2016.

	Exchange rate as of			Change %	
	31.12.15	30.9.15	31.12.14	2015	2014
Dollar	3.90	3.92	3.89	0.3%	12.0%
Euro	4.25	4.40	4.72	(10.1%)	(1.2%)

Bank of Israel interest rate

The monetary committee of Bank of Israel decided in February 2015 to lower the interest rate for March by 0.15 percentage points, to an historical low of 0.1%. The decision was taken on background of the accelerated appreciation of the shekel and its possible impact on economic activity and inflation, and was intended, inter alia, to bring back the inflation rate to the center of the target range. Following the lowering of the interest rate to the low level of 0.1%, it remained at that level throughout 2015. This, on background of the low inflation, the moderation in economic activity and pressure for appreciation of the shekel. The research division of Bank of Israel estimated in December 2015 that the Bank of Israel interest is expected to remain at the level of 0.1% during the first three quarters of 2016, and would begin rising only in the fourth quarter of 2016. According to Bank of Israel, in view of recent economic developments, inter alia, in the capital markets, the monetary policy is expected to remain expansionary for a long period of time despite the rise in the interest rate in the US.

Global environment

The forecast by the International Monetary Fund (IMF) for the global economic growth in 2016, has been updated downwards to a level of 3.4%, in comparison with a previous forecast of 3.6%. The decrease in the forecast for global growth stems mainly from the low commodities prices alongside the slowdown in the economies of the emerging markets. The global growth forecast by the IMF was lowered also for 2017 from 3.8% to 3.6%. Despite the economic recovery in the US and in Europe (and even in Japan), concern exists regarding the moderation in economic activity in China, the second largest economy in the world.

In December 2015, the FED announced, for the first time in seven years of near zero interest environment, a rise of 0.25% in the interest rate. The interest rate forecast of the FED members for the end of 2016, is 1.38%. The rise in the interest rate came on background of very positive employment data nearing full employment, despite the absence of signs of increasing wage pressures. On the other hand, an increase in the core inflation is noted in the US, and in Europe the ECB has intensified the monetary expansion, on background of the high unemployment, the low inflation and the tendency to devalue the Euro.

Capital markets

In 2015, the TA 100 index rose by 2.0% and the TA 25 index rose by 4.4%. The comprehensive government bond index rose by 1.6%.

Trade turnover of equities and convertibles increased in 2015 by 19.5%, and in contrast the trade turnover of bonds declined by 2% in comparison with 2014.

	Change		Daily average turnovers	
	in %		NIS million	
	2015	2014	2015	2014
Tel Aviv 25 index	4.35%	10.20%	703	573
Tel Aviv 100 index	2.03%	6.73%	896	766
General bonds index	1.58%	4.72%	4,159	4,245

The total amount of funds raised during 2015 (both in equities and bonds) increased by 8.5% in comparison with 2014, principally due to the issue in the US by Teva Pharmaceuticals in the amount of NIS 29 billion, in December of 2015.

	Funds raising volume		
	NIS million		Rate of change
	2015	2014	
Shares and convertibles	38,894	14,851	161.9%
Government bonds	38,716	51,522	(24.9%)
Corporate bonds (including institutions)	57,084	57,754	(1.2%)
Total	134,694	124,127	8.5%

The S&P 50 Index in the US decreased by 0.8% in 2015, while in the fourth quarter this index rose by 6.4%. The Eurostock 600 Index in Europe rose by 6.8% in 2015, with a rise of 5.2% in the fourth quarter of the year. The developing markets index (EM-MSCI Index) fell by 17% in 2015, with a rise in this index of 0.3% in the fourth quarter of the year.

On background of expectations for a moderate economic growth of the global economy, and in view of the continuing decline in oil prices and the moderate growth of the emerging markets, led by China, the financial markets as well as commodities recorded as from August 2015, volatility and falling prices. Volatility on the markets continued also during recent months, led by the financial markets and by concerns regarding the stability of banks in Asia and Europe and the low oil prices .

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILITY

Net profit attributed to the shareholders of the Bank amounted to NIS 446 million, as compared to NIS 455 million in 2014, a decrease of 2.0%.

The basic net profit per share of NIS 0.05 amounted to NIS 4.45, as compared to NIS 4.54 in 2014.

The return of net profit to the capital attributed to the shareholders of the Bank amounted to 6.5%, as compared to 6.8% in 2014.

As from the first quarter of the year, the Bank is applying the provisions of the letter of the Supervisor of Banks, which adopts the US accepted accounting principles in the matter of employee rights; as from the fourth quarter of 2014, the guidelines of the Supervisor of Banks in the matter of software costs; and as from the third quarter of the year the guidelines of the Supervisor of Banks in the matter of troubled debts secured by government guarantee, by way of retroactive application, including restatement of the comparative data.

DEVELOPMENT IN INCOME AND EXPENSES

Financing profit on all assets and liabilities of the Bank include net interest income together with non-interest financing income. Non-interest financing income includes financing income in respect of derivative instruments comprising an integral part of exposure management of the Bank. Income from derivative instruments include, inter alia, the effect of the time factor on the fair value of derivatives, comprising an integral part of the interest risk management at the Bank, as well as the effect of the rise in the rate of the "known" CPI on derivatives comprising an integral part of exposure to the consumer price index.

Set out below is the composition of net financing earnings:

	Year ended December 31	
	2015	2014
	NIS million	
Interest income	2,260	2,664
Interest expenses	307	563
Net interest income	1,953	2,101
Non-interest financing income	149	230
Net financing earnings	2,102	2,331

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS million				NIS million			
Interest income	527	621	730	382	591	690	764	619
Interest expenses (income)	28	124	217	(62)	93	171	217	82
Net interest income	499	497	513	444	498	519	547	537
Non-interest financing income	32	14	28	75	74	67	48	41
Net financing earnings	531	511	541	519	572	586	595	578

Set out below is an analysis of net financing earnings:

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS million				NIS million			
Earnings from current activity	508	500	499	470	504	522	534	512
Reconciliations to fair value of derivative instruments	9	9	18	(17)	13	(2)	(7)	(2)
Income from realization and reconciliations to fair value of bonds	7	23	-	54	28	52	54	63
Earnings from investments in shares:								
Expense from verdict on lawsuit (*)	-	(37)	-	-	-	-	-	-
Other	7	16	24	12	27	14	14	5
Net financing earnings	531	511	541	519	572	586	595	578

	Year ended December 31	
	2015	2014
	NIS million	
Earnings from current activity	1,977	2,072
Reconciliations to fair value of derivative instruments	19	2
Income from realization and reconciliations to fair value of bonds	84	197
Earnings (loss) from investments in shares:		
Expense from verdict on lawsuit (*)	(37)	-
Other	59	60
Net financing earnings	2,102	2,331

(*) See note 25.g.4 to the financial statements.

See the section on segments of activity below for details of the distribution of financing earnings by segments of activity.

Set out below are main data regarding interest income and expenses:

	Year ended December 31	
	2015	2014
	in %	
Income rate on asset bearing interest	2.09	2.74
Expense rate on liabilities bearing interest	0.43	0.79
Total interest spread	1.66	1.95
Ratio between net interest income and assets bearing interest balance	1.81	2.16

The decline in the income rate on assets and in the expense rate on liabilities in 2015, compared with 2014, derived from the decline in the interest rate in the economy. The decrease in the total interest spread derived from the effect of the decline in the interest rate on the decline in the financial spreads on deposits mainly due to the high deposit rate in the Bank in the activity in the capital market.

Analysis of the changes in interest income and expenses between the years 2015 and 2014 shows that the changes in the volume of the average stated balances caused an increase of NIS 104 million, while the changes in interest rates caused a decrease of NIS 252 million in net interest income.

For details regarding the report on rates of interest income and expenses of the Bank and of its consolidated subsidiaries and the analysis of changes in interest income and expenses, see Appendix 1 to the Chapter "Corporate governance, Appendices".

Expenses from credit losses were compiled on a conservative basis and amounted to NIS 18 million in 2015 compared with NIS 89 million in 2014.

In 2014 the expenses from credit losses include an increase in the collective provision in the amount of NIS 45 million, arising from the application of the directive of the supervisor of banks as regards "collective provision in respect of consumer credit to private individuals".

Expenses from credit losses as a ratio of total credit to the public amounted to 0.02% in 2015 compared with a 0.13% in 2014.

Set out below are details of Expense (income) in respect of credit losses in respect of debts and off-balance sheet credit instruments:

	Year ended December 31	
	2015	2014
	NIS million	
Income in respect of commercial credit	(24)	(16)
Expense (income) in respect of housing credit	3	(4)
Expense in respect of other private credit	39	109
Total Expense in respect of credit losses	18	89

See the section on segments of activity below for details of the distribution of expenses on credit losses by segments of activity.

For additional information regarding expenses for credit loss, see Chapter "Structure and developments of assets and liabilities, capital and capital adequacy" and Chapter "Review of Risks" below.

Set out below is the distribution of expenses (income) in respect of credit losses by principal sectors of the economy:

	Year ended December 31	
	2015	2014
	NIS million	
Industry	73	(22)
Construction and real estate	(98)	(65)
Commerce	36	80
Hotels, hospitality and food services	12	13
Transport and storage	(17)	9
Information and communications	(30)	(14)
Financial services	1	(14)
Other business services	3	(6)
Public and community services	(4)	1
Private customers including housing loans	42	*105
Other sectors of the economy	-	2
Total	18	89

* Include an increase in the collective provision in the amount of NIS 45 million arising from the application of the directive of the supervisor of banks as regards "collective provision in respect of consumer credit to private individuals".

Fees and other income totaled NIS 1,392 million, compared with NIS 1,437 million in 2014, a decrease of 3.1%.

Set out below are details of fees income and other income:

	Year ended December 31		
	2015	2014	Change
	NIS million		in %
Fees:			
Account management	271	287	(5.6)
Credit cards	105	104	1.0
Transactions in securities	453	449	0.9
Financial product distribution fees	81	81	-
Management, operation and trusteeship for institutional investors	108	109	(0.9)
Credit processing	34	34	-
Conversion differentials	141	130	8.5
Foreign trade activity	56	57	(1.8)
Fees from financing transactions	77	70	10.0
Other Fees	52	54	(3.7)
Total Fees	1,378	1,375	0.2
Other income	14	62	(77.4)
Total Fees and other income	1,392	1,437	(3.1)

Fees totaled to NIS 1,378 million, compared with NIS 1,375 million in 2014.

Income from conversion differentials increased by NIS 11 million. Income from account management decreased by NIS 16 million. The decreased is explained by change in regulation including the set up of new credit revolving tracks.

Other income totaled NIS 14 million, compared with NIS 62 million in 2014, a decrease of NIS 48 million derived mainly from the gain of NIS 31 million from the sale of the shares of FIBI London and from a decrease of NIS 7 million in the gain from the sale of premises and equipment.

Operating and other expenses totaled NIS 2,710 million compared with NIS 2,912 million in 2014, a decrease of 6.9%.

Set out below are details of operating and other expenses:

	Year ended December 31		Change in %
	2015	2014	
	NIS million		
Salaries and related expenses	1,629	1,780	(8.5)
Maintenance and depreciation of premises and equipment	428	444	(3.6)
Amortization of intangible assets	131	139	(5.8)
Other expenses	522	549	(4.9)
Total operating and other expenses	2,710	2,912	(6.9)

Salaries and related expenses totaled NIS 1,629 million compared with NIS 1,780 million in 2014, a decrease of 8.5%.

The decrease in the salary expenses derives among other things by the implementation of the special collective agreement in the first quarter of the year, in addition to the effects recorded in the annual financial statements of 2014 for the same agreement (See note 23 to the financial statements) and from reduction in the number of employees in the group. This decrease was partially offset by a provision regarding the retirement of employees further to the merger of Ubank in the amount of NIS 25 million.

Expenses on depreciation and maintenance of premises and equipment totaled NIS 428 million, compared to NIS 444 million in 2014.

Amortizations of intangible assets totaled NIS 131 million compared to NIS 139 million in 2014. Amortization of the excess of cost of the acquisition attributed to customer relations which was included in this item amounted to NIS 44 million, compare to NIS 52 million in 2014. Since amortization of the excess of cost of the acquisition is not a recognized expense for tax purposes, it has the effect of reducing net earnings by the full amount of the amortization.

For details of income and expenses by quarters for the years 2014 and 2015 see appendix 2 of corporate governance section, appendices.

INFORMATION AND COMPUTER SYSTEMS AT THE BANK

MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF") is a subsidiary of the bank and supplies IT to the bank and to other banks in the Group: Otsar Hahayal and Massad.

MATAF manages, operates and maintains the software and hardware of the central computers, of the central and the dispersed servers, and of the end stations, the communications and all the specialized peripheral equipment connected with IT at the branches of the banks in the Group, with entities receiving from the Bank operation services for provident funds and portfolios managers.

Description of the computer network

MATAF has a main computer site and a secondary computer site that also serves as an independent backup site. Main operational and development work is carried out at the central computer site. During 2015 MATAF moved the main computer site to a new location in the area of Rishon LeZion. In the site a new modern computer center that meets the highest standards and in accordance with the Bank of Israel directives. A third site where the Group's data are copied exists. The users of MATAF's operational systems are: all branches of the banks in the Group, other parties such as investment portfolios managers, managers of mutual trust funds, provident fund and the banks' customers via internet systems and by means of virtual banking.

Both the sites are connected to MATAF's customers by a high-speed, high-survivability communications network. At the centrals computer sites, the main and the secondary, MATAF operates an MF, servers, data storage systems, communications equipment and end equipment. For customers and the branches, MATAF operates servers, end equipment, specialized equipment such as check readers, ATM's, information positions and communications equipment.

Detailed below are quantitative data:

- MF production and backup power	3,947 Mips
- Central storage capacity	926 TB (capacity utilized out of 1,098 TB)
- Active end stations	7,100 units
- Specialized equipment such as check readers, ATM's, self-service positions	1,100 units

Information security, quality control and backup

The Group's computer network is a central and critical component of the current activity of the banks in the Group. This network is intended to provide a solution to the business requirements of the Banks' divisions, a solution to regulatory requirements and directives, and a solution for the requirements of the numerous customers of the Group.

These challenges expose the computer network to various risks, for which MATAF must provide solutions. MATAF employs advanced technologies in order to adhere to business targets, to facilitate internet and cellular services, and to face the threat of cyber attacks.

Risks to the computer network exist in several areas: access by unauthorized entities, involving the copying or distortion of data or systems, illicit use of data by internal entities, malfunctions in systems' current operation caused by software and hardware changes, hardware malfunctions and operational malfunctions.

Accordingly and subject to laws and Bank of Israel directives, assuring the proper activity of the information network is a vital interest for the Group, and is applied by means of diverse activities relating to information

security, working procedures, controlled work processes, special software programs, computing architecture, and backup and retrieval mechanisms, for the purpose of ensuring that the information systems are protected against unauthorized access, and are protected against any damage to the accuracy and propriety of the information banks.

The Management and the Board of Directors of the Bank have prescribed a detailed policy concerning information security and IT management, with an emphasis on carrying out the requisite surveys and mapping, in order to conform to Proper Conduct of Banking Business Regulation 357. The Bank has made all the dispositions required under Bank of Israel directives with respect to social media and cyber attacks. The Bank has appointed the Information Security Manager as Head of Information Security Risk Management.

In accordance to the Bank of Israel directive no. 361 that went into effect on September 2015, strategy for defending from cyber attack of the Bank and the group was defined, which is based on the threats analysis relevant to the Bank (relating threat), policy of defence from cyber attack was defined and a cyber defence manager was appointed.

A constant test for new cyber defence technologies is carried and the technologies most suitable to be implemented in the computer layout of the Bank are tested, in order to deal with the cyber threats. Concurrently cyber exercise are carried out in order to test and exercise the computer infrastructures and the response procedures of the teams that are involved in the cyber defence.

The internal communications network is kept separate from the external system, employing for this purpose sophisticated firewall devices, antivirus programs and safe deposit servers.

An advanced authorizations system, including current control, investigation and reporting facilities, is applied to all information security events in the computer network. The issue of operational risks as a whole and IT risks in particular is subject to extensive structured processing and considerable emphasis is placed on this issue.

The development of software and its transfer to production are carried out in accordance with development procedures and advanced software engineering standards, structured work processes, and control and quality assurance procedures.

Investments and expenses in respect of the IT network:

Costs relating to the development of software or its adaptation for the purpose of own use were only discounted if it is possible to make a reliable measurement of the development costs, if the software is technically and commercially viable, if future economic benefits are expected from it, and if the Bank intends and has sufficient sources to complete the development and use the software. Costs that were recognized as intangible assets include direct costs of services and direct labor costs for employees. These costs are measured on the basis of cost minus accrued depreciation and losses from writedown. Overhead costs that cannot be directly attributed to software development and research costs are recognized as an expense as they arise.

The Supervisor of Bank determined that commencing with the financial statements for 2014, the Bank is required to implement the following provisions:

- Where the software costs that may be capitalized are lower than NIS 600 thousand, respective the software development project will be recognized in the statement of income and may not be capitalized.
- The amortization period for software costs shall not exceed 5 years.
- The rank of employees whose costs are capitalized to assets will be limited such that the top-ranking employee will be the head of staff.

- A discount coefficient below 1 will be determined for work hours and take into account the potential increase in recorded work hours as well as the potential for economic inefficiency.

Details of expenses and investments in information systems carried out:

Additions to assets in respect of the information technology system not charged as an expense:

	Year 2015				Year 2014			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	NIS million				NIS million			
Costs in respect of wages and related expenses	34	-	-	34	12	-	-	12
Outsourcing costs	7	-	-	7	14	-	-	14
Costs of acquisitions or usage licenses	35	-	-	35	40	-	-	40
Costs of equipment, buildings and land	-	29	2	31	-	42	2	44
Total	76	29	2	107	66	42	2	110

Balances of assets in respect of the information technology system:

	As of December 31, 2015				As of December 31, 2014			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	NIS million				NIS million			
Total depreciated cost	208	76	4	288	218	74	4	296
Of which: in respect of wages and related expenses	94	-	-	94	83	-	-	83

Expenses in respect of the information technology system as included in the statement of profit and loss:

	Year 2015				Year 2014			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	NIS million				NIS million			
Expenses in respect of wages and related expenses	155	5	-	160	178	7	-	185
Expenses in respect of acquisitions or usage licenses not discounted to assets	46	-	-	46	54	-	-	54
Outsourcing expenses	18	14	-	32	20	16	-	36
Depreciation expenses	86	25	2	113	87	25	3	115
Other expenses	-	2	59	61	-	1	74	75
Total	305	46	61	412	339	49	77	465

Other expenses totaled NIS 522 million compared with NIS 549 million in the same period last year, a decrease of 4.9%.

Set out below are details of other expenses:

	Year ended December 31		
	2015	2014	Change
	NIS million		in %
Marketing and advertising	51	51	-
Communications	88	79	11.4
Computers	111	125	(11.2)
Office	15	16	(6.3)
Insurance	6	6	-
Legal, audit and professional consulting	58	61	(4.9)
Compensation of Board members and attendance fees for Board meetings	12	11	9.1
Instruction and professional training	5	6	(16.7)
Fees	108	113	(4.4)
Other	68	81	(16.0)
Total other expenses	522	549	(4.9)

The provision for taxes on operating earnings amounted to NIS 326 million compared with NIS 328 million in 2014. The effective tax rate as a proportion of earnings before taxes amounted to 42.6%, compared with the statutory rate of tax of 37.6%.

The effective tax rate was affected mainly from unrecognized expenses, mainly the amortization of intangible assets.

For additional details, see Note 8 to the financial statements.

The Bank's share in the operating earnings of investee company after the tax effect amounted to NIS 38 million, compare to NIS 35 million in 2014.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 408 million. This amount was affected by the net profit attributed to the shareholders of the Bank of NIS 446 million, by adjustments in respect of available-for-sale securities in a negative amount of NIS 44 million, and by employee benefits of NIS 6 million.

The other comprehensive loss in respect of employee benefits is explained by a loss of NIS 4 million in respect of changes in actuarial assumptions, which was partly offset by a profit of NIS 2 million stemming from changes in the discount rate used in computing the provision for benefits, and from a profit of NIS 8 million, on the amortization of amounts to profit and loss.

COMPOSITION AND DEVELOPMENT OF ASSETS, LIABILITIES, CAPITAL AND CAPITAL ADEQUACY

The consolidated balance sheet as of December 31, 2015 amounted to NIS 125,476 million compared with NIS 117,807 million as of December 31, 2014, an increase of 6.5%.

A. Set out below are developments in the principal balance sheet items:

	December 31		Change
	2015	2014	
	NIS million		%
Credit to the public, net	72,555	68,931	5.3
Securities	16,439	12,554	30.9
Cash and deposits with banks	30,727	29,182	5.3
Premises and equipment	1,229	1,222	0.6
Deposits from the public	103,262	95,155	8.5
Deposits from banks	1,565	1,469	6.5
Bonds and subordinated capital notes	5,862	4,903	19.6
Shareholders' equity	7,073	6,797	4.1

B. Set out below are developments in the principal off-balance sheet financial instruments:

	December 31		
	2015	2014	Change
	NIS million		%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	130	178	(27.0)
Guarantees and other liabilities	7,473	7,264	2.9
Unutilized credit lines for derivatives instruments	32,967	31,130	5.9
Unutilized revolving credit and other on-call credit facilities	12,400	11,472	8.1
Unutilized credit lines for credit card facilities and Facilities for the lending of securities	6,619	6,191	6.9
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	4,268	6,156	(30.7)
Total	63,857	62,391	2.3
Derivative financial instruments (stated value):			
Interest rate contracts	19,274	19,435	(0.8)
Foreign currency contracts	79,514	81,715	(2.7)
Contracts of shares	104,863	97,506	7.5
Commodities and other contracts	329	710	(53.7)
Total	203,980	199,366	2.3

Credit to the public, net as of December 31, 2015 amounted to NIS 72,555 million compared with NIS 68,931 million as of December 31, 2014, an increase of 5.3%.

The following is information on credit to the public by linkage segment:

	As of December 31		Change		Segment's share of credit to the public on December 31	
	2015	2014			2015	2014
	NIS million		NIS million	%	%	%
Local currency						
- Non-linked	55,908	50,576	5,332	10.5	77.1	73.4
- CPI-linked	10,700	12,207	(1,507)	(12.3)	14.7	17.7
Foreign currency (including f-c linked)	5,316	5,583	(267)	(4.8)	7.3	8.1
Non-monetary items	631	565	66	11.7	0.9	0.8
Total	72,555	68,931	3,624	5.3	100.0	100.0

Net Credit to the public by segment of activity

	As of December 31		Change
	2015	2014*	
	NIS million		%
Corporate banking segment	20,302	20,335	(0.2)
Private banking segment	4,908	4,670	5.1
Middlemarket banking segment	8,285	8,067	2.7
Household segment	34,012	31,007	9.7
Small business segment	5,048	4,852	4.0
Total	72,555	68,931	5.3
Of which, consumer credit excluding housing loans and credit cards			
Household segment	14,745	13,494	9.3
Private banking segment	2,495	2,473	0.9
Total	17,240	15,967	8.0
Housing loans in Israel:			
Household segment	18,490	16,785	10.2
Private banking segment	1,941	1,762	10.2
Total	20,431	18,547	10.2

* Reclassified.

Total credit risk to the public is comprised of balance-sheet credit risk, which includes credit to the public, investments in bonds of the public and assets deriving from financial derivative instruments purchased by the public, and from off-balance-sheet credit, which includes transactions in off-balance-sheet financial instruments, unutilized credit lines and liabilities for the granting of credit.

Total credit risk to the public amounted to NIS 108,451 million on December 31, 2015 compared with NIS 105,304 million on December 31, 2014, an increase of 3.0%.

Set out below is information on the distribution of total credit risk to the public by sectors of the economy.

Sector	Total credit risk on December 31		Sector's share in total credit risk	
	2015	2014	2015	2014
	NIS million		%	%
Financial services (including holding companies)	14,710	15,087	13.6	14.3
Construction and real estate	14,263	14,156	13.1	13.5
Industry	10,938	10,870	10.1	10.3
Commerce	8,693	8,753	8.0	8.3
Information and communications	2,414	2,171	2.2	2.1
Private customer, including housing loans	48,993	45,609	45.2	43.3
Others	8,440	8,658	7.8	8.2
Total	108,451	105,304	100.0	100.0

Set out below is the sector-specific distribution of the six largest borrowers at the Group (by size of gross indebtedness before deduction of collateral whose deduction is permissible for the purpose of limiting the indebtedness of a borrower and group of borrowers):

As of December 31, 2015				
Borrower no.	Sector of the economy	Balance-sheet credit risk(*)	Off-balance-sheet credit risk	Aggregate credit risk after permitted deductions
NIS million				
1.	Financial services	1,238	316	1,554
2.	Financial services	999	3	1,002
3.	Electricity and water supply	534	19	553
4.	Financial services	236	307	543
5.	Commerce	450	5	455
6.	Industry	449	-	449

As of December 31, 2014				
Borrower no.	Sector of the economy	Balance-sheet credit risk(*)	Off-balance-sheet credit risk	Aggregate credit risk after permitted deductions
NIS million				
1.	Financial services	1,619	46	1,665
2.	Electricity and water supply	715	19	734
3.	Financial services	256	213	469
4.	Financial services	363	40	403
5.	Industry	356	12	368
6.	Information and communications	355	12	367

* Including credit to the public after net accounting write-offs, investment in bonds and other assets in respect of derivative instruments.

On the basis of the distribution of credit by size of borrower indebtedness on December 31, 2015, as stated in Note 29.c to the financial statements, 47% of the Group's total credit risk was granted to borrowers whose total credit reached an amount of up to NIS 1.2 million per borrower. Credit amounts of between NIS 1.2 million and NIS 20 million accounted for 19% of total credit risk, and credit amounts of over NIS 20 million accounted for 34% of the Group's total credit risk.

Set out below are balances of the total credit risk of the borrowers included in the upper brackets in Note 29.c to the financial statements, exclusive of collateral whose deduction is permissible for the purpose of calculating the restriction on single-borrower indebtedness, in the consolidated and at the Bank:

Consolidated						
December 31, 2015						
Credit range for borrowers	Balance-sheet credit risk	Off-balance-sheet credit risk	Total	Permitted deductions	Net indebtedness	No. of borrowers
NIS thousand	NIS million					
From 400,000 to 800,000	2,051	359	2,410	1,377	1,033	5
From 800,000 to 1,200,000	999	3	1,002	896	106	1
From 1,200,000 to 1,554,436	1,238	316	1,554	873	681	1
Total	4,288	678	4,966	3,146	1,820	7

Consolidated						
December 31, 2014						
Credit range for borrowers	Balance-sheet credit risk	Off-balance-sheet credit risk	Total	Permitted deductions	Net indebtedness	No. of borrowers
NIS thousand	NIS million					
From 400,000 to 800,000	1,334	272	1,606	982	624	3
From 1,600,000 to 1,664,792	1,619	46	1,665	808	857	1
Total	2,953	318	3,271	1,790	1,481	4

The Bank						
December 31, 2015						
Credit range for borrowers	Balance-sheet credit risk	Off-balance-sheet credit risk	Total	Permitted deductions	Net indebtedness	No. of borrowers
NIS thousand	NIS million					
From 400,000 to 800,000	2,014	359	2,373	1,377	996	5
From 800,000 to 1,200,000	999	3	1,002	896	106	1
From 1,200,000 to 1,554,436	1,238	316	1,554	873	681	1
Total	4,251	678	4,929	3,146	1,783	7

The Bank						
December 31, 2014						
Credit range for borrowers	Balance-sheet credit risk	Off-balance-sheet credit risk	Total	Permitted deductions	Net indebtedness	No. of borrowers
NIS thousand	NIS million					
From 400,000 to 800,000	256	213	469	195	274	1
From 1,600,000 to 1,664,792	1,619	46	1,665	808	857	1
Total	1,875	259	2,134	1,003	1,131	2

For detailed information regarding credit risk, see chapter of risks review and sub-chapter "additional supervisory disclosures" in "financial information" at the Bank's internet site.

The investment in securities totaled NIS 16,439 million compared with NIS 12,554 million at the end of 2014, an increase of 30.9%.

Set out below is the composition of the portfolio:

	As of December 31		Share of total securities	
	2015	2014	2015	2014
	NIS million		%	
Government bonds	11,637	7,945	70.8	63.3
Banks' bonds ⁽¹⁾	2,368	2,182	14.4	17.4
Other bonds (corporate and asset-backed)	1,490	1,372	9.0	10.9
Other bonds (corporate and asset-backed) guaranteed by governments	683	744	4.2	5.9
Shares ⁽²⁾	261	311	1.6	2.5
Total	16,439	12,554	100.0	100.0

(1) The balance includes bonds that were issued by banks' issuing companies.

Of which: Banks' foreign-currency bonds guaranteed by foreign governments in the amount of NIS 98 million (December 31, 2014 - NIS 20 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 115 million, perpetual capital notes amounting to NIS 19 million, investment in foreign currency shares of NIS 56 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 64 million (31.12.14 - investment in private equity funds amounting to NIS 119 million, perpetual capital notes amounting to NIS 31 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 101 million).

Set out below is the distribution of the securities portfolio by linkage segments:

	As of December 31		Change		Segment's share of total securities	
	2015	2014			2015	2014
	NIS million		NIS million	%	%	%
Local currency						
- Non-linked	6,915	5,545	1,370	24.7	42.0	44.2
- CPI-linked	1,655	2,228	(573)	(25.7)	10.1	17.7
Foreign currency denominated & linked	7,608	4,470	3,138	70.2	46.3	35.6
Non-monetary items	261	311	(50)	(16.1)	1.6	2.5
Total	16,439	12,554	3,885	30.9	100.0	100.0

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on December 31, 2015:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
	NIS million			
Shares and private investment funds	114	19	128	261
Local currency government bonds	7,015	-	-	7,015
Local currency corporate bonds	1,231	324	-	1,555
Non-asset backed foreign-currency and f-c linked bonds	3	7,083	-	7,086
MBS bonds	-	510	-	510
Others (structured and credit-based structured)	-	-	12	12
Total	8,363	7,936	140	16,439
% of portfolio	50.9%	48.3%	0.8%	100.0%

* Indicative price-An indication determined by the Bank and which is based mainly on price quotations obtained from an external entity or entities specializing in the matter, and the remainder is based on internal models determined by the Bank.

** Counter-party price-Price quotation obtained from the entity with which the transaction is conducted. With respect to private equity funds, the need for a provision for writedown is examined on the basis of their financial statements.

Below are additional details of bonds denominated in and linked to foreign currency, which are not asset-backed, by country/continent:

	As of December 31	
	2015	2014
	NIS million	
Israel (incl. Israel Government-31.12.15 - NIS 1,377 million, 31.12.14 - NIS 1,738 million)	1,617	1,943
USA	3,672	419
France	150	249
UK	247	116
Europe - others * (31.12.15 - 5 countries; 31.12.14 - 7 countries)	343	414
Australia	275	156
Canada	14	25
Germany	158	64
Netherlands	288	140
Far East, New Zealand* and others (31.12.15 - 6 countries; 31.12.14 - 7 countries)	322	289
Total	7,086	3,815

It should be noted that there is no issuer (except the Israel Government) whose bond balance exceeds 2% of the shareholders' equity of the Bank.
 * Among these countries, there is no country whose bond balance exceeds 2% of the capital attributed to the shareholders' of the Bank. For details of total exposure to foreign countries, including Spain and Ireland, see Chapter "Credit risk" below.

Set out below are additional details on local currency corporate bonds by sector:

	As of December 31	
	2015	2014
	NIS million	
Financial services	77	84
Banks	527	545
Industry	119	149
Electricity and water	*520	*655
Construction and real estate	198	146
Other business services	-	18
Communications and computer services	41	57
Commerce	41	25
Hotels, hospitality and food services	-	5
Public and community services	11	11
Transportation	21	15
Total	1,555	1,710

* Including NIS 354 million guaranteed by the Israel Government (31.12.14 - NIS 455 million).

Set out below is the composition of the foreign-currency bond portfolio at the Bank Group:

- **Non asset-backed bonds denominated in or linked to foreign currency**-amounting to NIS 7,086 million (Dollar 1,816 million) (includes foreign corporations amounting to NIS 2,225 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 240 million, foreign currency denominated Israel Government bonds amounting to NIS 1,377 million and foreign government bonds amounting to NIS 3,244 million). All of the foreign bonds are investment grade and 88% of the portfolio is rated A or higher; 26% of the exposure is to leading banking and financial institutions in OECD countries. This portfolio is diversified, in a manner whereby exposure to any single issuer does not exceed 1.8% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 2.1 years. The balance of unrealized gross earnings (included in shareholders' equity under reconciliations to fair value in respect of the presentation of securities available for sale) as of the report date in respect of this portfolio amounted to NIS 20 million (Dollar 5 million) compared with unrealized earnings of NIS 11 million (Dollar 3 million) on December 31, 2014.

- **Mortgage Backed Securities (MBS)**-amount to NIS 510 million (Dollar 131 million).

The bonds were issued by federal agencies in the USA. Of these, NIS 297 million (Dollar 76 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 213 million (Dollar 55 million) was issued by the US federal agencies Fannie Mae and Freddie Mac.

Set out below is a sensitivity analysis as of December 31, 2015 of the effect of changes in the interest rate on the rate of early repayments and the fair value of the MBS portfolio (including economic hedging of interest rate swaps):

	Change in rate of early repayments	Change in fair value
	Percentage points	Dollar million
Increase of 100 base points	(4.1)	(3.6)
Decrease of 100 base points	17.2	1.4

The credit risk inherent in the portfolio is managed by economic hedging.

- **Private equity funds** - investments in private equity funds amounted to NIS 115 million (Dollar 30 million). The balance of Commitments to invest in private equity funds amounted to NIS 49 million as of December 31, 2015.

The balance of losses, net (before the tax effect), included in other cumulative comprehensive profit, in respect of the difference between the fair value of securities included in the available-for-sale portfolio and their amortized cost, as of December 31, 2015, amounted to NIS 29 million.

As of February 22, 2016, the said balance of loss amounts to NIS 32 million.

Cash and deposits at banks on December 31, 2015 totaled NIS 30,727 million compared with NIS 29,182 million at the end of 2014, an increase of 5.3%

Deposits from the public on December 31, 2015 totaled NIS 103,262 million compared with NIS 95,155 million at the end of 2014, an increase of 8.5%.

The composition of deposits by linkage segment shows that at the end of 2015, 68.2% of deposits (mainly term deposits) were in the unlinked shekel segment, 24.3% were in foreign currency and linked to foreign currency, 6.9% were CPI-linked and 0.6% were non-monetary items.

The ratio of deposits from the public to credit to the public amounted to 142.3% as of December 31, 2015, compared with 138.0% at the end of 2014.

Set out below is the distribution of deposits from the public by linkage segments:

	As of December 31				Segment's share of total deposits from the public on December 31	
	2015	2014	Change		2015	2014
	NIS million		NIS million	%	%	%
Local currency						
- Non-linked	70,392	61,562	8,830	14.3	68.2	64.7
- CPI-linked	7,095	8,111	(1,016)	(12.5)	6.9	8.5
Foreign currency denominated & linked	25,135	24,915	220	0.9	24.3	26.2
Non-monetary items	640	567	73	12.9	0.6	0.6
Total	103,262	95,155	8,107	8.5	100.0	100.0

Deposits from the public by segment of activity

	As of December 31		
	2015	2014	Change
	NIS million		
Corporate banking segment	33,402	30,758	8.6
Private banking segment	25,356	24,711	2.6
Middlemarket banking segment	5,646	5,990	(5.7)
Household segment	28,866	24,278	18.9
Small business segment	9,992	9,418	6.1
Total	103,262	95,155	8.5

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of December 31, 2015, amounted to NIS 246 billion, as compared to NIS 248 billion at the end of 2014.

Bonds and deferred debt notes amounted at the end of the year to NIS 5,862 million, as compared with NIS 4,903 million at December 31, 2014, an increase of 19.6%.

On January 13, 2015, the First International Issuance Ltd. (hereinafter – "International Issuance"), a wholly owned subsidiary of the Bank, issued to the public, bonds (Series "H") in a par value of NIS 685 million, in consideration for NIS 685 million, and on March 30, 2015, it issued to the public, bonds (Series "I") in a par value of NIS 645 million in consideration for NIS 667 million. The cash amounts received in respect of the said issues have been deposited with the Bank. The Bank is committed to fulfill the terms of the bonds issued as above.

For details regarding assets and liabilities according to quarters in the years 2014 and 2015, see Appendix 3 to the Chapter "Corporate governance", appendices.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on December 31, 2015 to NIS 7,073 million, as compared with NIS 6,797 million on December 31, 2014, an increase of 4.1%.

For details regarding the development of the other comprehensive profit, see the Chapter "Material developments in income, expenditure and in other comprehensive profit."

CAPITAL ADEQUACY

Minimum capital ratios

Bank of Israel issued on May 30, 2013 an amendment to Proper Conduct of Banking Business Directives Nos. 201-205, 208, 211 and 299, in the matter of "Measurement and capital adequacy", which adopt the Basel instructions. The initial implementation was set to January 1, 2014, and the implementation will be gradual in accordance to the transitional instructions in Proper Conduct of Banking Business Directive No. 299 "Measurement and capital adequacy– supervisory capital – transitional instructions". In accordance with these instructions, the minimum capital targets are as follows:

1. The ratio of Tier I equity capital to weighted average risk assets should be no less than 9% by January 1, 2015. A banking corporation, the total consolidated stated assets of which equals or exceeds 20% of total stated assets of the banking sector as a whole, shall have to attain a minimum Tier I equity capital ratio of 10% by January 1, 2017. This additional instruction does not apply to the Bank.
2. The ratio of comprehensive capital to average risk assets should be no less than 12.5% by January 1, 2015. A banking corporation, the total consolidated stated assets of which equals or exceeds 20% of total stated assets of the banking sector as a whole, shall have to attain a minimum capital ratio of 13.5% by January 1, 2017. This additional instruction does not apply to the Bank.

An additional instruction was published by the Supervisor of Banks on September 28, 2014. According to this instruction and to the transitional instructions for the year 2014, an additional capital requirement was added as from January 1, 2015, to the minimum capital ratios at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date, so that the minimum ratio of Tier I equity capital required by the Supervisor of Banks as of December 31, 2015, shall not be less than 9.10%, and the minimum ratio of the comprehensive capital shall not be less than 12.60%. This requirement is applied gradually over eight quarters until January 1, 2017.

Within the framework of the ICAAP process, the Board of Directors has set minimum capital goals in relation to Tier I equity capital and to the comprehensive capital, to apply in regular business situations and in stress situations. These capital goals have, inter alia, been determined in view of that stated above and in view of the ICAAP findings relating to the data as of June 30, 2015. The minimum capital goals are as follows:

- In a regular business situation - the ratio of Tier I equity capital shall be no less than 9.30%, and the ratio of the comprehensive capital, which is determined gradually, shall be no less than 12.70% by June 30, 2016, and no less than 12.73% by December 31, 2016.

- In stress situations - the ratio of Tier I equity capital shall not be less than 6.50%, and the ratio of comprehensive capital shall not be less than 9.00%.

In accordance with the transitional instructions, the supervisory adjustments and the deduction from capital as well as the minority rights, which are not qualified for inclusion in the supervisory capital, shall be gradually deducted from the capital at the rate of 20% per annum, beginning on January 1, 2014 and until January 1, 2018. Capital instruments, which are no longer qualified as supervisory capital, shall be recognized, up to the maximum of 80%, on January 1, 2014, and in each consecutive year, this maximum would be reduced by 10% until January 1, 2022. As of January 1, 2016, the rate of deductions from the regulatory capital amounts to 60%, and the maximum rate of instruments qualified as supervisory capital amounts to 60%.

Implementation of the instructions

Pillar I – as stated above, in accordance with Bank of Israel instructions, the Bank started to implement the Basel instructions as from January 1, 2014.

Credit, market and operating risks - the Bank is implementing the standard approach in accordance with Bank of Israel instructions.

Pillar II – the Bank is required to conduct an internal process for the assessment of capital adequacy (the ICAAP process). This process is designed to ensure the maintenance of an adequate level of capital means supporting the overall risks inherent in the operations of the Bank. The ICAAP document relating to the data as of June 30, 2015, has been fully submitted to bank of Israel. The infrastructure for the capital adequacy, as approved by the Bank, serves as a basis for the internal process conducted at each of the banking subsidiaries, subject to required adjustments, and on the basis of the specific risk profile of each subsidiary. The subsidiary companies had conducted the ICAAP process in relation to the June 30, 2014 data, and have started to conduct the process in relation to the December 31, 2015 data.

	December 31,	
	2015	2014
1. Capital for calculation of capital ratio, after deduction and supervisory adjustments		
Tier 1 capital, after deductions and supervisory adjustments	7,349	7,157
Tier 2 capital	2,580	3,357
Total capital	9,929	10,514
2. Weighted balances of risk assets		
Credit risk	67,766	66,148
Market risk	995	1,226
Operational risk	6,141	6,459
Total weighted balances of risk assets	74,902	73,833
3. Ratio of capital to risk assets		
Ratio of tier 1 equity capital to risk assets	9.81%	9.69%
Total ratio of capital to risk assets	13.26%	14.24%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	9.10%	9.00%
Minimal ratio of capital required by the Supervisor of Banks	12.60%	12.50%

The Tier I equity capital ratio as of December 31, 2015, amounted to 9.81%, in comparison with 9.69% on December 31, 2014. The ratio of comprehensive capital to risk components as of December 31, 2015,

amounted to 13.26%, in comparison with 14.24% on December 31, 2014. The comprehensive capital as of December 31, 2015 amounted to NIS 9,929 million, in comparison with NIS 10,514 million on December 31, 2014. The reduction in the capital base stemmed mostly from a reduction of NIS 671 million in instruments issued by the Bank qualified for inclusion in the supervisory capital, and from the distribution of a dividend in the amount of NIS 130 million. This reduction was partly offset by the profits for the year in the amount of NIS 446 million. Risk assets as of December 31, 2015 amounted to NIS 74,902 million as compared with NIS 73,833 million on December 31, 2014. The increase in risk assets stems mostly from the increase in credit to the public. The comprehensive capital ratios and the Tier I equity capital ratios of the significant subsidiaries, in accordance with the "framework for measurement and capital adequacy" of Basel, are:

	December 31,	
	2015	2014
		In percent
Significant subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of Tier 1 capital to risk assets	9.83	9.59
Ratio of overall capital to risk assets	13.25	14.13
Bank Poalei Agudat Israel Ltd.		
Ratio of Tier 1 capital to risk assets	12.30	12.00
Ratio of overall capital to risk assets	16.40	16.70
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	13.76	14.50
Ratio of overall capital to risk assets	15.01	15.70

Leverage ratio in accordance with instructions of the Supervisor of Banks - On April 28, 2015, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio. The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the prescribed transitional arrangements. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis. A banking corporation, the total consolidated stated assets of which equals or exceeds 20% of total stated assets of the banking sector as a whole, should attain a leverage ratio of no less than 6%. In accordance with the above, the minimum leverage ratio required from the Bank is 5%. The minimum leverage ratio for a banking corporation applies as from January 1, 2018 and thereafter. The leverage ratio of the Bank at December 31, 2015, amounts to 5.43%.

DIVIDEND DISTRIBUTION POLICY

On June 9, 2015, the Bank Board of Directors resolved to update the dividend distribution policy of the Bank. According to the updated dividend distribution policy, the Bank will distribute annual dividends of up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements being no less than the target specified by the Bank's Board of Directors from time to time. Such distributions will be made subject to legislative provisions and to Proper Conduct of Banking Business Regulations, providing that no adverse changes occur in the Bank's earnings and/or business and/or financial position and/or the overall state of the economy and/or the legal environment.

This resolution is not to be construed as detracting from the Board of Directors' authority to review policy from time to time and to resolve at any time, after taking due account of business considerations and of the legislative provisions applying to the Bank, changes in policy or the rate of dividend to be distributed for a specific period, or to resolve not to distribute any dividend at all.

It is clarified that any dividend distribution shall be subject to specific approval by the Board of Directors and to all the restrictions applying to the Bank regarding dividend distribution, and shall be made public with all required details in accordance with the law.

It should be noted that in addition to the provisions of the Companies Law, dividend distribution by the Bank is subject to additional restrictions that are detailed in Note 35.g. to the financial statements.

On June 9, 2015, the Board of Directors of the Bank resolved to distribute a cash dividend to the Bank's shareholders in the overall amount of NIS 60 million. The determinant date concerning payment of the dividend was June 18, 2015, and the payment date was June 30, 2015.

On November 18, 2015 the Board of Directors of the Bank resolved on cash dividend distribution to the Bank's shareholders in an overall amount of NIS 70 million. The determinate date for the dividend payment was November 26, 2015 and payment date was December 6, 2015.

The amounts of the dividend are before any tax, including tax at source which the Bank must deduct in accordance with the law.

The resolutions and the considerations guiding them are detailed in the immediate reports which the Bank issued on the date of the resolution (reference number 2015-01-044151, 2015-01-158433). The said in these reports is included here by way of reference.

THE BANK GROUP'S SEGMENTS OF ACTIVITY

General, segment characteristics and managerial structure

General

The First International Bank Group collates its operations in Israel and abroad via the Bank and its subsidiaries, and supplies diverse banking and financial services to its customers. Group activity is conducted via seven principal segments of activity. The division into activity segments is based on the characteristics of the customers and the types of products in each segment.

- This segmental division is derived from the strategy of customer-focused activity in accordance with which the group carries out its activity. Since there are no uniform criteria in the banking system for the attribution of customers to segments of activity, each bank attributes its customers to activity segments that match its managerial and business strategy concepts.
- The results of the segments of activity are detailed in Note 28 to the financial statements. In compiling the notes to the financial statements, reconciliation is made between the managerial reports referring to the segments of activity as mentioned above and which are based partly on an economic approach, and the reporting that conforms to generally accepted accounting principles.
- The segments of activity are presented in accordance with the criteria and the directives determined by the Supervisor of Banks in Israel. As was said in note 1.C.9. to the financial statements, in accordance with the circular of the supervision of banks dated November 7, 2014, which updates the Reporting to the Public Directives in all concerning the reporting requirement on supervisory segments, among other things, include change of certain definitions and instructions according to them, the banks will be required to perform classification of customers to supervisory segments and to update their reports. The amendments to the directives are in order to require a uniform and comparable reporting on segments of activity according to the supervisor of banks directives.

The Bank approved a change in classification of the business customers in the Bank. In this process the distribution to business segments was redefined.

In addition an update was done to the key of distribution of expenses between the different segments. The said changes are presented in the results of the segments of activity and comparison data was reclassified according to these changes.

Criteria for attributing customers to the different segments of activity

- **Corporate banking segment** - The corporate segment specializes in the provision of financial services to large corporations in Israel. Credit extension is the main form of activity in the segment. The customers attributed to this segment are large and medium-sized corporations, whose overall indebtedness exceeds NIS 40 million or income turnover of more than NIS 200 million, as well as large business and institutional organizations active in the capital markets.
- **Private banking segment** - The segment provides services to Israeli and foreign resident customers with a high-medium level of financial affluence. The customers attributed to this segment are customers, most of them with investment portfolios of over NIS 200 thousand.

- **Commercial banking segment** - The customers included in this segment are middle-market customers of the group, most of them with indebtedness of between NIS 5 million and NIS 40 million, and or income turnover of NIS 25 million to NIS 200 million.
- **Household segment** - Includes private customers, most of them with an investment portfolio of up to NIS 200 thousand.
- **Small business segment** - Includes companies and businesses with indebtedness of up to NIS 5 million.
- **Financial management segment** - Includes the results of the Bank's ALM activity, including market and liquidity risk management, the difference between the fair value and the accrual basis value of derivative financial instruments, and the results of nostro portfolio management activity (including activity with banks and the Bank of Israel). The segment also includes the Bank's share in the earnings of ICC.

Principles for apportioning operating results among the different segments

- Net interest income-includes:
 - The financial margin between borrowing and lending activity, which is calculated as the spread between the interest obtained or paid and the average prices of money for the Bank, which derive from the duration of assets or liabilities in the relevant linkage segments.
 - Interest on the weighted capital attributed to the segment (on the basis of the risk assets attributed to each segment).
 - The customer segments are charged with the excess financing costs (over and above the cost of raising sources) of the capital notes attributed to the segment.
- Expenses on credit losses - Expenses on credit losses which were recorded in respect of its customers are attributed to each segment of activity.
- Non-interest income - Commission income, non-interest financing income and other income deriving from its customers' activity are charged to each segment of activity.
- Operating expenses - Attributed to each segment of activity are the direct expenses at the branches of the Bank and the head office deriving from the provision of services to the segment's customers. This is on the basis of the "activity index" standard, which translates activity with customers into labor inputs and other direct costs. Other direct head office expenses are charged to the segment on the basis of loading parameters and standards which are identified with the business unit activity. The indirect expenses are charged on the basis of fixed loading standards.
- Taxes on income - The provision for taxes on the earnings of each segment is calculated in accordance with the statutory rate of tax, with certain adjustments deriving from such factors as unrecognized expenses.
- Minority interest in net earnings - The charging of minority interest in the different segments of activity is calculated on the basis of the net earnings of subsidiaries with minority interest, as these earnings are attributed to the different segments of activity.
- Return on equity - expresses the ratio between the net earnings of each of the segments and the capital allocated to the segment. Capital allocated to the segment includes the capital required in respect of credit risks and operational risk.

Forward-looking information

The following reference includes forward-looking information. This form of information is uncertain information about the future that is based on information existing at the Bank as of the report date, and includes the Bank's assessments or its intentions as of the report date.

The following is a summary of the results of activity by segments:

a. Total income**

	For the year ended on December 31			Segment's share of total income	
	2015	*2014	Change	2015	2014
	NIS million		%	%	
Corporate banking segment	744	799	(6.9)	21.3	21.2
Private banking segment	500	523	(4.4)	14.3	13.9
Commercial banking segment	364	360	1.1	10.4	9.6
Household segment	1,093	1,121	(2.5)	31.3	29.8
Small business segment	430	448	(4.0)	12.3	11.9
Financial management segment	363	517	(29.8)	10.4	13.6
Total	3,494	3,768	(7.3)	100.0	100.0

b. Expenses (Income) from credit losses

	For the year ended on December 31			
			% of total credit	
	2015	2014*	2015	2014
	NIS million		%	
Corporate banking segment	(52)	(42)	(0.26)	(0.21)
Private banking segment	2	10	0.04	0.21
Commercial banking segment	13	(8)	0.16	(0.10)
Household segment	46	100	0.14	0.32
Small business segment	9	29	0.18	0.59
Total	18	89	0.02	0.13

c. Net profit (losses) attributed to shareholders of the bank

	For the year ended on December 31	
	2015	*2014
	NIS million	
Corporate banking segment	212	214
Private banking segment	(7)	(25)
Commercial banking segment	51	58
Household segment	(26)	(76)
Small business segment	30	22
Financial management segment	186	262
Total	446	455

* Reclassified.

** Including net interest income and non-interest income.

d. Average balance sheet balances**

	Total assets			% of total assets	
	For the year ended on December 31			2015	2014
	2015	*2014	Change	2015	2014
		NIS million	%	%	%
Corporate banking segment	19,321	21,383	(9.6)	15.8	19.2
Private banking segment	4,761	4,372	8.9	3.9	3.9
Commercial banking segment	8,152	7,738	5.4	6.7	7.0
Household segment	32,507	30,073	8.1	26.6	27.0
Small business segment	4,956	4,992	(0.7)	4.1	4.5
Financial management segment	52,382	42,720	22.6	42.9	38.4
Total	122,079	111,278	9.7	100.0	100.0

	Total liabilities			% of total liabilities	
	For the year ended on December 31			2015	2014
	2015	*2014	Change	2015	2014
		NIS million	%	%	%
Corporate banking segment	32,005	28,286	13.1	27.9	27.2
Private banking segment	25,183	23,382	7.7	21.9	22.5
Commercial banking segment	5,324	4,920	8.2	4.6	4.7
Household segment	26,327	23,489	12.1	22.9	22.6
Small business segment	9,428	8,848	6.6	8.2	8.5
Financial management segment	16,570	15,130	9.5	14.5	14.5
Total	114,837	104,055	10.4	100.0	100.0

* Reclassified.

** The average balance of assets and liabilities in each of the customer segments expresses the average balance of credit to the public and deposits from the public respectively.

Set out below is an extensive description of the segments of activity of the Bank Group:

CORPORATE SEGMENT

General and segment structure

- The corporate segment specializes in the provision of financial services to large corporations, including corporations with international activity. Credit extension is the main form of activity in the segment. Most of the segment's customers are credit consumers with an obligo exceeding NIS 40 million or their income turnover exceeds NIS 200 million, business and institutional organizations active in the capital markets and investments, and special customer sectors.
- As part of the management policy for the Bank Group, a group credit policy and business focus for each subsidiary has been determined, whereby large business customers are processed mainly via the Corporate Division at the Bank itself.
- The Bank's Corporate Division consists of seven specialized sectors: capital market and financial services; diamonds; construction and real estate; energy, chemicals, utilities and heavy industries; light and medium-level industries; telecom, technology and services; transportation, commerce and tourism services. The head of each sector is responsible for collating all the banking processing of its customers, in order to provide a direct, rapid and professional response to their requirements. The sector head is also responsible for the development of business activity with new customers in the sector's areas of specialization, in cooperation with the branch managers.
- The Corporate Division also contains: the Special Credit Department, which collates the processing of corporate segment and commercial segment customers in financial distress, for the purpose of assisting in their recovery; and the Foreign Trade Department, which provides services to all of the Group's customers in that area of activity.
- In order to increase the cooperation between the field units and head office and to increase the efficiency of the work processes at the Bank, the Bank's ten largest business branches, where corporate banking segment customers are concentrated, have been made subordinate to the Corporate Division. Concurrently, specialist units collating the process of large business customers and large commercial banking customers have been established at branches with a high level of corporate and commercial banking activity. These units engage in the acquisition of new business customers.

Activities, products and services

- The main activities in the segment are banking and finance, including: corporate credit, guarantees, borrowing, deposits, foreign trade activity, foreign-currency activity, activity in derivative instruments, securities activity, trust services for mutual funds, management of provident funds and factoring.
- In addition, the segment's customers also receive account management services, credit to the capital market and trust services.

Alternatives to the segment's products and services and changes in them

- The sources of finance that serve as substitutes for bank credit are public and private issues of shares, bonds and other securities in the local and international capital markets. The proportion of non-bank finance to total sources of finance for business customers has increased continually during recent years. However, initial indicators are apparent that the principles which the Capital Market, Insurance and Savings Commissioner at the Ministry of Finance determined on the basis of the recommendation of the Hodak Committee concerning institutional investors' investments in corporate bonds, are affecting the volume of issues on the Tel Aviv Stock Exchange.
- Non-bank entities such as insurance companies and institutional investors also offer credit to the Corporate Segment's customers. In addition, investment houses provide services in the areas of investment, foreign-currency activity and activity in financial derivatives.

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

- The activity of customers of this segment is sensitive to macro-economic changes, such as: trends of economic prosperity and of depression in Israel and worldwide, developments in the economic sector in which the customer operates in Israel and worldwide, fluctuations in currency exchange rates and in the consumer price index, developments in interest rates, commodity prices, prices of imported raw materials, etc. According to recent indicators published in February 2016, economic activity in 2015 continued to be characterized by a low growth rate, relatively to prior years. The business product increased in the second half of 2015 by 2.2% (in annualized terms), a low rate in comparison with prior periods (a rate of only 2.9% in 2014, and 3.4% in 2013). A similar trend may be seen also in the rate of growth of the GDP, the last corporation survey of January 2016 indicating a slight improvement in the fourth quarter over the third quarter.
The growth forecast by Bank of Israel for the year 2016, indicates an expected GDP growth rate of 2.8%, in contrast to 2.4% in 2015, which according to its estimates would, inter alia, be affected mostly by the improvement in exports, on background of assumptions that the relative weakness in exports in 2015 stemmed partly from momentary factors and that exports are expected to recover at a rate similar to the rate of growth expected in imports to the OECD countries.
- The relatively moderate growth rate is affected by the global economic situation, and the business segment engaged in exports and imports is more sensitive to the global economy. In view of the negative developments on the global financial markets, the international institutions (the International Monetary Fund and the World Bank) lowered their forecasts in everything relating to the rate of economic growth and global trade, so that the global growth rate is expected to reach 3.4% in 2016 (in contrast to 3.6%), and the forecast for the global trade growth has also been lowered to 3.6% (from 3.8%).
- According to Bank of Israel data, the trend of reduction in bank credit to the business sector continued also in 2015, in contrast to the rise in net fundraising through issuance of bonds abroad and nonmarketable bonds in Israel.
- The Bank continues to adjust the volume of credit, scope of credit facilities, interest rates and mix of collateral, to developments in the market in general, and to the financial stability and repayment ability of customers in particular.

Changes in the segment's volume of activity and net earnings

Set out below is a summary of the results of the activity of the Corporate Banking Segment (in NIS million):

	For the year ending on December 31							
	2015				*2014			
	Banking & finance	Capital market	Constr. & real- estate	Total	Banking & finance	Capital market	Constr. & real- estate	Total
Net interest income								
- From external	301	-	107	408	357	-	137	494
- Inter-segmental	(18)	-	(9)	(27)	(23)	-	(18)	(41)
Total net interest income	283	-	98	381	334	-	119	453
Non-interest income								
- From external	104	206	53	363	95	206	45	346
Total income	387	206	151	744	429	206	164	799
Expenses (Income) in respect of credit losses	38	-	(90)	(52)	-	-	(42)	(42)
Operating and other expenses	189	184	66	439	218	192	71	481
Profit before taxes	160	22	175	357	211	14	135	360
Provision for taxes on earnings	65	9	71	145	86	6	54	146
Net profit attributed to shareholders	95	13	104	212	125	8	81	214
Return on equity				9.6%				9.5%
Average balance of assets	15,316	-	4,005	19,321	16,674	-	4,709	21,383
Average balance of liabilities	31,295	-	710	32,005	27,239	-	1,047	28,286
Average balance of risk assets	15,077	175	7,577	22,829	15,643	201	7,129	22,973
Average balance of provident fund and advanced study fund assets				41,459				37,901
Average balance of securities				189,037				167,966
Components of net interest income:								
- Margin on lending activity	269	-	105	374	297	-	122	419
- Margin on borrowing activity	36	-	1	37	50	-	3	53
- Other	(22)	-	(8)	(30)	(13)	-	(6)	(19)
Total net interest income	283	-	98	381	334	-	119	453

* Reclassified.

The segment's total income amounted to NIS 744 million compared to NIS 799 million in 2014, a decrease of 6.9%. Net interest income totaled NIS 381 million compared with NIS 453 million in 2014, a decrease of 15.9%. The decrease is explained by decline in the volume of average credit attributed to this segment and by a reduction in contraction of interest margins on deposits due to decline in the interest of 0.5%.

Total non-interest income amounted to NIS 363 million, compared with NIS 346 million in 2014.

Income from credit losses amounted to NIS 52 million compared with NIS 42 million in 2014.

The operating and other expenses amounted to NIS 439 million compared with NIS 481 million in 2014. The decrease derived mainly from the implementation of the special salaries collective agreement.

Net profit amounted to NIS 212 million compared to NIS 214 million in 2014, a decrease of 1%.

Average balance of assets attributed to the corporate segment is NIS 19,321 million in 2015, a decrease of 9.6% compared with last year, and the average balance of liabilities increased by 13.1% and amounts to NIS 32,005 million.

THE PRIVATE BANKING SEGMENT

Segment structure

- The Private Banking Segment provides services to Israeli and foreign resident customers with a high-medium level of financial affluence. Most customers in the segment at the Bank hold investment portfolios of over NIS 200 thousands.
- The Bank offers the segment's customers financial services and solutions by means of sophisticated products, global asset management as well as a unique service package and an advanced consultancy network based on decision-support tools that assist in mapping the level of risk inherent in each customer's investment portfolio and in adapting the level of this risk to the customer's preferences, requirements and changes in risk appetite, and to market developments. The segment's activity is carried out via the Bank's nationwide network of branches, nearly all of which have specialized private banking units. At these units, customers are able to benefit from a wide range of advanced banking solutions and products, and from the personal attention of a specialized team who address their entire range of financial requirements. This team contains specialist investment consultants and professional bankers, and is backed by an analysts unit at head office and by a computerized decision-support consultancy system. As an additional service sector, the Bank offers an exclusive and unique service to the high net worth customers of the segment, investment consultancy services via FIBI Platinum Centers in Tel Aviv and Haifa to customers with active investment portfolios and sophisticated strategies. Customers who are very active in such areas as foreign securities, FX and Maof can contact the Bank's dealing rooms directly. High net worth services are also provided by the branches of Ubank, that was merged on September 30, 2015 into the Bank. Ubank has a unique worth, comprised on personal service in a very high standard.

Activities, products and services

- The principal activities in the segment are banking and finance, credit card activity and capital market activity, with an emphasis on a wide range of investment products of differing levels of sophistication and risk, including deposits and saving plans, investment advice and pension advice, activity in Israeli and foreign securities, foreign currency, derivative financial instruments, structured products, and mutual fund distribution, as well as the opportunity for investment portfolio management by external portfolio managers.
- Pension advice is given at all branches of the banks in the Group which hold a license for this activity. Advice is given by qualified pension consultants who have undergone special training and a period of professional experience.
- The segment's customers are also able to benefit from comprehensive banking services at preferential terms.
- The Group constantly endeavors to enhance its processes and technologies in order to improve the level of service and to expand the basket of services.

Alternatives to the segment's products and services

Insurance companies, investment houses and private brokers, investment advice services, and investment and saving products. In the area of pension consultancy service and pension products, the Bank competes against pension marketers (insurance companies, insurance agents, and provident fund and pension fund managers), as well as private pension consultants and banks.

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

- The year 2015 began with a very low interest level of 0.25%, when in February the interest rate was further lowered to a historical record low of 0.1%. The local capital market continued to record a growth in the daily trading turnover. This growth is explained, inter alia, on background of the low interest environment and the positive macro-economic data (among other, the decline in the rate of unemployment and in government deficit, and the ratification of the credit rating of Israel). This year experienced volatility in the markets due to concerns regarding the international capital markets. According to assessments, the low interest environment is expected to continue also in 2016, when in contrast to the interest rate in the United States, which had begun to rise, the interest rate in Israel is expected to remain low until the end of 2016.
- In 2015, the Bank continued to focus on the strengthening of the online activity channels, among which are the Internet website and the cellular application, as well as online systems for investment management (Duchifat-net).

Changes in the segment's volume of activity and net earnings

Set out below is a summary of the results of the activity of the Private Banking Segment (in NIS million):

	For the year ending on December 31					For the year ending on December 31				
	2015					*2014				
	Banking & finance	Credit cards	Cap. mkt.	Mortgages	Total	Banking & finance	Credit cards	Cap. mkt.	Mortgages	Total
Net interest income										
- From external	19	2	-	39	60	(71)	2	-	46	(23)
- Inter-segmental	104	(1)	-	(24)	79	218	(1)	-	(33)	184
Total net interest income	123	1	-	15	139	147	1	-	13	161
Non-interest income										
- From external	74	20	266	1	361	74	20	267	1	362
Total income	197	21	266	16	500	221	21	267	14	523
Expenses in respect of credit losses	2	-	-	-	2	10	-	-	-	10
Operating and other expenses	241	9	250	10	510	271	9	264	11	555
Profit (losses) before taxes	(46)	12	16	6	(12)	(60)	12	3	3	(42)
Provision for taxes (tax saving) on earnings	(20)	5	7	3	(5)	(24)	5	1	1	(17)
Net profit (losses) attributed to shareholders	(26)	7	9	3	(7)	(36)	7	2	2	(25)
Return on equity					(1.6%)					(5.8%)
Average balance of assets	2,455	445	-	1,861	4,761	2,246	429	-	1,697	4,372
Average balance of liabilities	25,183	-	-	-	25,183	23,382	-	-	-	23,382
Average balance of risk assets	3,596	-	77	1,083	4,756	3,422	-	11	970	4,403
Average balance of securities					40,971					40,056
Average balance of other managed assets					-					204
Components of net interest income:										
- Margin on lending activity	59	1	-	16	76	55	1	-	13	69
- Margin on borrowing activity	64	-	-	-	64	92	-	-	-	92
- Other	-	-	-	(1)	(1)	-	-	-	-	-
Total net interest income	123	1	-	15	139	147	1	-	13	161

* Reclassified.

The segment's income totaled NIS 500 million compared with NIS 523 million in 2014, a decrease of 4.4%. Interest income, net amounted to NIS 139 million, compared with NIS 161 million in 2014. The decrease in net interest income deriving from a contraction of interest margins on deposits, due to reduction in interest by 0.5% compared with 2014. 72% of the Private Banking Segment's income derived from non-interest income, of which 74% was recorded in the capital market item.

The operating and other expenses amounted to NIS 510 million compared with 555 million in 2014. The decline in expenses derived from the implementation of the special salaries collective agreement.

Net losses amounted to NIS 7 million, compared with NIS 25 million in 2014.

The average balance of the Private Banking Segment's liabilities amounted to NIS 25,183 million in 2015, or 22% of the Bank's average liabilities.

THE COMMERCIAL BANKING SEGMENT

Segment structure

- The customers in this segment are the Bank's medium-sized business clients, mostly with outstanding debt of between NIS 5 million and NIS 40 million and/or turnover of NIS 25 million to NIS 200 million.
- The principal industries in which the segment operates are: manufacturing, commerce, construction and real estate. The activities of most of the segment's customers are carried out in the local market, although the segment does process customers engaged in import and export activity as well.
- The management of the corporate sector is carried out by the commercial departments in the business division in the Bank.
- The Bank offers services to commercial customers at all branches. In order to improve cooperation between the branch network and head office and to increase efficiency and improve service to commercial customers, the Bank's ten largest business branches at which customers of the corporate banking and commercial banking segments are concentrated are subordinated to the Corporate Division. Concurrently, specialized units have been established at branches oriented towards corporate and commercial banking activity. These units collate the processing of large business customers and middle-market customers, and acquire new business customers.

Activities, products and services

- Products and services offered to commercial banking customers are essentially similar to those offered to corporate banking customers, including: business credit, guarantees, lending and borrowing, deposits, foreign trade activity, foreign currency activity, activity in derivative financial instruments, securities activity, trust services for mutual fund and factoring.
- The segment's customers are also offered account management services, credit for capital market activity and trustee services.
- In addition, at Otsar Hahayal, part of the segment's activity is carried out via finance funds which are intended to assist in the establishment and development of SMEs. The principal funds operated by Otsar Hahayal are a State-guaranteed fund for assisting SMEs and the Jewish Agency funds. The funds are joint ventures with the Ministry of Finance, the Ministry of Industry and Trade and donors' funds.

Alternatives to the segment's products and services and changes in them:

- Public and private stock issues, bonds and other securities in the Israeli capital market and in foreign markets serve as alternative sources of finance to bank credit.
- Non-bank entities such as insurance companies and institutional investors offer credit to the Commercial Banking Segment's customers.
- Investment houses provide services in the areas of investment, foreign-currency activity and activity in financial derivatives.

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

Most of the customers in this segment conduct their business activity on the local market, while a part is engaged also in export/import operations. The factors affecting the middle-market segment are mainly the demand items on the local market, the level of private consumption and the level of investments.

According to recent indicators published in February 2016, economic activity in 2015 continued to be characterized by a low growth rate, relatively to prior years, so that in the second half of 2015, the business product increased by 2.2% (in annualized terms), a low rate in comparison with prior periods (a rate of only 2.9% in 2014, and 3.4% in 2013). A similar trend may be seen also in the rate of growth of the GDP, the last corporation survey of January 2016 indicating a slight improvement in the fourth quarter over the third quarter.

The growth forecast by Bank of Israel for the year 2016, indicates an expected GDP growth rate of 2.8%, in contrast to 2.4% in 2015, which according to its estimates would, inter alia, be affected mostly by the improvement in exports, on background of assumptions that the relative weakness in exports in 2015 stemmed partly from momentary factors and that exports are expected to recover at a rate similar to the rate of growth expected in imports to the OECD countries.

The relatively moderate growth rate is affected by the global economic situation, and the business segment engaged in exports and imports is more sensitive to the global economy. In view of the negative developments on the global financial markets, the international institutions (the International Monetary Fund and the World Bank) lowered their forecasts in everything relating to the rate of economic growth and global trade, so that the global growth rate is expected to reach 3.4% in 2016 (in contrast to 3.6%), and the forecast for the global trade growth has also been lowered to 3.6% (from 3.8%).

Changes in the segment's volume of activity and net earnings

Set out below is a summary of the results of the activity of the Commercial Banking Segment (in NIS million):

	For the year ending on December 31									
	2015					*2014				
	Banking & finance	Credit cards	Cap. mkt.	Constr. & real-estate	Total	Banking & finance	Credit cards	Cap. mkt.	Constr. & real-estate	Total
Net interest income										
- From external	253	-	-	41	294	254	-	-	44	298
- Inter-segmental	(29)	-	-	(6)	(35)	(35)	-	-	(8)	(43)
Total net interest income	224	-	-	35	259	219	-	-	36	255
Non-interest income										
- From external	75	2	15	13	105	77	2	14	12	105
Total income	299	2	15	48	364	296	2	14	48	360
Expenses (income) in respect of credit losses	23	-	-	(10)	13	9	-	-	(17)	(8)
Operating and other expenses	203	-	13	26	242	217	-	12	28	257
Profit before taxes	73	2	2	32	109	70	2	2	37	111
Provision for taxes on earnings	33	1	1	14	49	31	1	1	16	49
Net Profit:										
Before minority interest	40	1	1	18	60	39	1	1	21	62
Minority interest	(7)	-	-	(2)	(9)	(4)	-	-	-	(4)
Net earnings attributed to the Bank's shareholders	33	1	1	16	51	35	1	1	21	58
Return on equity					5.9%					7.1%
Average balance of assets	6,849	31	-	1,272	8,152	6,476	31	-	1,231	7,738
Average balance of liabilities	4,864	-	-	460	5,324	4,439	-	-	481	4,920
Average balance of risk assets	7,293	-	-	1,654	8,947	6,985	-	-	1,408	8,393
Average balance of securities					3,555					3,575
Components of net interest income:										
- Margin on lending activity	222	-	-	36	258	210	-	-	37	247
- Margin on borrowing activity	7	-	-	1	8	12	-	-	2	14
- Other	(5)	-	-	(2)	(7)	(3)	-	-	(3)	(6)
Total net interest income	224	-	-	35	259	219	-	-	36	255

* Reclassified.

The segment's income totaled NIS 364 million in 2015 compared with NIS 360 million in 2014, an increase of 1.1%.

Expenses on credit losses totaled NIS 13 million compared with income totaled NIS 8 million in 2014.

Operating and other expenses totaled NIS 242 million compared with NIS 257 million in 2014. The decrease in expenses derives from the implementation of the special salaries collective agreement and from the decrease in the expenses of FIBI London due to the sale of the shares of FIBI London last year.

Net earnings of the Commercial Banking Segment amounted to NIS 51 million compared with NIS 58 million in 2014.

The average balance of assets of the segment in 2015 amounted to NIS 8,152 million, and increase of 5.4% compared to 2014.

THE HOUSEHOLD SEGMENT

Segment structure

- The Household Segment provides relatively low cash volume services to private customers. Services to the segment's customers are provided at 163 branches and sub-branches of the Group nationwide. Services are also provided via a range of direct banking channels: Beinleumi by Internet, Beinleumi by Cellular, ATM's and the Beinleumi Call Center.
- In 2015 three banks whose business activity is focused on the household segment operate at the Group, each of them specializing in a niche population: Bank Poalei Agudat Israel in the orthodox and ultra-orthodox sector, Otsar Hahayal mainly among employees and retirees of the defense forces. The award to Otsar Hahayal of a Defense Ministry tender for providing credit and banking services to employees of the defense forces, discharged soldiers and those eligible under Rehabilitation Department criteria are providing it with the maximum opportunity for maintaining contact with the defense force population. Massad focuses primarily on teachers including teachers from the arab sector.

Activities, products and services

Set out below are the principal products and services offered in the household segment:

- Banking and financial services.
 - Credit and current accounts - account management services, allocation of credit lines and granting of credit for various purposes.
 - Deposits - The Bank offers deposits of diverse types and compositions, including saving plans and structured products.
 - Credit card activity.
- Mortgages.

The Bank extends loans for the purpose of real estate assets and for construction, mainly for the borrower's residential purposes. A diverse range of loan compositions and tracks is offered for a period of up to 30 years. The Bank grants mortgages both to customers of the Group and to customers of other banks.
- The capital market
- Pension advice services-The Bank offers its customers objective and independent pension advice.

Activities, services and products

- New applications- at the beginning of February 2016 the Bank launched upgraded cellular application, offering vast range of information and activities and advanced user experience. Within the application, the Bank enables its customers the service "click data"- receiving the balance of the current account and the value of the securities portfolio without the need of identification.
- Green account- In March 2015 the Bank launched the green account, a digital account without paper, giving exemption from direct channel fee and relative return in the fees of securities and foreign exchange to customers performing in direct channels all their activity which can be carried out in these channels. The joining to the green account is open to new and existing customers.
- Opening an online account – in May 2015 the Bank launched the possibility to open an online account. The account may be opened anywhere without having to visit a bank branch, through a visual conference call.

Transactions in the account include deposits, security trading and credit card activity, among others. The account is subject to the restrictions prescribed by the Bank of Israel regulations.

- FIBI virtual banking - a service provided on-line and in the applications. FIBI provides continued services to clients, identifying important things for them, offers reminders, transactions and gives helpful tips that are relevant to each client.
- Life plan - Within the framework of its financial planning products, the Bank has created a unique system for assisting the customer in making the appropriate financial plans for the purpose of achieving his objectives in the future.

Alternatives to the segment's products and services and changes in them:

Although it is usual to manage a current account at the banks, additional products and services can be purchased at other financial institutions in Israel and via financial institutions abroad.

- Mortgages - the principal competitors are other banking corporations as well as insurance companies and construction companies.
- Consumer credit - the principal competitors are competing banks, credit card companies, retail chains and insurance companies.
- Investment advice services and investment and savings products - the principal competitors are the other banks, investment houses, insurance companies and fund managers.
- Pension advice services and pension products - the principal competitors are pension marketers (insurance companies, insurance agents, provident fund and pension fund managers) private pension consultants and the competing banks.

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

- According to recently published Bank of Israel data, the balance of credit granted to households was showing a growth trend during the recent five years, the contributing factors to the rise in the growth rate being the growth in housing credit, inter alia, on background of the decline in interest rates and the continuing low interest environment and the increase in housing prices, though according to Bank of Israel estimates, the debt ratio of households to the product has increased at a moderate rate only, and its level is low in comparison with international data. In November 2015, the outstanding balance of the household debt amounted to NIS 472 billion, of which, the part of the housing debt being 68%, with an increase also of its share of the total credit portfolio of the banking sector.
- The Bank is aware of the long-term changes inherent in this segment, on background of the real possibility of a rise in the interest environment, of deterioration in the economic condition of households, and the possibility of a decrease in housing prices, following the continuous rise in housing prices in recent years. Accordingly, the Bank conducts a conservative and careful policy in the granting of credit to the household segment.
- In the mortgage loan field, the Bank acts on the basis of strict examination of the financial stability of applicants for mortgage loans.

Changes in the segment's volume of activity and net earnings

Set out below is a summary of the results of the activity of the Household Segment (in NIS million):

	For the year ending on December 31									
	2015					*2014				
	Banking & finance	Credit cards	Cap. mkt.	Mortgages	Total	Banking & finance	Credit cards	Cap. mkt.	Mortgages	Total
Net interest income										
- From external	508	14	-	368	890	51	15	-	434	500
- Inter-segmental	34	(3)	-	(232)	(201)	527	(4)	-	(314)	209
Total net interest income	542	11	-	136	689	578	11	-	120	709
Non-interest income										
- From external	169	76	143	16	404	180	75	139	18	412
Total income	711	87	143	152	1,093	758	86	139	138	1,121
Expenses in respect of credit losses	43	-	-	3	46	98	-	-	2	100
Operating and other expenses	810	49	94	116	1,069	846	50	101	127	1,124
Profit (loss) before taxes	(142)	38	49	33	(22)	(186)	36	38	9	(103)
Provision for taxes (tax saving) on earnings (loss)	(53)	15	18	12	(8)	(67)	13	14	3	(37)
Net profit (loss):										
Before minority interest	(89)	23	31	21	(14)	(119)	23	24	6	(66)
Minority interest	(6)	(2)	(4)	-	(12)	(5)	(2)	(3)	-	(10)
Net earnings (loss) attributed to the Bank's shareholders	(95)	21	27	21	(26)	(124)	21	21	6	(76)
Return on equity					(1.1%)					(3.6%)
Average balance of assets	14,043	733	-	17,731	32,507	13,186	717	-	16,170	30,073
Average balance of liabilities	26,327	-	-	-	26,327	23,489	-	-	-	23,489
Average balance of risk assets	13,403	-	-	10,321	23,724	12,401	-	-	9,298	21,699
Average balance of securities					19,216					19,422
Components of net interest income:										
- Margin on lending activity	483	11	-	150	644	459	11	-	127	597
- Margin on borrowing activity	62	-	-	-	62	128	-	-	-	128
- Other	(3)	-	-	(14)	(17)	(9)	-	-	(7)	(16)
Total net interest income	542	11	-	136	689	578	11	-	120	709

* Reclassified

The segment's revenues totaled NIS 1,093 million, compared to NIS 1,121 in 2014, a decrease of 2.5%. Total interest income was NIS 689 million, compared to NIS 709 million in 2014. The decline in interest income is primarily accounted for by the decline in margins from deposits, mainly due to the 0.5 percentage point interest reduction, compared to 2014. This decline was partly offset by an increase, which was mainly attributed to the growth in credit to the public, including mortgages. Non-interest income amounted to NIS 404 million, compared to NIS 412 million in 2014. Total income from the household sector accounts for 31% of total Group income. Expenses due to household credit losses totaled NIS 46 million, compared to NIS 100 million in 2014. Expenses in respect of credit losses on 2014 included an increase in group provisions of NIS 45 million due to the implementation of the Supervisor of Banks' directive "Group provisions in respect of consumer credit to individuals".

Operating and other expenses totaled NIS 1,069 million compared with NIS 1,124 million in 2014. The decrease in expenses derives from the implementation of the special salaries collective agreement and from efficiency measures with respect to expenses, including the closure and merger of branches.

The average balance of assets in the segment amounted to NIS 32,507 million in 2015, an increase of 8.1% compared to 2014.

The net loss amounted to NIS 26 million, compared to a loss of NIS 76 million in 2014.

THE SMALL BUSINESS SEGMENT

Segment structure

The customers in this segment are mainly small commercial customers, with a debt of up to NIS 5 million and a turnover of up to NIS 25 million.

As part of the strategy of customer-focused activity, the small business population at the Bank was separated from the commercial (middle market) customer population, and is processed together with the household population under the managerial responsibility of the Banking Division.

Activities, products and services

The main activities and products in the Small Business Segment are:

- Banking and financial services, including account management services, credit extension for various purposes, deposits, structured products, investment advice services and securities activity.
- Business credit in suitable volumes.
- Guarantees.
- Import and export activity, including foreign-currency activity.
- Credit card activity.
- A variety of capital market services, with special solutions offered in accordance with the criteria and requirements and the segment's customers and changing market conditions.

Alternatives to the segment's products and services and changes in them

- Although a current account is usually managed at the banks, additional products and services can be purchased at other financial institutions in Israel and via financial institutions abroad.
- Credit - the principal competitors are the banking system, credit card companies and insurance companies.
- Investment advice services and investment and saving products - the principal competitors are investment houses, insurance companies and fund managers.

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

- The small business segment is affected by changes in the demographic and economic data, by changes in private consumption, as well as by savings characteristics and the financial assets portfolio in the hands of the public.

- The Bank continues to adjust the credit mix in this segment, the interest rates and the collateral mix, based on developments in the markets generally, and the financial stability and debt repayment ability of the customer in particular.

Changes in the segment's volume of activity and net earnings

Set out below is a summary of the results of the activity of the Small Business Segment (in NIS million):

	For the year ending on December 31									
	2015					*2014				
	Banking & finance	Credit cards	Cap. mkt.	Constr. & real-estate	Total	Banking & finance	Credit cards	Cap. mkt.	Constr. & real-estate	Total
Net interest income										
- From external	231	2	-	30	263	226	3	-	40	269
- Inter-segmental	(2)	(1)	-	(5)	(8)	9	(1)	-	(9)	(1)
Total net interest income	229	1	-	25	255	235	2	-	31	268
Non-interest income										
- From external	126	8	28	13	175	125	8	29	18	180
Total income	355	9	28	38	430	360	10	29	49	448
Expenses (income) in respect of credit losses	7	-	-	2	9	35	-	-	(6)	29
Operating and other expenses	305	3	22	29	359	314	4	24	36	378
Profit before taxes	43	6	6	7	62	11	6	5	19	41
Provision for taxes	20	3	3	3	29	5	3	2	9	19
Net profit:										
Before minority interest	23	3	3	4	33	6	3	3	10	22
Minority interest	(3)	-	-	-	(3)	-	-	-	-	-
Net profit attributed to the Bank's shareholders	20	3	3	4	30	6	3	3	10	22
Return on equity					6.3%					4.8%
Average balance of assets	4,183	153	-	620	4,956	4,160	153	-	679	4,992
Average balance of liabilities	8,846	-	-	582	9,428	8,162	-	-	686	8,848
Average balance of risk assets	4,075	-	-	677	4,752	3,735	-	-	941	4,676
Average balance of securities					8,270					9,173
Components of net interest income:										
- Margin on lending activity	218	1	-	25	244	213	2	-	27	242
- Margin on borrowing activity	14	-	-	1	15	27	-	-	3	30
- Other	(3)	-	-	(1)	(4)	(5)	-	-	1	(4)
Total net interest income	229	1	-	25	255	235	2	-	31	268

* Reclassified

Income of this segment amounted to NIS 430 million compared to NIS 448 in 2014, a decrease of 4.0%. The decrease in earnings derives from the decline in the spread of raising deposits due to reduction in interest by 0.5%. Expenses in respect of credit losses amounted to NIS 9 million compared with NIS 29 million in 2014. Operating and other expenses totaled NIS 359 million compared with NIS 378 million in 2014. The decrease in expenses derives from the implementation of the special salaries collective agreement. Net earnings attributed

to the Small Business Segment amounted to NIS 30 million in 2015 compared with net earnings of NIS 22 million in 2014.

The average balance of assets in the Small Business Segment amounted to NIS 4,956 million in 2015 compared with NIS 4,992 million in 2014.

FINANCIAL MANAGEMENT SEGMENT

Income in this segment derives mainly from the results of the Bank's ALM activity, including linkage segment management, nostro portfolio management, liquidity management and the management of exposure to market risks. Included in ALM activity is the effect of activity in derivative financial instruments (most of which forms part of the Bank's linkage segment management policy, while part of it consists of activity at specialist desks), and the Bank's share in the earnings of investee companies.

Total income attributed to this segment amounted to NIS 363 million in 2015 compared with NIS 517 million in 2014.

The net earnings of the Financial Management Segment amounted to NIS 186 million in 2015 compared with NIS 262 million in 2014. The decrease earnings is attributed to a decline of NIS 114 million in the gain from realization of securities from an expense of NIS 37 million due to a verdict received on lawsuit and from profit recorded in 2014 from the sale of the shares of FIBI London in the amount of NIS 31 million.

ACTIVITY IN PRODUCTS

A. Capital market activity

General

The Bank Group's activity in the capital market includes a variety of financial activities and services: trading activity in securities and financial assets (including Maof activity), securities custody, capital market research and advice, the provision of services to financial asset managers, management of securities and financial asset portfolios, trust services and pension advice. These financial activities and services are carried out partly by the Bank and partly by subsidiaries.

The Group's specialization and strength is reflected by the large market segments which it has gained in a wide range of capital market activities. Customers' securities activity is conducted via the Bank's investment consultants located at the Bank's branches, as well as via professional head office units which specialize in activity with customers active in the capital market and in activity with overseas capital markets.

Portfolio management

Within the group operates Unique International Investment Management Ltd. Unique International Investment Management Ltd. engaged in portfolio management to private individuals, entities and in securities consultation to entities and institutional bodies.

Provident fund operation

Assets of the provident funds receiving operational services at the group totaled NIS 47 billion at the end of 2015, similar to 2014.

Mutual fund operation

Assets of the mutual funds receiving operational services from the group totaled NIS 85 billion at the end of 2015, compared with NIS 90 billion at the end of 2014.

Income attributed to the capital market segment amounted to NIS 658 million in 2015 compared with NIS 655 million in 2014, an increase of 0.5%. Income from capital market activity derives largely from the Private Banking Segment (40 % of income) and from the Corporate Segment (31% of income).

Set out below is a summary of the results of capital market activity in the different segments (in NIS million):

For the year ending on December 31, 2015						
	Private	House-holds	Small business	Corporate	Commercial	total
Non-interest income	266	143	28	206	15	658
Total income	266	143	28	206	15	658
Operating and other expenses	250	94	22	184	13	563
Earnings before taxes	16	49	6	22	2	95
Provision for taxes on earnings	7	18	3	9	1	38
Earnings after taxes	9	31	3	13	1	57
Earnings attributed to minority interest	-	(4)	-	-	-	(4)
Net earnings attributed to the Bank's shareholders	9	27	3	13	1	53

For the year ending on December 31, 2014*						
	Private	House-holds	Small business	Corporate	Commercial	total
Non-interest income	267	139	29	206	14	655
Total income	267	139	29	206	14	655
Operating and other expenses	264	101	24	192	12	593
Earnings before taxes	3	38	5	14	2	62
Provision for taxes on earnings	1	14	2	6	1	24
Earnings after taxes	2	24	3	8	1	38
Earnings attributed to minority interest	-	(3)	-	-	-	(3)
Net earnings attributed to the Bank's shareholders	2	21	3	8	1	35

* Reclassified.

B. Credit card activity

Income from credit card activity largely consists of Fees obtained from the credit card companies and the Bank's share in ICC's earnings.

The credit risk inherent in purchases made via the credit cards which each bank distributes to its customers, including purchases in installments, is on that bank.

See the section on principal held companies regarding the investment in ICC.

Set out below are data on credit card activity as presented in the different activity segments (in NIS million):

For the year ending on December 31, 2015						
	Private	Households	Small businesses	Commercial	Financial mgt	Total
Net interest income	1	11	1	-	-	13
Non-interest income	20	76	8	2	-	106
Total income	21	87	9	2	-	119
Operating and other expenses	9	49	3	-	-	61
Earnings before taxes	12	38	6	2	-	58
Provision for taxes on earnings	5	15	3	1	-	24
Earnings after taxes	7	23	3	1	-	34
The Bank's share in the operating earnings of investee company after the tax effect	-	-	-	-	38	38
Net earnings:						
Before minority interest	7	23	3	1	38	72
Minority interest	-	(2)	-	-	-	(2)
Net earnings attributed to shareholders	7	21	3	1	38	70

For the year ending on December 31, 2014						
	Private	Households	Small businesses	Commercial	Financial mgt	Total
Net interest income	1	11	2	-	-	14
Non-interest income	20	75	8	2	-	105
Total income	21	86	10	2	-	119
Operating and other expenses	9	50	4	-	-	63
Earnings before taxes	12	36	6	2	-	56
Provision for taxes on earnings	5	13	3	1	-	22
Earnings after taxes	7	23	3	1	-	34
The Bank's share in the operating earnings of investee company after the tax effect	-	-	-	-	35	35
Net earnings:						
Before minority interest	7	23	3	1	35	69
Minority interest	-	(2)	-	-	-	(2)
Net earnings attributed to shareholders	7	21	3	1	35	67

Income from credit card activity totaled NIS 119 million similar to 2014. The net profit from the credit card business totaled NIS 70 million, compared with NIS 67 million in 2014.

PRINCIPAL INVESTEE COMPANIES

INVESTEE COMPANIES IN ISRAEL

The Bank's investments in investee companies in Israel totaled NIS 2,915 million on December 31, 2015, compared with NIS 3,170 million on December 31, 2014, a decrease of 8.0%. The decrease in investments of the Bank in investee companies in Israel stems from the merger of UBank, a wholly owned subsidiary, with and into the Bank.

The Bank's share in the net earnings of investee companies in Israel amounted to NIS 133 million compared with NIS 115 million in 2014.

Merger of the banks Ubank and Bank Poalei Agudat Israel

On June 30, 2015 a merger agreement was signed between the Bank and Ubank and an additional merger agreement was signed between the Bank and Bank Poalei Agudat Israel (PAGI). According to the agreements, Ubank and PAGI will be merged with and within the Bank (according to the first chapter to the eight section in the Companies Law, 1999 and in accordance with the guidelines of the second chapter to the E2 part of the Tax Ordinance Law, 1961) in a way that the assets and liabilities of each bank, as at the date of the merger, will be transferred to the Bank for no consideration, and Ubank and PAGI will be eliminated, without liquidation, and the Registrar of Companies will erase them from its records. The date of merger with Ubank was September 30, 2015 and the date of merger with PAGI was December 31, 2015. For additional details see note 15F to the financial statements. In addition, in the matter of the special collective labor agreement signed between Ubank and Ubank employees committee and the Federation of Labor in Israel, see chapter on corporate governance additional details – "Labor relations at the Bank".

Bank Poalei Agudat Israel Ltd. (hereinafter – "PAGI") – until date of the merger on December 31, 2015, as stated above, the First International Bank had a 100% equity holding in PAGI. This bank operates through 22 branches and sub-branches and the majority of its customers belong to the ultra-orthodox and orthodox sectors (as from January 1, 2016, the PAGI branches operate within the framework of the Bank). The Bank's investment in PAGI amounted to NIS 396 million on December 31 2015. Total assets as of December 31, 2015 amounted to NIS 4,106 million compared with NIS 3,876 million as of December 31, 2014, an increase of 5.9%. Shareholders' equity of PAGI on December 31, 2015 totaled NIS 392 million compared with NIS 354 million at the end of 2014, an increase of 10.7%.

Net earnings of PAGI amounted to NIS 39.4 million compared with NIS 25.9 million in 2014, an increase of 52.1%. Most of the increase in earnings is explained by the decrease in credit loss expenses and by the decrease in payroll expenses, which were partly offset by the effect on income of the decrease in Bank of Israel interest rate and by a decrease in gains on sale of securities. The Bank's share of PAGI earnings, net of amortization of the excess of cost of the acquisition, amounted to NIS 38.4 million compared with NIS 24.9 million in 2014.

The unamortized balance of the excess of cost of the acquisition of PAGI, attributed to customer relations, amounted to NIS 4 million on December 31, 2015.

Net return on equity amounted to 10.6% compared with 7.0% in 2014.

The ratio of overall capital to risk assets calculated in accordance with the Proper Conduct of Banking Business Regulations concerning capital measurement and capital adequacy (Basel) amounted to 16.40% on December 31, 2015, compared with 16.70% as of December 31, 2014. The Tier 1 equity capital ratio amounted to 12.30% compared with 12.00% at the end of 2014.

The Board of Directors of PAGI stipulated in accordance with the letter of Bank of Israel dated December 10, 2013 in the matter of SREP that the overall capital ratio of the bank must be no less than 15% and that the Tier 1 equity capital ratio must be no less than 10%.

Bank Otsar Hahayal (hereinafter - "Otsar Hahayal") - in which the Bank holds 78.0% of the share capital and voting rights, is a commercial bank that operates via 46 branches and sub-branches.

The Bank's investment in Otsar Hahayal amounted to NIS 1,193 million on December 31, 2015. Total assets of Otsar Hahayal on December 31, 2015 amounted to NIS 19,172 million compared with NIS 16,892 million on December 31, 2014, an increase of 13.5%. Shareholders' equity of Otsar Hahayal on December 31, 2015 amounted to NIS 1,165 million compared with NIS 1,107 million on December 31, 2014, an increase of 5.2%.

Net earnings of Otsar Hahayal amounted to NIS 65.6 million compared with NIS 37.6 million in 2014, an increase of 74.5%. The increase is mainly explained by decrease in expenses in respect of credit losses derived from changes in the collective provision coefficient for credit losses and from decrease in payroll expenses. These effects were partially offset by the effect of the decline in the Bank of Israel interest on the income interest and from the effect of interest income from previous periods recorded last year. The Bank's share of Otsar Hahayal's results, net of amortization of excess of cost of the acquisition, amounted to NIS 17 million compared with a loss of NIS 2 million in 2014.

The unamortized balance of the excess of cost of the acquisition of Otsar Hahayal amounted to NIS 28 million on December 31, 2015.

Net return on equity amounted to 5.8% compared with 3.4% in 2014.

The ratio of capital to risk assets in accordance with the Proper Conduct of Banking Business Regulations concerning capital measurement and capital adequacy (Basel) amounted to 13.25% compared with 14.13% at the end of 2014. The Tier 1 equity capital ratio amounted to 9.83% compared with 9.59% at the end of 2014.

On December 2014, The Board of Directors of Otsar Hahayal resolved after discussion of the ICAAP document regarding the evaluation of the capital adequacy, that during 2015 the overall capital ratio of Otsar Hahayal will not be less than 12.51%, and that the Tier 1 equity capital ratio will not be less than 9.30%.

In November 2015, Otsar Hahayal was successful in a tender for the granting of credit and banking services to employees of defence agencies, for a period of seven years beginning on January 1, 2016. The Tender stated, inter alia, the terms for the granting of credit and for account management to the staff of the defense agencies, as well as the right of operating Otsar Hahayal branches at military bases. Being successful in the tender provides Otsar Hahayal with business opportunities for expanding its operations among the population covered by the tender and for increasing its share of additional populations

Bank Massad Ltd. (hereinafter - "Massad") - in which the Bank owns 51.0% of share capital, is a commercial bank which operates a network of 22 branches and sub-branches.

The Bank's investment in Massad amounted to NIS 294 million on December 31, 2015. Total assets of Massad on December 31, 2015 amounted to NIS 6,421 million compared with NIS 5,701 million on December 31, 2014, an increase of 12.6%. Shareholders' equity of Massad on December 31, 2015, totaled NIS 538 million compared with NIS 502 million on December 31, 2014, an increase of 7.2%.

Net earnings of Massad totaled NIS 36.5 million in 2015 compared with NIS 38.7 million in 2014, a decrease of 5.7%. The main decline in earnings is explained by the effect of the decline in the Bank of Israel interest and from decline in the gains from realization of securities.

The Bank's share in Massad's operating results amounted to NIS 18.6 million compared with NIS 19.7 million in 2014, a decrease of 5.8%.

The Bank's share in Massad's operating results, net of amortization of excess of cost of the acquisition, amounted to NIS 9.9 million compared with NIS 11.0 million in 2014.

The unamortized balance of the excess of cost of the acquisition of Massad amounted to NIS 19 million on December 31, 2015.

Net return on equity in 2015 amounted to 7.1% compared with 8.0% in 2014. The ratio of capital to risk assets calculated in accordance with the Proper Conduct of Banking Business Regulations concerning capital measurement and capital adequacy (Basel), amounted to 15.01%, compared with 15.70% at the end of 2014. The Tier 1 capital ratio amounted to 13.76% compared with 14.50% at the end of 2014.

On December 24, 2014, in line with the definition of capital targets, the Tier 1 equity capital ratio targeted for 2015 was set at no less than 10.0% and the overall capital ratio was set at no less than 13%.

Israel Credit Cards Ltd. ("ICC") - The Bank holds 28.2% of equity and 21.0% of voting rights in ICC.

ICC markets and issues credit cards and settles credit card transactions of the international Visa brand, markets and operates Diners credit cards on an exclusive basis in Israel, and also markets to an only limited extent MasterCard credit cards.

The Bank's investment in ICC amounted to NIS 438 million on December 31, 2015.

The Bank's share in the net earnings of ICC before the tax effect amounted to NIS 42.3 million compared with NIS 39.4 million in 2014, an increase of 7.4%.

Total assets of ICC amounted to NIS 10,991 million at the end of 2015 compared with NIS 10,081 million at the end of 2014.

The ratio of capital to risk assets on December 31, 2015, calculated in accordance with the Proper Conduct of Banking Business Regulations concerning capital measurement and capital adequacy (Basel 3), amounted to 15.4%, compared with 16.2% at the end of 2014.

On November 29, 2015, ICC and Diners entered into an agreement with Dor Alon Finances Ltd. (hereinafter – "Dor Alon") on the one part, and with Alon Blue Square Israel Ltd. on the other part, according to which, ICC shall purchase all the holdings of Dor Alon and Blue Square in Diners (49%) (hereinafter together – the "purchased shares"), so that upon the consummation of the transaction ICC will own all the rights in Diners (100% ownership).

The transaction was consummated on December 15, 2015, whereupon ICC paid to Dor Alon and to Blue Square in consideration for the transfer of the purchased shares, a total amount of NIS 130 million.

The agreement states that ICC will pay to the sellers additional consideration subject to the fulfillment of certain conditions.

See note 25 regarding motions for approval of class actions against ICC, a motion for approval of a derivative lawsuit against officers and functionaries officiating at ICC during the relevant period, and a notice received by ICC from the State Prosecution informing of the intention of the Prosecution to serve an indictment against ICC.

In its report for 2015, ICC reported as set out below:

In the second half of 2009 and the beginning of 2010, ICC faced claims made by VISA Europe and International MasterCard Organization (hereinafter – "the international organizations") regarding alleged violations of the rules of these international organizations with respect to the clearing of international electronic trade, applying to transactions cleared by a subsidiary of ICC – ICC International – since then merged with and into ICC. In this respect, fines have been imposed on ICC and its activity in this field has been restricted for a period of several months. In this framework VISA Europe Organization has informed ICC International that it expects ICC International to take vigorous and strict action with respect to treating these violations and the implementing of a plan for the reduction of risk, to which it is committed, within a period of time allotted for this purpose, or else, the withdrawal of its international clearing license may be considered, and in extreme circumstances, also the termination of its membership of the Organization. ICC has taken immediate action for the implementation of the risk reduction plan in order to comply with the demands of the international organizations. The plan adopted various measures, including changes in the Management of ICC, conducting advanced monitoring procedures for the enforcement of compliance requirements, various organizational changes and more. ICC has also adopted measures for compliance with the rules of VISA Europe and MasterCard in addition to terminating business relations with several trading houses, which had caused most of the exposure. At a later stage, ICC has also terminated the international electronic trading activity (extensive information regarding this matter was disclosed by ICC in the annual reports for 2009 and 2010).

In view of the action taken by ICC, VISA Europe informed ICC in a letter dated March 15, 2010, that it had noted the progress made by ICC in complying with the rules of the organization and that it permits ICC to reestablish relations with new trading houses.

In an additional letter dated January 17, 2011, the VISA Europe Organization reiterated its satisfaction regarding the action taken by ICC, and informed ICC that it has removed all restrictions on the international clearing activity of ICC forthwith.

In a letter dated July 21, 2010, MasterCard informed ICC that it is aware of all the direct efforts and clarifications made by it and of all actions taken by ICC to rectify the deficiencies found in its operations, and that it appreciates the responsibility demonstrated by ICC, inter alia, the efforts made vis-à-vis trading houses in the rectification of deficiencies. MasterCard further informed, inter alia, that in view of the measures adopted by ICC, past operations performed by ICC during the period of the previous Management, would not be examined, and examinations that had been started in this respect would be terminated.

Several trading houses and coordinators have raised claims regarding monetary sanctions that had been charged to them and regarding the reduction in international electronic trade clearing operations relating to them, which, as alleged by them, had caused them heavy damage.

On November 2, 2015, VISA Inc. (Hereinafter – "VISA Inc.") and VISA Europe Ltd. (hereinafter – "VISA Europe") announced the entry into an agreement, by which VISA Inc. will acquire VISA Europe. The total amount of the transaction is estimated at €21.2 billion, composed of payments in cash and in shares, part of which is subject

to attaining income goals. The transaction is subject to obtaining various regulatory approvals, and according to reports is expected to be consummated in the course of 2016. ICC is a member of VISA Europe, and if the transaction is consummated, it is expected to receive in respect of the sale of the VISA Europe shares, an estimated total consideration of €89 million in cash and €23 million in shares (hereinafter – "the consideration"). According to the terms of the agreement, ICC is expected to receive in the future additional consideration subject to attainment of income goals.

It is clarified that the above information is considered forward looking information within the meaning of the Securities Act, and is based solely on preliminary information and estimates. This information may change, inter alia, according to the decision of VISA Europe, subject to appeal proceedings that are expected to end by the end of February 2016. It is further clarified that there is no certainty that the transaction would be consummated.

OVERSEAS SUBSIDIARY

FIBI Bank (Switzerland) Ltd. - is a wholly owned banking subsidiary of the Bank, operating in Zurich. The company's principal area of specialization is private banking and capital market activity.

The activity of this subsidiary is regulated by the Swiss FINMA (Financial Market Supervisory Authority) by means of an external CPA office that audits the company and serves as the long arm of the Swiss regulator. The Bank's investment in FIBI Bank (Switzerland) amounted to NIS 242 million on December 31, 2015. Total assets of FIBI Bank (Switzerland) on December 31, 2015 amounted to CHF 296 million compared to CHF 379 million as of December 31, 2014 a decrease of 21.9%. Total customer assets under management on December 31, 2015 amounted to CHF 916 million compared with CHF 1,126 million on December 31, 2014.

Net loss amounted to CHF 204 thousand compared with a profit of CHF 223 thousand in the same period last year. Net return on equity amounted to a negative rate of 0.3%, compared with a positive rate of 0.4% in 2014.

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REVIEW OF RISKS

General

- a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk (cross system risk), liquidity risk and operational risk and compliance risk and ALM risk. Members of the Board of Management are responsible for management of these risks. With respect to credit risk, market risk and operational risk, a regulatory requirement for capital adequacy in accordance with the Pillar 1 Basel 3 directives exists. With respect to operational risk and other risks, the Group makes an additional capital allocation in accordance with Basel 3 Pillar 2-ICAAP (Internal Capital Adequacy Assessment Process).
- b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group and at increasing its earnings expectancy by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.
- c. The Supervisor of Banks has prescribed a number of directives applying to risk management in the Proper Conduct of Banking Business Regulations and in other regulations. These directives stipulate inter alia basic principles for the management of risks and their control, including: suitable involvement in risk management and comprehension of risks by the Board of Directors and Management of the Bank, formulation of risk policy and risk appetite, establishment of an independent chief risk management function, receipt of periodic reports on developments in exposure to risks, and the maintenance of supervision and control mechanisms matching the Bank's risk profile.
- d. Risk management and control at the Group are implemented by means of a suitable infrastructure of control, supervision, review and auditing mechanisms, and are applied via three lines of defense: The first line of defense consists of those responsible for the creation and management of risk. The second line is maintained by units of the Risk Management Division and by means of independent control. The third line consists of the internal and external auditing functions.
- e. Chief Risk Manager and member of Management incharge of the risk management division- Mr. Bentzi Adiri CPA.
- f. Those responsible for risk management at the Group are:
 - Mr. Ilan Batzri CPA, Head of the Business Division-serves as Credit Risk Manager and Settlement Risk Manager;
 - Mr. Avi Sterenshous- head of the financial sub-division- serves as financial risk manager- starting from October 18, 2015. (Until October 17, 2015, served Liat Ben- Ari, CPA as the head of the financial sub-division and Financial risk manager).
 - Nachman Nitzan, CPA- head of the chief accounting division- reputation risk manager;
 - Bentzi Adiri CPA- operational risk manager, supervisor of the internal enforcement and manager of business continuity.
 - Mr. Yaacov Konortov- compliance and AML risk manager;
 - Yossi Levi- head of resources division- Strategic risk manager;
 - Amnon Beck- CEO of MATAF- IT risk manager;

Adv. Dalia Belnek, Chief Legal Counsel-Legal Risk Manager.

- h. Additional risks to which the Bank is exposed- regulatory and legislative risks - are managed and supervised as part of overall business management members of the Board of Management and department heads in the areas for which they are responsible.
- i. Risk management is carried out at each banking subsidiary in the Group separately, in accordance with the policy determined by the subsidiary's board of directors on the basis of Group policy, and on the basis of Group risk management methodology with an emphasis on the special nature of each subsidiary's activity. In accordance with the Supervisor of Banks' directive on "the Chief Risk Manager and the risk management function," a Chief Risk Manager was appointed at each banking subsidiary, subordinate to the subsidiary's CEO and guided professionally by the Bank's Chief Risk Manager.
- j. Every quarter, the Risk Management Division, which is independent of the risk-taking units, compiles a risks document which is presented to the Management of the Bank, the Risk Management Committee and the Board of Directors of the Bank.
- k. The risks document contains an examination of all the risks to which the Bank Group is exposed in the course of its activity, with details of the findings at the specific risk level as well as the results of stress scenarios that were conducted.

Presented in the document is the Chief Risk Manager's review of the risk management situation at the group and of the effectiveness and the quality of the risk management. Also reviewed in the document are developments in the business environment and in the financial markets, and the measures taken by the division with respect to the main process involved with the different types of risks and special action which the division took during the relevant quarter.
- l. The management risks division challenges the working plan of the Bank in order to support its propriety by performing stress tests. Stress tests are conducted on the planned working plan and it is tested if the group conforms with the capital targets that were set up under stress tests.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented below.

For detailed information regarding risk, provided in accordance with the disclosure requirements of Pillar III of Basel, and additional information regarding risk - see sub-chapter "additional supervisory disclosure in the Chapter "Financial information" on the Internet website of the Bank.

CREDIT RISK

a. General

Credit risk is the risk borrowers' inability to fulfill their obligations to the Bank.

In order to minimize the risk, a credit risk management policy and exposure restrictions with respect to borrowers/sectors in the different segments of activity and products are defined at the Group.

As required under Proper Conduct of Banking Business Regulation 311, the Bank applies an overall credit risk management policy.

b. Risk policy and risk appetite

General

- The Bank's credit risk management policy, is discussed and approved at least once a year by the Management and the Board of Directors of the Bank. As from 2015 the risk management division is leading the formation process of the credit policy, with the participation of the credits extension elements in the various process stages. The credit policy is based on a suitable diversification of risks, and cautious and controlled management of positions at the single-customer level and at the level of the different sectors of the economy and business sectors.
- As prescribed by policy considerations, expansion of the credit portfolio will be controlled and measured in accordance with the business and economic environment, while maintaining the quality of the credit portfolio and the exposure restrictions stipulated in credit policy. The Bank's credit policy is examined and updated in accordance with developments in the financial markets and in the Israeli economy. The extent to which the Bank's credit portfolio will be permitted to expand will be dictated by the GDP growth rate.
- The Bank's credit risk management policy includes various restrictions for the purpose of retaining a low risk appetite reflecting a reasonable extent of exposure to the taking of risks:
 - Credit policy includes restrictions in all areas of activity in which prominent credit risks are apparent, at the level of the single customer and at the Bank level, in order to create standard criteria for the different areas of activity. The stringency of the restrictions increases in accordance with the level of risk incurred in the activity.
 - Credit policy covers areas of activity in which the Bank will not grant credit in view of the higher level of risk inherent in them or the level of control over them, even if a high potential return can be expected on these activities.
- The Bank operates suitable credit control mechanisms, part of them in real time and part of them retroactively. Control and supervision are implemented via units exogenous to the units managing the credit and via units exogenous to the Corporate Division.

Guiding principles and the Bank's credit policy

In line with credit management policy, the Board of Directors of the Bank has outlined a strategy for reducing undesirable exposure to credit risk, including activity guidelines such as target markets.

- The Bank credit risk management policy is based on proper distribution of the risks and careful and controlled management of the exposures, both on the level of the single borrower and on the level of economic segments and the different operational segments.
- The Bank's credit policy is based on an examination of the borrower's repayment ability at the individual level, and on an analysis and assessment of a wide range of additional parameters affecting the borrower's financial resilience.
- The Bank's credit activity will be carried out while maintaining the Bank's capital adequacy and on the basis of the Bank's capital adequacy targets as defined by the Board of Directors.
- During recent years, the Bank's perception of credit risk was expanded, with the result that credit policy was reinforced to include restrictions and standards, part of which are more stringent than those stipulated by the Supervisor of Banks at the Bank of Israel. In this respect, it was determined that the Bank will maintain a reasonable level of credit concentration by specifying credit restrictions for single groups of borrowers, sectors of activity in borrower groups, and the overall credit volume of large borrower groups relative to the size of the credit portfolio.
- Defined in the policy document are clear quantitative indicators for examining the need to revise the policy document as the result of macroeconomic and regulatory changes or changes in the Bank's data. These indicators include changes in the growth forecast for the economy, exchange rate adjustments, new regulatory directives affecting credit activity, changes in the Bank's share of total credit in the banking system, and changes in the Bank's capital adequacy.
- As part of current credit risk management and in line with the application of the Board of Directors' policy, regular examinations are made of the criteria of the borrower's business activity, cash flow, asset and liability structure, the quality of his collateral, the economic sector in which the borrower operates, and such parameters as a high degree of dependence on customers and suppliers.
- The Bank endeavors to improve the margins and overall profitability from its customers in a manner reflecting the level of risk inherent in their activity. This is done by using targeted processes and controls reflecting the overall income from the customer (margins and Fees) relative to the overall credit portfolio, including the specification of a minimum level for this ratio. The level of margins also reflects the capital allocation necessary due to the granting of the credit.

Risk appetite

The Bank's policy includes an extensive and detailed discussion of objectives and the manner of business credit development in different sectors and areas of activity, while defining detailed principles for each sector and area, including individual restrictions at the sub-sector level and the products that are notable for a high level of risk. The Group's credit risk appetite, as formulated in the policy document, is conservative.

In line with credit management policy, the Board of Directors of the Bank has outlined a strategy for reducing undesirable exposure to credit risk, which includes a broad-ranging network of restrictions on credit risk with respect to different sectors and areas of activity.

c. Credit risk measurement, estimation and management systems

- The Bank employs internal models for rating the credit risk inherent in the customer's activity. The models are based mostly on objective criteria relating to the borrower's position (the customer's characteristics,

the composition of his collateral, the financial resilience apparent in the customer's financial reports, sector-specific data and other financial data). In order to increase the relationship between the customer's risk rating and the return on his activity, the Bank has determined a minimum return for each risk grade.

- Computerized systems in the Corporate Division provide credit risk managers operating in the field and at head office with a mechanism for the current monitoring of the customer's activity from a wide range of aspects: levels and composition of activity, utilization of credit lines, level of collateral and updated information on the customer's financial position. The system makes it possible to provide business customers with the highest level of specialized professional service.

The Bank also operates a computerized system for credit applications, which enhances and increases the efficiency of the decision-making process and the control over this process.

- The Bank's Management is continuing to enhance the measurement, reporting and control tools required for obtaining timely information on all matters relating to the various risk criteria to which the Bank's borrowers are exposed in their business environment. For this purpose, the Bank's Management is assisted by the heads of specialist sectors at the Corporate Division and at the Credit Control Unit in the Risk Management Division.
- In addition, the Bank frequently examines the adherence to regulatory directives in all matters relating to restrictions on concentration: borrower/borrower group or exposure to economic sectors.
- For retail credit management the Bank relies on an objective rating system.

d. Collaterals management policy

General

- The Bank has a clearly defined policy regarding the acceptance of assets as collateral for credit, the manner in which collateral is pledged and the rates of reliance on each type of collateral. The main elements of this policy are discussed once a year by the Management and Board of Directors of the Bank and are detailed extensively in procedures.
- Within the framework of collateral management policy, principles and rules have been determined for governing the assessment of the value of collateral by type of collateral and by the nature of the credit which it is used to secure. These principles take account of economic variables and indicators.
- Procedures have been defined for the manner in which collateral is to be processed and for monitoring developments in it and in its value, as well as control systems for governing the management and operation of the collateral system.
- The principal types of collateral on which the Bank relies are deposits, securities, future assignments, current pledges, vehicles, equipment, pledges of real estate, bank guarantees and export documents.
- The Bank endeavors to obtain diversified collateral from its customers, in order to avoid relying on a specific type of collateral. Collateral reliance policy is conservative and based on the updated fair value of the collaterals, their liquidity and the speed at which they can be realized if necessary. The Bank relies on past experience when determining collaterals reliance policy.
- The Bank has computer systems for the documentation of the legal documents used to create liens on assets pledged as collateral in customer portfolios and a system used for monitoring the value of these

assets. These collateral systems guarantee the availability of the data required for credit risk management by all the control entities at the branches and head office.

Supervision and control

All the indebtednesses of the Bank's customers, including the value of the collateral provided against them, are collated in the obligo system, in which the Bank monitors daily the status of collateral against credit positions.

- A collateral shortfall at the single customer level is monitored daily at the branches by means of a daily report that details all of the customer's indebtednesses and his collateral against the credit lines that were approved for him. This provides a complete status report on the customer's exposure in real time.
- The branch processing at the single customer level.
- Control and monitoring of obligos with indebtedness amounts up to NIS 100 thousand is carried out by the collection Department.
- Concurrent with branch processing at the single customer level, control and monitoring of obligos with indebtedness amounts exceeding NIS 100 thousand is carried out by the Supervision Department, which operates via regional referents and via special referents for capital market and real estate customers.

e. Problem loan policy and the provision for credit losses

- The Bank has lucid and orderly working procedures for facilitating the early detection of problem borrowers. In addition, orderly working procedures are defined regarding the process of recording an allowance for credit losses which reflects a conservative assessment of the credit loss that the Bank can be expected to incur.
- Operating within the Bank are specialist units that process problem loans. The Bank also has a Collection Department that processes indebtednesses which have been characterized as hard to collect (by internal collection or external lawyer).
- As stated in the section on accounting policy and accounting estimates in critical matters, under a new directive from the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk and the allowance for credit losses, since January 1, 2011, and as adopted in the directives for reporting to the public, the Bank has applied US accounting standards in the matter (ASC 310) and the positions adopted by the banking supervision authorities, and the US Securities and Exchange Commission (SEC).

f. Supervision and control of the management of credit risk exposure

The Bank maintains suitable mechanisms for the control, management, supervision and audit of the credit risk management process. The Bank's managerial and control concept is to identify, quantify and estimate the exposure to credit risks on a current basis, and to control the adherence to the prescribed restrictions.

As required under Proper Conduct of Banking Business Regulation 311, the Bank applies an overall credit risk management policy.

Credit risk management policy is examined and reviewed constantly by specialist committees and forums at the level of the Board of Directors, Management and the middle-management grades, as detailed in the risk report in the internet.

g. Environmental risk management

Environmental risk for the Bank is the risk of a loss resulting from directives concerning the quality of the environment and the enforcement of these directives. The Bank could be exposed to environmental risks in various aspects of its activity, and these risks are likely to be included under other risks (such as credit risk, market risk, operational risks, legal risk and liquidity risk). Environmental risk included in credit risk is for example the risk of decline in the value of collateral or deterioration in the borrower's financial position resulting from environmental costs deriving from directives concerning the quality of the environment. In addition, reputation risk could result from the Bank being associated with an environmentally harmful entity.

In the second half of 2009, the Supervisor of Banks issued a directive concerning exposure to environmental risks and the method of managing them. The directive describes the different aspects of potential exposure to environmental risks, and emphasizes the need for early detection of the risks, their assessment, and their management as individual risks.

The Management and the Board of Directors of the Bank have approved policy for the management of environmental risks in the area of credit. In the compilation of this policy and its processing of the matter, the Bank is assisted by external advisers and assimilates a group methodology for the management of environmental risks.

h. Reporting on exposure to credit risks

Management and the Board of Directors of the Bank receive a range of reports on exposure to credit risks, and in various cross-sections by management, supervision and control entities.

In addition, actual credit risk exposure as compared to the permitted frameworks and restrictions determined by the Board of Directors and the authorities for their management are reported in the quarterly Risks Document as required in Proper Conduct of Banking Business Regulations 310 and 311.

The Risks Document is discussed once a quarter by the Management, the Board of Directors' Risk Management Committee and the Board of Directors itself.

The Bank has compiled stress scenarios for examining capital adequacy. In this respect, the Bank examines draft stress scenarios in the area of credit risks (as well as scenarios combining the materialization of credit risks and several other risks simultaneously). Here, the Bank examines the effect of the materialization of risk on the capital base and the ratio of capital to risk assets.

i. Group management of credit positions

A major aspect of the Group's risk management policy and risk appetite is the specification of Group appetite including guiding principles for the activity of subsidiaries in the Group and increased control and supervision over the credit granted to these companies. A clear, distinct business focus has been specified to each Group subsidiary. Determination of the business focus is a central aspect in the determination of Group risk appetite for credit risks. The Risk Management Division of the parent company examines and challenge the subsidiaries' credit policy documents.

The Bank is continuing to assimilate credit policy on a Group basis while preserving the unique characteristics of each subsidiary.

j. Significant exposures to borrower groups

As of December 31, 2015 there is no borrower group which its indebtedness on consolidated basis, after deductions of permissible deduction according to section 5 of directive 313, exceeds 15% of the bank's capital, calculated according to directive of Proper Conduct of Banking Business regulation concerning measurement and capital adequacy.

k. Credit quality and problematic credit risk

Problematic credit risk, including off-balance-sheet components, totaled NIS 2,219 million compared with NIS 2,864 million at the end of 2014, a decrease of 22.5%

The ratio of problematic credit risk to total credit risk at the group amounted to 2.0% at the end of 2015, compared with 2.7% at the end of 2014. 32.1% of problematic credit risk at the group are attributed to the manufacturing sector, 15.5% to the real estate sector, 22.4% to the private customers sector including housing loans, 18.9% to the commerce sector, and 2.8% to the communications and computer services sector. The ratio of problematic credit risk to total credit to the public amounted to 2.4%, compared with 3.5% at the end of 2014.

1. Problematic credit risk

	December 31, 2015			December 31, 2014		
	Balance-sheet	Off-balance-sheet	Total	Balance-sheet	Off-balance-sheet	Total
						NIS million
Impaired credit risk	771	151	922	806	112	918
Inferior credit risk	220	45	265	484	183	667
Credit under special supervision risk	770	262	1,032	1,136	143	1,279
Total problematic credit risk*	1,761	458	2,219	2,426	438	2,864
* Of which: Non-impaired debts in arrears of 90 days or more	234	-	234	248	-	248

	Balance on	Balance on
	December 31, 2015	December 31, 2014
	NIS million	NIS million
2. Non-performing assets		
Impaired credit to the public not accruing interest income:	735	765
3. Performing impaired assets		
Impaired debts undergoing problematic debts restructuring and accruing interest income	29	34
Impaired bonds accruing interest income	7	7
Total performing impaired assets	36	41

		For the year ended December 31, 2015
		NIS million
4. Changes in impaired debts		
Balance of impaired debts at beginning of year		799
Classified as impaired		435
Removed from impaired classification		(73)
Collection of debts		(212)
Accounting write-offs		(185)
Balance of impaired debts at end of year		764

		2015	2014
5. Risk Indices			
Ratio of impaired credit to the public to total credit to the public		1.0%	1.1%
Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public		0.3%	0.4%
Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public		2.0%	2.7%
Ratio of expenses for credit losses to average total credit to the public		0.03%	0.13%
Ratio of net write-offs in respect of credit to the public to average total credit to the public		0.15%	0.05%

I. Provision for credit losses

	Balance on December 31, 2015	Balance on December 31, 2014
Ratio of provision for credit losses in respect of credit to the public to credit to the public	1.1%	1.3%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	107.9%	109.6%
Ratio of provision for credit losses in respect of credit to the public to impaired credit to the public plus credit to the public in arrears of 90 days or more	82.6%	83.7%
Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public	12.74%	4.11%

m. Total credit risk according to economic sectors

	Total credit risk ⁽¹⁾		
		Credit execution rating ⁽⁵⁾	Problematic ⁽⁶⁾
In respect of borrowers in Israel	Total		
Public-Commercial:			
Agriculture	564	475	12
Mining and quarrying	273	266	-
Industry	10,767	9,622	704
Construction and Real estate - construction ⁽⁷⁾	9,443	8,953	218
Construction and Real estate - real estate activities	4,604	4,389	113
Electricity and water supply	1,242	1,228	3
Commerce	8,525	7,609	419
Hotels, hospitality and food services	816	636	30
Transport and storage	859	717	21
Information and communications	2,359	2,163	63
Financial services	13,729	13,424	44
Other business services	2,140	1,890	26
Public and community services	2,000	1,746	45
Total commercial ⁽⁸⁾	57,321	53,118	1,698
Private individuals - housing loans	21,724	21,138	194
Private individuals - others	27,115	23,690	304
Total public - activity in Israel	106,160	97,946	2,196
Banks in Israel	2,149	2,149	-
Israeli government	9,416	9,416	-
Total activity in Israel	117,725	109,511	2,196

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 74,714, 10,188, 353, 1,220 and 31,250 million respectively.

(2) Credit to the public, credit to governments, deposits with banks and other debts excluding bonds.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instrument.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an provision based on the extent of arrears exists, and housing loans for which an provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(7) Including balance sheet credit risk amounting to NIS 397 million, and non-utilized credit facilities amounting to NIS 890 million, in respect of loans extended to certain purchasing groups currently in the process of construction.

(8) The balance of commercial debts includes housing loans in the amount of NIS 2,256 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currency in the process of constructions.

as at December 31, 2015						
Debts ⁽²⁾ and off-balance credit risk (excluding derivatives) ⁽³⁾						
Credit losses ⁽⁴⁾						
Total	Of which: Debts ⁽²⁾	Problematic ⁽⁶⁾	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
NIS millions						
559	456	12	7	(1)	2	4
75	63	-	-	-	-	-
10,450	7,547	704	274	76	33	212
9,342	3,285	216	64	(69)	(4)	82
4,460	4,160	113	109	(20)	(23)	21
669	432	3	-	1	-	3
8,420	7,083	419	253	36	37	158
815	678	30	14	12	8	17
826	674	14	6	(17)	6	11
2,258	1,216	63	22	(30)	(6)	12
10,042	7,400	44	25	2	(5)	22
2,127	1,342	26	10	3	5	11
1,967	1,464	45	22	(4)	(1)	8
52,010	35,800	1,689	806	(11)	52	561
21,724	20,032	194	10	3	16	119
27,074	16,851	304	76	39	41	221
100,808	72,683	2,187	892	31	109	901
1,362	1,362	-	-	-	-	-
670	669	-	-	-	-	-
102,840	74,714	2,187	892	31	109	901

m. Total credit risk according to economic sectors (CONT'D)

	Total credit risk ⁽¹⁾		
		Credit execution rating ⁽⁵⁾	Problematic ⁽⁶⁾
In respect of borrowers in Israel	Total		
Public-Commercial:			
Agriculture	561	490	15
Mining and quarrying	231	225	1
Industry	10,772	9,680	760
Construction and Real estate - construction ⁽⁷⁾	9,467	8,780	301
Construction and Real estate - real estate activities	4,540	4,327	48
Electricity and water supply	1,304	1,276	2
Commerce	8,611	7,841	518
Hotels, hospitality and food services	905	757	42
Transport and storage	1,133	987	48
Information and communications	2,139	1,678	382
Financial services	14,249	13,906	89
Other business services	1,896	1,645	34
Public and community services	2,148	1,939	49
Total commercial ⁽⁹⁾	57,956	53,531	2,289
Private individuals - housing loans	19,944	19,245	252
Private individuals - others	25,446	22,346	281
Total public - ectivity in Israel	103,346	95,122	2,822
Banks in Israel	2,421	2,421	-
Israeli government	8,953	8,953	-
Total activity in Israel	114,720	106,496	2,822

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 71,412, 9,717, 477, 2,574 and 30,540 million respectively.

(2) Credit to the public, credit to governments, deposits with banks and other debts excluding bonds.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instrument.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an provision based on the extent of arrears exists, and housing loans for which an provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(7) Including balance sheet credit risk amounting to NIS 336 million, and non-utilized credit facilities amounting to NIS 888 million, in respect of loans extended to certain purchasing groups currently in the process of constuction.

(8) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C to the Financial Statements.

(9) The balance of commercial debts includes housing loans in the amount of NIS 2,201 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currency in the process of constructions..

as at December 31, 2014						
Debts ⁽²⁾ and off-balance credit risk (excluding derivatives) ⁽³⁾						
Credit losses ⁽⁴⁾						
Total	Of which: Debts ⁽²⁾	Problematic ⁽⁶⁾	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
NIS millions						
558	463	15	10	-	(1)	7
51	39	1	1	-	-	-
10,284	7,141	760	146	(21)	12	172
9,373	3,296	299	142	(65)	(27)	146
4,452	4,197	48	38	-	12	14
597	379	2	2	2	-	2
8,515	7,277	507	218	80	13	156
898	769	42	34	13	1	14
1,100	917	41	31	9	(1)	35
2,020	1,469	382	43	(14)	(12)	37
10,026	6,749	89	11	(14)	(2)	18
1,864	1,123	34	22	(6)	3	12
2,124	1,637	49	37	1	3	11
51,862	35,456	2,269	735	(15)	1	624
19,944	18,252	252	17	(4)	15	132
25,416	15,604	281	117	109	29	224
97,222	69,312	2,802	869	90	45	980
1,442	1,442	-	-	-	-	-
659	658	-	-	-	-	-
99,323	71,412	2,802	869	90	45	980

m. Total credit risk according to economic sectors (CONT'D)

	Total credit risk ⁽¹⁾		
		Credit execution rating ⁽⁵⁾	Problematic ⁽⁶⁾
In respect of borrowers abroad	Total		
Public-Commercial:			
Agriculture	13	13	-
Mining and quarrying	181	181	-
Industry	171	162	9
Construction and Real estate - construction	64	64	-
Construction and Real estate - real estate activities	152	138	14
Electricity and water supply	20	20	-
Commerce	168	167	-
Hotels, hospitality and food services	10	10	-
Transport and storage	9	9	-
Information and communications	55	55	-
Financial services**	981	980	-
Other business services	313	313	-
Total commercial	2,137	2,112	23
Private individuals - others	154	154	-
Total public - activity abroad	2,291	2,266	23
Banks abroad	4,744	4,744	-
Foreign governments	3,244	3,244	-
Total activity abroad	10,279	10,254	23

** Of which, NIS 510 million of investments in mortgage-backed bonds.

- (1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 2,945, 5,990, 416 and 928 million, respectively.
- (2) Credit to the public, credit to governments, deposits with banks and other debts excluding bonds.
- (3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instrument.
- (4) Including in respect of off-balance sheet credit instruments (presented in the balance-sheet under "other liabilities").
- (5) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
- (6) Balance sheet and off-balance sheet credit risk which is impaired, inferior or in special supervision.

as at December 31, 2015						
Debts ⁽²⁾ and off-balance credit risk (excluding derivatives) ⁽³⁾						
Credit losses ⁽⁴⁾						
Total	Of which: Debts ⁽²⁾	Problematic ⁽⁵⁾	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
NIS millions						
13	10	-	-	-	-	-
-	-	-	-	-	-	-
54	31	9	9	(3)	(3)	1
64	-	-	-	-	-	1
140	138	14	14	(9)	-	3
-	-	-	-	-	-	-
163	107	-	-	-	-	-
10	10	-	-	-	-	-
9	2	-	-	-	-	-
6	5	-	-	-	-	-
290	262	-	-	(1)	(1)	-
313	83	-	-	-	-	2
1,062	648	23	23	(13)	(4)	7
150	48	-	-	-	-	1
1,212	696	23	23	(13)	(4)	8
2,249	2,249	-	-	-	-	-
-	-	-	-	-	-	-
3,461	2,945	23	23	(13)	(4)	8

m. Total credit risk according to economic sectors (CONT'D)

	Total credit risk ⁽¹⁾		
		Credit execution rating ⁽⁵⁾	Problematic ⁽⁶⁾
In respect of borrowers abroad	Total		
Public-Commercial:			
Agriculture	18	18	-
Industry	98	88	10
Construction and Real estate - construction	43	43	-
Construction and Real estate - real estate activities	106	35	32
Electricity and water supply	26	26	-
Commerce	142	142	-
Hotels, hospitality and food services	78	78	-
Transport and storage	20	20	-
Information and communications	32	32	-
Financial services**	838	838	-
Other business services	338	338	-
Total commercial	1,739	1,658	42
Private individuals - others	219	219	-
Total public - activity abroad	1,958	1,877	42
Banks abroad	4,506	4,506	-
Foreign governments	128	128	-
Total activity abroad	6,592	6,511	42

** Of which, NIS 633 million of investments in mortgage-backed bonds.

- (1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 3,010, 2,526, 441 and 615 million, respectively.
- (2) Credit to the public, credit to governments, deposits with banks and other debts excluding bonds.
- (3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instrument.
- (4) Including in respect of off-balance sheet credit instruments (presented in the balance-sheet under "other liabilities").
- (5) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
- (6) Balance sheet and off-balance sheet credit risk which is impaired, inferior or in special supervision.
- (7) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C to the Financial Statements.

as at December 31, 2014 ⁽⁷⁾						
Debts ⁽²⁾ and off-balance credit risk (excluding derivatives) ⁽³⁾						
Credit losses ⁽⁴⁾						
Total	Of which: Debts ⁽²⁾	Problematic ⁽⁵⁾	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
NIS millions						
18	16	-	-	-	-	-
63	30	10	10	(1)	(1)	1
43	-	-	-	-	1	1
106	105	32	32	-	(11)	12
-	-	-	-	-	-	-
138	47	-	-	-	1	-
78	78	-	-	-	-	-
12	-	-	-	-	-	-
6	5	-	-	-	-	-
72	36	-	-	-	1	-
338	90	-	-	-	-	2
874	407	42	42	(1)	(9)	16
213	88	-	-	-	-	-
1,087	495	42	42	(1)	(9)	16
2,515	2,515	-	-	-	-	-
-	-	-	-	-	-	-
3,602	3,010	42	42	(1)	(9)	16

n. Counter-party credit risk management

a. General

Counter-party credit risk is the risk that the counter-party to a transaction will become insolvent before the final settlement date for the payments in respect of the transaction. An economic loss will be caused if transactions with the counter-party have a positive economic value at the time when the counter-party becomes insolvent.

In contrast to credit exposure, in which the exposure is unilateral and the Bank alone bears the risk of a loss, counter-party risk creates a bilateral risk of a loss, dependent on the existence of a positive or negative transaction value for each of the parties to the transaction. Exposure to counter-party risk is also apparent in the transactions' market value. The market value of the transactions is uncertain, and may change over the lifetime of the transaction because of changes in the relevant parameters in the market.

Foreign financial institutions include banks, investment banks, insurance companies, brokerage/dealer companies and institutional entities such as pension funds.

Exposure to foreign financial institutions is affected by the specific situation of each institution and by the country risk where it operates.

The Bank's activity with financial institutions, including the determination of authorities and criteria for the extension of activity lines, is embodied in policy and procedures of the Bank that have been approved by the Board of Directors.

b. Policy

In the Bank's credit policy document, the Board of Directors of the Bank has prescribed risk policy and risk appetite at the Group level for activity with banks and investment houses, both at the overall risk appetite level and at the level of exposure to the single counter-party in a particular type of exposure and single transaction, taking due account of the Bank's equity capital and proportion of positions in it.

The Bank's credit policy in respect of the nature and the extent of positions against counter-parties is based on a number of parameters deriving from the financial resilience of the counter-party, including: credit ratings conferred on the institution by world-leading rating companies (Fitch, Moody's and S&P), the amount of the counter-party's equity capital, the ownership structure and the country in which it operates.

In order to quantify and estimate counter-parties' exposure, the Bank uses an internal model that weights the risk inherent in transactions in accordance with the risk criteria, such as the type of transaction and the period of the transaction.

The Group manages positions in respect of counter-parties by means of netting agreements which significantly reduce the risks to the Group's capital in situations of counter-party repayment default:

- The ISDA Master Agreement is the basic agreement practiced between banks, and its main advantage is the ability for netting liabilities in the event of insolvency of one of the parties, enabling the exposure to be reduced to net exposure.
- The CSA is an appendix to the ISDA agreement for generating and operating a mutual mechanism of liquid asset transfer for covering exposures in open transactions between two banks, after the exposure has been calculated.
- The Bank endeavors to minimize settlement risks, and settles the vast majority of its transactions by means of the CLS clearing house with respect to CLS-participant currencies and transactions.
- As part of its current counter-party risk management, the Bank monitors daily the adherence to the credit line restrictions allocated for activity with banks and investment houses. This includes current examination and reporting of changes in the ratings of counter parties to which credit lines have been allocated, and changes in the credit margin at which they are traded. Credit lines to institutions at which significant changes have been observed inter alia in these parameters are re-examined accordingly by the credit committees.

c. Present credit exposure to counter-parties that are foreign financial institutions

Most of the Bank Group's credit exposure to foreign financial institutions is to banks, mainly the banking systems in Western Europe and North America. The exposure to other financial institutions is negligible.

Present credit exposure to foreign financial institutions,⁽¹⁾ consolidated

External credit rating	As of December, 2015			As of December 31, 2014		
	Balance-sheet credit risk ⁽²⁾	Current Off-balance-sheet credit risk ⁽³⁾	Aggregate credit risk	Balance-sheet credit risk ⁽²⁾	Current Off-balance-sheet credit risk ⁽³⁾	Aggregate credit risk
			NIS million			NIS million
AAA to AA-	1,356	3	1,359	1,282	3	1,285
A+ to A-	2,543	17	2,560	3,110	29	3,139
BBB+ to BBB-	707	16	723	160	19	179
BB+ to B-	53	-	53	40	-	40
Unrated	33	7	40	17	6	23
Total credit exposure to foreign financial institutions	4,692	43	4,735	4,609	57	4,666
Of which: Balance of problem loans ⁽⁴⁾	-	-	-	-	-	-

NOTES:

- (1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional investors and entities under their control.
- (2) Deposits at banks, credit to the public, investments in bonds, securities that have been lent and other assets in respect of derivative instruments. As of December, 2015 the investment in shares in respect of foreign financial institutions amounted to NIS 47 million (December 31, 2014, NIS 40 million).
- (3) Mainly guarantees and liabilities for the granting of credit, including guarantees for securing third-party indebtedness.
- (4) Credit risk that is impaired, inferior or under special supervision.
- (5) For the purpose of rating the financial institutions, the Bank used the ratings that were determined for the purpose of applying the Basel standardized approach. The Bank uses the rating of S&P for rating the foreign financial institutions to which credit exposure exists. When no S&P rating is available, the Bank uses the ratings of other rating agencies.

GENERAL NOTES:

- a. Credit positions and problematic loans balances are presented after deduction of the provision for credit losses.
- b. The credit positions do not include exposures to financial institutions that have an explicit and full government guarantee, and do not include investments in asset-backed securities.
- c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 27.B to the financial statements. Off-balance-sheet credit risk in respect of transactions in derivative financial instruments which were conducted with foreign financial institutions as calculated for the purpose of borrower indebtedness restrictions totaled NIS 308 million on December 31, 2015 (December 31, 2014 - NIS 355 million).

The conservative risk appetite defined by the Board of Directors of the Bank is reflected by the distribution of the exposure of credit to financial institutions that are almost entirely graded at high ratings.

The Group also manages counter-party positions by means of netting agreements, which significantly reduce the risk to the Group's income and capital in situations of repayment default by these institutions.

Most of the Group's present credit exposure (83%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 29% of the total exposure is rated in the range between AAA to AA-.

The Group's balance-sheet credit exposure to foreign financial institutions includes an NIS 1.9 billion investment in foreign currency bonds. All these bonds are investment grade bonds, 74% of which are rated A- or higher. The average duration of the portfolio is two years.

In addition, balance-sheet credit risk includes NIS 2.5 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

Following is the credit exposure to sovereigns exceeding 15% of the Bank's equity capital, which amounted to NIS 1,490 million (as defined in Proper Conduct of Banking Business Regulation No. 202 concerning capital components):

Country	Total credit exposure
	NIS million
United States	1,922

d. Reporting of exposure to counter-party credit risks

Management and the Board of Directors of the Bank and its committees receive a range of reports on the exposure to counter-party credit risks in various cross-sections by management, supervision and control entities.

The middle-office system issues a variety of immediate and other reports on the level, amount and nature of the exposure.

Exposure to foreign countries

Balance-sheet exposure to foreign countries consists of deposits, bonds, credit to the public and the fair value of financial instruments.

Off-balance-sheet exposure consists of guarantees, off-balance-sheet credit risk with respect to financial derivatives and unutilized facilities.

The Bank holds inter alia NIS 42 million of bonds of Spanish government rated BBB+ due for redemption in 2017, and NIS 85 million of Italian government bonds rated BBB- and due for redemption in 2017. The interest payments on all of these bonds are being paid as required.

A. Information regarding total exposures to foreign countries and exposures to countries where total exposure to each country is greater than 1% of total assets or greater than 20% of capital, whichever is lower ⁽⁵⁾

As at December 31, 2015						
Balance sheet exposure ⁽²⁾						
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments ⁽⁴⁾	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	3,417	1,760	748	-	-	-
United Kingdom	-	909	283	-	-	-
Spain	42	3	4	-	-	-
Italy	82	1	8	-	-	-
Ireland	-	-	19	-	-	-
Greece	-	-	-	-	-	-
Portugal	-	-	1	-	-	-
Other	-	1,699	1,085	300	30	270
Total exposure to foreign countries	3,541	4,372	2,148	300	30	270
Total exposure to LDC countries	-	-	251	-	-	-

(1) On the basis of final risk, after effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, problematic credit risk and impaired loans are presented before the effect of provision for credit losses and before the effect of deductible collateral for the purpose of indebtedness of borrower and group of borrowers.

(3) Off-balance sheet credit risk as calculated for the purpose of the limits on indebtedness of borrower.

(4) Governments, Official authorities and Central Banks.

(5) Information regarding exposures to the countries: Portugal, Ireland, Italy, Spain and Greece is given (the exposure to Others in the countries Spain, Italy, Ireland and Portugal includes NIS 8 million factoring credit insured by credit insurance in an insurance company).

	Off-Balance sheet exposure ⁽²⁾⁽³⁾					Cross-border balance sheet exposure ⁽²⁾	
	Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Total off- balance sheet exposure	Of which: off-balance sheet problematic credit risk	Maturity up to one year	Maturity over one year
	5,925	2	-	76	-	3,662	2,263
	1,192	15	14	184	-	888	304
	49	-	-	11	-	5	44
	91	-	-	3	-	4	87
	19	-	-	2	-	6	13
	-	-	-	1	-	-	-
	1	-	-	-	-	1	-
	3,054	18	6	327	-	1,227	1,557
	10,331	35	20	604	-	5,793	4,268
	251	5	-	56	-	189	62

As at December 31, 2014						
Balance sheet exposure ⁽²⁾						
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments ⁽⁴⁾	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	257	2,129	649	-	-	-
Spain	43	54	8	-	-	-
Italy	85	-	9	-	-	-
Ireland	-	-	22	-	-	-
Other	2	2,224	1,229	644	36	608
Total exposure to foreign countries	387	4,407	1,917	644	36	608
Total exposure to LDC countries	-	3	174	-	-	-

B. Information regarding countries where total exposure to each country is between 0.75% and 1% of total consolidated assets, or between 15% and 20% of capital, whichever is lower

Balance-sheet exposures:

Balance-sheet balances	Balance-sheet balances
December,31	December,31
2015	2014
-	Switzerland 835
	United Kingdom 754

Off-Balance sheet exposure ⁽²⁾⁽³⁾							
Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Total off- balance sheet exposure	Of which: off-balance sheet problematic credit risk	Cross-border balance sheet exposure ⁽²⁾		
					Maturity up to one year	Maturity over one year	
3,035	-	-	207	-	1,929	1,106	
105	-	-	32	-	59	46	
94	-	-	6	-	4	90	
22	-	-	2	-	10	12	
4,063	44	32	525	-	1,753	1,702	
7,319	44	32	772	-	3,755	2,956	
177	-	-	50	-	125	52	

C. Information regarding balance-sheet exposure to foreign countries with liquidity problems

Year ended December 31, 2015							
	Cyprus	Hungary	Iceland	Romania	Greece	Portugal	Puerto Rico
Total exposure at beginning of the reported year	-	-	10	-	-	-	2
Short-term changes in total exposure, net	-	-	-	1	-	-	(1)
Additional exposures	1	1	-	3	5	1	2
Other changes (including provisions and write-offs)	(1)	-	-	-	(5)	-	-
Total exposure at end of the reported year	-	1	10	4	-	1	3

Year ended December 31, 2014				
	Cyprus	Hungary	Iceland	Romania
Total exposure at beginning of the reported year	18	-	11	1
Short-term changes in total exposure, net	-	-	(1)	-
Additional exposures	-	1	-	-
Other changes (including provisions and write-offs)	(18)	(1)	-	(1)
Total exposure at end of the reported year	-	-	10	-

o. Credit risk in derivative financial instruments in the MAOF market

The Bank allows part of its customers to engage in credit activity in the MAOF market. The Bank has a detailed credit policy in all matters relating to the reliance on collateral in the capital market. In this respect, the Bank constantly and closely monitors the risk in the portfolio relative to collateral and the activity frameworks that are approved on the basis of the credit policy determined by the Board of Directors of the Bank.

p. Risks in the Housing loans portfolio

Mortgage activity at the Bank Group

Exclusive of refinancing transactions, the Bank extended mortgages to the public at an overall amount of NIS 4,799 million in 2015 compared with NIS 3,711 million in 2014, an increase of 29.3%. These data include housing loans from the Bank's own sources (excluding credit from Treasury funds) in the amount of NIS 4,796 million compared with NIS 3,707 million in 2014, an increase of 29.4%. Rollovers deriving from early repayments in 2015, totaled NIS 1,173 million compared with NIS 710 million in 2014.

The Group's credit policy in the area of mortgage activity

In view of the risk to which the Israeli banking system is exposed in its mortgage activity, developments in the housing loan market and the Supervisor of Banks' directives, the Bank adopts a conservative credit policy that is approved by the Board of Directors of the Bank and that is examined yearly. This conservative approach is reflected by an examination of LTV, the repayments as a percentage of the borrower's debt-to-income ratio and the ability to maintain current repayments in interest rate adjustment scenarios. In addition, restrictions are applied on loan size per single borrower. When examining applications for large loans, the Bank ensures that information on "warning signs" is obtained from the BDI system. The Bank adopts a particularly cautious approach to properties notable for a complex registration situation, taking due account of the quality of the customer and the LTV.

When granting credit to purchase groups, the Bank focuses on groups that are building in demand areas. The Supervisor of Banks' directives concerning purchase groups are fully applied at the Bank. Apart from conducting current examinations, the Bank holds a quarterly discussion on all purchase groups' portfolios, examines the projects in question, and ascertains whether an allowance for credit losses is necessary with respect to the purchase groups, over and above the individual risk of each member of the groups.

The Bank ensures that each transaction is priced in accordance with the risk involved and the capital retention required by means of advanced yield calculation tools.

The Bank performs monthly control on the development of risks characteristics, among them: LTV, income-debt ratio, loan purpose etc.

Loan to value

One of the main parameters used by the Bank in examining the risk in the housing loan portfolio is the loan to value ratio (LTV). The LTV is calculated in accordance with the Banking Supervision Division's Directive No. 876- "Report on housing loans," and is the ratio between the amount of credit and the value of the assets serving as collateral on the date at the time the loan is approved. It should be noted that in itself, a rise in the value of the property does not constitute an event for the purpose of re-calculating the LTV. However, when additional credit secured by the same property is granted, the LTV can be calculated on the basis of a revised value appraisal.

The portfolio of housing loans extended from the Bank's sources on December 31, 2015 amounted to NIS 20,102 million, including 70% of credit granted at an LTV of up to 60% compared to 69% on December 31, 2014. 94% of total loans were granted at an LTV of up to 75%, compared to 93% on December 31, 2014.

Housing loan extensions from the Bank's sources in 2015 totaled NIS 4,796 million, including 71% of credit granted at an LTV of up to 60%, compared with 73% in 2014. All loan extensions were granted at an LTV of up to 75%, similar to 2014.

Debt-income ratio

Another key parameter used by the Bank in examining the risk in the housing loan portfolio is the debt-income ratio. This ratio enables the Bank to assess a borrower's ability to maintain current loan repayments in an orderly manner from the borrower's regular income at the date of the extension of the loan.

The portfolio of housing loans extended from the Bank's sources as of December 31, 2015 included 78% of credit granted at a debt-income ratio of up to 35% compared with 75% on December 31, 2014. 89% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, compared with 86% on December, 2014.

Housing loan extensions from the Bank's sources in 2015 included 82% of credit granted at a debt-income ratio of up to 35% compared with 78% in 2014. 91% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% compared with 90% in 2014. This information includes loans secured by residential apartments.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of December 31, 2015 includes 65% of credit that was granted at floating-rate interest and amounts to NIS 13,080 million.

Housing loan extensions from the Bank's sources in 2015 include NIS 1,557 million of credit granted at floating-rate interest of up to five years constituting 32% of extensions. An amount of NIS 876 million (18% of the extensions) is floating-rate credit five years and above.

Long-term loans

The portfolio of housing loans from the Bank's sources as of December 31, 2015 includes 67% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 13,417 million.

Housing loan extensions from the Bank's sources in 2015 include 58% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 2,801 million.

Set out below are data on the development of the housing loan portfolio at the Bank alone by linkage segments (excluding credit from Treasury funds and after deduction of the allowance for credit losses)

	For residential purposes										Secured by a residential apartment	Total	
	Unlinked segment				CPI-linked segment				Foreign-currency linked segment				Total
	Fixed-rate		Floating rate		Fixed-rate		Floating rate		Floating rate				
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate			
	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	%			
31.12.15	3,463	19.1	7,666	42.3	3,019	16.7	3,854	21.3	100	0.6	18,102	2,000	20,102
31.12.14	1,858	11.4	6,732	41.5	3,224	19.9	4,285	26.4	136	0.8	16,235	1,976	18,211

Set out below are data on the development of housing loan extensions at the Bank alone (excluding credit from Treasury funds)

	2015	2014	2013	2012	2011
Total housing loan extensions (NIS million)	4,796	3,707	3,550	3,744	3,459
Rate of change in housing loan extensions compared with previous year	29%	4%	(5%)	8%	(7%)
Rate of expense on credit losses relative to mortgages at the Bank's risk	0.01%	0.01%	0.20%	0.08%	0.08%
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	0.60%	0.74%	0.86%	0.76%	0.81%

q. Leveraged Finance

The Bank regards leveraged finance as credit that is granted for transactions for the purchase of means of control in which the rate of finance is higher than that usually extended at the Bank in this area.

In view of the new Bank of Israel directive no. 327 that will start from January 1, 2016, the Bank is changing and matching the definition of leveraged finance in accordance to the Bank of Israel definitions.

In view of the volatility in the capital market, the Bank is extremely cautious when granting this type of credit; when the credit is actually extended, comprehensive checks are made with respect to the level of leverage in the transaction and the repayment ability deriving from the securities that have been pledged.

As of December 31, 2015 total balance sheet exposure with respect to such transactions amounted to NIS 101 million in the financial services sector (December 31, 2014 - NIS 375 million, of which NIS 105 million in the financial services sector, NIS 270 million in the commerce sector).

There was no off-balance-sheet exposure to leverage finance as of December 31, 2015 or as of December 31, 2014.

No expenses on credit losses on a Group basis in respect of leveraged finance were recorded in the years 2015 and 2014.

r. For the detailed quantitative and qualitative information regarding credit risk reported in accordance to the disclosure requirements of pillar III and additional information on risks- see sub-chapter "additional supervisory disclosures" in "financial information" at the Bank's internet site.

MARKET RISK

a. General

1. Market risk (financial risk) is the actual or future existence of a risk to the Group's income and capital and risk of erosion in the Group's fair value as the result of changes in prices, rates and margins in the financial markets in which it operates or is likely to operate, and which affect the value of the Group's assets or liabilities: interest rates, exchange rates, inflation, securities prices, volatility in these parameters and changes in other economic indexes.
2. The Bank has a detailed policy for the management of exposure to financial risks which is approved every year by the Management and the Board of Directors. The policy document outlines and details: overall financial risk appetite and risk appetite across a single cross-section of risk, principles for activity and restrictions at the level of different instruments and units in the Finance sub-division.
As part of the financial risk policy document, a derivative policy document was added. This document details the instruments and markets in which the Bank operates and expresses the risk appetite and risk management in the level of the Bank and the group, as it concerns the activity in financial derivatives. On the activity in derivatives restrictions were set concerning the volume of activity and the exposure to accounting loss derived from this activity.
3. A quarterly discussion is held by Management, the Risk Management Committee and by the Board of Directors on the risks document covering all the risk of the Bank and the Group, in which the Bank's and the Group's exposure to risks is reported compared with restrictions that were determined in this respect. In addition, an examination is made in it of the changes that are required in accordance with changes in the Bank's and group's activities and/or changes in the Bank's and group's environment or in the financial markets.

b. Supervision and control of market risk exposure management

The Bank employs a suitable network of control, management, supervision, independent control and audit mechanisms with respect to the market risk management process. The managerial and review concept employed by the Bank is to detect, quantify and estimate exposure to market risks and to control the adherence to the restrictions prescribed.

Market risk management is examined and controlled on a current basis by special committees and forums at the Board of Directors, Management and middle-management grades (as detailed in the risk report in the internet).

c. Reporting of market risk exposures

The Management, the Risk Management Committee and the Board of Directors of the Bank receive a variety of reports on exposure to market risks and in various cross-sections. These reports are submitted by management, supervisory and control entities.

In addition, actual market positions compared with the activity frameworks and restrictions determined by the Board of Directors and authorities for their management are collated in the quarterly risks document as required under Proper Conduct of Banking Business Regulation 310, which is discussed once a quarter by Management, the Risk Management Committee and the Board of Directors.

d. Group management of market positions

A major aspect of the Group's risk management policy and risk appetite is the specification of Group appetite, including guiding principles for the activity of the banking subsidiaries in the Group. Under Proper Conduct of Banking Business Regulation 339 and other directives issued by the Supervisor of Banks, including the Basel directives, the Bank's risk management systems encompass and take into account the exposure to risks at the banking subsidiaries in Israel and abroad.

The managements and boards of directors of the banking subsidiaries in Israel and abroad have determined policy and frameworks for exposure to market risks, and these are initially discussed at the Bank as part of the application and assimilation of Group risk management policy.

The Bank obtains information on positions in accordance with the prescribed frameworks from subsidiaries, and an overall perception of the Group's exposure is taken into account. In addition, the Bank regularly examines, at least once a quarter, the risk appetite and actual market risks of the Bank and the banking subsidiaries.

e. Methodology for the estimation of exposure to market risk

The Bank manages and controls exposure to market risks by means of a number of generally accepted models and tools which include VaR calculations and the operation of stress tests, as detailed below:

- Value at Risk (VaR)
 - VaR (Value at Risk) measures the maximum loss expectancy in the Bank's fair value (assets and liabilities, including derivative financial instruments) in the course of a specific investment horizon (21 business days), given a certain confidence level (99%) and normal market conditions.
 - In the second quarter of the year the Bank adopted the measurement of the VaR by historical simulation as the main method and also set that the value of the VaR will not exceed 5% of total capital, with investment horizon in the banking portfolio of 21 business days.
 - The current VaR calculated at the Bank- on a Bank basis and on a Group basis-is based on the Historical simulation method and also on the Variance Co-Variance method.
 - The VaR data at the Bank are calculated on a daily basis with respect to the majority of the Bank's financial assets and liabilities (including the banking portfolio, the portfolio for trading and real holdings). The VaR calculation is an integral part of the work processes at the Finance Division and at the Risk Management Division.
 - The Market and Liquidity Risk Control Unit at the Risk Management Division also conducts independent back testing in accordance with the criteria defined by the Basel Committee for the purpose of examining the validity of the VaR, at the level of each segment of activity and at the level of overall activity.
- Interest-rate position management and control tools, such as: duration, fair value, analyses of sensitivity to changes in the interest-rate curve, and stress tests.
- Option risk management and control tools in the foreign-currency dealing room, such as: a Vol-Spot matrix representing the exposure resulting from different exchange rate and volatility scenarios. In addition, use is made of the sensitivity index RHO for examining the change in the value of the position in the event of a 1% movement in the interest-rate curve. Use is also made of a Weighted Vega model for the management of exposure to volatility risk.

- Sensitivity tests: Risk exposure is expressed in terms of the maximum decrease in fair value resulting from a parallel movement of the interest-rate curve.
- Stress tests.

Back Testing

The Bank consistently operates to improve the quality of the prediction of the historical VaR by current back testing.

The back testing of the historical VaR shows that during the year ended December 31, 2015 6 incidents recorded where the daily theoretical loss exceeds the VaR value anticipated, as follows:

Date	Gap size
	NIS million
22.6.2015	7
1.6.2015	26
23.3.2015	8
16.2.2015	19
3.2.2015	8
27.1.2015	19

As a result, the VaR was standardized to reflect the market risk appropriately.

Risk appetite

Since the Bank tested the effectivity of the restriction according to market data and the change in investment horizon mentioned above, the Bank Board of Directors has amended that total exposure to market risk, as reflected by the Value at Risk (VaR), shall not exceed 5% of total capital on the basis of a horizon of 21 days under the historical method.

As of December 31, 2015 the Group's historical VaR amounted to NIS 257 million.

The VaR as percentage of total capital, as of December 31, 2015, amounted to 3.5%.

Stress scenarios for examining the maximum erosion in fair value

The Board of Directors of the Bank have determined restrictions on the level of the maximum erosion in the fair value of the Bank with respect to a number of stress scenarios deriving from the materialization of financial risks. This restriction has been set at up to 10% of the Bank's equity capital.

Stress scenarios for examining capital adequacy and the effect of the materialization of stress scenarios on the ratio of capital to risk assets.

In accordance with Basel 3, Pillar 2 directives, the Bank applies stress scenarios when examining capital adequacy under stress scenarios. This outline includes scenarios relating to market, liquidity and credit risks (including in respect of the securities portfolio in shekels and in foreign currency, including the mortgage-backed bond portfolio), as well as scenarios incorporating the simultaneous materialization of several risk factors. The scenario baseline is comprised of a global holistic scenario, a local holistic scenario and a "reverse" scenario.

The results and the effects of stress scenarios on the capital base and the capital ratio are presented in the risks document, which is discussed once a quarter by the Management, the Risk Management Committee and the Board of Directors.

f. Interest exposure

General

Interest risk is the actual or future existence of a risk to the Group's income as the result of a difference between the redemption dates or interest adjustment dates of assets and liabilities in each of the segments of activity. Interest risks in respect of the entire portfolio are the dominant risks to which the Bank is exposed in all matters relating to their effect on the fair value of assets and liabilities and its effect on earnings. The Bank manages the interest risks in accordance with the Bank of Israel directive 333, a specific directive in the area of interest risk management with emphasis on the banking portfolio. The Bank implemented policy for the management of interest risk, in accordance with the regulations.

Exposure management

Interest risk exposure is managed by means of adjusting the duration of sources and uses and reducing exposure to erosion in fair value as the result of unexpected changes in interest rates. In each segment the exposure for unpredicted change in the interest rate for all periods and different interest scenarios is measured, and its potential erosion on the economic value and the accounting profit for 12 months forward, in each of the segments separately, and all segments together, is measured. The Bank's principal exposure to interest risks is attributed to financing activity in the non-linked shekel segment and in the CPI linked segment, and results from the characteristics of the investment in those segments, which derive from the range of uses and sources in these segments.

Risk appetite

- The Board of Directors of the Bank has determined restrictions on the overall exposure to interest risk by limiting the maximum exposure to the erosion in the fair value of equity capital resulting from a parallel change of 1% in the interest rate curve in the CPI-linked segment (on a consolidated basis), in the non-linked shekel segment and in the foreign currency segment. Under these restrictions, the maximum permitted exposure to erosion in the fair value of equity capital is 4% in the CPI-linked segment, 3.5% in the non-linked shekel segment and 1% in the foreign currency segment. The restriction on the overall exposure is 4%.
- Apart from determining restrictions on the overall risk appetite for exposure interest risks at the level of fair value exposure, the Board of Directors of the Bank has determined restrictions on the extent of interest exposure at the level of the dealing rooms and the interest-risk generating units.
- Stress scenarios- The Board of Directors of the Bank has determined a restriction on the maximum erosion in fair value in respect of the running of a number of stress scenarios in the area of exposure to market risks-including interest risks as well as restriction on the effect of interest standard crisis (2%) on the banking portfolio. This restriction has been set at up to 10% of shareholders' equity, including activating standard crisis in the change of interest.

In addition, the Bank applies stress scenarios for reviewing capital adequacy. In this respect, the Bank also examines stress scenarios in the area of interest risks (as well as scenarios combining the materialization of interest risks and several other risks simultaneously). Here, the Bank examines the effect of the materialization of risk on the capital base and the ratio of capital to risk assets.

The results and significance of the scenarios are reported once a quarter to the Management, the Risk Management Committee and the Board of Directors.

Actual exposure on the report date

Interest risk is measured on the basis of assumptions regarding the redemption times of assets and liabilities. The effect of the early repayment of CPI-linked housing loans is also taken into account in risk management.

Non-interest bearing current accounts have credit balances at a stable amount over time. Lately the Bank changed the methodology of the computation by specific model and determined that the redemption period of the stable current accounts will be for several years. In the past the redemption period of current account balances, was approximately a year.

Set out below is a description of the sensitivity of the Group's capital to parallel changes in the interest rate curve- the theoretical change in economic value resulting from a parallel increase of 1% in the interest curve:

	December 31, 2015		December 31, 2014	
	% actual exposure	% restriction	% actual exposure	% restriction
Non-linked local currency	(0.24)	(3.50)	(0.47)	(3.50)
CPI-linked local currency	(1.69)	(4.00)	(1.32)	(4.00)
Foreign currency and foreign-currency linked	(0.74)	(1.00)	(0.40)	(1.00)

Analysis of sensitivity to the effect of exposure to interest rate adjustments based on the fair value of financial instruments

Set out below is information on assets and liabilities that are exposed to changes in interest rates on the basis of their fair value, including a sensitivity analysis of the effect of theoretical changes in the interest rate on the fair value of financial instruments, excluding non monetary items, according to accounting rules:

Set out below are details of the effect of changes in the interest rate on the fair value of the asset surplus in the segment:

1. The fair value of the financial instruments of the Bank and its consolidated companies, with the exception of non-monetary items (before the effect of theoretical changes in interest rates):

As of December 31, 2015	Local currency		Foreign currency ⁽²⁾			Total
	Non-linked	CPI-linked	Dollar	Euro	Other	
						NIS million
Financial assets ⁽¹⁾	91,408	13,505	12,809	2,096	816	120,634
Amounts receivable in respect of derivative financial and off-balance-sheet instruments ⁽³⁾	29,040	450	36,748	6,921	4,369	77,528
Financial liabilities ⁽¹⁾	76,334	12,884	20,478	3,625	1,458	114,779
Amounts payable in respect of derivative financial and off-balance-sheet instruments	38,380	962	28,965	5,403	3,851	77,561
Net fair value of financial instruments	5,734	109	114	(11)	(124)	5,822

As of December 31, 2014	Local currency		Foreign currency ⁽²⁾			Total
	Non-linked	CPI-linked	Dollar	Euro	Other	
						NIS million
Financial assets ⁽¹⁾	⁽⁵⁾ 81,358	16,214	10,060	2,812	1,333	111,777
Amounts receivable in respect of derivative financial and off-balance-sheet instruments ⁽³⁾	28,547	871	36,751	6,593	5,211	77,973
Financial liabilities ⁽¹⁾	66,645	14,483	19,998	3,719	1,689	106,534
Amounts payable in respect of derivative financial and off-balance-sheet instruments	39,010	1,736	26,632	5,774	4,976	78,128
Net fair value of financial instruments	4,250	866	181	(88)	(121)	5,088

2. Effect of theoretical changes in interest rates on the net fair value of financial instruments of the Bank and its consolidated companies, with the exception of non-monetary items:

The redemption time of non-interest bearing current accounts which is used for calculating the said exposure is on demand and up to a month. Calculation of the exposure does not include the effect of early repayments of housing loans.

As of December 31, 2015	Net fair value of financial instruments, after effect of changes in interest rates ⁽⁴⁾								
	Local currency		Foreign currency ⁽²⁾			Offsetting effects	Total	Total change in fair value	
	Non-linked	Linked	Dollar	Euro	Other				
	NIS million		NIS million			NIS million		NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	5,387	27	64	(18)	(125)	-	5,335	(487)	(8.36)
Immediate parallel increase of 0.1 percent	5,698	99	109	(11)	(125)	-	5,770	(52)	(0.89)
Immediate parallel decrease of one percent	6,151	214	166	14	(124)	-	6,421	599	10.29

As of December 31, 2014	Net fair value of financial instruments, after effect of changes in interest rates ⁽⁴⁾								
	Local currency		Foreign currency ⁽²⁾			Offsetting effects	Total	Total change in fair value	
	Non-linked	Linked	Dollar	Euro	Other			NIS million	In percent
	NIS million		NIS million			NIS million		NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	(5)4,027	762	152	(94)	(123)	-	4,724	(364)	(7.15)
Immediate parallel increase of 0.1 percent	(5)4,227	854	178	(89)	(121)	-	5,049	(39)	(0.77)
Immediate parallel decrease of one percent	(5)4,505	996	219	(81)	(119)	-	5,520	432	8.49

(1) Including complex financial instruments. Not including balance-sheet balances of off-balance-sheet financial instruments.

(2) Including foreign-currency linked local currency.

(3) Amounts receivable (payable) in respect of derivative financial instruments and off-balance-sheet financial instruments, discounted by the interest rates used for calculating the fair value in all currencies which are not USD and other principal currencies for which separate disclosure is given.

(4) The net fair value of financial instruments which is presented in each of the linkage segments is the net fair value in that segment on the assumption that a change has occurred which is noted in all the interest rates in the linkage segment. The total net fair value of financial instruments is the net fair value of all the financial instruments (with the exception of non-monetary items), on the assumption that a change has occurred which is noted in all the interest rates in all the linkage segments.

(5) First application of accounting standards and directives of Supervisor of Banks. See note 1.C to the financial statements.

EXPOSURE OF THE BANK AND CONSOLIDATED SUBSIDIARIES TO FLUCTUATIONS IN INTEREST RATES AT DECEMBER 31, 2015

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years	
	NIS million						
Israeli currency - unlinked							
Financial assets, amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets							
Financial assets ⁽¹⁾	74,266	3,959	3,660	3,347	2,462	2,316	
Derivative financial instruments (except options)	11,108	9,145	4,153	2,240	381	862	
Options (in terms of the underlying asset)	140	197	814	-	-	-	
Total fair value	85,514	13,301	8,627	5,587	2,843	3,178	
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities							
Financial liabilities ⁽¹⁾	65,123	2,486	4,719	1,752	1,994	260	
Derivative financial instruments (except options)	16,701	11,896	4,888	2,100	492	980	
Options (in terms of the underlying asset)	189	231	903	-	-	-	
Total fair value	82,013	14,613	10,510	3,852	2,486	1,240	
Financial instruments, net							
Exposure to fluctuations in interest rates in the segment	3,501	(1,312)	(1,883)	1,735	357	1,938	
Cumulative exposure in the segment	3,501	2,189	306	2,041	2,398	4,336	
Israeli currency - Linked to the CPI							
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets							
Financial assets ⁽¹⁾	803	376	1,713	4,598	3,357	1,859	
Derivative financial instruments (except options)	-	100	37	142	21	150	
Total fair value	803	476	1,750	4,740	3,378	2,009	
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities							
Financial liabilities ⁽¹⁾	1,910	423	1,615	3,372	3,746	1,656	
Derivative financial instruments (except options)	-	192	176	543	17	34	
Total fair value	1,910	615	1,791	3,915	3,763	1,690	
Financial instruments, net							
Exposure to fluctuations in interest rates in the segment	(1,107)	(139)	(41)	825	(385)	319	
Cumulative exposure in the segment	(1,107)	(1,246)	(1,287)	(462)	(847)	(528)	

See notes in page 108.

	December 31, 2014								
	Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
				NIS million	%	years	NIS million	%	years
	1,064	108	226	91,408	2.36	0.58	(5)81,358	2.20	0.38
	-	-	-	27,889		0.62	26,810		0.70
	-	-	-	1,151		0.15	1,737		0.16
	1,064	108	226	120,448		(2)0.59	109,905		(2)0.45
	-	-	-	76,334	0.94	0.20	66,645	0.70	0.06
	-	-	-	37,057		0.52	35,842		0.59
	-	-	-	1,323		0.23	3,168		0.24
	-	-	-	114,714		(2)0.30	105,655		(2)0.25
	1,064	108							
	5,400	5,508							
	714	81	4	13,505	2.27	3.42	16,214	1.83	3.43
	-	-	-	450		2.88	871		1.89
	714	81	4	13,955		(2)3.41	17,085		(2)3.35
	162	-	-	12,884	1.24	2.81	14,483	0.81	2.94
	-	-	-	962		1.84	1,736		1.52
	162	-	-	13,846		(2)2.74	16,219		(2)2.79
	552	81							
	24	105							

EXPOSURE OF THE BANK AND CONSOLIDATED SUBSIDIARIES TO FLUCTUATIONS IN INTEREST RATES AT DECEMBER 31, 2015 (CONTD)

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years	
	NIS million						
Foreign Currency⁽⁴⁾							
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets							
Financial assets ⁽¹⁾	5,662	2,263	3,051	2,627	1,058	1,005	
Derivative financial instruments (except options)	21,927	15,959	5,967	1,338	363	649	
Options (in terms of the underlying asset)	293	358	1,180	4	-	-	
Total fair value	27,882	18,580	10,198	3,969	1,421	1,654	
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities							
Financial liabilities ⁽¹⁾	20,111	3,364	1,823	209	13	30	
Derivative financial instruments (except options)	15,421	10,694	5,630	2,011	1,199	1,618	
Options (in terms of the underlying asset)	242	323	1,077	4	-	-	
Total fair value	35,774	14,381	8,530	2,224	1,212	1,648	
Financial instruments, net							
Exposure to fluctuations in interest rates in the segment	(7,892)	4,199	1,668	1,745	209	6	
Cumulative exposure in the segment	(7,892)	(3,693)	(2,025)	(280)	(71)	(65)	

See notes in page 108.

	December 31, 2014								
	Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
				NIS million	%	years	NIS million	%	years
	51	4	-	15,721	2.32	1.18	14,205	2.16	1.06
	-	-	-	46,203		0.31	44,960		0.38
	-	-	-	1,835		0.16	3,595		0.20
	51	4	-	63,759		(2)0.52	62,760		(2)0.53
	11	-	-	25,561	1.14	0.09	25,406	0.79	0.08
	-	-	-	36,573		0.69	35,242		0.77
	-	-	-	1,646		0.10	2,140		0.12
	11	-	-	63,780		(2)0.43	62,788		(2)0.47
	40	4							
	(25)	(21)							

EXPOSURE OF THE BANK AND CONSOLIDATED SUBSIDIARIES TO FLUCTUATIONS IN INTEREST RATES AT DECEMBER 31, 2015 (CONTD)

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years	
	NIS million						
Total exposure to changes in interest rates							
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets							
Financial assets ⁽¹⁾⁽³⁾	80,731	6,598	8,424	10,572	6,877	5,180	
Derivative financial instruments (except options)	33,035	25,204	10,157	3,720	765	1,661	
Options (in terms of the underlying asset)	433	555	1,994	4	-	-	
Total fair value	114,199	32,357	20,575	14,296	7,642	6,841	
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities							
Financial liabilities ⁽¹⁾	87,144	6,273	8,157	5,333	5,753	1,946	
Derivative financial instruments (except options)	32,122	22,782	10,694	4,654	1,708	2,632	
Options (in terms of the underlying asset)	431	554	1,980	4	-	-	
Total fair value	119,697	29,609	20,831	9,991	7,461	4,578	
Financial instruments, net							
Exposure to fluctuations in interest rates in the segment	(5,498)	2,748	(256)	4,305	181	2,263	
Cumulative exposure in the segment	(5,498)	(2,750)	(3,006)	1,299	1,480	3,743	

Notes:

- Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance-sheet items, will be provided upon request.
- In this table, data by period reflect the present value of future cash flows of each financial instrument, discounted by the interest rate used for deduction to the fair value, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 32.A. to the Financial Statements.
- The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect thereof.
- The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

(1) Excluding balance-sheet balances of derivative instruments, fair value of off-balance sheet financial instruments and hybrid financial instruments.

(2) Average weighted by fair value of effective average duration.

(3) Including shares stated in the column "with no repayment period".

(4) Including Israeli currency linked to foreign currency.

(5) First application of new accounting standards and directives of the supervisor of banks. See note 1.C. to the financial statements.

	December 31, 2013								
	Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
				NIS million	%	years	NIS million	%	years
	1,829	193	1,424	121,828	2.32	0.98	(5)112,791	1.99	0.91
	-	-	230	74,772		0.44	72,794		0.52
	-	-	631	3,617		0.15	6,869		0.19
	1,829	193	2,285	200,217		(2)0.77	192,454		(2)0.74
	173	-	931	115,710	1.15	0.47	107,245	0.80	0.46
	-	-	230	74,822		0.62	72,973		0.70
	-	-	631	3,600		0.16	6,837		0.19
	173	-	1,792	194,132		(2)0.52	187,055		(2)0.55
	1,656	193							
	5,399	5,592							

g. Basis exposure

General

Basis risk is the actual or future existence of a risk to the Group's income as the result of unexpected changes in the consumer price index or in exchange rates due to the difference between the value of assets and the value of liabilities (including the effect of futures transactions and implied options). Exposure to basis risk is measured and managed in each of the linkage segments: the CPI-linked segment, and the foreign-currency denominated and linked segment.

Since capital is defined as a non-linked shekel source under accounting principles, the investment of capital in a segment other than the non-linked shekel segment (the CPI segment and the foreign currency denominated and linked segment) is defined as basis risk exposure.

Exposure management

- Management of the basis risks and the investment in active capital in the different linkage segments is based on current assessments and forecasts by various management entities at the Finance Division regarding developments in the money and capital markets.
- The composition of the investment of active capital in the different linkage segments is managed on a current basis subject to the restrictions presented below, and on the basis of forecasts regarding the relevant market variables when exploiting price differences between the cost of sources and the yield on uses in the different linkage segments and the feasibility of long or short positions in each and every segment of activity.
- In its linkage base management, the Bank uses derivative financial instruments as a means of neutralizing the exposure to linkage basis and interest risks.

Risk appetite

- The Board of Directors of the Bank has determined restrictions on the permitted positions (surplus or deficit) in assets and liabilities and the exposure of active capital, defined as shareholders' equity plus minority interest and less non-monetary items, net. The total surplus (deficit) of assets over liabilities in the CPI linked shekel segment and in the foreign-currency and linked foreign currency segment is limited to 60% and 20% of the Bank's active capital respectively.
- Apart from determining restrictions on overall risk appetite to basis risks at the active capital exposure level, the Board of Directors of the Bank has prescribed individual restrictions on the extent of basis risk exposure at the level of the dealing rooms and the units that generate basis risks.

Actual basis exposure

Set out below is a description of the actual exposure of active capital, at the Group level, compared with the Board of Directors' restrictions (NIS millions):

	Actual exposure		% of active capital		Approved exposure limit as % of active capital
	As of		As of		
	31.12.15	31.12.14	31.12.15	31.12.14	
Non-linked local currency	5,290	4,160	96	87	Non
CPI-linked local currency	197	665	4	14	60±
Foreign currency and f-C linked	(10)	(30)	-	(1)	20±

NOTES:

- (1) The negative rates express a surplus of liabilities over assets as a percentage of active capital.
- (2) The Bank adopts an economic approach in the management of basis risk and reconciliations are made taking into account the economic nature. In its current management, the Bank takes into account the lack of reconciliation that sometimes arises between the accounting exposure and the economic exposure in order to hedge the reported accounting profit.

Sensitivity of capital to changes in the exchange rate

The Bank operates in the currency markets by means of spot transactions, forward transactions and options on its own behalf and on behalf of its customers. The Bank operates using global negotiable currencies, and the total net currency exposure for the Group is low.

Most of the activity in derivative financial instruments is carried in the currency derivatives Shekel/Dollar for the Bank's customers. The Bank is not exposed in its derivative activity to material currency risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the exchange rates of the principal currencies as of December 31, 2015 (NIS millions).

The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

Percentage change in exchange rate	Dollar	Euro
5% decrease	1	2
10% decrease	(2)	4
5% increase	6	5
10% increase	20	15

NOTES:

- (1) This effect is calculated in accordance with the expected change in the economic positions managed in different currencies, given the scenarios that were determined by the Supervisor of Banks.
- (2) An increase implies a strengthening of the currency in question against the shekel.
- (3) The data express the effects of changes in exchange rates on fair value after the tax effect.
- (4) Changes in the exchange rates of other currencies have a negligible effect on the Bank's earnings.

h. Option risk

General

Option risk is the risk of a loss deriving from changes in the parameters that affect the value of options, including implied volatility.

Risk appetite

- The Bank's foreign currency dealing room trades in a variety of financial products, including options. Apart from the restrictions set on the amount of basis and interest-rate exposure, and in view of the sensitivity of options' economic value to changes in linkage bases, interest rates and especially to changes in the volatility of the underlying assets, the Board of Directors has determined additional restrictions for the dealing room's activity in options.
- The Board of Directors of the Bank has determined restrictions with respect to activity permitted in options in terms of maximum loss under defined scenarios. The scenarios refer to simultaneous changes in the exchange rate and in the volatility of the underlying assets. The Board of Directors has also determined restrictions on the maximum changes in the value of the options portfolio in terms of sensitivity indexes (Greeks).
- Stress scenarios-The Board of Directors of the Bank has determined a restriction on the maximum erosion in fair value in respect of the running of a number of stress scenarios in the area of exposure to market risks- including option risks. This restriction has been set at 10% of shareholders' equity.
In addition, sensitivity to losses in the options portfolio is examined under stress scenarios for reviewing capital adequacy and its effect on the capital base and the ratio of capital to the elements of risk.
The results and significance of the scenarios are presented in the risks document and are reported once a quarter to the Management, the Risk Management Committee and the Board of Directors.

Exposure management

Tools for the management of exposure to options risks include a Vol-Spot sensitivity matrix, which presents the exposure deriving from a combination of scenarios on the exchange rate and volatility. Also used is an RHO interest-rate curve risk exposure scenario, which examines the change in the value of the position in the event of 1% fluctuations in the interest curve. In addition, the Bank uses a Weighted Vega model for the management of exposure to volatility risk.

i. Management of risks in derivative financial instruments

a. General

The Bank operates in a variety of derivative financial instruments as part of risk management policy (base, currency and interest exposures), and as a service to its customers. These instruments include options (including option tracks), which is the area of activity with the higher element of market risk. In this respect, the Bank is mainly active in options on the exchange rates of a number of foreign currencies against the shekel.

Policy for the management of risks in derivative instruments, including activity volumes and the range of instruments permitted for use, are approved by the Board of Directors of the Bank, its Risk Management Committee, and the ALCO Committee, which is chaired by the CEO. The Board of Directors have prescribed restrictions regarding the volume of option tracks containing "implied" options, and the level of the maximum loss under certain scenarios in respect of the options in which the Bank acts as a market maker.

b. Dealing rooms

The Bank's dealing rooms are intended for diverse capital market and foreign currency activities. The foreign currency dealing room trades in a wide variety of financial instruments, and is one of the most active dealing rooms in the banking system in derivative instruments as well, including market making in currencies and government bonds. The Bank engages inter alia in MAOF activity on the stock exchange.

The exposure created in the base and in the interest rate as a result of this activity is included within the restrictions approved by the Board of Directors for base and interest exposures.

Set out below is the volume of activity in derivative financial instruments (nominal value NIS millions):

	As of December 31,	As of December 31,
	2015	2014
Hedging transactions:		
Interest rate contracts	2,350	1,746
Foreign currency contracts	402	379
ALM and other transactions:		
Interest rate contracts	16,924	17,689
Foreign currency contracts (including spot)	79,112	81,336
Contracts on shares, share indexes, commodities and other contracts	105,192	98,216
Total derivative financial instruments	203,980	199,366

c. Structured products

The Bank's activity in structured products continued in 2015. These products are deposits that combine the opportunity to receive a bonus subject to the performance of the underlying asset defined in the product (for example share baskets, exchange rate, interest rates, Israeli share indexes) thus allowing an improved yield than that on regular products, against the risk of alternative interest loss without endangering the principal of the deposit in the underlying currency. Starting with December 2014 the Bank marketed structured deposits combining receiving guaranteed interest on the principal amount of the deposit in addition to the possibility to receive conditional bonus.

d. Supervision and control of management of derivative instrument risk

The Bank's activity in derivative financial instruments on its own behalf is controlled and supervised by the Market and Liquidity Risk Control Unit and by the middle-office system.

Exposures in derivative instruments with respect to the prescribed exposure restrictions are collated and reported in the quarterly Risks Document, which is submitted for discussion and approval to Management, the Risk Management Committee and the Board of Directors.

SHARE PRICE RISK

Risk review and the way of managing it

The investment in shares and instruments reflecting share risk, is designated to improve the risks diversification and to vary the sources of income for the mediate-long run in investing the free capital. The investment is carried out as a rule in Israeli shares traded in the TA 100 and leading share indices abroad, while performing due diligence on the worthwhileness of the investment prior to the requisition.

Risk appetite

In addition to the regulatory restrictions regarding the volume of investment permitted to banking corporation in non-financial entities, the Board of Directors defined risk appetite for activity in shares. The Board of Directors established restrictions on the amount of investment, the mix of the investment- including restriction on the currency exposure and economic segments restrictions.

For qualitative and quantitative information regarding share price risk provided in accordance with the disclosure requirements of pillar III of Basel, and additional information regarding risk - see sub-chapter "Additional supervisory disclosure" in the Chapter "Financial Information" on the Internet website of the bank.

LIQUIDITY AND FINANCING RISK

LIQUIDITY RISK

a. General

- Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, unexpected withdrawals of deposits from the public, unexpected demand for credit and uncertainty regarding the availability of sources.
- The Bank applies a comprehensive policy for the management of liquidity risk both in Israeli and in foreign currency or linked thereto, which had been approved by the Board of Directors of the Bank in accordance with the requirements of Proper Conduct of Banking Business Directives Nos. 342 and 221 of the Supervisor of Banks.

The policy includes, inter alia, restrictions of the liquidity coverage ratios, internal liquidity ratios, the survival range in ordinary scenarios and in stress tests, and on the cash flows, and reference to measurement tools, the supervision and control and the reporting mechanisms that have to be maintained as part of the current liquidity risk management. Furthermore, the Bank has established a methodology assisting the identification of a liquidity crisis at the Bank, this in order to ensure the ability of the Bank to withstand the challenges arising from current business management, and those which might arise in case of pressure situations in the financial markets.

b. Risk appetite

The Bank attributes great importance to the conservative though active liquidity management of the Bank. The Bank's and the Group's risk appetite in this aspect is low and is expressed in the structure of assets and liabilities, in the maintenance of management, control and supervision tools allotted to this matter, and in the management and control layouts in charge of management of this risk.

c. Supervision and control of Liquidity risk exposure management

The control concept applied by the Bank is that of identification, quantification and assessment of risk and control of adherence to restrictions currently prescribed by the procedures, both by exposure managers and by independent control and audit functions, with a view of ensuring the ability to face also exceptional demand and supply situations in the financial markets.

Liquidity risk exposure management is being tested and controlled on a current basis by designated committees and forums at the levels of the Board of Directors and Management in the first, second and third lines of defense, as described above.

d. Reporting on exposure to liquidity risks

- A daily liquidity report in shekels and in foreign currency is produced by the liquidity system in the central computer, and is distributed to all the relevant management and control officials.
- Reporting on shekel and foreign currency liquidity risk positions in comparison with the activity frameworks and restrictions determined by the Board of Directors and authorities for their management are reported three times a week at the Current Matters Committee, which is headed by the CEO or by the head of the Finance Division.

- Reporting on positions is collated in the quarterly "risks document," as required by Proper Conduct of Banking Business Directive No. 310. The risks document is discussed once a quarter by the Management, the Risk Management Committee and by the Board of Directors.
- A quarterly report is submitted to the Risk Management Committee, the Management and the Board of Directors on the results of liquidity stress tests in accordance with the risks document.
- In addition, the Management and the Board of Directors of the Bank are briefed on developments in the Bank's exposure to liquidity risks as necessary.

e. Management of liquidity risk on a Group basis

The banking group of the First International Bank consists of a number of banks having different operating nature and different liquidity requirements. In order to face this situation, the Group conducts a followup of the liquidity situation both at the Group level and at the individual bank level – each bank according to its needs and in accordance with the structure of its assets and liabilities and nature of its operations.

The liquidity risk management policy in the level of the Bank's group was compiled in accordance to Proper Management of Banking Business regulations no. 342 and 221, according to which each banking corporation has to maintain the policy, measure the liquidity coverage ratio independently, and to maintain internal liquidity model approved by the Board of Directors. Also, each subsidiary is responsible to maintain independence policy of short term liquidity risk management (up to 12 months) and long term, while fulfilling the directives of the regulatory authority. Each of the subsidiaries adhere to a liquidity coverage ratio of its own. There are no material restriction or limitations on transferring funds within the group over the general restrictions applying to performing transactions of any kind.

The Bank and the group are acting to preserve a proper amount of liquid assets, concurrent with uses management, in a way that it will produce income to the Bank.

f. Liquidity risk management infrastructure – systems and models for the measurement and management of exposure

The infrastructure for the management of liquidity risk at the Bank combines different models for the current management of liquidity in Israeli and foreign currency, both in the case of ordinary business situation and under scenarios imaging stress tests.

Internal model for current liquidity risk management in local and foreign currency in accordance with Proper Conduct of Banking Business Directive No. 342

- For the purpose of overall liquidity management, liquidity risk is measured and managed by means of an internal model that was developed at the Bank for the purpose of monitoring the liquid sources available to the Bank under the scenario of a normal business situation and under scenarios simulating extreme and stress situations. The model makes it possible to manage, control and supervise the local and foreign currency liquidity position on a daily basis and for different periods.
- Under each scenario the liquidity position is tested according to the quantity indices: liquidity ratio, liquidity gap and survival prospect.

Stress tests

- The principles on which the stress tests are based are that the more liquid assets the Bank has relative to the outflow whose materialization is expected under the stress test, the more will the Bank be able to ensure that it can adhere to its liquidity requirements. For this purpose and in accordance with Bank of Israel directives, assets are classified in the model by liquidity level and outflow on the basis of parameters that are defined from each of the balance-sheet and off-balance-sheet items in accordance with an expert's assessments.
- The model serves as a dynamic management tool at the daily level for examining the Bank's liquidity position and for the management of liquidity risks. The results obtained from the model are presented at the Current Matters Committee four times a week and are controlled on a current basis by the relevant entities, including the Market and Liquidity Risk Control Unit.

The RTGS for intra-daily liquidity management in Israeli currency

The Bank also uses an internal system for local currency liquidity management which was developed for the purpose of complying with the requirements resulting from the reform in the payments and settlement system - the Zahav system. This is an RTGS system, with no delay between the execution of a payment instruction and its confirmation, and enables the banks to identify the cash flow in accounts at any given time.

Foreign currency buffer

The Board of Directors of the Bank has determined a restriction specifying the minimum buffer of immediate liquid foreign-currency assets that can be realized on an immediate basis.

Emergency plan

In accordance with Bank of Israel instructions, the Bank has defined an emergency financing plan. The aim of the plan is to define the actions required for the management of liquidity risks, for the protection of depositors, creditors and shareholders, and to establish a methodology that would assist in detecting liquidity crisis at the Bank. The plan states the criteria for its operation, the possible stress tests, monitoring of the risk and follow-up of indicators for the early detection of liquidity pressures, areas of responsibility and authority of the different functions, the manner of response and reporting and the conduct vis-a-vis foreign entities. In addition, the bank conducts once a year an emergency exercise imaging a stress situation which affects also the liquidity situation, and tests the performance of the bank and the application of the emergency plan.

Liquidity coverage ratio in accordance with Proper Conduct of Banking Business Directive No. 221

On September 28, 2014, the Supervisor of banks published a letter adding Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio, which adopts the Basel Committee recommendations as regards liquidity coverage ratio by the banking sector in Israel.

The liquidity coverage ratio is a Standard intended to improve the short term resilience of the liquidity risk profile of the banking corporations, ensuring it by way of a requirement that banking corporations should maintain an adequate and non-pledged amount of high quality liquid assets (HQLA), which may be converted into cash in a fast and easy manner on private markets, so as to provide response to liquidity requirements in stress situations, which combines a specific shock to the bank and to the banking sector as a whole, and which continues for thirty calendar days.

The Standard states a specific framework for the computation of the liquidity coverage ratio with the aim of creating uniformity on an international level.

The ratio applies as from April 1, 2015, with a minimal requirement for an overall liquidity coverage ratio and a liquidity coverage ratio in foreign currency of 60% rising to 80% on January 1, 2016, and to 100% on January 1, 2017 and thereafter.

The liquidity coverage ratio contains two components:

- (a) The value of high quality liquid assets (HQLA) under stress tests.
- (b) Total net cash outflows during the next thirty calendar days, computed according to the parameters of the stress test.

The ratio is computed as a proportion of the high quality liquid assets to the total net cash outflow during the next thirty calendar days.

The LCR in simple average terms of three months observations for the last three months ended on December 31, 2015 was 104% consolidated and 98% in the Bank (in terms of simple average of daily observations).

The net stable financing ratio contains two components:

- (a) Available quantity of stable financial funds
- (b) Demanded quantity of finance for uses.

The ratio is calculated as the quantity of available stable financial funds out of the demanded quantity of finance for uses.

Liquidity position and the composition of assets and liabilities

The banking system's balances at the Bank of Israel (current accounts and monetary deposits) at the end of December 2015 amounted to NIS 159 billion, compared with NIS 137 billion at the end of 2014.

The liquidity assets at the group, which includes cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 43.3 billion on December 31, 2015, compared with NIS 38.3 billion at the end of 2014. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 30.7 billion, and NIS 12.6 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public on December 31, 2015 amounted to 142.3% compared with 138.0% on December 31, 2014.

At the end of December 2015, deposits from the public, bonds and subordinated notes totaled NIS 109.1 billion compared with NIS 100.1 billion at the end of 2014.

The composition of the assets and liabilities of the Bank shows high liquidity. This, as a result of the policy to raise diversified and stable funds, while emphasizing on raising sources for medium and long periods from diversified customers sectors and in different currencies.

The Bank monitors the volume and concentration of the sources according to different criteria, such as: size, duration on a current basis and sets goals and restrictions to the volume of the large deposits and the mix of the sources.

The Bank operates in derivatives and is required for securities in the different clearing houses in respect of this activity. The requirement for securities has low effect on the level of liquidity and the liquidity coverage ratio of the group.

During the reported period (starting with April 2015) actions were taken to meet higher coverage ratios than required in the Proper Conduct of Banking Business Regulations 221 and 342.

For information regarding details of assets and liabilities according to currency and maturity date- see note 31 to the financial statements.

Balance of deposits from the public of the three largest depositors in the Group:

	As of December 31	As of December 31
	2015	2014
		NIS million
1	3,369	3,300
2	3,742	2,171
3	1,921	2,066

FINANCING RISK

General

Financing risk derives from the unexpected rise of financing cost, when financing sources are refinanced or paid and exchanged by new financing sources which are more expensive, or when the Bank has to realize uses as a result of luck in available sources.

This risk is monitored by short/long model that restricts the volume of long sources in Israeli currency and foreign currency although these are given in a floating interest rate and/or the interest rate implied in them is neutralized by swap transaction that changes fixed interest rate by floating interest rate.

a. Short-long model in floating-rate local currency

During the last years an exposure exists in the floating interest non-linked shekel segment, due to demand for mortgages in this segment. This activity is financed partly from floating-rate short-term sources. The main risk to the Bank is an increase in source-raising margins in the time of funds raisings. A restriction, which is examined from time to time, has been set on the maximum loss resulting from an increase in the cost of raising sources.

b. Short-long model in the foreign-currency segment

The Bank's activity in foreign-currency ALM is notable for the creation of long-term uses, mainly by the nostro portfolio, financed by short-term sources. This activity derives mainly from the unavailability of long-term foreign-currency sources. The interest rate exposures are usually hedged by swap transaction that change fixed interest rate by floating interest rate, however the financial risk is not hedged but restricted by short-long model.

In this framework a restriction, which is examined from time to time, has been set on the maximum loss resulting from an increase in the cost of raising sources in foreign currency.

For detailed information regarding risk, provided in accordance with the disclosure requirements of Pillar III of Basel, and additional information regarding risk - see sub-chapter "additional supervisory disclosure in the Chapter "Financial information" on the Internet website of the Bank.

OPERATIONAL RISK

a. General

- Operational risk is the risk of loss resulting from the impropriety or failure of internal processes, persons or systems or resulting from external events. The definition includes legal risk, but does not include strategic risk or reputation risk. (The various aspects of legal risk exposure and management are discussed extensively in a separate section).
- Operational risk is inherent in all the banking and other activities that are carried out at the entire Bank Group. For this reason, the emphasis in operational risk management is placed on outlining and identifying the principal operational risks as early as possible, estimating and minimizing the risks by assimilating compensatory risk controls, and by closely monitoring their application.
- The Bank regards the management of operational risks as an integral part of management of its business activity. Operational risks are inherent in all the activities and work processes at the Bank, in a wide range of products and systems. For this reason, operational risk management is an integral part of the management of business activity.
- The Operational Risk Manager, the Management of the Bank and the entities responsible for the different areas of activity invest considerable effort in order to enhance the measurement, supervisory and control tools existing at the Bank in order to minimize the operational risks in its activities, including fraud, embezzlement and unethical conduct.

b. Policy

- The Board of Directors of the Bank has prescribed an overall and comprehensive policy for the management of operational risks, setting the risk appetite and outlining the control environment, the corporate frameworks and the managerial functions that will be operated for the purpose of managing and minimizing exposure to operational risks at the Bank and the Group. The policy also prescribes risk identification, assessment, control and monitoring mechanisms, and the reporting systems.
- The policy is based on the Proper Conduct of Banking Business Regulations 350.
- The Board of Directors of the Bank has appointed the CRO as the Group Operational Risk Manager, who via the Operational Risk Management Unit, is responsible for formulating and applying the operational risk management policy approved by the Board of Directors for guiding the different units at the Group, for establishing standards for monitoring, reporting and control, and for applying and assimilating policy at the Group.
- Risk appetite- The Bank will act to minimize operational risks as far as possible in accordance with considerations of cost versus risk reduction.

c. Exposure management

1. Detection, mapping, minimization and monitoring of risk

The operational risk mapping and identification review is one of the main methods for controlling and supervising these risks. A structured process of operational risk mapping is conducted at the Bank's different units based on an outline of processes and activities. A methodology combining specialists' assessments together with statistical

methods for rating and estimating operational risks have been assimilated in the process of mapping and identifying risks in the review. The review includes assessment of potential damage deriving from each identified risk, as well as recommended action for minimizing risk. Existing controls are also listed.

- The review also includes mapping of exposure to fraud and embezzlement risks as stipulated by the Bank of Israel.
- As a result of the risk review findings, new controls were added, including computerized and other controls in the operational systems, working procedures have been changed and reorganized, and management information and reports for assisting managers in the control process have been added.
- The Bank conducts regular risk reviews for the purpose of identifying risk centers in new activities, processes and units at the Bank.
- In 2013 the Bank finished the updating of a third three- year operational risks review.
- Indicators have been defined at the Bank for the early detection of key risk indicators (KRI) by the managers of the processes involved

2. Process managers

A process manager responsible for maintaining controls and minimizing operational risks in the process and for reporting to the Operational Risk Manager has been appointed for every major process at the Bank.

3. Failure event collation

At the end of 2013, the Bank introduced a system for facilitating the monitoring of events that are suspected as operational failures. In addition, via the Operational Risk Management Unit, the Bank collates and documents loss events (events that caused or nearly caused a loss/profit) for the purpose of estimating the operational risks in business processes and at the organizational units, and for keeping a history of shortcomings, learning lessons and improving processes.

Data collection, methodology and reporting thresholds are specified in a detailed procedure listing, inter alia: the manner in which events at the Group are to be documented, verification of the coverage of relevant risks in the risks document and, if necessary, changes in the order of priorities for the operation of the controls recommended in the operational risk reviews. Based on this procedure, reporting trustees have been appointed at branches and units with sensitive business operations, and training is provided for these trustees. Events are reported on a quarterly basis to Management, to the Board of Directors, the Board of Directors' Risk Management Committee and to the operational risk forum, based on thresholds specified in the procedure, for the purpose of discussing lessons learned and revising the exposure mapping. The Bank also conducts a lesson learning process for significant external events reported in the media.

4. Definition of KRI (Key Risk Indicators)

In accordance with the application of the Proper Conduct of Banking Business regulations 350, KRI have been specified for all business processes, instruction on the matter has been provided, and the operational risk forum as well as the Operational Risk Management Unit monitor these indicators.

5. Improving and upgrading control mechanisms and work processes

As a result of the findings of operational risk reviews, internal audit findings and the process of lesson learning from failure events, computerized controls have been integrated in the Bank's activities, and working procedures and processes have been improved and upgraded.

d. Business continuity planning

Bank of Israel directives require the banks to take action in order to assure business continuity in an emergency. In accordance with the directives of Proper Conduct of Banking Business Regulation 355 on the subject, the Bank has made the appropriate preparations for disaster recovery and business continuity in the event of emergencies. A member of the Bank's Management and the Head of the Risk Management Division is responsible for collating the matter on a group basis. Via the Operational Risk Management Unit, the Bank makes preparations that are comprised of several layers: formulation of a comprehensive policy document on business continuity which was approved by the Board of Directors of the Bank, a working framework document detailing suitable technological infrastructures, compilation and assimilation of comprehensive plans of action and a supporting system of procedures, and exercises simulating emergency situations. The Bank has a group emergency situation room and a group emergency assessment forum under the authority of the Head of the Risk Management Division, who collates this activity at the entire Group. The forum is responsible for applying policy and procedures, and for monitoring the Group's preparations for emergencies, and convenes at least once a quarter. Management and the Board of Directors hold quarterly discussions on business continuity and preparations for emergencies. The Bank upgrades its business continuity planning on an ongoing basis. In this respect, revisions are made of all critical activities and resources required in an emergency, and the emergency scenarios and policy document are updated accordingly. During July 2015, the Bank moved the central computer facility from Tel Aviv to the Rishon Le-Zion area. Since this an innovative and well-protected facility outside of Tel Aviv, the move will constitute a significant additional measure for the maintenance of business continuity.

e. Information security

Management and Board of Directors of the Bank have prescribed a detailed policy on the matter of information security policy. The Bank conducts all the required surveys and outlines for compliance with Proper Conduct of Banking Business Regulation 357. The Bank has made all the preparations required in Bank of Israel directives concerning the social media and cybernetic attacks. The Bank has appointed an information security manager who is responsible for the management of information security risks.

Implications of information security risks and cybernetic incidents

Cybernetic attacks are carried out with the aim of causing large-scale damage by harming strategic services. The damage expected from such attacks could adversely affect the credibility, propriety and confidentiality of the Bank's information and the operative readiness of its systems. This damage could harm the business activity of the Bank and have a direct impact on the activity of its customers.

In order to cope with cybernetic attacks, in addition to overall information security activity, the Bank maintains a specialized, comprehensive network for protecting against such attacks. This defense network includes technical devices and processes for reducing the vulnerability of the Bank's infrastructures, on the basis of special attack scenarios defined by the Cyber defence Manager.

The Bank's preparations in this respect are as follows:

- Major risk testing and review of relevant risks, while taking into consideration the risk factors, risks cost and its implications.
- The findings of the surveys and drills, cyber attacks incidents on the Bank and evaluation of the risk deriving from known cyber attacks (not materializing at the Bank) are discussed in the Bank's management and Board of Directors.
- Once a year a survey for the resilience from cyber attacks is carried. The survey includes the testing of defence formation, according to attack scenarios that were defined.
- In the second quarter of 2015 a simulation for cyber attack on the Bank's systems was performed, which purpose was to examine the response of the computer teams and the situation rooms in MATAF and the Bank for cyber event.

From time to time, the Bank will validate and revise the list of material risks in respect of which reporting/disclosure must be given in the Board of Directors' report, with reference to the nature of the material risks and their impact on the Bank.

During the year attack attempts were performed but the Bank did not experience cybernetic attacks with a material effect on the functioning of the Bank.

In September 2015 Proper Conduct of Banking Business Regulation no. 361 in the matter of Management of Cybernetic Defence went into effect. This directive regulates the demand and anticipation of the Supervision of Banks from the banking entities in the matter, in accordance with the basic principals of the cybernetic defence. In the directive are detailed the roles of the Board of Directors, senior management and the cybernetic defence manager. In addition the directive stipulates to outline strategy for cybernetic defence, to maintain frame for the management of cybernetic defence, to define policy for cybernetic defence and to form a work plan. In addition the directive emphasize the need of organized management of cybernetic defence and the establishment of set of effective controls in order to minimize the exposure to cybernetic threats.

Management and the Board of Directors defined the strategy of defending cybernetic attacks and the policy of the defence from cybernetic attack for the banks in the group. The security information manager of the group was appointed as cybernetic defence manager for the banks in the group in accordance with permission from the Bank of Israel.

f. Supervision and control of operational risk management

The Bank maintains a suitable system of mechanisms for the control, management, supervision and audit of the operational risk management process. Operational risk management is examined and reviewed by the Board of Directors, Management and the middle-management grades, as detailed in the risks report at the internet website of the Bank.

g. Operational risk exposure reporting

Exposure to operational risk is collated and reported in the quarterly risks document, as required by Proper Conduct of Banking Business Regulations 310 and 350.

The risks document describes operational exposures by the categories defined by Basel, as well as by organizational structure, in line with the risk appetite specified by the Board of Directors. The risks document also lists developments in Group exposure management and failure events.

h. Group reporting of exposure to operational risks

The Bank Group employs a standard methodology for the management of operational risk. In line with the policy document approved by the Bank's Board of Directors, the document was approved, with the necessary adjustments, by all the Boards of Directors of the banking subsidiaries.

For qualitative and quantitative information regarding operation risk provided in accordance with the disclosure requirements of pillar III of Basel, and additional information regarding risk - see sub-chapter "Additional supervisory disclosure" in the Chapter "Financial Information" on the Internet website of the bank.

LEGAL RISK

a. General

Legal risk is defined in the Proper Conduct of Banking Business Regulations 350 ("Operational risk management") and includes, but is not limited to, "exposure to fines and punitive damages as the result of supervisory activity as well as private settlements." The Bank adopts an expanding approach to this definition and includes under legal risk the risk deriving from failure to observe legal directives, including regulatory directives, the risk of a loss resulting from the inability to legally enforce an agreement, risks deriving from activity without legal backing/legal advice vis-à-vis the customer, suppliers and/or other parties, risks involved in legal proceedings, and other risks that could expose the Bank to lawsuits, as well as fines and sanctions.

b. Risk appetite

The Bank adopts a conservative policy of a low risk appetite with respect to the conclusion of legal agreements and commitments, and carries out its business activity with suitable legal assistance and support, with strict insistence on compliance to all legislative and regulatory directives and the restrictions and obligations derived from them. Without detracting from the aforesaid, the Bank will adopt a policy of zero tolerance in all matters concerning risk resulting from the violations of the provisions of law which constitute a criminal offense or an administrative offense.

c. Policy and exposure management

The Bank operates in accordance with a legal risk management policy that is submitted for the approval of Management and the Board of Directors every year. Detailed in this respect are legal risk and ways of identifying, mapping and minimizing it.

The Bank's Legal Department monitors developments in legislation, regulation, standardization and in court rulings which could affect the current activity of the Bank. The Bank endeavors to minimize risks on the basis of these developments and their implications. In addition and when necessary, the Legal Department updates the legal documents used by the Bank, the framework agreements to which the Bank is a party, and legal statements of opinion that constitute a basis for contractual associations and/or guidelines for activities.

The legal department also acts to identify legal risks in advance, including by means of examination of any new product or activity, compiling all of the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.

Working procedures for the head office of the Bank are determined and instructional sessions for the purpose of applying these procedures are held, with an emphasis on the legal issues involved in the Bank's activity.

The periodic review of operational risks includes an examination of the activities of the Legal Department. Risks identified are assessed, measures for mitigating them are stipulated and lessons are learned to prevent any recurrences.

d. Reporting on legal risk exposure

- Exposures to legal risks are collated and reported in the quarterly Risks Document, as required by Proper Conduct of Banking Business Regulation. The Risks Document is discussed once a quarter by the Management, the Board of Directors' Risk Management Committee and the Board of Directors.
- On the occurrence of a material event of a legal nature, such as a lawsuit or the materialization of legal risk, an immediate report on the event, the extent of its impact and the manner of its impact on the Bank is submitted to the Legal Risks Manager. The Legal Risks Manager stipulates the measures that are to be taken in order to reduce the extent of the exposure to the legal risk that has arisen, and is assisted for this purpose by Legal Department employees, the Internal Auditing Department, the Compliance Officer and the and the person in charge of the internal enforcement as necessary. Any such material events are reported immediately to the Bank's CEO.

e. Group management of legal risk

The Legal Department operates as a head office unit of the Group for the management of legal risks, and is responsible for defining group legal risk management policy.

Material legal risks at the Group are reported to the Manager of the Legal Department, in both immediate and periodic reports. A Group Legal Risk Management Committee has been established, which convenes regularly to discuss material legal issues and exposures.

OTHER RISKS

RISK MANAGEMENT IN THE FOREIGN-CURRENCY SECURITIES PORTFOLIO- MARKET AND INDEBTEDNESS RISKS

- a. The Board of Directors of the Bank have determined in the the financial risk policy document detailed policy and risk appetite with respect to the Bank's activity in the foreign-currency and Shekel securities portfolio, and have also determined investment restrictions and guidelines from the credit aspects and from the aspect of exposure to counter-party risks and to market risks. This policy is examined by the Board of Directors and its committees at least once a year, and in a more dynamic manner on the basis of developments in the financial markets.
- b. The Bank invests only in the bonds of companies that have been rated investment grade minimal as of the purchase date, as set in the policy of management of financial risks after examining the quality of the issuer's credit, the market risks inherent in the investment and the bonds' liquidity.
- c. Once an investment is made and as part of the management of the risks in the foreign currency and Shekel securities portfolio, the Bank monitors the macroeconomic and sector-specific developments relevant to its investments. The analysis is conducted at the level of the individual security, at the single company level and at the overall portfolio level. Used in the analysis are publications concerning the issuing company and its target markets, the issuer's financial results and other parameters indicative of the position of the company or of the investment. Risk management and monitoring of investments are conducted on current basis, and are based on decision-making support systems that supply and analyze market information and other information.
- d. As part of the risk management supervision and control mechanisms, the Bank has devised a format for reporting on the nature and the extent of the positions in the securities portfolio managed. Reports are sent to the decision-making entities and to the control entities. The main elements of the Bank's reporting format are:
 - Immediate reporting on discovery of a deviation from restrictions and procedures.
 - An immediate report on the opening of margins, a change in rating and any other exceptional event in the portfolio, and as necessary.
 - A twice-weekly investment meeting, chaired by the Head of the Finance sub-Division.
 - A weekly report to the Current Matters Committee chaired by the CEO on new purchases, sales and exceptional events.
 - A monthly discussion headed by the CEO, on the composition of the portfolio, developments in exposure and trends in the financial markets.
 - A report six times a year to the Board of Directors' Risk Management Committee.
 - A quarterly report within the framework of the overall risks document to Management, to the Risk Management Committee and to the Board of Directors.
 - A report from time to time to the ALCO Committee, which is chaired by the CEO and with the participation of the Chief Risk Officer.

See the section on the composition and development of the Bank Group's assets, liabilities, capital and capital adequacy for details of the securities portfolio.

COMPLIANCE RISK

a. General

- Proper Conduct of Banking Business Directive 308, published by the Supervisor of Banks, requires the banks to observe the consumer regulations applying to the banks' relationships with their customers. On June 3, 2015, Bank of Israel published an amendment to Proper Conduct of Banking Business Directive 308 – "Compliance and the compliance function in a banking corporation", which took effect on January 1, 2016.

The Regulation revises and modifies the existing Regulation, published on January 17, 2002. The principal changes are based on the guidelines of the Basel Committee of April 2005 in the matter of compliance and the compliance function at banks, on modifications to requirements of foreign authorities and on modifications to local regulations. Moreover, the Directive extends the duty of compliance to all legislation and to all conduct rules applying to the different banking operations of a bank.

- Compliance risk is the risk of imposition of legal or regulatory sanctions, of a material financial loss or damage to image which a bank may sustain as a result of violation of compliance rules.
- The compliance rules, as defined in the amendment to Directive 308 mentioned above, comprise a set of laws, regulations, regulatory instructions (for this matter also positions taken by the Supervisor of Banks in dealing with public complaints), binding legal precedence, internal procedures and the ethical code applying to the banking activity of a bank. The Directive permits banks to determine that compliance rules relating to areas that do not form part of core banking business, such as labor laws, public reporting instructions, etc., or rules relating to stability, would be subject to the responsibility and supervision of a control function of the second line of defense, which does not form part of the compliance function (hereinafter – "Compliance Risk Manager").
- The duties applying to the Bank are cross-organization duties relating to a large variety of operations, procedures and products, conducted by the Bank on a daily basis.
- The Bank has adopted an internal enforcement program for the securities laws which is based on a comprehensive mapping of the relevant law orders and the Bank's procedures and processes, and prescribes procedures and guidelines for the continuing application of the program. This is in accordance with the criteria which the Securities Authority issued on the subject. The Bank completed a gap analysis in the subject of internal enforcement program for securities laws and completed to close the gaps. The Bank has appointed the Head of the Risk Management Division and the Chief Risk Manager to take charge of the internal enforcement of the securities laws at the Bank. The Bank is taking measures to monitor the implementation of the enforcement program, among other things, by maintaining controls and auditing in the securities laws area.

b. Policy

The Board of Directors prescribed and approved a Group compliance policy, which was sent to all the banking subsidiaries in the Group for approval by their competent organs, with the necessary modifications to the special nature of each of the banks. The Bank has revised the compliance policy in accordance with the new Directive, within the framework of which, it determined, inter alia, the structure of the compliance function, the various factors involved in the implementation of the policy, allocation of responsibilities for the control in the

second line of defense of the various compliance requirements, in accordance with the rules prescribed in the Directive, etc.

In addition, once a year, the Board of Directors of the Bank approve the work program of the Bank's Compliance Department.

c. Risk appetite

The Bank and the Group have adopted a policy of scrupulous insistence on matters relating to compliance risk. With respect to infringement of the provisions of the law and the Bank's procedures relating to the provisions of the law, the Group will monitor the compliance directives applying to it and will ensure that all of the Group's employees act in accordance with them. All of the Group's transactions will be conducted in accordance with the Bank's procedures, the ethical code and all laws and regulations. The Group endeavors to assimilate an organizational culture of honesty and ethical standards as an essential basis for the existence of a compliance culture at all levels of the organization,

d. Exposure management

- In order to observe the above-mentioned regulation, the Bank established the Compliance Department (hereinafter – "compliance function" or "the function"), which is subordinate to the Head of the Risk Management Division (CRO). The function is headed by the Chief Compliance Officer, who is also responsible for applying the legislation connected with the prevention of money laundering and financing of terrorism, and for administrative enforcement at the Group. Also, the chief compliance officer was appointed as RO (in charge) of the implementation of the FATCA directive in the Bank.
- The function is responsible for collating control at the Bank over adherence to the compliance rules under its responsibility, in accordance with the compliance policy and the annual work program, and for reporting on deficiencies and gaps, including gaps found by the compliance risk managers, to all echelons of authority at the Bank, inter alia, by examining new products and new activities, as well as for the regular review of existing products and activities in order to ensure that they conform to the different compliance directives, and by obtaining reports from the compliance risk managers. As part of its duties, the function also examines new circulars and procedures prior to their publication.
- The function examines adherence to compliance directives under its responsibility and, with the assistance of the Legal Department, regularly monitors changes in legislation and regulatory directives.
- As stipulated under Bank of Israel directives, an infrastructures review was conducted in which consumer directives were mapped, and controls for preventing the risk of their violation were defined. During 2014, the Bank completed a comprehensive update to the infrastructures review. The review's findings show that the Bank has an extensive infrastructure that includes a considerable amount of forms, procedures, and control and instruction systems and mechanisms that are aimed at assisting the Bank in adhering to the compliance requirements applying to it.
- Working alongside the Chief Compliance Office are:
 - Compliance supervisors at each of the Bank's branches and the head-office, whose function inter alia is to identify events requiring reporting or special processing by the department.
 - A compliance enforcement coordination committee that includes representatives of the Bank's different units (the Legal Department, the Organization and Methods Department, the Computerization

Department, the Instruction Section, the Public Inquiries and Complaints Section and representatives of the Bank's subsidiaries that are under the responsibility of the Compliance Officer).

- A forum for monitoring the application of statutory directives, which is led by the CEO of MATAF, monitors the implementation of the new compliance directives as well as discusses proposed drafts of directives, Bills, Bill Memorandums, etc.
- The function is also assisted by the Bank's Internal Audit Department, the Public Inquiries and Complaints Unit, the Organization and Methods Department, the Legal Department, MATAF and the Instruction Department.
- Current integration processes in the matter of compliance are being conducted at the Bank by means of courseware, seminars and instructional activities for the head office and the branches.

e. Exposure reporting

- Once in every quarter, the Compliance Officer reports to the Management of the Bank, on his activity during the past quarter. The detailed reporting includes a summary of the function's activity, recommendations, details on violations of compliance directives which were identified in the course of the period reported, recommendations regarding the measures that need to be taken with respect to violations and preventing their recurrence, and the Bank's preparations for applying a new compliance directive.
- At least once a year, the Compliance Officer sends a detailed report summarizing his activity in the previous year to the Board of Directors of the Bank and also presents the work program for the coming year. The Compliance Officer's activity and his principal findings for the past quarter are summarized in the quarterly risks document .
- In addition, immediate reports are defined in the compliance policy prescribed by the Board of Directors.

f. Management of compliance risk on a group basis

- The Chief Compliance Officer acts as the Head Office unit of the Group in the matter of management of compliance risks, and it is his responsibility to verify the implementation of the policy of the Group in the matter of compliance by the banking subsidiaries in Israel, providing guidance and assistance to the subsidiary companies in developing systems, the writing of procedures, training of staff and integration of the instructions. Each banking subsidiary has its own compliance officer.
- The policy applies to all companies in the group, with the required adjustments.
- The internal audit group of the Bank integrates into its annual work programs, audits with respect to compliance at the Bank and at the subsidiaries in the Group.

G. Cross-border risk management

The Bank Group operates in different banking fields. Among the customers served by the Bank Group, are also foreign resident customers. On background of increased efforts made by foreign countries to discover funds held by their residents outside their country of residence, and the trend for international cooperation in the combat against tax evasion, The Bank's transactions with such foreign residents, as stated, may increase exposure to compliance risk stemming from cross-border activities as well as to reputation risk.

A circular of the Supervisor of Banks was published in March 2015, instructing a revision of the policy, procedures and controls in respect of everything relating to cross-border risk management regarding customers

of the Bank, with a focus on taxation matters applying outside the country in which a bank account had been opened.

The circular of the Supervisor of Banks requires banks to take a series of actions reducing the risk, such as: adoption of a designated policy, obtaining customer declaration regarding their tax liabilities, waiver of bank confidentiality, identification of high risk customers as regards cross-border risks, etc.

The Bank and its banking subsidiaries have duly made the required preparations for the implementation of the instructions of the Supervisor of Banks. Inter alia, a designated policy for this matter had been determined, which was adopted also by the banking subsidiaries in the Group, work procedures have been prescribed, a series of operating measures for the reduction and management of this risk have been taken, high risk accounts as regards cross-border risk have been identified and noted and the Bank continues the action taken to obtain foreign resident customer declarations as to their tax liabilities and waiver of bank confidentiality. The Bank complied in 2015 with the guidelines of the Supervisor of Banks, and continues to implement the guidelines determined for 2016.

MONEY LAUNDERING AND TERROR FINANCING PROHIBITION RISK

a. General

- Money laundering and terrorism financing prohibition risk (hereinafter: "money laundering/AML") is the risk of significant financial sanctions being imposed on the Bank due to failure to adhere to the provisions of the law in the matter of money laundering prevention and prohibition of the financing of terrorism, and the risk of the corporation and its employees being subject to criminal liability. In addition, the commitment of an offence under the provisions of the law in the area of money laundering and terrorism financing prohibition could result in the materialization of reputation risk.
- The banking sector is subject to directives concerning the prevention of money laundering and the financing of terrorism which include inter alia the Money Laundering Prohibition Law, the Financing of Terrorism Prohibition Law, the Money Laundering Prohibition Order, the Financing of Terrorism Prohibition Regulations, Proper Conduct of Banking Business Regulation 411 and various circulars.

b. Policy

The Board of Directors of the Bank approves once a year the Group's money-laundering and terrorism financing prohibition policy document.

c. Risk appetite

- The Bank group applies stringent policy to assure precise application of the law and suitable knowledge of the customers with which the Bank conduct its business, including understanding its business conducted with the Bank or by the Bank, imperative for money laundering prevention and terror finance by the Bank and for the proper management of the Bank.

- The policy in the area of money laundering prevention includes clear definition of prohibitions in relation to activity with entities and countries against which there are restrictions.
- The risk management policy relates to "know your customer" demands in line with the binding legislation and defines the processes and tools needed in order to best comply with these demands.

d. Exposure management

- The Bank operates a Unit for the Prevention of Money Laundering and the Finance of Terrorism, reporting to the Head of the Risk Management Division (CRO) and tasked with applying and assimilating legal directives on the matter. The head of the unit is the Money Laundering Prohibition Officer, who also serves as the Chief Compliance Officer of the Bank.
- The functions of the official responsible for the management of money laundering and terrorism financing prohibition risks include: the development and application of controls for ensuring that the Bank applies the provisions of the law, including reviews of reporting according to type and size of transaction, ensuring that policy and procedures are compiled and updated in accordance with changes in legislation and the provisions of the law, conducting and/or reviewing the existence of instructional sessions, sending reports on unusual transactions to the Money Laundering Prohibition Authority, and examining the application of the Bank's policy at all the auxiliary corporations in the Group.
- In order to apply the law and assiduously assimilate its provisions, the Bank has appointed compliance supervisors who also serve as money laundering prohibition supervisors at the branches responsible for current money laundering prohibition and terrorism financing prohibition activity in accordance with policy and procedures. These supervisors are selected from among the Bank's authorized signatories, and in the area of money-laundering prohibition are professionally subordinate to the Money Laundering Prohibition Officer.
- From time to time, the Bank holds seminars for all money laundering prohibition officers, managers' conferences, lectures at the branches, and instruction and training for all employees in courses held by the Bank's Instruction Department. Also, training and instructions are held at the units. In addition, the Bank distributes courseware that examines the extent to which employees have become familiarized with developments in the area and the provisions of the law. The courseware is updated according to changes and developments in the area and the directives of the law. The relevant employees at the Bank have been successfully tested in this form of examination. This process is periodically repeated for knowledge revision purposes. The instructional activity conducted for this purpose has increased awareness of the matter.
- The Bank inspects data quality by means of control reports that are circulated to the branches together with appropriate guidelines. The Bank also invests considerable resources in developing and upgrading computerized control systems, and allocates personnel to the unit in order to increase the efficiency of the controls for the detection of unusual transactions.
- Due to the special importance of the matter, a decision was taken to conduct a separate survey of the infrastructures necessary for applying legislation relating to money laundering and the finance of terrorism. In 2012 a gap review was conducted and all gaps specified in the review were remedied.
- In continuance to the Bank's response to the final audit report in the area of Money Laundering Prohibition conducted by the Bank of Israel during 2013, the sanctions committee decided that the Bank violated the directives of the Order of Money Laundering Prohibition, and for these violations the committee imposed on

the Bank monetary sanction in the amount of NIS 2.3 million. However, taking into consideration the change and improvement that the Bank showed before the audit process and considering that during the audit process the Bank cooperated in discovering the violations and their results as well as taken effective actions for repairment of the deficiencies and prevention of their occurrence close to receiving the draft of the audit report, the amount was reduced to NIS 1.15 million.

- The Legal Department monitors legislative changes and ensures that they are sent to the Money Laundering Prohibition Officer, and provides legal support as requested by this official for the purpose of carrying out his duties with respect to the activity of the unit and the Bank as a whole.
- An advisory committee was established for the purpose of assisting the Money Laundering Prohibition Officer in his function, the main elements of which include: discussion of unusual transactions when doubts exist as to whether their details should be sent to the Money Laundering Prohibition Authority, and discussion of accounts in which complex activities are conducted in order to examine and decide whether unusual activity is involved.
- In the half-yearly discussion of the operational risk monitoring forum, a discussion is held on technological developments that could help customers engage in money-laundering and/or terrorism financing, such as the use of the Internet, mobile telephones and rechargeable debit cards.

e. Exposure reporting

- Once a quarter, in the quarterly risk document, the Money Laundering Prohibition Officer reports to the Management of the Bank on his activity during the past quarter. The detailed report includes reference to the risk centers which he has identified and methods for dealing with them, and reporting on the application of "Know the Customer" policy.
- At least once a year, the Money Laundering Prohibition Officer submits a detailed report to the Board of Directors of the Bank. In addition, the activity and principal findings of the Money Laundering Prohibition Officer in the past quarter are summarized in the risks document.
- In addition, the policy prescribed by the Board of Directors defines immediate reports to the Board of Directors and to the Bank of Israel.

f. Group management of money laundering and terrorism financing risk

- The Money Laundering Prohibition Officer, the official responsible for fulfilling the requirements imposed on the Bank by the Money Laundering Prohibition Law, operates as the head office unit of the Group in connection with money laundering and terrorism financing prohibition risks. The Money Laundering Prohibition Officer is responsible for ensuring that Group policy is applied in the area of money laundering and terrorism financing prohibition at the subsidiaries in Israel and abroad, as required in Proper Conduct of Banking Business Regulation 411, by guiding and assisting the subsidiaries in the construction of systems, the compilation of procedures, instructional activities and in assimilating regulations.
- The policy applies to all the Group's companies, including subsidiary abroad, with the necessary adjustments. Subsidiary abroad comply to Group policy, even when this is more stringent than local requirements, providing that it does not contravene the provisions of the local law.

- The Bank's Internal Audit Department integrates in its annual work programs audits concerning the application of money laundering and terrorism financing prohibition policy at the Bank and at the subsidiaries in the Group.

g. Risk and Restrictions due to connection with Iran or enemy

On November 27, 2011 the Securities authority published disclosure instructions concerning risk and restrictions due to connections with Iran or enemy. According to these instructions, a reporting entity should include disclosure of the risks and restrictions that the entity exposed to due to its direct or indirect connections with Iran or with an enemy, including law provisions, and have or might have a material effect on the entity.

Following these instructions, the Bank of Israel published on December 23, 2012, an update to the Public reporting regulations.

In the framework of this update, the banking corporations have to include in the financial statements for 2012 and onwards a disclosure regarding the risk and restrictions due to connection with Iran or with an enemy, all in accordance with the Securities authority instructions.

The Bank's policy does not allow existence of connection or activity, either direct or indirect with Iran or with any entity that was defined as "enemy" by the law enforcement.

The Bank's systems were adjusted to comply with this policy according to the lists published in Proper conduct of banking no. 411 dated December 26, 2011.

According to the described above measures taken by the Bank, the Bank estimates that its exposure to these risk factors, if exist, is minimal.

DISCUSSION OF RISK FACTORS

The degree of impact of the risk factors was determined in line with the Bank's methodology in the ICAAP process and in the quarterly risk document. The methodology takes into account the risk level and any development in the Bank's risk profile vis-à-vis the specified risk appetite and the risk management quality.

Each risk factor appearing in the table was examined, alone, and on the assumption of non-dependence between one risk factor and other risk factors appearing in the table.

Risk	Effect	Risk level
1. Market risks	<p>Market risk is the actual or future existence of a risk to the Group's income and capital as the result of changes in prices, rates and margins in the financial markets in which it operates, and which affect the value of the Group's assets or liabilities: interest rates, exchange rates, inflation, securities prices, commodities prices, volatility in these parameters and changes in other economic indexes.</p> <p>In order to minimize the exposure to market risks, the Bank has a detailed policy for the management of exposure to market risks which specifies inter alia: overall market risk appetite and risk appetite across a single cross-section of risk, principles for activity and restrictions at the level of different instruments and desks, periodic reporting to management and to the Board of Directors on the exposure to risks, definition of the authorities, measurement tools, control and supervision of risk exposure.</p> <p>Due to increased market volatility, and in view of the steep decline in market prices subsequent to balance sheet date, the risk level has been increased to low-medium.</p>	Low-Medium
1.1 Interest risk	<p>Interest risk is the risk to earnings or to capital stemming from fluctuations in interest rates. Changes in interest rates, affect the earnings of the Bank by changes in net income, and the value of the assets of the Bank, its liabilities and off-balance sheet instruments, due to changes in the present value of future cash flows (or even the cash flows themselves) following changes in interest rates.</p> <p>Due to the increase in the general interest exposure, and in particular, due to the growth in granting fixed interest rate mortgages, the estimated level of this risk has been increased from low to low-medium.</p>	Low-Medium
1.2 Inflation risk	<p>Inflation risk is the actual or future risk to the Group's income and capital that could materialize as the result of unexpected changes in the consumer price index due to the difference between the value of assets and the value of liabilities (including the effect of futures transactions and implied options).</p>	Low
1.3 Exchange rate risk	<p>Exchange rate risk is the actual or future risk to the Group's income and capital that could materialize as the result of unexpected changes in exchange rates due to the difference between the value of assets and the value of liabilities (including the effect of futures transactions and implied options).</p>	Low
1.4 Share/Option risk	<p>Option risk is the actual or future risk to the Group's income and capital that could materialize as the result of a decrease in the prices of the shares held by the bank or as the result of a loss deriving from changes in the parameters affecting the value of options, including implied volatility.</p>	Low
2. Credit risk	<p>Credit risk is the risk of borrowers or counterparty will not fulfill their obligations to the Bank. In order to minimize the exposure to credit risk, a risk management policy and exposure restrictions with respect to borrowers/sectors in the different segments of activity have been defined at the Group.</p>	Low-Medium

Risk	Effect	Risk level
2.1 Quality of borrowers and collateral	<p>The actual or future risk of erosion in the value of Group assets, income and equity that could materialize as the result of a decrease in the quality of borrowers against the background of a deterioration in their repayment ability, and/or in the value and quality of the collateral which they provided as security for credit, in such cases as:</p> <ul style="list-style-type: none"> - The borrower's financial robustness - resilience, liquidity, profitability, repayment ability, level of leverage, and/or harm to them as the result of developments in economic parameters (such as exchange rates and interest rates), and/or the business environment and developments in the sector in which the borrower operates. - Value, quality or composition of the collateral provided by the borrower for securing the credit in his accounts. 	Low-Medium
2.2 Sector concentration	<p>Actual or future risk of impact to the value of Group assets, income and equity resulting from a high volume of credit granted to borrowers in a certain sector and/or investment in instruments sensitive to the sector. Deterioration in the business activity of such a sector, due to changes in supply or demand, changes in raw material prices, geopolitical developments and regulatory developments may impact the repayment ability and/or value of collateral provided by part of the borrowers in that sector, and may therefore adversely affect the value of the Group's assets and profitability. In order to minimize risk exposure, the Bank's Board of Directors has set restrictions on exposure to the different sectors of the economy, part of which are more stringent than those set by the Bank of Israel. Control is maintained over adherence to these restrictions, concurrent with reporting to Management and to the Board of Directors.</p>	Low
2.3 Borrower and borrower group concentration	<p>Actual or future risk of impact to the value of the Group's assets, income and capital due to deterioration in the position of a large borrower/large group of borrowers relative to the credit portfolio, which could adversely affect the chance of collecting the credit, and therefore also the value of the Group's assets and profitability. The effect of the risk is a function inter alia of the borrower groups' internal composition, the extent to which the companies comprising them are connected from the business or sector-specific aspect, their diversification, and the extent to which problems at one of them will affect the others. In order to minimize risk exposure, the Bank's Board of Directors has set restrictions on exposure to a borrower/group of borrowers, part of which are more stringent than those set by the Bank of Israel. Control is maintained over adherence to these restrictions, concurrent with reporting to Management and to the Board of Directors.</p>	Low-Medium

Risk	Effect	Risk level
3. Operational risk	<p>Operational risk is the actual or future risk to the value of the Group's assets, income and capital, due to the impropriety or failure of internal processes, persons and systems, including implemental systems and technological infrastructure, or due to external events, including cyber risk. The definition includes legal risks, but does not include strategic risk or reputation risk.</p> <p>In order to minimize the exposure to operational risk, the Bank applies an overall operational risk management policy that outlines the control environment, the organizational frameworks and the managerial functions that will be used for the management and minimization of exposure to operational risks. The policy also prescribes measurement, control and monitoring mechanisms and reporting systems. The Bank is constantly improving the control environment and the corporate operational risk management framework, in accordance with the requirements of proper conduct of banking business directives of Bank of Israel relating to operational risk and to the Basel Committee's Sound Practices as adopted by the Supervisor of Banks.</p> <p>Due to growing cyber threats to the financial sector and expansion of the possible attack scope, inter alia, due to the expansion of online banking activity, the risk level of the operational risk has been increased from low to low-medium.</p>	Low-Medium
4. Liquidity risk	<p>Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, including a steep decline in value of assets available to the Bank, unexpected withdrawals, unexpected demand for credit and uncertainty regarding the availability of sources.</p> <p>In order to minimize the exposure to liquidity risk, the Bank applies an overall policy for the management of liquidity risk in local and foreign currency and foreign-currency linked activity as required in accordance with Proper Banking Management Regulations No. 221 and 342 of the Supervisor of Banks. The policy includes restrictions on the coverage ratio (according to Proper Banking Management Regulations No. 221). Restrictions on the liquidity margin and ratio under normal and stress scenarios (according to Proper Banking Management Regulations No. 342), and reference to measurement and control tools and to reporting mechanisms that need to be applied in current liquidity risk management.</p>	Low-Medium
5. Legal risk	<p>Legal risk is included under operational risk as this is defined in Proper Conduct of Banking Business Regulation 350 ("Operational risk management") and includes, but not only, "exposure to fines, penalties or punitive damages as the result of supervisory activity as well as private settlements".</p> <p>In order to minimize the exposure to legal risk, the Bank applies a legal risk management policy that is submitted for the approval of the Management and the Board of Directors. The policy document describes legal risk, and the methods employed for identifying, mapping and minimizing the risk. For this purpose, the Bank acts to identify in advance all legal risks, including a review of any new product/service or activity, and compilation of all the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.</p>	Low

Risk	Effect	Risk level
6. Reputation risk	<p>Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources.</p> <p>Reputation risk is materially impacted by the materialization of adjacent risks such as operational risk, credit risk, compliance risk, and money laundering and terrorism financing risk, the publication of which could lead to the materialization of reputation risk (for example, theft or embezzlement events, money laundering events and large monetary loss).</p>	Low
7. Legislative and regulatory risk	<p>Legislative and regulatory risk is the actual or future existence of a risk to the Group's income and capital that could arise from changes in regulation or legislation which could affect the Group's business activity. The Bank, as a banking corporation, and the companies held by it are subject to numerous regulatory provisions that are reflected in legislation, secondary legislation and the policy of supervisory and enforcement authorities, such as the Supervisor of Banks at the Bank of Israel, the Capital Market and Savings Division at the Ministry of Finance, the Securities Authority, the Antitrust Commission, and statutory bodies in the area of consumer protection. The computerization field is also sensitive to changes in legislation and regulation, in view of the frequent upgrades and modifications that are required in respect of computer systems. Frequent changes and/or innovations in legislation and the authorities' policy occur in these areas. Such changes in legislation and in the policy of the supervisory and enforcement authorities could affect the Group's business activity, and usually require investments and the expenditure of resources in order to adapt activity to these changes. The investments need to be made in systems and in the training of personnel.</p> <p>Due to increased and frequent regulation with respect to everything relating to the banking sector, the estimated level of this risk has been raised from low to low-medium</p>	Low-Medium
8. Compliance, money laundering and terrorism financing prohibition risks	<p>Compliance risk is the risk for a legal or regulatory sanction, a material financial loss or damage to the Bank's image, as a result of failing to comply with the compliance provisions. Compliance risk includes the risk of failure to meet the consumer provisions specified in the Proper Banking Business Conduct Directive 308, the risk of failure to meet the provisions of the Money Laundering and Terrorist Financing Prohibition Law, the risk of failure to comply with the provisions of the Internal Enforcement Plan in securities laws, in accordance with the Efficiency of Enforcement Procedures in the Securities Authority Act and the risks arising from activity vis-à-vis foreign residents.</p> <p>Stricter regulations and enforcement by the tax authorities in different countries, designed to locate offshore accounts of residents could impact clients' behavior patterns and expose the Bank to compliance risk, reputation risk and cross-border compliance risks.</p> <p>The degree of impact of compliance, money laundering and terror funding risks affects all areas of operation of the Bank, including administrative enforcement and international regulation in tax matters, including FATCA.</p>	Low-Medium

Risk	Effect	Risk level
9. Competition and strategy risk	<ul style="list-style-type: none"> - Competition risk is due to the Group's exposure to competition in Israel in all areas of its business activity. The Group, in the normal course of business, faces competitors, including other banking corporations and other financial institutions that provide alternative financial products to those offered by the Group, such as: insurance companies and investment houses. Competition risk reflects the risk of erosion in profitability and capital as the result of competitive pressure to reduce fees and margins. - Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation. <p>In view of the orderly strategic risk management process at the Bank, which includes the identification, mapping and measurement of risks, and the adoption of measures for reducing risk, concurrent with the application of conservative policy, the effect of the risk is assessed as low.</p>	Low

Apart from the above-mentioned risks, the Bank's financial results and its performance are directly affected by the state of the Israeli economy. Deterioration in the conditions in the Israeli economy and/or deterioration in geopolitical conditions could adversely affect the Group's income. Most of the activity of the Bank and of a large part of its held companies is carried out in the State of Israel. Accordingly, a recession in the economy, a significant withdrawal of foreign investments that were placed in the economy during recent years, a substantial economic downturn and a decrease in the standard of living in Israel could seriously impair the Bank's results. An economic recession is likely to increase the volume of problematic debts, reduce activity turnover in the capital market, adversely affect the demand for current banking services consumed by households, and lead to a decrease in the volume of credit card activity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

General

The financial statements of the Bank are prepared in accordance with accounting principles and accounting regulations, the main elements of which are detailed in Note 1 to the financial statements.

The financial statements include the results of calculations, assumptions and estimates relating to activities, events and developments that affect the profitability of the Bank. The Bank's Management bases its estimates on subjective assumptions and estimates compiled by employees and external professional entities with proficiency and expertise in the areas in which the estimates are required.

The external professionals and the employees engaged in the supervision, control and preparation of the estimates and assumptions regarding matters that are defined as having a critical effect on the financial results of the Bank do not, to the extent possible, have any involvement and current business relations with the entity or the matter that is the subject of the estimate.

The Management and the Board of Directors of the Bank believe that the estimates and assessments regarding critical accounting policy matters were made in accordance with the best knowledge and judgment of the professional entities engaged in their preparation, and that they were applied in an appropriate manner in the financial statements of the Bank.

The following is a condensed review of the areas in which the Management of the Bank is required to make accounting assessments and estimates regarding matters whose impact on earnings and loss is likely to be critical and material. Changes in assessments and estimates regarding the matters described below, including actual results of an event that may differ from the estimate made in respect of it, could have a material effect on the financial results of the Bank and on the structure of its assets and liabilities (including contingent liabilities).

a. Provision for credit losses

Since January 1, 2011, the Bank has applied the directives for reporting to the public concerning "measurement and disclosure of impaired debts, credit risk and provision for credit losses," which adopt American accounting standards in the matter (ASC 310) and the positions taken by the banking supervision authorities and of the SEC in the USA.

The Bank determined procedures for identifying problematic credit and classifying debts as problematic. According to these procedures, the Bank classifies all problematic debts and the off balance sheet items as: under special supervision, inferred or impaired. In addition the Bank set up a policy for measurement of the provision for credit losses in order to maintain provision at a suitable level to cover expected credit losses in regard to the credit portfolio.

The provision to cover credit losses regarding the credit portfolio is estimated by one of two options: specific provision or collective provision.

The individual (case-specific) provision, which is relevant for problem debts under the classification of "impaired," is made on the basis of the Management's assessments regarding the losses inherent in the balance-sheet and off-balance-sheet credit portfolio. This provision is estimated by means of the difference between the recorded balance of the debt and the present value of the receipts expected on repayment of the debt, or the fair value of the collateral.

Estimation of the receipts expected on repayment of the debt from the diverse relevant sources of repayment, including the borrower's business activity, the value of the collateral provided by the borrower, private sources for repayment and the realization value of the guarantees provided by the borrower or by third parties, requires the use of discretion and estimates which the Management of the Bank regard as reasonable when assessed, although there is naturally no certainty that the amounts actually received will be the same as the estimates that were determined.

In addition, the Bank examines the debts and writes off from the accounting aspect, debts that conform to the terms of accounting write-off.

The group provision is relevant to all debts not classified as impaired, calculated to reflect impairment in respect of individual unidentified credit losses inherent in large groups of small debts with similar risk characteristics, as well as for debts which were examined specifically and found to be unimpaired.

The provision estimated on a collective basis for balance sheet and off balance sheet credit risk is calculated on the basis of historical loss rates in the different economic segments (for the period of the last five years), while distinguishing between problematic credit and unproblematic credit. The Bank uses the average historical loss rates in the different economic segments in the range of the said years, and in addition, in order to estimate the appropriate provision rate regarding credit to the public take into account additional data (qualitative adjustments). In this matter, regarding credit to private individuals which is not problematic, excluding credit risk deriving from debtors in regard to banking credit cards without interest charges, it was determined that the rate of qualitative adjustments for quality items relevant to collection prospects will be no less than 0.75% of the stated outstanding balance of credit to private individuals which is not problematic at the reporting date, this in line with the circular letter of the Supervision of banks dated January 19, 2015 for updating the public reporting directives in the matter of "collective provision in regard of private individuals". In housing loans the minimum provision for credit losses is calculated according to a formula set by the Supervisor of Banks, taking into account the extent of arrears, in a way that the loss rates increase with the rising extent of arrears. Furthermore, with respect to the balance of housing loans which does not carry a provision according to the extent of arrears nor a specific provision, a collective provision for credit losses is included at a rate that is no less than 0.35% of the balance of such loans at date of reporting..

b. Lawsuits and contingent liabilities

Risk assessment and accounting procedures reflecting lawsuits and contingent liabilities are carried out at the best judgment of the lawyer dealing with the matter, based on his proficiency in and knowledge of the law and court rulings, his experience in legal work, acquaintance with banking activity and, in cases of clear uncertainty, review of the factual basis. The process of risk assessment is monitored by the Head of the Litigation Section in the Legal Department. When large amounts are involved, the process is also reviewed by a committee chaired by the Manager of the Bank's Legal Department.

In order to achieve this objective, the Legal Department acts in several areas:

1. Knowledge of the general law.

The Legal Department diligently updates itself on current legislation and court rulings, a matter that is reflected in the internal procedures of the Department. Special attention is paid to matters that may have implications for the diverse activities of the Bank, including the drawing of conclusions and recommendations for action following relevant events that have occurred at other banks.

2. The processing of claims and complaints against the Bank.

Lawsuits in various matters are pending against the Bank (including requests for approval of several of them as class actions), including: capital market, bank-customer relations, lack of representation, etc.

The Legal Department deals with all of the claims against the Bank, by itself and via external lawyers who are assisted and supervised by the Legal Department as needed. A risk assessment is carried in respect of every lawsuit in an amount exceeding Dollar 10,000, and in respect of every legal action (without a minimum amount). A committee headed by the Bank's Chief Legal Counsel periodically reviews the assessment of the risk in complaints and claims whose overall amount exceeds NIS 5 million. Estimates of the Bank's exposure to claims and contingent liabilities, in respect of which a provision has to be made, or where disclosure is required with respect to the extent of exposure inherent in them, are made in cooperation with the relevant professional entities at the Bank. The CEO receives in the case of material claim an immediate report, a monthly report on updates and material changes that have occurred in the claims and complaints filed against the Bank when these exceed a certain amount, as well as a quarterly report on revisions and changes as stated in all of the claims and complaints filed against the Bank.

Regarding the majority of claims and contingent liabilities, estimates exist on the extent of the Bank's risk, and provisions are made accordingly. The financial statements present a disclosure of the Bank's level of exposure to claims and material contingent liabilities, the realization estimates of which range between 20% and 70% and in respect of which no provision was made. In the case of claims and contingent liabilities with a remote probability of realization (less than 20%) and in respect of which no provision was made, a disclosure is made if the exposure inherent in them is material with respect to the shareholders' equity of the Bank.

Disclosure is also made of material contingencies in respect of class actions or petitions to declare claims as class actions in respect of which the legal advisers are unable to express an opinion regarding the Bank's level of exposure to them.

c. Employee rights

Employees at some companies in the Group, including the Bank, are entitled to certain benefits in the course of their employment, after leaving their employment and on retirement. These benefits include, among other:

- Post retirement and employment defined benefits schemes – Severance compensation, pension, retiree benefits and other.
- Other benefits – seniority awards and benefits in respect of unutilized sick leave.

Liabilities in respect of such benefits are computed on an actuarial basis, in accordance with accepted accounting principles in the matter of employee rights. Upon the initial application of these rules, the comparative data for periods beginning January 1, 2013, have been restated.

The Bank is assisted by an external actuary in the compilation of the actuarial calculations. The actuarial calculations are based on a number of parameters, including the probability that all the conditions for payment will be fulfilled - life expectancy, retirement age, employees rate of resignation from the Bank before formal retirement age, the expected rate of increase in salary, and the discount rate. These parameters are determined inter alia on the basis of observations conducted by the actuary concerning the rate of increase in salary at the Bank and the rate of employees resigning from the Bank, and decisions by the Management and the Board of Directors of the Bank in connection with the various rights. The discount rate is determined on the basis of the return on Israeli government bonds, with the addition of a margin that equals the difference between the rate of

return to redemption on US corporate bonds rated "AA" and above and the rates of return to redemption on US government bonds.

The calculation of the actuarial provision for post retirement defined benefits schemes and for the seniority awards is sensitive to changes in each of the values of the previously mentioned parameters.

The following is a sensitivity analysis of the effect of a change in the principal parameters on the calculation of the actuarial provisions:

	December 31, 2015	
	Increase of 1%	Decrease of 1%
	NIS million	
Effect of change in Salary on:		
Staff long - service awards	18	(16)
Actuarial liabilities for pension and severance payments	96	(82)
Other post-employment and retirement benefits	9	(7)
Benefit in respect of nonutilized sick leave	4	(4)
Effect of change in discount rate on:		
Staff long - service awards	(15)	17
Actuarial liabilities for pension and severance payments	(80)	96
Other post-employment and retirement benefits	(22)	29
Benefit in respect of nonutilized sick leave	(3)	4
Effect of change in rate of employees leaving on:		
Staff long - service awards	(15)	15
Actuarial liabilities for pension and severance payments	110	(117)
Other post-employment and retirement benefits	(3)	4
Benefit in respect of nonutilized sick leave	(3)	3

The effect of the change in the principal parameters on the post-retirement and employment defined benefits schemes – severance compensation, pension, benefits to retirees and other, are recognized in other comprehensive profit.

The effect of the change in the principal parameters on benefits – seniority awards and benefits in respect of unutilized sick leave, are recognized in other comprehensive profit and loss.

See Note 1.c. to the financial statements concerning the initial application as from January 1, 2015, of the instructions of Supervisor of Banks concerning the adoption of United States accounting principles in the matter of employee rights, which revise the requirements for recognition, measurement and disclosure regarding benefits to employees.

The Opinion of the actuary is available for review on the MAGNA website of the Securities Authority, and on the MAYA website of the Tel Aviv Stock Exchange.

d. Assessment of the fair value of derivative financial instruments

The Bank conducts large-scale activity in derivative financial instruments, which are presented in the financial statements on the basis of fair value as distinct from value on the basis of the accrual principle.

Since 2012, the Bank has applied FAS 157 principles for the measurement of the fair value of derivative financial instruments.

FAS 157 defines fair value as the price that would have been obtained from the sale of an asset or that would have been paid in order to discharge a liability in a transaction between a voluntary seller and a voluntary buyer at the date of measurement. For the purpose of fair value assessment, the accounting standard requires the maximum possible use of observed data and the minimum possible use of unobserved data. Observed data represent market information data that are obtained from independent sources, while unobserved data reflect the banking corporation's assumptions.

The use of these data types create the following scale of fair value:

- Level 1 data-prices quoted from an active market.
- Level 2 data-prices derived from estimation models in which the significant data are observed in the market or are supported by observed market data.
- Level 3 data- prices derived from estimation models in which one or more of the data are unobserved.

Derivative financial instruments that have a main market were assessed on the basis of market value as set in the main market and in the absence of a main market, on the basis of the market price quoted in the most effective market. Derivative financial instruments that are not traded were estimated on the basis of models which the Bank uses in its current activity and which take into account the risks inherent in the derivative financial instrument (such as market risk and credit risk). Calculations of the fair value of derivative financial instruments in respect of their foreign-currency component are based on data prevailing in the international money markets and in the local market, and in respect of the local currency component, on unlinked interest rates and CPI-linked interest rates, taking into account the market prices, liquidity and tradability in the local market for the type of instrument in question and the period of the transaction. Interest rates under FAS 157 are uniform, whether the value of the instruments constitutes an asset at the Bank or if it constitutes a liability. (There is no spread between the buy/sell interest rates.) The credit risk implied in derivative financial instruments is expressed by the fair value by the inclusion of a risk premium in the calculation of the value.

A risk premium is included in the calculation of all transactions. In transactions whose fair value constitutes an asset, the credit risk premium of the counter-party to the transaction is included; and in transactions whose fair value constitutes a liability, the Bank's risk premium is included.

The credit risk premium of the local banks and foreign banks was accepted from external entities which rely on debt instruments and credit derivatives that are traded on an active market.

As for the rest of the customers, the risk premium was determined on the basis of an internal model for grading the quality of the customers and their credit risk.

The fair value of options is for the most part based on a Black and Scholes model, and is affected by the volatility implied in exchange rates, the interest rate and the indexes relevant to the option which the Bank purchased or wrote. Foreign currency-shekel exchange rate volatility data and foreign currency-foreign currency exchange rate volatility data are determined by an external company that specializes in the revaluation of options on the basis of data derived from the money markets in Israel and abroad. With respect to complex derivative financial instruments that do not have a tradable market, fair value quotations are usually obtained from entities abroad, and their reasonability is examined by the Bank's dealing rooms.

For additional details regarding fair value of derivative financial instruments, see Notes 27(a), 27(b) and 32(b).

e. Fair value of securities

The Bank's activity in securities in the portfolio available for sale and in the portfolio for trading is measured in the balance sheet on the basis of their fair value. The fair value of securities for trading and securities available for sale is determined on the basis of the market price quoted in the principal market. When a security is traded in a number of markets, the assessment is based on the market price quoted in the most effective market. In these cases, the fair value of the Bank's investment in securities is a multiple of the number of units at the same market price quotation. The price quotation employed for determining fair value is not correlated because of the size of the Bank's holding or the size of the position relative to trading volume (holding size factor). If a market price quotation is unavailable, the fair value estimate is based on the best possible information available and the maximum possible use of observed data, taking account of the risks inherent in the financial instrument (such as market risk, credit risk and non-tradability).

Determination of the fair value of the foreign-currency bond nostro portfolio

The fair value is determined in the middle office of the Financial Group of the Bank. In its pricing of Eurobonds and MBS bonds, the Bank relies on a quotation from an independent external source that provides quotations to numerous large financial institutions worldwide.

The Eurobonds portfolio

The external quotation supplier provides the Bank with daily data on credit margins with respect to all the securities existing in the portfolio. The middle office carries out a reasonability test of the credit margins, by such means as examining the reasonability of a quotation from the Bloomberg system with respect to transactions that were conducted in an amount of securities approximating to the Bank's total investment in a security, examining the correlation with the margins inherent in relevant credit default swaps (CDS), and examining the reasonability with respect to the same issuer's bonds with redemption dates approximating to the redemption date of the held bond. In cases where no such indications exist, a quotation is requested from an external broker.

The Mortgage-Backed Bond (MBS) portfolio

The external quotation supplier provides the Bank with data on the prices of all the securities existing in the portfolio. Once a month, a reasonability test is run on the external quotation supplier's prices by means of prices taken from other financial systems.

Sensitivity analysis

According to the Bank's calculations, an increase (decrease) of 0.05% in the interest margin deriving from the bond issuers' credit risk, with respect to the Bank's foreign-currency portfolio, which is based on quotations obtained from an external price supplier, will have the effect of reducing (increasing) the bonds' revaluation by NIS 8.8 million.

As regards securities whose fair value is determined on the basis of stock exchange prices, these do not necessarily reflect the price obtained from the sale of securities at large amounts.

For additional details regarding fair value of securities, See Notes 12 and 32(b).

Impairment of a non-temporary nature

The Bank recognizes during the reporting period impairment of a non-temporary nature, at the very least, in respect of a decline in the value of any security for which one or more of the following conditions exist:

- A security that was sold by the publication date of the report for that period.
- A security which the Bank plans to sell within a short period of time close to the report publication date.
- A bond that has been significantly downgraded from its rating at the time when it was purchased by the Bank and its rating at the report publication date. In this respect, a significant rating downgrading will be regarded as a rating downgrade of the security to a level below investment grade.
- A bond which after its purchase was classified as problematic by the Bank.
- A bond on which a payment default occurred after its purchase.
- A security whose fair value at the end of the reporting period as well as close to the publication date of the financial statements was over 40% less than cost (with respect to bonds-amortized cost), and whose fair value was less than cost for a period of over 3 consecutive quarters. This is unless the Bank has concrete objective evidence and a cautious analysis of all the relevant factors, which prove with a high degree of certainty that the decline in value is of a temporary nature.

The examination of whether a decline in value is of a nature other than temporary is also based on the following considerations:

- Deterioration in the issuer's position or in the state of the entire market.
- The Bank's intention and ability to hold the security for the fair value of the security to increase, or until maturity.
- In the case of bonds-the yield-to-maturity.
- In the case of shares-reduction or cancellation of dividend distribution.

In addition, the Bank recognizes a decline in value of a nature other than temporary in respect of beneficiary rights that have been acquired and in respect of beneficiary rights which the Bank continues to hold in the securitization of financial assets, when updated information or other events are indicative of a probable deterioration in the cash flows deriving from the financial instrument.

When a decline in value of a non-temporary nature has occurred, the cost of the security is amortized to its fair value and is used as a new cost basis. The accrued loss attributed to a security classified as available for sale which in the past was charged to a separate item in shareholders' equity under other overall earnings, is transferred to the statement of income when a writedown of a non-temporary nature exists in respect of it. Increases in value in subsequent reporting periods are recognized in a separate item in shareholders' equity under accrued other overall earnings, and are not charged to the statement of income (the new cost basis).

ASSESSMENT OF CONTROLS AND PROCEDURES CONCERNING DISCLOSURE IN THE FINANCIAL REPORT

In accordance with the Supervisor of Banks' directives for reporting to the public and the guidelines of Proper Conduct of Banking Business Regulation 309 that was issued in September 2008, the Bank has for a number of years maintained controls and procedures regarding disclosure, and has deployed an internal control network for financial reporting which was first applied in the financial report for the year ending December 31, 2008.

The directives, which concern Management's responsibility on the internal control of financial reporting and the external auditor's statement of opinion regarding the audit of the internal control of financial reporting, were compiled in accordance with the provisions of Sections 302 and 404 of the law known as the Sarbanes-Oxley Act of 2002 that was enacted in the USA, and directives and guidelines that were determined in the USA, including those determined by the PCAOB.

Enclosed with the financial statements are declarations by the CEO of the Bank and the Chief Accountant, each one separately, concerning the assessment of controls and procedures in the matter of disclosure.

The Management of the Bank, in cooperation with the CEO of the Bank and the Chief Accountant, assessed for December 31, 2015 the effectiveness of the controls and procedures in the matter of disclosure by the Bank. On the basis of this assessment, the CEO of the Bank and the Chief Accountant concluded that as at the end of this report period, the controls and procedures in the matter of disclosure by the Bank were effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the report in accordance with the Supervisor of Banks' directives for reporting to the public, and at the time determined in those directives.

During the fourth quarter ending on December 31, 2015, no change occurred in the Bank's internal control over financial reporting which exerted a material effect, or which can reasonably be expected to exert a material effect on the Bank's internal control over financial reporting except for the modification of controls with respect to the merger of UBank with and into the Bank, and the modification of disclosure controls with respect to the new format of the financial statements.

Tel Aviv, February 28, 2016



R. Hezkiyahu
Chairman of the Board of Directors



Smadar Barber-Zadik
CEO

CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the year 2015 (hereinafter: "the Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure⁽¹⁾ and internal control of financial reporting⁽¹⁾. furthermore:
 - A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
 - B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
 - C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
 - D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
 - A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
 - B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, February 28, 2016


Smadar Barber-Tsadik
Chief Executive Officer

CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the year 2015 (hereinafter: "the Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure⁽¹⁾ and internal control of financial reporting⁽¹⁾, furthermore:
 - A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
 - B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
 - C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
 - D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
 - A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
 - B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, February 28, 2016



Nachman Nitzan
Executive Vice President,
Chief Accountant

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT ON THE INTERNAL CONTROL OF FINANCIAL REPORTING

The Board of Directors and Management of the First International Bank of Israel Ltd. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of confidence to the Board of Directors and Management with regard to the adequate preparation and presentation of the financial reports, which are published in accordance with generally acceptance accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if we determine that these systems are effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial reports.

The Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control of financial reporting as at December 31, 2015, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). Based on the assessment, the Management believes that as at December 31, 2015, the Bank's internal control of financial reporting is effective.

The effectiveness of the Bank's internal control of financial reporting as at December 31, 2015 was audited by the Bank's external auditors, Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control of financial reporting as at December 31, 2015.


Rony Hizkiah
Chairman of the Board of Directors


Smadar Barber-Tsadik
Chief Executive Officer


Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, February 28, 2016

AUDITED ANNUAL FINANCIAL STATMENTS

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AUDITORS' REPORT TO THE SHAREHOLDERS' OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD.

We have audited the accompanying balance sheets of The First International Bank of Israel Ltd. (hereinafter – “the Bank”) as of December 31, 2015 and 2014, and the consolidated balance sheets of the Bank and its subsidiaries as at such dates, and the related statements of income, the statements of comprehensive income, changes in equity, and cash flows - the Bank and consolidated - for each of the three years the last of which ended December 31, 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 audit.

We did not audit the financial statements of consolidated subsidiary whose assets constitute 0.8% and 1.3% of the total consolidated assets as at December 31, 2015 and 2014 respectively, and whose interest income, net constitute 0.5% of the consolidated interest income, net for the years ended December 31, 2015, 2014 and 2013. The financial statements of the consolidated subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts included in respect of such company is based solely on the said reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973 and certain auditing standards applied in the audit of banking corporations guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 the Management of the Bank, and evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a fair basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank and consolidated at December 31, 2015 and 2014 and the results of their operations, the changes in the equity and the cash flows - for the Bank and consolidated - for each of the three years which ended December 31, 2015 in conformity with Generally Accepted Accounting principles in Israel. Furthermore, in our opinion, the financial statements referred to above have been prepared in accordance with the directives of the Supervisor of Banks.

As explained in Note 1.A.1, the accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

Somekh Chaikin
Certified Public Accountants (Isr.)
February 28, 2016

STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

		Consolidated			The Bank		
	Note	2015	2014	2013	2015 ⁽²⁾	2014 ⁽²⁾	2013 ⁽²⁾
Interest Income	2	2,260	2,664	3,322	1,521	1,798	2,261
Interest Expenses	2	307	563	1,135	283	486	920
Interest Income, net	2	1,953	2,101	2,187	1,238	1,312	1,341
Expenses from credit losses	13,29	18	89	97	11	16	64
Net Interest Income after expenses from credit losses		1,935	2,012	2,090	1,227	1,296	1,277
Non Interest Income							
Non Interest Financing income	3	149	230	200	93	152	135
Fees	4	1,378	1,375	1,418	839	809	851
Other income	5	14	62	(1)46	192	264	(1)232
Total non Interest income		1,541	1,667	1,664	1,124	1,225	1,218
Operating and other expenses							
Salaries and related expenses	6	1,629	(1)1,780	(1)1,746	1,054	(1)1,176	(1)1,139
Maintenance and depreciation of premises and equipment		428	444	438	269	276	274
Amortizations and impairment of intangible assets	17	131	139	145	86	85	91
Other expenses	7	522	549	531	416	414	396
Total operating and other expenses		2,710	2,912	2,860	1,825	1,951	1,900
Profit before taxes		766	767	894	526	570	595
Provision for taxes on profit	8	326	(1)328	(1)366	212	(1)230	(1)239
Profit after taxes		440	439	528	314	340	356
The bank's share in profit of equity-basis investees, after taxes	15	38	35	30	132	(1)115	(1)182
Net profit:							
Before attribution to noncontrolling interests		478	474	558	446	455	538
Attributed to noncontrolling interests		(32)	(1)(19)	(1)(20)	-	-	-
Attributed to shareholders of the Bank		446	455	538	446	455	538

Consolidated and The Bank	Note	2015	2014	2013
Primary profit per share attributed to the shareholders of the Bank	9			NIS
Net profit per share of NIS 0.05 par value		4.45	(1)4.54	(1)5.36

(1) Restated in respect of the retroactive application of the US accepted accounting principles regarding employee rights. See note 1.C.1.

(2) See note 15.F. regarding to merging Ubank with and into the Bank.

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


Rony Hizkiaho
Chairman of the Board of Directors


Smadar Barber-Tsadik
Chief Executive Officer


Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 28, February, 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

	Consolidated		
	2015	2014	2013
Net income before attribution to minority interests	478	(4)474	(4)558
Net income attributed to minority interests	(32)	(4)(19)	(4)(20)
Net income attributed to the shareholders of the Bank	446	455	538
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale securities to fair value, net	(75)	(40)	(64)
Adjustments from translation of financial statements ⁽¹⁾ net after the effect of hedges ⁽²⁾	-	(1)	5
Adjustments of liabilities in respect of employee benefits ⁽³⁾	11	(4)(35)	(4)17
Other comprehensive loss before taxes	(64)	(76)	(42)
Related tax effect	24	(4)29	(4)13
Other comprehensive loss before attribution to minority interests, after taxes	(40)	(47)	(29)
Less other comprehensive loss attributed to minority interests	2	(4)1	(4)1
Other comprehensive loss attributed to the shareholders of the Bank, after taxes	(38)	(46)	(28)
Comprehensive income before attribution to minority interests	438	427	529
Comprehensive income attributed to minority interests	(30)	(18)	(19)
Comprehensive income attributed to the shareholders of the Bank	408	409	510

(1) Adjustments from translation of financial statements of foreign operations which their currency of operations is different from the currency of operation of the Bank.

(2) Hedges-gains (losses) regarding the hedging of investment in foreign currency.

(3) Mostly reflects adjustments in respect of actuarial assessments as of the end of the period regarding defined benefits pension plans, of amounts recorded in the past in other comprehensive profit.

(4) Restated in respect of the retroactive application of the US accepted accounting principles regarding employee rights. See note 1.C.1.

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

BALANCE SHEETS AS AT DECEMBER 31

(NIS million)

		Consolidated		The Bank	
	Note	2015	2014	2015	(5)2014
Assets					
Cash and deposits with banks	11	30,727	29,182	24,916	18,071
Securities	12, 26	16,439	12,554	13,312	7,725
Securities which were borrowed		353	477	353	319
Credit to the public	13, 29	73,379	(4)69,807	55,075	50,437
Provision for Credit losses		(824)	(876)	(612)	(619)
Credit to the public, net		72,555	68,931	54,463	49,818
Credit to the government	14	669	658	-	-
Investments in investee companies	15	438	(4)396	3,157	(4)3,413
Premises and equipment	16	1,229	1,222	1,078	1,042
Intangible assets	17	272	335	207	217
Assets in respect of derivative instruments	27A, 27B	1,636	3,015	1,655	2,748
Other assets(2)	18	1,158	(4)1,037	874	(4)625
Total assets		125,476	117,807	100,015	83,978
Liabilities, temporary equity and Shareholders' Equity					
Deposits from the public	19	103,262	95,155	80,212	64,774
Deposits from banks	20	1,565	1,469	3,809	2,048
Deposits from the Government		511	556	276	234
Bonds and subordinated capital notes	21	5,862	4,903	3,841	4,069
Liabilities in respect of derivative instruments	27A, 27B	1,659	3,162	1,654	2,856
Other liabilities(1)(3)	22	4,954	(4)5,519	2,824	(4)3,200
Total liabilities		117,813	110,764	92,616	77,181
Temporary equity - noncontrolling interests		326	-	326	-
Capital attributed to the shareholders of the Bank		7,073	(4)6,797	7,073	(4)6,797
Noncontrolling interests		264	246	-	-
Total equity		7,337	7,043	7,073	6,797
Total liabilities, temporary equity and shareholders' equity		125,476	117,807	100,015	83,978

(1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 85 million and NIS 120 million (consolidated) and NIS 71 million and NIS 90 million (the Bank) as of December 31, 2015 and 2014, respectively.

(2) Of which: other assets measured at fair value in the amount of NIS 317 million consolidated and the Bank (31.12.14 - NIS 142 million consolidated and NIS 46 million the bank).

(3) Of which: other liabilities measured at fair value in the amount of NIS 495 million consolidated and the Bank (31.12.2014 - NIS 695 million consolidated and NIS 497 million the bank).

(4) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

(5) See note 15.F. regarding to merging Ubank with and into the Bank.

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

STATEMENT OF CHANGES IN EQUITY

(NIS million)

	Share capital and premium (1)	Accumulated other comprehensive gain (loss)	Retained earnings (2)	Total share- holders' equity	Non- controlling interests	Total equity
Balance as at January 1, 2013	927	88	(3)5,444	6,459	209	6,668
Effect of the initial application of US accepted accounting principles regarding employee rights(3)	-	(81)	(13)	(94)	-	(94)
Balance as of January 1, 2013, following the initial application of the new rules	927	7	5,431	6,365	209	6,574
Chanages during 2013						
Net profit for the year	-	-	(3)538	538	(3)20	558
Dividend	-	-	(200)	(200)	-	(200)
Other comprehensive loss, after tax effect	-	(3)(28)	-	(28)	(3)(1)	(29)
Dividend to noncontrolling interests	-	-	(2)	(2)	-	(2)
Balance as at December 31, 2013	927	(21)	5,767	6,673	228	6,901
Chanages during 2014						
Net profit for the year	-	-	(3)455	455	(3)19	474
Dividend	-	-	(285)	(285)	-	(285)
Other comprehensive loss, after tax effect	-	(3)(46)	-	(46)	(3)(1)	(47)
Balance as at December 31, 2014	927	(67)	5,937	6,797	246	7,043
Chanages during 2015						
Net profit for the year	-	-	446	446	18	464
Dividend	-	-	(130)	(130)	-	(130)
Other comprehensive loss, after tax effect	-	(38)	-	(38)	-	(38)
Temporary equity - noncontrolling interest.	-	-	(2)	(2)	-	(2)
Balance as at December 31, 2015	927	(105)	6,251	7,073	264	7,337

(1) Including share premium of NIS 313 million (as from 1992 onwards).

(2) Including an amount of NIS 2,391 million which can not be distributed as dividend - see note 33.

(3) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

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

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31

(NIS million)

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
Cash flows from operating activities:						
Net earnings for the year	478	(1)474	(1)558	446	(1)455	(1)538
Adjustments to reconcile cash provided by operating activities:						
The Bank's share in retained loss (earnings) of investee companies, net	(38)	(19)	(1)	(94)	12	(24)
Revaluation of subordinate debt notes issued to subsidiaries	-	-	-	3	-	(4)
Depreciation of premises and equipment	89	98	96	66	73	72
Amortization of intangible assets and goodwill	131	139	(1)145	86	85	(1)91
Gain on sale of buildings and equipment	(6)	(13)	(28)	-	(13)	(28)
Provision for credit losses	18	89	97	11	16	64
Gain on sale of investments in investee companies	-	(31)	-	-	(31)	-
Loss (earnings) on adjustment in value of held to maturity securities and on sale and adjustment in value of available for sale securities	163	(346)	191	105	(230)	69
Realized and non-realized loss (gains) from adjustment to fair value of trading securities	3	(32)	(11)	(3)	(18)	(4)
Deferred taxes, net	62	(1) (20)	(1) (53)	67	(1) (2)	(1) (47)
Severance and pension plans for defined benefit	65	(1)45	(1)22	36	(1)27	(1)8
Inflationary erosion of bonds and capital notes	5	19	136	(33)	(7)	84
Effect on cash balances of changes in exchange rates	218	*(254)	*177	216	*(212)	*107
Net change in current assets:						
Deposits in banks	98	(59)	(5)	(42)	(363)	150
Securities held for trading	272	(185)	(433)	197	(72)	(618)
Securities which were borrowed from Treasury	124	513	(58)	(34)	530	(118)
Credit to the public	(3,529)	(1,016)	(364)	(2,502)	(817)	(222)
Credit to government	(11)	(635)	(20)	-	-	-
Other assets	(159)	(112)	98	(337)	48	(1)
Assets in respect of derivative instruments	1,367	(1,551)	(208)	1,491	(1,399)	(227)
Net change in current liabilities						
Deposits from the public	8,634	6,569	4,141	5,261	3,982	3,716
Deposits from banks	96	134	(49)	5,125	(35)	21
Deposits from the government	(656)	50	25	(595)	16	(11)
Other liabilities	(184)	(1) (54)	(1) 321	(80)	(1) (181)	(1) 329
Liabilities in respect of derivative instruments	(1,503)	1,370	96	(1,573)	1,226	156
Net cash generated by operating activity	5,737	5,173	4,873	7,817	3,090	4,101

* Reclassified.

(1) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONT'D)

(NIS million)

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
Cash flows from investment activities						
Purchase of held to maturity and available for sale securities	(28,784)	(18,666)	(15,943)	(22,541)	(11,985)	(9,979)
Proceeds from redemption of bonds held to maturity	153	17	136	36	10	24
Proceeds from sale of available for sale securities	12,166	13,309	11,554	9,468	8,696	6,892
Redemption of available for sale securities	11,937	4,104	3,212	9,565	2,912	1,480
Acquisition of premises and equipment	(114)	(157)	(111)	(99)	(143)	(98)
Proceeds of sale of premises, equipment and other assets	18	30	48	8	30	48
Investment in intangible assets	(76)	(67)	(1)(84)	(75)	(65)	(1)(72)
Investment in subordinated capital notes issued by subsidiaries	-	-	-	-	-	(97)
Proceeds from redemption of capital note issued by subsidiary	-	-	-	-	68	17
Proceeds from the sale of investment in a subsidiary no longer consolidated (appendix A)	-	148	5	1	148	-
Merging a subsidiary	-	-	-	3,164	-	-
Net cash from investment activities	(4,700)	(1,282)	(1,183)	(473)	(329)	(1,785)
Cash flows generated by financing activity						
Issue of bonds and subordinate debt notes	1,352	-	380	-	-	380
Redemption of bonds and subordinate debt notes	(398)	(818)	(434)	(195)	(690)	(294)
Dividend paid to shareholders	(130)	(285)	(200)	(130)	(285)	(200)
Dividend paid to non-controlling interest	-	-	(2)	-	-	-
Net cash generated by financing activity	824	(1,103)	(256)	(325)	(975)	(114)
Increase in cash	1,861	2,788	3,434	7,019	1,786	2,202
Cash balances at beginning of year	28,615	25,566	22,264	17,278	15,280	13,185
Effect of changes in exchange rates on cash balances	(211)	261	(132)	(216)	212	(107)
Cash balances at end of year	30,265	28,615	25,566	24,081	17,278	15,280
Interest and taxes paid and/or received:						
Interest received	3,071	3,220	5,306	2,031	2,030	3,876
Interest paid	734	1,174	2,605	430	757	2,058
Dividends received	37	53	76	37	31	52
Income tax paid	346	493	480	178	239	276
Income tax received	48	81	82	28	33	119

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

APPENDIX A - PROCEED FROM THE SALE OF INVESTMENT IN A SUBSIDIARY PREVIOUSLY CONSOLIDATED

Assets and liabilities of previously consolidated subsidiaries, and cashflows from the sale of investment in previously consolidated subsidiaries for the date of sale

	For the year ended December 31	For the year ended December 31
	2014	2013
Assets	124	5
Liabilities	(7)	-
Capital gain from sale of investment in previously consolidated subsidiaries	31	-
Total proceed from the sale of previously consolidated subsidiaries	148	5

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

A. General

- (1) The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The consolidated financial statements as of December 31, 2015 include those of the Bank and of its subsidiary companies and of an equity basis investee (hereinafter - "the Group"). The financial statements have been prepared in accordance with accounting principles generally accepted in Israel ("Israeli GAAP") and in accordance with directives and guidelines of the Supervisor of Banks.

The notes to the financial statements relate to the financial statements of the Bank and to the consolidated financial statements of the Bank and its consolidated subsidiaries, unless the note specifically states that it relates to the Bank alone or to the consolidated statements alone.

The Bank is a direct subsidiary of FIBI Holdings Ltd. (hereinafter - "Fibi Holdings"), which is controlled by Binohon Ltd. Dolphin Energies Ltd. (controlled by Messrs. Barry Lieberman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia) and Instanz No. 2 Ltd. (controlled by Messrs. Michael and Helen Abeles from Australia). All the above controlling shareholders are party to a voting and cooperation agreement.

The financial statements were approved for publication by the Board of Directors on February 28, 2016.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

(2) Definitions

In these financial statements:

International financial reporting standards ("IFRS") - standards and interpretations adopted by the International Financial Accounting Standards Board ("IASB"), which include international financial reporting standards ("IFRS") and international accounting standards ("IAS") as well as interpretations of these standards proclaimed by the Interpretation of International Financial Reporting Standards Committee ("IFRIC"), or interpretations proclaimed by the Permanent Interpretation Committee ("SIC"), respectively.

Accepted accounting principles by US banks - Accounting principles, which US banks traded in the US are required to apply. These principles are being determined by the supervisory authorities in the US, by the US Securities and Exchange Commission, by the US Financial Accounting Standards Board ("FASB") and other US entities, and are applied according to the hierarchy determined by US Accounting Standard FAS 168 (ASC 105-10), the codification of accounting standards by the US FASB and the hierarchy of accepted accounting principles. Furthermore, in accordance with a decision of the Supervisor of Banks, despite the hierarchy determined in FAS 168, it has been clarified that any position made public by the bank supervisory authorities in the US or by teams of the bank supervisory authorities in the US regarding the mode of application of generally accepted accounting principles in the US, is considered an accepted accounting principle by banks in the US.

Consolidated subsidiaries - Companies the financial statements of which have been, directly or indirectly, consolidated with those of the Bank.

Equity basis investees - Companies, excluding consolidated subsidiaries and including partnerships or joint ventures, the investment of the Bank in which is accounted for in the financial statements, directly or indirectly, on equity basis.

Investee companies - Consolidated companies or equity based investees.

Foreign extensions - Subsidiaries of the Bank outside Israel.

Functional currency - The currency prevailing in the principal economic environment in which the Bank operates; generally the currency of the environment in which a corporation generates and expends most of its cash. The functional currency of the Group is New Israeli Shekel, except for the extension in Switzerland for which the functional currency is the Swiss Franc (SFR).

Stated currency - The currency in which the financial statements are stated.

Related parties - In terms of Section 80 of the public reporting instructions.

Interested parties - In terms of Section 80 of the public reporting instructions.

CPI or Index - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

Adjusted amount - An amount in nominal historical terms as adjusted on the basis of the CPI for December 2003, in accordance with guidelines prescribed in Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Financial reporting in adjusted terms - Financial reporting in adjusted values on the basis of changes in the general purchasing power of the Israeli currency, in accordance with guidelines prescribed by Opinions of the Institute of Certified Public Accountants in Israel.

Reported amount - An adjusted amount on the transition date (December 31, 2003), together with amounts in nominal historical terms added to it subsequently to the transition date, and less amounts deducted subsequently to that date.

Cost - Cost in reported amount.

Financial reporting in nominal terms - Financial reporting based upon reported amounts.

B. Basis of preparation of the financial statements

(1) Reporting principles

In most matters, these directives are based on accounting principles accepted by US banks. In other matters, which are less material, the directives are based on international financial reporting standards (IFRS) and on accepted accounting principles in Israel. Where the international financial reporting standards (IFRS) allow several alternatives, or do not include specific reference to certain situation, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

(2) Functional currency and stated currency

The New Israeli Shekel (NIS) is the currency representing the principal economic environment in which the Bank operates. The consolidated financial statements are presented in NIS, rounded off to the nearest million, unless otherwise stated. For information regarding the functional currency of a banking extension operating abroad, see Note 1 D (1).

(3) Basis of measurement

The financial statements are prepared on the basis of historical cost, except for the following assets and liabilities:

- Derivative and other financial instruments that are measured according to fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Financial instruments classified as available-for-sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities relating to employee benefits;
- Investments in investee companies stated by the equity method of accounting.

The value of non-monetary assets and of capital items measured on the basis of historical cost has been adjusted to changes in the CPI until December 31, 2003, due to the fact that until that date the economy of Israel had been considered a hyper-inflationary economy. As from January 1, 2004, the Bank presents its financial statements in reported amounts.

(4) Use of estimates

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 requires Management to use judgment, make estimates and assumptions which affect the implementation of the accounting policy and the reported amounts of assets and liabilities and the amounts of income and expenses. It should be noted that actual results may differ from these estimates.

Upon the formation of accounting estimates used in the preparation of the financial statements of the Bank, Management is required to make assumptions as to circumstances and events which involve significant uncertainty. When using judgment in determining the assessments, Management of the Bank relies upon past experience, various facts, outside factors and upon reasonable assumptions in accordance with the circumstances applying to each assessment.

The assessments as well as the assumptions supporting them are being reviewed on a current basis. Changes in accounting assessments are recognized in the period in which these changes occur as well as in all future periods affected by them.

C. Initial implementation of accounting standards, updates of accounting standards and instructions of the Supervisor of Banks

Starting with the periods beginning on January 1, 2015, the Bank implements new accounting standards and instructions regarding the matters detailed below:

1. Adoption of US accounting principles in the matter of employee rights.
2. Implementation of the guidelines of the Supervisor of Banks in the matter of software development costs.
3. Implementation of the guidelines of the Supervisor of Banks in the matter of the treatment of troubled debts secured by State guarantee.
4. Reporting according to US generally accepted accounting principles relating to the differentiation between liabilities and shareholders' equity.
5. Disclosure regarding interested and related parties.

6. Update of the format of the report to the public.
7. Credit risk according to economic sectors.
8. FAQ file in the matter of impaired debts.
9. Supervisory segments of operation and geographical areas.

Following is a description of the substance of the changes made to the accounting policy applied in these consolidated financial statements, and a description of the manner and effect of the initial implementation, if at all:

1. Employee rights

Adoption of US accepted accounting principles in the matter of employee rights

The Supervisor of Banks issued on April 9, 2014, a circular letter in the matter of the adoption of US accounting principles regarding employee rights. The letter updates the recognition, measurement and disclosure requirements in the matter of employee benefits in the public reporting instructions in accordance with accounting principles accepted by US banks. The letter states that the amendment of the public reporting instructions shall apply as from January 1, 2015, when upon the initial implementation a bank shall retroactively restate the comparative data for periods beginning January 1, 2013 and thereafter, in order to comply with the said principles.

Furthermore, a circular letter was published on January 11, 2015, amending the public reporting instructions in the matter of employee rights, including the disclosure format and transitional instructions. The letter notes that Bank of Israel had reached the conclusion that a deep market for high quality corporate bonds does not exist in Israel. Accordingly, the discount rate for employee benefits shall be computed based on the return of government bonds in Israel with the addition of the average spread on corporate bonds rated AA (international) and above at date of reporting. For practical considerations, it has been decided that the spread would be determined according to the difference between the rates of return to maturity, according to maturity periods, on US corporate bonds rated AA and above, and the rates of return to maturity for the same maturity periods, on US government bonds, and everything at date of reporting. A bank, which is of the opinion that changes in the spread computed as above in a certain period stem from exceptional fluctuations in the market, so that the resultant spreads are not appropriate for use in the discounting computations, as above, is required to apply for a preliminary guideline by the Supervisor of Banks. According to the letter, examples of such cases may include, among other things, changes, the resultant spread in respect thereof, is higher than the spread on corporate bonds rated AA (local) in Israel.

A bank is required to restate retroactively the comparative data for periods beginning January 1, 2013 and thereafter. The accounting treatment of actuarial profits or losses would be as stated below:

- The actuarial loss as of January 1, 2013, stemming from the difference between the discount rate for computing the CPI-linked provisions for employee rights, based on the provisional instruction contained in the public reporting instructions (4%), and the discount rates as of this date of CPI-linked liabilities to employees, as determined in accordance with the new rules, as explained above, (hereinafter - "the loss"), shall be recognized as part of other cumulative comprehensive profit.
- Actuarial profits recorded as from January 1, 2013 and thereafter, stemming from current changes in the discount rates during a reported year, shall be recognized as part of other cumulative comprehensive profit, and shall reduce the recorded balance of loss as above, until this balance is nullified.

- Actuarial losses stemming from current changes in the discount rates during a reported year, and actuarial profits stemming from current changes in the discount rates during a reported year after the recorded balance of loss, as above, has been nullified, will be amortized by the "straight line" method over the estimated period of service of the employees expected to enjoy benefits under the program.
- Other actuarial profits and losses as of January 1, 2013 and for periods thereafter (which do not stem from changes in the discount rates), will be recognized as part of other cumulative comprehensive profit and will be amortized by the "straight line" method over the estimates period of service of the employees expected to enjoy benefits under the program.
- The effect of the initial application on other employee benefits, all changes therein are recognized currently in profit and loss (such as "jubilee awards"), shall be recognized as part of retained earnings.

In addition, the letter updates the disclosure requirements in the matters of employee rights and of share-based payments in accordance with accounting rules accepted by US banks.

Furthermore, an FAQ file was published on January 12, 2015, in the matter of employee benefits, which contains, among other things, examples of the mode of treatment of benefits prevalent in the banking industry in accordance with accounting principles accepted by US banks.

A. Principal new instructions in the matter of employee rights

Post retirement benefits - pension, severance pay and other benefits - defined benefits programs

- The Bank recognizes amounts relating to pension schemes and other post retirement schemes on the basis of computations which include actuarial and other assumptions, including discount rates, mortality tables, forecasted long-term rates of return on assets of the schemes, the growth in compensation and employee turnover.
- As a general rule, and subject to the instructions stated above, changes in assumptions are recognized firstly in other cumulative comprehensive profit and are amortized to profit and loss in following periods.
- The liability is accumulated over the relevant period determined in accordance with the rules of item 715 of the Codification.
- The Bank implements the guidelines of the Supervisor of Banks regarding internal control over the process of financial reporting in the matter of employee rights, including as regards the examination of the "liability in substance" to grant employees benefits comprising enlarged severance pay.

Post retirement benefits - defined deposits programs

- A defined deposit program is a program according to which the Bank makes regular fixed payments to a separate entity, releasing it from any further legal or inferred liability for additional payments. The amounts deposited by the Bank in a defined deposit program are recognized as an expense in profit and loss in the periods in which the employees have provided related services.

Other long-term benefits to active employees

- The liability accrues over the period of entitlement to benefits
- Discount rates and actuarial assumptions are taken into account in computing the liability.
- All cost components of the benefits for the period, including actuarial profits or losses are recognized immediately in profit and loss.

Absence from work entitling compensation - vacation and sick leave

- The liability in respect of vacation days is measured on a current basis, without using discount rates and actuarial assumptions
- The Bank does not accrue a liability in respect of paid sick leave incurred during the current service period.

B. The accounting policy in effect prior to the implementation of the new rules

- In accordance with instructions of the Supervisor of Banks, the rate of discount used in computing the provision was 4%.
- Actuarial profits and losses were recognized immediately in profit and loss.
- In accordance with the guidelines of the Supervisor of Banks regarding internal control over the process of financial reporting of employee rights, the liability in respect of severance pay was presented at the higher amount of: (1) the liability amount based on an actuarial basis, taking into account the additional cost caused by the granting of benefits, as stated, and (2) the amount of liability computed as a multiplication of the monthly salary of the employee by the number of years of his service, as required in Opinion 20 of the Institute of Certified Public Accountants in Israel.
- For additional information regarding the accounting policy implemented by the Bank prior to the implementation of the new rules in the matter of employee rights, see Note 1 D (17) to the financial statements for 2014.

C. Disclosure requirements in financial statements for the year 2015

The financial statements for the year 2015 include disclosure regarding the effect of the letter on comparative periods for the years 2013 and 2014 presented in the report. Furthermore, disclosure is provided regarding the effect of the initial application as of January 1, 2013, in a separate line in the statement of changes in shareholders' equity and in Note 10 on other cumulative comprehensive profit. This line clarifies, among other things, the cumulative effect on retained earnings and the cumulative effect recognized in other cumulative comprehensive profit within the framework of "adjustments in respect of employee benefits". In addition, disclosure is included in Note 23 regarding employee rights, in accordance with the format prescribed by the Supervisor of Banks.

For the purpose of presentation of the comparative data for the years 2013 and 2014, a bank may, for practical reasons, use actual return rates for those years for the purpose of determining the forecasted rates of return.

2. Guidelines of the Supervisor of Banks in the matter of software development costs

See note 1D(13) to the financial statements for 2014 in the matter of the retroactive application of guidelines of the Supervisor of Banks in the matter of software development costs as from the financial statements as of December 31, 2014.

An equity based investee applies retroactively the said guidelines starting with the financial statements as of June 30, 2015.

3. Troubled debts secured by State guarantee

The Supervisor of Banks has determined that as from July 1, 2015, credit granted within the framework of State funds for the encouragement of small and medium size businesses, being secured by a state guarantee, which is measured according to a collective basis and which is in arrear of from 150 days and up to two years, shall be given an accounting writeoff coefficient commensurate with the rate of realization of the guarantee in the said period. Subsequent to this period, the outstanding balance of the debt shall be written off in full. The provision in respect of such debts, which are measured on a specific basis, has been adjusted to the said rate of realization. As stated, this change in accounting policy has been applied retroactively, including a restatement of the comparative data.

The following tables show the effect of the initial application of US accounting principles in the matter of employee rights, the guidelines of the Supervisor of Banks in the matters of software development costs and of the treatment of troubled debts secured by State guarantee, as described in items 1-3 above.

Following is the effect of the retroactive application on the comparative data:

Consolidated	As of December 31, 2014				
	As previously reported	Effect of retroactive application			As presently reported
		Software costs	Employee rights	Troubled debts	
Balance sheet items:					NIS millions
Equity based investee	404	(8)	-	-	396
Credit to the public	69,833	-	-	(26)	69,807
Other assets	939	-	88	10	1,037
Other liabilities	5,287	-	232	-	5,519
Retained earnings	6,014	(8)	(53)	(16)	5,937
Other cumulatives comprehensive income (loss)	24	-	(91)	-	(67)
Equity attributable to shareholders of the Bank	6,965	(8)	(144)	(16)	6,797

The Bank	As of December 31, 2014				
	As previously reported	Effect of retroactive application			As presently reported
		Software costs	Employee rights	Troubled debts	
Balance sheet items:					NIS millions
Investee companies	3,455	(8)	(18)	(16)	3,413
Other assets	548	-	77	-	625
Other liabilities	2,997	-	203	-	3,200

Consolidated	Year ended December 31, 2014			Year ended December 31, 2013		
	As	Effect of	As	As	Effect of	As
	presently	retroactive	presently	presently	retroactive	presently
	reported	application	reported	reported	application	reported
	Employee rights			Employee rights		
	NIS millions			NIS millions		
Profit and Loss items:						
Other income	-	-	-	64	(18)	46
Payroll and related benefits	1,746	34	1,780	1,736	10	1,746
Provision for taxes on profit	340	(12)	328	376	(10)	366
Net profit attributable to the Bank's shareholders	478	(23)	455	555	(17)	538
Profit attributable to non-controlling interest	(18)	(1)	(19)	(21)	1	(20)
Per share earnings attributable to the Bank's shareholders (in NIS)	4.76	(0.22)	4.54	5.53	(0.17)	5.36
Comprehensive income:						
Othe comprehensive loss, before taxes	(41)	(35)	(76)	(59)	17	(42)
Related tax effect	16	13	29	18	(5)	13
Other comprehensive loss, net after tax, attributable to the Bank's shareholders	(25)	(21)	(46)	(39)	11	(28)
Other comprehensive loss attributable to non-controlling interest	-	(1)	(1)	(2)	1	(1)
Comprehensive income attributable to the Bank's shareholders	453	(44)	409	516	(6)	510

The Bank	Year ended December 31, 2014			Year ended December 31, 2013		
	As	Effect of	As	As	Effect of	As
	presently	retroactive	presently	presently	retroactive	presently
	reported	application	reported	reported	application	reported
	Employee rights		Employee rights			
	NIS millions			NIS millions		
Profit and Loss items:						
Other income	-	-	-	248	(16)	232
Payroll and related benefits	1,150	26	1,176	1,135	4	1,139
Provision for taxes on profit	240	(10)	230	247	(8)	239
Bank's share in profits of investees, net after tax	122	(7)	115	187	(5)	182
Net profit attributable to the Bank's shareholders	478	(23)	455	555	(17)	538
Per share earnings attributable to the Bank's shareholders (in NIS)	4.76	(0.22)	4.54	5.53	(0.17)	5.36

4. Reporting according to US generally accepted accounting principles relating to the differentiation between liabilities and equity

The Supervisor of Banks issued on October 6, 2014, an instruction in the matter of reporting according to US generally accepted accounting principles relating to the differentiation between liabilities and equity, this in continuation of the policy of the Supervisor of Banks for the adoption, in respect of material subjects, of the financial reporting layout applying to banks in the United States. According to this instruction, the Bank implements the US generally accepted accounting principles in the matter of classification of financial instruments as liabilities or equity, including hybrid instruments. Among other things, the Bank implements the presentation, measurement and disclosure principles determined within the framework of the following matters in the codification:

- Item 480 regarding "differentiation between liabilities and equity";
- Item 470-20 regarding "a debt with convertibility and other options"; and
- Item 505-30 regarding "treasury stock".

In addition, in implementing the differentiation between liabilities and equity, the Bank relates to the public reporting instructions in the matter of embedded derivatives. Concurrently with the publication of the said circular letter, a FAQ file in the matter has been published, which clarifies that existing debt instruments having a conditional conversion into shares component (which is included in Tier 1 equity capital according to the Basel II rules, and according to the transitional instructions complies with the definition of a hybrid capital instrument, or which is included as a regulatory capital component in terms of the Basel III rules) are to be classified as a liability, measured according to amortized cost, without separating the embedded derivative.

The bank is implementing these rules as from January 1, 2015. According to the new rules, a PUT option granted to the non-controlling interest with respect to shares of a consolidated subsidiary is not treated as a separate instrument, but the Bank treats the shares of the consolidated subsidiary held by the non-controlling interests, and with respect to which the non-controlling interests have a PUT option, as redeemable non-controlling rights, and accordingly reflects them as temporary equity excluded from equity capital. The non-controlling rights, which, as stated, are excluded from equity capital, are measured periodically at the higher of the amount of the minority's share in profit or the redemption value of the shares. At each period, the Bank attributes profits to the non-controlling rights in accordance with their share in the earnings of the subsidiary company, to the extent that adjustments are required in order to state the non-controlling rights at the higher of the amount of the minority's share in profits or the redemption value of the shares, as above. These adjustments are reflected in the retained earnings item. The effect of the above on the financial statements of the Bank as of January 1, 2015, is a deduction of a liability in the amount of NIS 320 million from the item "other liabilities", against recognition of non-controlling interest in temporary capital in the same amount.

5. Disclosure regarding interested and related parties

On June 10, 2015, the Supervisor of Banks issued a circular letter in the matter of "Disclosure of interested and related parties". The letter updates the public reporting instructions in this matter to the changes made to Proper Management of Banking Business Directive No. 312 in the matter of "Business of a banking corporations with related parties". Furthermore, the letter modifies the disclosure in this matter to the US accepted accounting principles as detailed in Item 850 in the Codification. Following this amendment, the information in this respect in a report to the public shall refer to each interested party in accordance with the Securities Regulations, to a related party according to Directive 312, and to any other related party according to the accounting principles accepted by US banks. The Bank applies these instructions as from January 1, 2015.

Implementation of the letter had no material impact on the Bank, except for the updating of the disclosure in the matter of related parties. See also Note 33 regarding interested and related parties of the Bank and of its consolidated subsidiaries.

6. Updating the format of the report to the public

A circular letter was published on April 28, 2015, in the matter of the updating of the format of the annual report to the public by a banking corporation. The object of the guidelines included in the letter is, among other things, to improve the quality of reporting to the public by making the information contained in the report more usable and accessible; increasing uniformity in the manner of presentation of financial statements by the banking sector, as well as establishing a format for the annual report to the public that is based on leading presentation practices of leading banks in the US and Europe. Among other things, the letter refers to a change in the order of presentation of the financial report, viz., presenting the statement of profit and loss before the balance sheet; presenting the notes to the statement of profit and loss before the notes to the balance sheet; splitting up Note 4 regarding "credit risk, credit to the public and the provision for credit losses" into a summary at the totals level according to the main classes of credit and into a wider information to be included in the chapter on risk in the financial report. The letter also updates significantly the format of disclosure in the Directors' Report, it eliminates the chapter containing the Management's review, while integrating the disclosure contained therein into other chapters of the report to the public. The letter states also requirements for a detailed report on the Internet regarding risk issues. The Bank implements the guidelines of the letter stating with the financial report to the public for the year 2015.

Implementation of the letter has no effect on the Bank except for the presentation effect of updating the format of the financial statements, as stated above.

7. Credit risk by economic sectors

The Supervisor of Banks issued on April 9, 2014, a letter in the matter of "Credit risk by economic sectors". The letter adopts the uniform classification of economic sectors - 2011, published by the Central Statistical Bureau. In accordance with the letter, the Bank has modified the disclosure regarding credit exposure by economic sectors, in order to match the classification system and the new definitions regarding the different sectors.

The Bank applied the instruction as from January 1, 2015, by way of retroactive application.

Implementation of the instruction has no material effect.

8. FAQ file in the matter of impaired debts.

An updated FAQ file was published on September 10, 2015, in the matter of the implementation of the public reporting instructions regarding impaired debts, credit risk and the provision for credit losses. The FAQ file clarified the requirements for determining the minimum conditions for the purpose of performing a specific examination of impairment. It is also clarified that the manner of examining the provision for credit losses in respect of a particular debt may not be changed, except in the case of restructuring of a troubled debt. In addition, rules have been determined as regards the application of an accounting write-off in respect of a failure of a restructured troubled debt.

The Bank has applied the said instructions by way of the "from now onwards" method.

The effect of first implementation was a decrease in expenses for credit losses in 2015 of NIS 5 million, a decrease of NIS 18 million in the balance of provision for credit losses and decrease of NIS 12 million in the balance of credit to the public, net as of December 31, 2015.

9. Reporting of supervisory segments of operations and of geographical areas

A letter in the matter of operating segment reporting was published on November 3, 2014, which updates the public reporting instructions in everything relating to the reporting requirements applying to supervisory operating segments, and among other things, includes also changes in certain definitions and guidelines according to which banks would have to classify customers to supervisory segments and update their reporting. The amendments to the instructions are intended to require reporting on operating segments in accordance with a uniform and comparable format, as determined by the Supervisor of Banks. In addition, the letter states that the disclosure regarding "operating segments according to management's approach" shall be provided according to accounting principles accepted by US banks in the matter of operating segments (included in ASC 280), where a material difference exists between management's approach and the reporting segments according to the guidelines of the Supervisor of Banks.

The new rules apply as from the financial statements for 2015 and thereafter, in the manner detailed below:

- The disclosure requirement with respect to balance sheet data regarding supervisory operating segments, as defined in the new instructions, applies to the financial statements for the year 2015. According to the new rules, it is permitted not to present comparative data for balance sheet items with respect to supervisory operating segments. It is also required to provide disclosure regarding segments of operation in accordance with the public reporting instruction that were in effect prior to the effective date of the letter, and no separate disclosure is required with respect to the financial management segment.
- Starting with the financial statements for the first quarter of 2016, full disclosure is required according to the new rules, except for disclosure regarding the financial management segment. The comparative data is to be restated accordingly. It is permitted to present in the financial statements for 2016 comparative data for one year only as regards the Note on supervisory operating segments. For the purpose of the presentation of the comparative data, it is possible to rely on the classification of customers to supervisory operating segments as of January 1, 2016.
- Starting with the financial statements for the first quarter of 2017, the guidelines of the letter are required to be implemented in full.

Implementation of the new instructions is not expected to have a material effect except for the manner of presentation and disclosure. Notes 28A has been adjusted to include the new disclosure requirements, subject to the transitional instructions, as detailed above.

D. Accounting policy applied in the preparation of the financial statements

(1) Foreign Currency and Linkage

Transactions in foreign currency are translated into the relevant functional currencies of the Bank and its extensions according to the exchange rates prevailing on date of the transactions. Monetary assets and liabilities denominated in foreign currency at date of the report are translated into the functional currency according to the exchange rate in effect on that date. Exchange differences in respect of monetary items comprise the difference of the written down cost in the functional currency at the beginning of the year, as adjusted to the effective interest and payments during the year, and the written down cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate in effect on the date on which fair value was determined. Non-monetary items denominated in foreign currency and measured according to historical cost, are translated at the exchange rate in effect at date of the transaction.

Exchange differences arising on translation to the functional currency are recognized in profit and loss, except for the following differences, which are recognized in other comprehensive profit, arising on translation of:

- Capital financial instruments classified as available for sale (except in the case of impairment when the exchange differences recognized in other comprehensive profit are reclassified to profit and loss);
- Financial liabilities hedging investment in foreign operations, in respect of the effective part of the hedge.

Functional currency of extensions operating abroad

Starting with January 1, 2011, the Bank implements IAS 21 "Effect of changes in exchange rates of foreign currency", except for the guidelines of the standard regarding classification of banking extensions operating abroad as a foreign operation the functional currency of which is different from the Israeli Shekel (NIS).

Overseas banking extensions

Until the year 1994, certain overseas banking extensions were classified as an overseas operation the functional currency of which is different from the NIS and exchange differences in respect of the translation had been taken directly to equity as part of the translation reserve. As from 1995, according to guidelines of the Supervisor of Banks, overseas banking extensions are classified as foreign operations the functional currency thereof is identical to the functional currency of the Bank.

In accordance with IAS 21, in order to determine the functional currency, the Bank has to consider, among other things, the following factors:

- The currency that mostly influences the selling price of goods and services (in general, this will be the currency in which the selling price of goods and services is stated and settled), as well as the currency of the country, the competitive powers and regulation of which determine mostly the selling price of goods and services;
- The currency that influences mostly labor, materials and other costs for providing goods and services (in general, this will be the currency in which such costs are stated and settled);
- Additional factors that might provide proof of the functional currency of the entity, such as: the currency in which monetary sources from financing operations are produced and the currency in which receipts from current operations are being held;
- Relations of the extension with the Bank - whether the foreign operation has a certain measure of independence, whether transactions of the extension with the banking corporation comprise a high or low ratio of the foreign operation, whether the cash flows from the foreign operation have a direct effect upon the cash flows of the bank and they are easily available for transfer to the bank and whether the cash flows of the foreign operation are sufficient to finance in the usual manner existing and anticipated liabilities of the entity without the Bank having to provide sources of finance.

Based on a study of these criteria, it has been determined that the functional currency of a certain banking extension is not identical with the NIS. Notwithstanding, in order to change the classification of a foreign banking extension, as an extension the functional currency of which is different from the NIS, the Bank is required to obtain a pre-ruling from the Supervisor of Banks. Until such ruling is obtained, the Bank continued to treat its foreign banking extensions as entities the functional currency thereof is identical to the NIS.

On February 14, 2012, a circular letter was issued with respect to the functional currency of extensions operating abroad, which includes criteria determined by the Supervisor of Banks with respect to the determination of the functional currency of an overseas banking extension. It was especially clarified that in determining the functional currency the Bank is required to examine whether each one of the following criteria exists/does not exist and document the results of the review:

- The principal environment in which the extension produces and expends cash is foreign currency while the NIS operation of the extension is negligible;
- Autonomous attraction of customers by the extension - activity of the extension with customers of the Bank and/or with their related parties and/or with parties referred to the extension by the Bank is insignificant;
- The activity of the extension with the Bank and/or parties related to it is insignificant. Furthermore, there is no significant dependence of the extension on financing resources provided by the Bank and/or its related parties.
- In substance, the activity of the extension is independent and self sustained and it does not constitute an expansion or supplement of the domestic operations of the Group. Furthermore, the extension conducts its operations with a significant extent of autonomy.

Where one of the said criteria does not clearly exist (example: business of the extension transacted with customers of the Bank is significant to the degree that it comprises most of the business of the extension), it

indicates that the extension has to be treated as an overseas operation which functional currency is the NIS. In other circumstances, the determination is to be made according to the examination of the overall criteria.

The bank has re-examined the classification of its overseas banking extensions in accordance with the new criteria. In the light of this re-examination, the Bank has reclassified its banking extension FIBI Bank (Swiss) as an overseas operation which functional currency is different than the NIS. The change in classification has been treated prospectively as a change in the functional currency of the extension, so that exchange differences in respect of translation are recognized as from January 1, 2012 in other comprehensive profit and presented under "Adjustments on translation of financial statements".

Foreign operations

Assets and liabilities relating to foreign operations, including goodwill and adjustments to fair value created upon acquisition, are translated to NIS at the exchange rate prevailing at the reporting date. Income and expenses of foreign operations are translated into NIS at the exchange rates prevailing upon the dates of the transactions.

Exchange differences arising on translation are recognized in other comprehensive profit as from January 1, 2012, date of change of the functional currency and are presented in capital under "Adjustments on translation of financial statements".

Hedge of net investment in foreign operations

The Group implements hedge accounting in respect of exchange differences between the functional currency of the foreign operation and the functional currency of the Bank (NIS).

Exchange differences stemming from a forward contract that hedges the net investment in a foreign operation, are taken to other comprehensive income, in respect of the effective part of the hedge, and are presented in capital under "Adjustments on translation of financial statements". The non-effective part is taken to profit and loss. Upon realization of the hedged investment, the appropriate amount accumulated under "Adjustments on translation of financial statements" is transferred to profit and loss, as part of the gain or loss on realization of the investment.

CPI-linked assets and liabilities not measured according to fair value

CPI-linked assets and liabilities are stated according to the linkage terms determined for each item.

Details of representative exchange rates and of the consumer price index including the rates of change therein:

	December 31			Rate of change during		
	2015	2014	2013	2015	2014	2013
				%	%	%
Rate of exchange of the U.S. dollar (in NIS)	3.902	3.889	3.471	0.3	12.0	(7.0)
Rate of exchange of the Euro (in NIS)	4.247	4.725	4.782	(10.1)	(1.2)	(2.8)
Rate of exchange of the Pound Sterling (in NIS)	5.784	6.064	5.742	(4.6)	5.6	(4.9)
Rate of exchange of the SFR (in NIS)	3.925	3.929	3.897	(0.1)	0.8	(4.4)
Consumer Price Index -						
November (in points)	101.2	102.1	102.2	(0.9)	(0.1)	1.9
December (in points)	101.1	102.1	102.3	(1.0)	(0.2)	1.8

(2) Basis of consolidation

The Group implements the acquisition method for all business combinations. Date of acquisition is the date on which the acquiring entity obtains control over the acquired entity. The Group controls the purchased entity when it is exposed to or has the rights to yields that vary as a result of its involvement in the affairs of the purchased entity and where it has the ability to influence such yields by means of its power of influence over the purchased entity. In examining control, actual rights held by the Group and by others are taken into consideration.

Business combinations occurring prior to January 1, 2011

According to a guideline of the Supervisor of Banks, the Bank may separately in respect of each business combination and each investment in an equity based company, made before January 1, 2011:

- (1) Adopt the relief stated in items C4 and C5 of IFRS 1, initial adoption of international financial reporting standards. In accordance therewith, the Group does not implement retroactively IFRS 3 (2008) with respect to business combinations, acquisition of equity based companies and acquisition of non-controlling rights made prior to January 1, 2011. Accordingly, regarding acquisitions made prior to January 1, 2011, in respect of which the Bank had elected to apply this alternative, goodwill recognized and the excess of cost created, represent the amounts recognized according to accepted accounting principles in Israel, or;
- (2) Apply IFRS 3 (2008) retroactively with respect to excess of cost only, the Bank, for the purpose of the said retroactive application, having to attribute all the non-attributable balance of the excess of cost to customer relations and amortize it over ten years since the date of the business combination.

The Bank has elected to apply alternative 2 with respect to the business combinations with Otzar Hachayal Bank Ltd., Massad Bank Ltd. and Bank Poalei Agudat Israel Ltd., and apply alternative 1 with respect to all other acquisitions and business combinations.

Subsidiary companies

Subsidiary companies are entities controlled by the Group. The financial statements of subsidiary companies are included in the consolidated financial statements since the date on which control of these entities was acquired and until the date on which control ceased to exist.

Where necessary, the accounting policies of subsidiaries are modified to agree with the accounting policies adopted by the Group.

Non-controlling interest

Non-controlling interest comprises the capital of a subsidiary, which may not be, directly or indirectly, attributed to the parent company.

Non-controlling interest, which confers ownership rights at the present time and grants the owner thereof a share of the net assets in case of liquidation (such as: ordinary shares), is measured at fair value at date of the business combination.

Profit or loss and any other component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interest.

Transactions with non-controlling interests while maintaining control are treated as capital transactions. Any difference between the consideration paid or received in respect of a change in the non-controlling interest is taken directly to the share in equity of the owners of the Bank.

The amount adjusting the rights of the non-controlling interest is computed as follows:

- Upon an increase in the rate of holdings - according to the acquired proportionate share of the balance of rights of the non-controlling interest in the consolidated financial statements prior to the date of the transaction.
- Upon a decline in the rate of holdings - according to the proportionate share in the net assets of the subsidiary, including goodwill, realized by the owners of the subsidiary.

Furthermore, upon changes in the rate of holdings in a subsidiary while maintaining control, the Bank reallocates the cumulative amounts recognized in other comprehensive profit between the owners of the Bank and the non-controlling interest.

Investments in equity based investees

Equity basis investees are entities in which the Group has a material influence over their financial and operating policies, but no actual control. The assumption is that an interest of between 20% and 50% in the investee confers a significant influence. In examining the existence of a significant influence, potential voting rights that may be immediately exercised or converted into shares of the investee are taken into consideration.

Investment in equity basis investees is treated by the equity method of accounting, and initially is recognized at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share in the income and expenses, in the profit and loss and in the other comprehensive profit of entities treated by the equity method of accounting, after adjustments required to modify the accounting policies to those of the Group, from the date on which the significant influence first existed and until the date on which it ceased to exist.

Intercompany transactions

Intercompany balances within the Group and non-realized income and expenses derived from intercompany transactions are eliminated in the preparation of the consolidated financial statements. Non-realized profits stemming from transactions with equity basis investees are eliminated against the investment therein according to the ratio of interest that the Group has in such investments. Non-realized losses are eliminated in the same manner in which non-realized profits have been eliminated, so long as no evidence of impairment exists.

(3) Basis of Recognition of Income and Expenses

- (a) Interest income and expenses are recognized on an accrual basis, except for interest accrued on troubled debts classified as non-performing loans, which is recognized on a cash basis where no doubt exists as to the collection of the remaining stated balance of the impaired debt. In such cases, an amount collected on account of interest to be recognized as interest income is limited to the amount that would have accrued during the reported period on the remaining stated balance of the debt according to the contractual interest rate. Cash basis interest income is classified in profit and loss as interest income in the relevant item. Where doubt exists as to the collection of the remaining stated balance of the debt, all amounts collected are used to reduce the principal amount of the loan. Furthermore, interest on housing loans in arrear is recognized in profit and loss upon actual collection.

- (b) Commission income in respect of services provided (such as: securities and derivative instruments operations, credit cards, ledger fees, the granting of credit, currency conversion and foreign trade activity) are recognized in profit and loss upon accrual of the right thereto.
- (c) Securities - see Section D(5) below.
- (d) Derivative financial instruments - see Section D.(6) below.
- (e) Other income and expenses - recognized on an accrual basis.

(4) Impaired debts, credit risk and provision for credit losses

In accordance with the Directive of the Supervisor of Banks in the matter of the "measurement and disclosure of impaired debts, credit risk and the provision for credit losses", the Bank implements as from January 1, 2011, the US accounting standards in this matter (ASC 310) and the statements of position of the US bank supervisory bodies and the US Securities and Exchange Commission, as adopted in the public reporting directives and in positions and guidelines of the Supervisor of Banks. In addition, as from that date, the Bank implements the guidelines of the Supervisor of Banks in the matter of the treatment of impaired debts. Moreover, Starting on January 1, 2012, the Bank implements the instructions of the Supervisor of Banks in the matter of the update of disclosure of credit quality of debts and the provision for credit losses.

Furthermore, in accordance with the circular letter of the Supervisor of Banks dated January 19, 2015, the Bank implements the guidelines of the Supervisor of Banks in respect of the computation of the group provision for non-housing credit losses, in particular with respect to credit to private individuals.

Credit to the public and other debt balances

The guideline is implemented with respect to all debt balances, such as: deposits with banks, bonds, securities on loan or acquired within the framework of "buy-back" agreements, credit to the public, credit to government, etc. Credit to the public and other debt balances, in respect of which the public reporting directives do not contain specific principles regarding the measurement of the provision for credit losses (such as: credit to government, deposits with banks, etc.) are reported in the books of the Bank at the stated balance of the debt. The stated balance of the debt is defined as the outstanding balance of the debt, net of accounting write-offs, but before provision for credit loss in respect of such debt. The stated balance of the debt does not include non-recognized accrued interest, or interest which had been recognized in the past but cancelled later. It should be noted that prior to January 1, 2011, the Bank had applied different principles according to which the stated balance of the debt included interest accrued prior to the classification of the debt as non-performing troubled debt. As regards other debt balances, in respect of which specific principles exist regarding measurement and the recognition of provisions for impairment (such as: bonds) the Bank continues to apply the same measurement principles.

Identification and classification of impaired debts

The Bank has determined procedures for the identification of troubled credit and for the classification of debts as impaired. According to these procedures, the Bank classifies all its troubled debts as well as the off-balance sheet credit items under the following classifications: "special supervision", "inferior" or "impaired". A debt is classified as impaired when, based on information and current events, it is anticipated that the Bank would not be able to collect all the amounts due to it under the contractual terms of the loan

agreement. The decision regarding the classification of the debt is based, among other things, on the default situation of the debt, evaluation of the financial position and repayment ability of the borrower, the existence and condition of collateral, the financial position of guarantors, where these exist, and their obligation to support the debt, as well as the ability of the borrower to obtain third party finance.

In any event, a debt is classified as an impaired debt if the principal amount or the interest thereon is in arrear for ninety days or more. For this purpose, the Bank monitors the period of arrears in relation to the contractual repayment terms of the debt. Debts (including bonds and other assets) are considered in arrear when payments on account of principal or interest have not been made on their due dates. In addition, revolving debit accounts or current accounts are reported as debts in arrear for thirty days or more, when these accounts deviate continuously from the approved credit facility for over thirty days or more, or where within the framework of the credit facility, no amounts have been credited to such account covering the amount of the debt within a period of 180 days. Starting with the date of classification of a debt as impaired, it is treated as a debt not accruing interest income ("nonperforming debt").

Moreover, any debt the terms of which have been changed as part of a restructuring of a troubled debt, shall be classified as an impaired debt, unless prior to the restructuring and thereafter, a minimum provision has been recorded in respect of which in accordance with the extent of default, in accordance with the Appendix to Proper Management of Banking Business Directive 314 in the matter of "proper assessment of credit losses and proper measurement of debts".

Reinstatement of an impaired debt as non-impaired

An impaired debt reverts to the classification of a non-impaired debt if one of the following two situations exists:

- (1) No principal or interest components of the debt, which are due for payment, remain unpaid, and the Bank expects the payment in full of the remaining principal sum and interest in accordance with the terms of the loan agreement (including amounts written off accounting wise or provided for).
- (2) When the debt becomes well collateralized and collection proceeding are in effect.

The said rules for the reversal of an impaired debt classification shall not apply to debts classified as impaired following the restructuring of a problematic debt.

Reinstatement of an impaired debt as impaired and accruing

A debt, which has formally been restructured, so that following the restructuring thereof reasonable assurance exists that the debt would be repaid and would perform in accordance with its new terms, is reinstated as a debt that accrues interest income, on condition that the restructuring and any accounting write off made in respect of the debt are supported by an updated and well documented credit evaluation of the financial position of the borrower and of the repayment forecast according to the new terms. The evaluation is based on the consistent historical repayments of the borrower in cash and cash equivalents during a reasonable period of at least six months, and only after the receipt of payments that significantly reduced the stated balance of the debt, as determined after the restructuring.

Debt arrangement policy and the treatment of a restructured troubled debt

With a view of improving the management of credit and its collection, as well as with a view of preventing failure situations and the seizure of pledged assets, the Bank has adopted and is implementing a policy for arriving at arrangements in respect of troubled debts and for making changes in the terms of debts not

identified as troubled. Methods for the changing of terms of debts may include, among other, the deferment of repayment dates, reducing the rate of interest payable or the amount of the periodic repayments, changing the terms of the debt in order to match them to the financing structure of the borrower, consolidation of the borrower's debts, transfer of the debts to other borrowers belonging to a borrower group under joint control, review of the financial covenants applying to the borrower, and more.

A debt that has formally been restructured as a troubled debt, is defined as a debt in respect of which, due to economic or legal grounds related to the financial difficulties of the borrower, the Bank granted a waiver by way of a change in the terms of the debt with a view of alleviating the burden of cash payments by the borrower in the near future (a reduction or deferral of cash payments demanded from the borrower) or by way of accepting other assets in settlement of the debt (in whole or in part).

In order to establish whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank conducts a qualitative examination of all terms of the arrangement and the circumstances in the framework of which it had been made, this with a view of determining whether: (1) the borrower has financial difficulties and (2) as part of the arrangement the Bank has granted a waiver to the borrower.

In order to establish that the borrower has financial difficulties, the Bank looks for signs indicating financial difficulties of the borrower at date of the arrangement, or a reasonable probability that the borrower will encounter financial difficulties if not for the arrangement. Among other things, the Bank examines the existence of one or more of the following circumstances:

- at date of the arrangement the borrower is in default, including when another debt of the borrower is in default;
- as regards debts that at the arrangement date are not in default, the Bank assesses whether in view of the present repayment ability it is probable that in the foreseeable future the borrower will find himself in a default situation and will not honor the original contractual terms of the debt;
- the borrower has been declared bankrupt, is in the process of receivership or material doubts exist as to his continued existence as a going concern; and
- that without a change in the terms of the debt the borrower would not be able to raise funds from other sources at accepted market interest rate applying to borrowers who are not in default.

The Bank concludes that within the framework of the arrangement the borrower had been granted a waiver, even if the arrangement specified a rise in the contractual interest rate, if one or more of the following situations exist:

- as a result of the restructuring, the Bank does not anticipate to collect all amounts of the debt (including accrued interest according to the contractual terms);
- the updated fair value of the collateral in the case of a secured debt does not cover the contractual balance of the debt and indicates the inability to collect the full amount of the debt;
- the borrower does not have the possibility of raising funds at accepted market rates in respect of a debt having terms and characteristics such as those of the debt subject to the arrangement.

Furthermore, the Bank does not classify a debt as a restructured troubled debt, if within the framework of the arrangement, the borrower had been granted a payment deferral that is not material in relation to the frequency of the payments, in the contractual repayment period and during the anticipated average maturity of the original debt. In this respect, where several arrangements had been made involving

changes in the terms of the debt, the Bank takes into account the cumulative effect of prior arrangements in order to establish whether the payments deferral is not material.

Restructured debts, the terms of which had been changed in the restructuring of an impaired debt, including debts, which prior to their restructuring were assessed on a collective basis, are classified as impaired debts, which will be assessed on a specific basis for the purpose of the provision for credit losses. In view of the fact that the debt, which had been restructured as a troubled debt, will not be repaid in accordance with its original contractual terms, it continues to be classified as an impaired debt even after the borrower reverts to regular payments under the new terms. Notwithstanding the above, as regards debts reviewed on a collective basis, which had undergone the process of restructure of a failed problematic debt, the need for an immediate accounting write-off is considered. In any event, such accounting write-off of such debts is made no later than the date on which the debt becomes a debt in arrears of sixty days or over.

Provision for credit losses

The Bank has determined procedures for the classification of credit and for the measuring of the provision for credit losses in order to maintain a provision at a proper level to cover anticipated credit losses in relation to the Bank's credit portfolio. In addition, the Bank has determined procedures required for the maintenance of a provision at a proper level to cover anticipated credit losses related to off-balance sheet credit instruments as a separate liability account (such as: commitments to grant credit, non-utilized credit facilities and guarantees).

The provision covering anticipated credit losses in relation to the credit portfolio is assessed according to one of the two ways: "specific provision" and "collective provision". The said assessment of the debts for the purpose of determining the provision and the treatment of the debts is applied consistently to all debts, in accordance with their quantitative minimum and the credit management policy of the Bank, and no changes are made in the assessment classification of the debt as "specific" or "on a collective basis" during the life of the debt, unless a restructure of a problematic debt has been in respect of the debt, as stated above.

Specific provision for credit losses

For the purpose of the specific examination, the Bank elected to identify debts, the total contractual balances of which exceed NIS 1 million. A specific provision for loan losses shall be recognized in respect of any debt examined on a specific basis and classified as impaired. Moreover, any debt the terms of which have been changed as a result of a restructuring of a troubled debt, shall be classified as an impaired debt, unless if prior to the restructuring and thereafter, a minimum provision for loan losses had been created in respect of which by the extent of default period method, in accordance with the Annex to Proper Management of Banking Business Directive 314 regarding proper assessment of credit risk and the proper measurement of debts.

The specific provision for loan losses is assessed based upon the estimated future cash flows discounted by the original effective interest rate of the debt. Where the loan is collateralized or where the Bank expects a foreclosure of an asset, the specific provision is assessed based on the fair value of the collateral pledged as security for that loan, taking into consideration conservative and consistent coefficients, which

among other things reflect the volatility in the fair value of the collateral, the period until actual realization of the collateral and the costs involved in its sale.

In this respect, the Bank defines a collateral conditioned debt as a debt the repayment of which is expected to depend exclusively upon the collateral pledged in favor of the Bank, or where the Bank is expected to be repaid from the proceeds of an asset owned by the borrower even if it is not specifically pledged in favor of the Bank, all this when the borrower has no other available and reliable material sources for the repayment of the debt.

Provision for credit losses on a collective basis

Housing loans

The minimum provision in respect of housing loans is computed based on a formula determined by the Supervisor of Banks, taking into consideration the length of the default period, so that the rate of the provision increases in accordance with the length of the period of default. On the date of the initial implementation of the new directive, an amendment of the Appendix to Proper Management of Banking business Directive No. 314 "Proper assessment of credit risk and proper measurement of debts" entered into effect. This amendment extends the application of computing the provision based on the extent of the default period to all housing loans, with the exclusion of loans that are not repayable in periodic installments and loans which finance operations of a business nature.

In addition, the Bank implements the provisions of Proper Management of Banking Business Directive No. 329 in the matter of "Limitations on the granting of housing loans".

The Bank has formed a policy designed to ensure that it complies with the new requirements and that as from June 30, 2013, the balance of the group provision for credit losses arising on housing loans shall not fall below a rate of 0.35% of the total outstanding balance of these loans at the reporting date.

Non-housing credit

The collective provision for credit losses is assessed in order to reflect provisions for impairment in respect of credit losses not specifically identified, inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found to be not impaired. The provision for credit losses in respect of debts assessed on a group basis is computed in accordance with the rules determined in FAS 5 (ASC 450), "accounting for contingencies", based on detailed guidelines prescribed by the public reporting instructions. Computation of the provision is based on historical loss rates in various economic sectors, divided between troubled and non-troubled credit within a range of five years ending at the date of the report.

In addition to the average of historical loss rates in the various economic sectors, as stated above, for the purpose of determining of the proper rate of provision with respect to credit to the public, the Bank takes into consideration additional data (qualitative adjustments). In this respect, as regards credit to private individuals that is not troubled, excluding credit risk deriving from bank credit card transactions with no charge of interest, it has been determined that the rate of qualitative adjustments in respect of the qualitative factors relevant to the prospects of collection, shall not be lower than 0.75% of the non-troubled balance of credit to private individuals at date of reporting, in relation to the average loss rates within the range of years. Excluded from the above is non-interest bearing credit stemming from transactions by bank credit card holders.

On January 19, 2015, the Supervisor of Banks issued a circular letter updating the reporting instructions in the matter of "collective provision in respect of credit to private individuals". In accordance with the letter, The Bank has formed a policy intended to ensure that it abides by the new instructions and is preparing for the development and implementation of a methodology for the computation of the collective provision, which takes into account the qualitative adjustment coefficient, as required by the instructions.

According to the guidelines prescribed in the provisional instruction, as from January 1, 2011, the Bank no longer maintains general and supplemental provisions, however, it continues to compute the supplemental provision and verifies that in no event the amount of the group provision at each reporting date shall not fall below the amounts of the supplemental and general provisions that would have been included as of that date, gross before taxes.

Off-balance sheet credit

The required provision in respect of off-balance sheet credit instruments is assessed in accordance with the rules determined in FAS 5 (ASC 450). The provision assessed on a group basis in respect of off-balance sheet credit instruments is based on the rates of the provision determined for the balance sheet credit (as explained above) taking into account the anticipated rate of realization into credit of the off-balance sheet credit risk. The rate of realization into credit is computed by the Bank based on conversion into credit coefficients as detailed in Proper Banking Management Directive No. 203, measurement and capital adequacy - credit risk - the standard approach.

In addition, the Bank examines the overall propriety of the provision for credit losses. The said evaluation is based on the judgment of Management, which takes into consideration the risks inherent in the credit portfolio and the methods of valuation applied by the Bank for assessment of the provision.

Accounting write-off

The Bank writes-off accounting wise any debt or part thereof assessed on specific basis, which is not considered collectible and of a low value so that its remaining as an asset is not justified, or a debt in respect of which the Bank is conducting long-term collection efforts (defined in most cases as a period exceeding two years). Regarding debts which its collection is conditioned by collateral the Bank immediately performs an accounting writeoff of the balance of provision for credit losses. Regarding debts assessed on a group basis, write-off principles have been determined based on their period of default (in most cases over 150 consecutive default days) and on other problem parameters. It should be clarified that accounting write-offs do not involve legal waiver and they reduce the reported debt balance for accounting purposes only, creating a new cost basis for the debt in the books of the Bank.

Notwithstanding the above, concerning debts assessed on a collective basis and classified as impaired due to the restructure of a troubled debt, the need for an immediate write-off is being examined. In any event, such debts are being written-off accounting wise no later than the date on which the debt has become a debt in arrears of sixty days or over, in relation to the terms of the restructure.

Income recognition

At date of classification of the debt as impaired, the Bank defines the debt as nonperforming and ceases to accrue interest income in respect thereof, except as stated below regarding certain restructured debts. Furthermore, at date of classification of the debt as impaired, the Bank cancels all interest income accrued and not yet collected, which had been recognized in profit and loss. The debt continues to be classified as

nonperforming so long as its classification as impaired has not been removed. A debt which has formally been restructured as a troubled debt and following such restructuring reasonable assurance exists that the debt will be repaid and will perform according to its new terms, is treated as a performing impaired debt. See section D(3) above for details regarding the recognition of income on a cash basis in respect of debts classified as impaired.

The Bank does not cease to accrue interest income on debts that are assessed and provided for on a group basis, which are in arrear for ninety days or over. Such debts are subject to assessment methods for the provision for credit losses which ensure that the profit of the Bank is not inclined upwards. Charges in respect of arrears regarding such debts are recognized as income when the right to such charges is established on condition that collection thereof is reasonably assured.

Disclosure requirements

The Bank implements the disclosure requirements regarding credit quality of debts and provision for credit losses as determined in the updated accounting standard ASU 2010-20. These require the Bank to provide a wider disclosure of outstanding debts, movement in the balance of provision for credit losses, indication as to the credit quality, any material purchase or sale of debt portfolios during the reported period.

Furthermore, as from the year 2015, and in accordance with the instructions of the Supervisor of Banks regarding the change in the format of the financial statements, the Bank presents condensed principal information regarding credit risk, credit to the public and the provision for credit losses (see Note 13) and additional information regarding credit risk, as stated (see Note 29).

(5) Securities

- The bank's investments in securities are classified, into three portfolios, as follows:
 - Held to Maturity Bonds - bonds, which the Bank has the intention and ability to hold until their redemption date, excluding bonds which may be prematurely redeemed or settled in another way so that the Bank might not cover substantially all of its recorded investment therein. Held to maturity bonds are stated at cost together with exchange or linkage increments and interest accrued, as well as the unamortized amount of discount or premium and less a loss on impairment considered to be of a nature other than temporary.
 - Trading Securities - securities purchased and held for sale in the near future, excluding shares in respect of which fair value is not readily available. Trading securities are stated at their fair value on the reporting date. Gains or losses on adjustment to fair value are reflected in the statement of income.
 - Available-for-Sale Securities - securities not classified as bonds held to maturity or as trading securities. Shares in respect of which fair value is readily available and bonds are stated at their fair value on the reporting date. Shares for which fair value is not readily available are measured in the balance sheet at cost. Unrealized gains or losses from adjustment to fair value are not reflected in profit and loss but are stated net of an appropriate tax provision, in a separate item of shareholders' equity, as part of other cumulative comprehensive profits.
- Dividend income, accrued interest, exchange and linkage increments, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of a nature other than temporary are reflected in profit and loss.

- The bank's investments in private equity funds are stated at cost less losses on impairment of a nature other than temporary. Gain on investments in venture capital funds is recognized in profit and loss upon realization of the investment.
- The cost of realized securities is based on the "first in first out" method.
- See Section D.(7) hereunder regarding the computation of fair value.
- See Section D.(8) hereunder regarding the treatment of impairment of a nature other than temporary.

(6) Derivative Financial Instruments including hedge accounting

The Bank holds derivative financial instruments as a hedge against currency and interest rate, as well as derivatives not for hedging purposes, including embedded derivatives removed from the host contract.

Hedge accounting

At date of creation of the hedge, the Bank formally documents the hedge relation between the hedge instrument and the hedged instrument, including the purpose of risk management and the strategy of the Bank for executing the hedge as well as the manner in which the Bank is to evaluate the effectiveness of the hedge relations. The Bank evaluates the effectiveness of the hedge relations both at the beginning of the hedge and on an ongoing basis in accordance with its risk management policy.

Hedge of fair value

Where a derivative is used as an instrument for hedging exposure to changes in the fair value of an asset or liability, or an identified part thereof that may be attributable to a certain risk, changes in the fair value are reflected in profit and loss. The hedged item is also stated at fair value, in relation to the hedged risks, and the changes in fair value are reflected in profit and loss.

Where the hedge instrument no longer agrees with the criteria for hedge accounting, or when it expires, sold, cancelled or realized, or when the Bank cancels the designation of fair value hedge, then the treatment according to hedge accounting ceases.

Economic hedge

Hedge accounting is not applied in the case of derivative instruments used as part of the asset and liability management layout of the Bank (ALM). Changes in fair value of such instruments are reflected in profit and loss as they occur.

Hedge of net investment in foreign operations - see Section D(1) above.

Derivatives not used for hedge

Changes in the fair value of derivatives not used for hedge are immediately reflected in profit and loss.

Embedded derivatives that were separated and not used for hedge

Embedded derivatives are separated from the host contract and treated separately, if: (a) there is no clear and close connection between the economic characteristics and the risks of the host contract and of the embedded derivative instrument, including credit risk stemming from certain embedded credit derivatives; (b) a different instrument having the same terms of the embedded derivative instrument would have been defined as derivative; and (c) the hybrid instrument is not measured at fair value through profit and loss. A separated embedded derivative is stated in the balance sheet together with the host contract, any changes in the fair value of such separated embedded derivatives are immediately reflected in profit and loss.

According to US Accounting Standard FAS 155 (ASC 815-15) "Accounting treatment of certain hybrid financial instruments", in certain cases (such as cases where the Bank is unable to separate the embedded derivative from the host contract), the Bank elects not to separate the embedded derivative and to measure the hybrid financial instrument as a whole at fair value, while reporting changes in fair value in profit and loss as they occur. The said election is made upon acquisition of the hybrid instrument or upon a remeasurement event occurring, such as a business combination or material changes taking place in the debt instrument. Election of fair value, as stated, is irrevocable.

(7) Fair value determination of financial instruments

Beginning with January 1, 2011, the Group applies the rules determined in FAS 157 (ASC 820-10) which defines fair value and determines a consistent framework for the measurement of fair value in respect of assets and liabilities as well as a fair value grading and detailed application guidelines. Moreover, beginning with January 1, 2012, the Bank implements the instructions of the Supervisor of Banks in the matter of fair value measurement, which combines in the public reporting directives the rules determined by accounting standard ASU 2011-04 in the matter of measurement of fair value (ASC 820): amendments to obtain fair value measurement and uniform disclosure requirements in US GAAP and in IFRS.

Fair value is defined as the amount/price which would be received from the sale of an asset or paid in settlement of a liability in a regular transaction between willing parties at date of measurement. Among other things, for the purpose of assessing fair value, the Standard requires that, as far as possible, maximum use should be made of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation. FAS 157 details the hierarchy of measurement techniques, based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets and liabilities, to which the Bank has access at measurement date.
- Level 2 inputs: observable data, directly or indirectly, for the asset or liability, which are not quoted prices included in Level 1.
- Level 3 inputs: unobservable inputs for the asset or liability.

Such hierarchy requires the use of observable inputs, where this information is available. Where possible, the Bank, when making its assessments, considers observable and relevant market inputs. The volume and frequency of the transactions, the size of the bid/ask spread and the extent of the adjustment required when comparing similar transactions, are all factors being considered when determining the liquidity of the markets and the relevancy of the observable prices in these markets.

The basic assumption of "in use" for the measurement of fair value is not applied with respect to financial instruments.

Furthermore, the measurement of fair value of financial instruments is made without taking into consideration the blockage factor, both with respect to financial instruments valued according to Level 1 data and with respect to financial instruments valued according to Levels 2 and 3 data, excluding situations where a premium or discount would have been taken into account in measuring fair value by participants in the market, in the absence of Level 1 data.

Securities

The fair value of trading securities and of available-for-sale securities is determined on the basis of quoted market prices on the principal market. Where several markets on which the security is traded exist, the assessment is made according to the quoted price on the most useful market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by the quoted market price. The quoted price used for the determination of fair value is not adjusted for the size of the holdings by the Bank or for the size of the position relatively to the volume of trading (the blockage factor). Where no quoted market price is available, the assessment of fair value is based on the best available information, while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk, non-trading and such like).

Derivative financial instruments

Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted on the most useful market. Nonmarketable derivative financial instruments are assessed on the basis of models that take into account the risk inherent in the derivative instrument (market risk, credit risk, etc.). For further details, see below for assessment methodologies of credit risk and non-performance risk.

Additional non-derivative financial instruments

No "market price" is available for most of the financial instruments in this category (such as: credit granted to the public, credit to the government, deposits from the public, deposits with banks, subordinate debt notes and nonmarketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the level of risk inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after the netting of the effect of accounting write-offs and provisions for credit losses in respect of the debts. Furthermore, in certain cases, for the purpose of measuring fair value of nonmarketable financial liabilities, the Bank applies the guidelines of ASU 2009-05, "Measurement of liabilities at fair value". In particular, the Bank assesses their fair value using quoted prices of the liabilities (or of similar liabilities) traded as assets.

Evaluation of credit risk and of nonperformance risk

FAS 157 requires a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation but is not limited to that risk only. For a more extensive discussion as regards the principal methods and assumptions used for assessment of fair value of the financial instruments, see Note 32A "Balances and fair value assessments of financial instruments".

(8) Impairment of financial instruments**Securities**

As of each reporting date, the Bank examines whether impairment of a nature other than temporary has occurred with respect to the value of available-for-sale securities and of securities held to redemption.

During a reporting period, the Bank recognizes impairment of a nature other than temporary, at least regarding any security to which one or more of the following conditions apply:

- A security that had been sold prior to date of publication of the report for the relevant period;
- A security, which proximate to the date of publication of the report for the relevant period, the Bank intends to sell within a short period of time;
- A bond, the rating in respect of which was significantly lowered from its level at date of purchase by the Bank to its rating level at date of publication of the report for the relevant period. For this purpose, a material downgrade will be considered if the security's grade was lowered below investment grade;
- A bond, which subsequent to its purchase has been classified by the Bank as "troubled";
- A bond, in respect of which a default in payment occurred subsequent to its purchase;
- A security, the fair value of which at the end of the reporting period and at a date proximate to the publication of the financial report was lower at the rate of over 40% than its cost (in case of a bond - its written-down cost), and the period in which the fair value of the security was lower than its cost exceeds three consecutive quarters. This, unless the Bank has objective and solid evidence as well as a careful analysis of all relevant factors, which indicate at a high level of assurance, that the decrease in value is of a temporary nature.

Furthermore, the examination as to whether the impairment is of a nature other than temporary is based on the following considerations:

- Deterioration in the condition of the issuer or in market condition as a whole;
- The intention and ability of the Bank to hold the security for a long enough period allowing the recovery of fair value of the security or until maturity;
- In the case of bonds - the rate of return to maturity;
- In the case of shares - a reduction or cancellation of the distribution of dividends.

Moreover, the Bank recognizes impairment of a nature other than temporary in respect of acquired beneficiary rights and beneficiary rights that the Bank continues to hold in cases of securitization of financial assets, when updated information or other events indicate a probable deterioration in the forecast of cash flows generated by the financial instrument.

When impairment of a nature other than temporary occurs, the cost of the security is written-down to its fair value, which serves as a new cost basis. The cumulative loss pertaining to a security classified as available-for-sale, which in the past was reflected in a separate item of shareholders' equity within the framework of other comprehensive profit, is recorded in profit and loss when in respect of which impairment of a nature other than temporary is recognized. Increases in value in subsequent periods are recognized as a separate item of shareholders' equity within the framework of other cumulative comprehensive profit and are not reflected in profit and loss (new cost basis).

Credit to the public and outstanding debt

See Section D(4) above.

(9) Offsetting of financial assets and liabilities

The Bank implements the rules determined in the letter of the Supervisor of Banks dated December 12, 2012, which updates the public reporting instructions of the Supervisor of Banks in the matter of offsetting assets and liabilities. The amendments detailed in this letter are designed to modify Section 15a of the public reporting instructions to accepted accounting principles in the US. In accordance with the instructions, the Bank sets-off assets and liabilities deriving from the same counterparty, stating their net balance in the balance sheet, if the following cumulative conditions exist:

- In respect of such liabilities, a legally enforceable right of setoff of liabilities against assets exists;
- Intention exists to settle the liabilities and realize the assets either on a net basis or concurrently.
- Both the Bank and the counterparty owe one another determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and states in the balance sheet the net amount if all the above cumulative conditions exist and on condition that an agreement exists between the three parties which clearly establishes the right of the Bank for set-off of the said liabilities.

Furthermore, the Bank offsets deposits, the repayment of which to the depositor is conditional upon the extent of collection of the loans granted out of such deposits, and where the Bank has no risk of loss from such loans.

The Bank does not offset assets in respect of derivative instruments against liabilities in respect of derivative instruments unless all the above cumulative conditions exist. Notwithstanding, the instructions state that in certain cases a bank is entitled to offset fair value amounts recognized in respect of derivative instruments and fair value amounts recognized in respect of the right to demand the refund of a cash collateral (debtors) or the commitment to refund a cash collateral (creditors) deriving from derivative instruments created with the same counterparty in accordance with a master netting arrangement.

Notwithstanding the above, according to the instructions, a bank may not offset balance sheet amounts unless it had obtained the prior approval of the Supervisor of Banks. In view of the above, the Bank does not offset these balance sheet amounts.

(10) Transfers and service of financial assets and the settlement of liabilities

The Bank applies the measurement and disclosure rules determined in US Accounting Standard FAS 140 (ASC 860-10), "Transfer and service of financial assets and settlement of liabilities" as amended by FAS 166. "Transfer and service of financial assets" (ASC 860-10) regarding the treatment of transfers of financial assets and settlement of liabilities.

According to the said rules, the transfer of a financial asset shall be treated accounting wise as a sale, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset (or if the transferee is an entity, the only purpose of which is to engage in securitization or in asset backed financing activity, and which is prevented from pledging or exchanging the transferred financial asset, any third party holding beneficiary rights) may pledge or exchange the asset (or the beneficiary rights) received by him, and no conditions exist which also restrict the transferee (or a third party who holds the beneficiary rights) from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor, or subsidiary companies included in its financial statements, or its

agents, do not retain effective control over the financial assets or over the beneficiary rights relating to such transferred assets.

Beginning with January 1, 2012, the Bank implements the updates accounting standard ASU 2011-03 in the matter of the reexamination of effective control in repurchase agreements, comprising an update of the rules determined in FAS 166 (ASC 860). According to this update, evaluation of the existence of effective control focuses on the contractual rights and the contractual liabilities of the transferor, and therefore, the following are not taken into account: (1) criterion requiring that the transferor shall have the right to purchase the transferred securities also in the case of default of the transferee; and (2) guidelines regarding the demand for collateral in respect of the said criterion. In financial asset transfer transactions the Bank determines that the transferor retains effective control over the transferred assets (and therefore the transfer of assets is to be treated as a secured debt) if all the following conditions exist:

- The assets to be repurchased or redeemed are identical or identical in substance to the transferred assets;
- It is agreed to repurchase or redeem the assets before their maturity date at a determined or determinable price; and
- The agreement is entered into simultaneously with the transfer.

In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights. Participating rights have to meet the following criteria: the right has to represent proportionate rights in relation to the total financial asset; all cash flows receivable from the asset are distributed among the participating rights proportionally to their interest in the asset; the rights are not subordinated to other rights in the asset; no right of return of the asset to the transferor or to other participating right holders exists (except for in cases of misrepresentation or violation of commitments, ongoing contractual obligations for the service of the financial asset as a whole and the management of the transfer agreement, and contractual obligations to share in the setoff of any benefits received by any holder of participating rights); the transferor and also the holder of participating rights have no right to pledge or exchange the financial asset in entirety, unless all the holders of the participating rights agree to pledge or exchange the financial asset in its entirety.

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are deleted from the balance sheet of the Bank. Where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a collateralized debt, namely, the transferred asset continues to be stated in the balance sheet of the Bank and the proceeds of sale are recognized as a liability of the Bank.

The Bank applies specific instructions determined in the public reporting instructions for the treatment of securities lending or borrowing transactions, in which the lending is made against the general credit quality and the general collateral of the borrower, where the borrower does not transfer to the lender as collateral liquid instruments that specifically relate to the securities lending transaction, and which the lender is permitted to sell or pledge them.

The lending or borrowing as above, are treated as credit granted or deposit received measured at the fair value of the related securities. Income on an accrual basis in respect of such securities is recognized interest income from credit and changes in fair value (over and above the changes in the accrual basis) are recognized as part of non-interest financing income, when the securities in question are included in the

trading portfolio, or as part of other comprehensive profit, when they are considered as available-for-sale securities.

The Bank deletes a liability only if that liability had been settled, namely, one of the following conditions exist: (a) the Bank has paid the lender and is released from his commitment with respect to the liability, or (b) the Bank has been legally released, either by legal proceedings or with the consent of the lender, from being the principal debtor in respect of the liability.

(11) Fixed assets (buildings and equipment)

Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the purchase of the asset. The cost of self constructed assets includes the cost of materials and direct labor, as well as any other costs that may be directly attributable to bringing the asset to the place and condition required for it to operate in the manner planned by Management.

Cost of acquired software, which forms part of the operation of related equipment, is recognized as part of the cost of the said equipment.

Where significant parts of fixed assets (including the cost of significant periodic examinations) have different life span, they are treated as separate items (significant components) of fixed assets.

Gain or loss on disposal of a fixed asset are determined by comparing the consideration received on disposal to the stated value of the asset and are recognized, net, in the item "Other income" in the statement of profit and loss.

Subsequent costs

The cost of replacing a part of a fixed asset item is recognized as part of the stated value of such item if it is expected that the group will enjoy the future economic benefit from this item and that its cost can be reliably measured. The stated value of the replaced part is deducted from the books. Current maintenance costs are recognized in profit and loss as incurred.

Depreciation

Depreciation is a methodical allocation of the depreciable amount of the asset over its useful life. The depreciable amount is the cost of the asset or another amount substituting cost, net of the residual value of the asset. Depreciation is charged to profit and loss by the straight-line method over the estimated useful life of each part of the fixed asset items, as this method reflects in the best manner, the anticipated consumption format of the future economic benefits inherent in the asset. Assets on lease are depreciated over the shorter of the lease period or the period of use of the assets. Land owned by the Bank is not depreciated.

An asset is being depreciated when it is available for use, namely, when it reached the place and condition required for it to operate in the manner planned by Management.

Assessment of the useful lives of assets for the reported and comparative periods is as follows:

- | | |
|------------------------------------|---------------|
| - Buildings and lands | - 25-50 years |
| - Furniture and equipment | - 7-17 years |
| - Motor vehicles | - 5 years |
| - Leasehold improvements | - 7-18 years |
| - Information technology equipment | - 3-8 years |

The assessments regarding the depreciation method, the useful lives and the residual value of assets are re-examined at least at the end of each financial year, and are modified, where required.

(12) Leasing

Leased assets, including land leased from the Israel Lands Administration or from other third parties, where the Group bears, substantially, all risk and income pertaining to the assets are classified as financial leases. Upon the initial recognition, the leased assets are measured in an amount equal to the lower of fair value and the discounted value of the future minimum lease payments. Future payments to the Israel Lands Administration in respect of the exercise of an option for extension of the lease period are not recognized as part of the asset and of the related liability since they comprise conditional lease payments stemming from the fair value of the land at date of the future renewal of the lease agreement. Following the initial recognition, the asset is treated in accordance with the accounting policy applied with respect to such an asset.

All other lease transactions are treated as operating leases, the leased assets not being reflected in the balance sheet of the Group.

Lease fees paid in advance to the Israel Lands Administration in respect of leased land classified as operating leases, are stated in the balance sheet as prepaid expensed and are recognized in profit and loss over the lease period. The lease period and the amounts of amortization take into consideration the option for extension of the lease period if at date of entering the lease transaction it was reasonably certain that the option will be exercised.

Payments with respect to operating leases are recognized in profit and loss by the "straight-line" method over the period of the lease. Lease incentives received are recognized as an integral part of all lease expenses by the "straight-line" method over the period of the lease.

Minimum lease payments, payable within the framework of a financial lease, are divided between financing expenses and the amortization of the outstanding liability. The financing expense is allocated in respect of each period of the lease period in a way that results in a fixed periodic interest rate on the outstanding balance of the liability. The minimum lease payments are updated in respect of conditional lease payments, as they materialize.

(13) Intangible assets

Software costs

Software purchased by the Bank is measured at cost less depreciation and losses on impairment.

Costs related to software development or modification for own uses are capitalized if and only if: it is possible to reliably measure such development costs; the software is technically and commercially feasible; the software is expected to produce economic benefits in the future; and the Bank has the

intention and adequate financial means to complete the development and make use of the software. The costs recognized as an intangible asset include the cost of materials and services and direct labor. Such costs are measured at cost less accumulated amortization and losses on impairment. Overhead costs, which cannot be directly attributable to software development, as well as research costs are recognized in profit and loss as incurred.

Subsequent costs

Subsequent costs are recognized as an intangible asset only if and when they increase the future economic benefits inherent in the asset in respect of which they had been incurred. The remaining costs, including costs relating to goodwill or to the in-house development of brands, are recognized in profit and loss as incurred.

Amortization

Amortization is charged to profit and loss by the "straight-line" method over the estimated useful lives of intangible assets, including software assets, beginning with the date on which the assets were available for use.

Intangible assets created by the Bank (such as: software in process of development) are not amortized systematically so long as they are not ready for use. Accordingly, such assets are assessed for impairment at least once a year, until such date as they become available for use.

In accordance with the public reporting instructions, the Bank implements the international accounting standard No. 38 regarding intangible assets. (IAS 38), as well as guidelines contained in SOP 98-1 regarding accounting for the cost of computer software developed or obtained for internal use. In view of the accounting complexity of the capitalization of software costs process, and in view of the materiality of the capitalized amounts of software costs, the Supervisor of Banks has issued guidelines to the Bank in the matter of the capitalization of software costs, according to which, for materiality purposes, a minimum capitalization amount should be defined of not less than NIS 600 thousand. Any software development project, the total cost thereof which might be capitalized is lower than the defined materiality minimum amount, would be recognized as an expense in profit and loss. In addition, the Supervisor of Bank has issued further guidelines with respect to various aspects of the software development costs capitalization process at the Bank.

Assessment of the useful lives of intangible assets for the reported and comparative periods is as follows:

Customer relations - 10 years

Software cost - 5 years

The assessments regarding the depreciation method, the useful lives and the residual value of assets are re-examined at least at the end of each financial year, and are modified, where required.

(14) Investment property

Investment property is property (land, buildings, part thereof or both) owned (by the Bank as freehold or as financial leasehold) for the purpose of generating rental income or for producing a capital gain, or both, but not for the purpose of:

- (1) Use for production or for the supply of goods and services or for administrative purposes; or
- (2) Sale in the ordinary course of business.

Investment property is initially recognized at cost together with transaction costs. In consecutive periods the investment property is measured at cost of acquisition less accumulated depreciation and losses on impairment.

(15) Impairment of non-financial assets

The stated value of the non-financial assets of the Group, that are not deferred tax assets, and including financial assets comprising investments treated by the equity method of accounting, is reviewed at each reporting date in order to determine whether signs indicating impairment exist. If such signs do exist, than an assessment is made of the recoverable value of the asset.

The recoverable amount of an asset or of a cash producing unit is the higher of the value of use of the asset or its net selling price (fair value less selling expenses).

In determining the value of use, the Group discounts the anticipated future cash flows at a discount rate before tax that reflects market evaluation of the time value of money and the specific risk attributable to the asset. For the purpose of examining impairment, assets that cannot be individually assessed are grouped together as the smallest group of assets producing cash as a result of continued use, and which are practically independent of other assets or groups ("cash producing unit").

Assets of the Bank Head-Office do not produce separate cash flows and serve more than one cash producing unit. A part of Head-Office assets are allocated to cash producing units on a reasonable and consistent basis and are examined for impairment as part of the impairment examination conducted in respect of the cash producing assets to which they are allocated.

Other Head-Office assets, which cannot be reasonably and consistently allocated to cash producing units, are allocated to a group of cash producing units when indications of impairment of an asset belonging to the Head-Office of the Bank exist or when indications exist for impairment of the group of cash producing units. In such a case, a recoverable amount is determined for the group of cash producing units being served by Head-Office.

Impairment losses are recognized when the stated value of the asset or of a cash producing unit to which the asset belongs exceeds the recoverable amount and are charged to profit and loss. Impairment losses recognized in respect of cash producing units are first allocated to the writing down of the stated value of goodwill attributed to such units and thereafter to the writing down of the stated value of the other assets of the cash producing unit on a proportionate basis.

Loss on impairment is allocated between the shareholders of the Bank and the non-controlling interest on the same basis according to which the profit or loss is allocated.

Losses on impairment recognized in prior periods are being reviewed at each reporting date in order to determine whether there are indications that such losses had been reduced or no longer exist. A loss on impairment is reversed if changes have occurred in assessments used to determine the amount of

recoverable value, and only to the extent that the stated value of the asset after reversal of the loss on impairment does not exceed the stated value net of depreciation or amortization that would have been determined had not a loss on impairment been recognized.

Impairment of in-house computer software development costs

In addition to indications as to the existence of impairment determined by IAS 36 "Impairment of assets", an examination of possible impairment of in-house computer software development costs is to be performed also when indications noted by accounting principles accepted at US banks exist, SOP 98-1: Accounting for costs of computer software development or obtained for internal use (ASC350-40):

- (1) It is not anticipated that the software will provide significant potential services;
- (2) A significant change has occurred in the manner or scope of use of the software or in its anticipated use;
- (3) A material change in the software was performed or would be performed in the future;
- (4) The development costs or the cost of conversion of the software intended for internal use, significantly exceed anticipated costs;
- (5) It is no longer expected that development of the software would be completed and that the software would be used.

If one or more of the above indicators exist, impairment has to be assessed according to the rules of IAS 36 "Impairment of assets".

Investments in equity based investees treated by the equity method of accounting

Investment in an equity based investee is assessed for impairment when objective evidence exists indicating impairment in accordance with IAS 39 "Financial instruments, preparation and measurement", and in accordance with decisions 1-4 of the Securities Authority, guidelines for examination of impairment of fixed investments.

Goodwill being part of an investment account in an equity basis investee is not recognized as a separate asset; therefore it is not separately examined for impairment. Impairment is assessed with respect to the investment as a whole. Where objective evidence exists that indicates a possible impairment of the investment, the Group assesses the recoverable value of the investment, which is the higher of the use value or its net selling price.

In determining the use value of an investment in an equity based investee, the Group assesses its share in the present value of the assessed future cash flows, anticipated to be produced by the equity based investee, including cash flows from the operations of the investee and the proceeds of the final sale of the investment, or the present value of future cash flows anticipated to arise from dividends that would be received from the investee and from the final sale.

A loss on impairment is recognized when the stated value of the investment, after the application of the equity basis method of accounting, exceeds the recoverable value, and is recorded in the item "Share of the banking corporation in profits or losses from ordinary operations of equity based investees, net of tax" in the profit and loss statement. A loss on impairment is not allocated to any asset, including goodwill that comprises a part of the investment account in the equity based investee.

A loss on impairment is reversed if and only if assessments used to determine the recoverable amount of the investment have changed since the date on which the loss on impairment was last recognized. The

stated value of the investment, after reversal of the impairment loss, should not exceed the stated value of the investment that would have been determined according to the equity method had not a loss on impairment been recognized. The reversal of a loss on impairment is recorded in the item "Share of the banking corporation in profits or losses from ordinary operations of equity based investees, net of tax" in the profit and loss statement.

(16) Share based payment transactions

The fair value at date of a share based award payment is recognized as a payroll expense parallel to an increase in capital over the period in which an unconditional right to the awards is obtained. The amount charged as an expense in respect of share based award payments, which are conditional upon vesting terms based upon service period or performance requirements that are not market terms, is adjusted in order to reflect the number of awards that are expected to be vested.

(17) Contingent Liabilities

The financial statements include appropriate provisions for claims, in accordance with assessments of Management based on opinions of its legal advisors. The disclosure format is in accordance with directives of the Supervisor of Banks, which classify claims submitted against the Bank into three groups:

- 1) Probable - prospects of risk materializing are of over 70%. A provision is included in the financial statements in respect of a claim classified under this group.
- 2) Reasonably possible - prospects of risk materializing are between 20% and 70%. No provision is included in the financial statements in respect of a claim classified under this group.
- 3) Remote - prospects of risk materializing are below 20%. No provision is included in the financial statements in respect of a claim classified under this group.

A claim, in respect of which the Supervisor of Banks determined that the Bank is required to refund amounts, is classified as "probable" and a provision therefore is included in the financial statements in the amount required to be refunded.

In rare cases, where Management, based on opinion of its legal advisors, decides that it is not possible to assess the prospects of a risk exposure materializing with respect to an ordinary law suit and to a suit approved as a class action suit, the Bank does not include a provision in this respect.

Note 17 regarding contingent liabilities and special commitments includes a quantitative disclosure regarding all exposures, the probability of their materializing is not remote and in respect of which a provision is not included. Contingent liabilities, the materialization of which is considered remote (less than 20%), are being disclosed if the exposure inherent therein is material in relation to the equity of the Bank.

(18) Income Tax Expense

The income tax expense includes current and deferred taxes. Current and deferred taxes are reflected in profit and loss, unless the tax relates to a business combination or charged directly to shareholders' equity if deriving from items directly recognized in equity.

Current taxes

The current tax is the amount of taxes anticipated to be paid (or received) on taxable income for the reported year, being computed according to tax rates in effect according to the law enacted or practically enacted at balance sheet date, and which includes changes in tax payments relating to prior years.

The provisions for taxes on the income of the Bank and of its consolidated subsidiaries, which are considered "financial institutions", for value added tax purposes include profit tax levied on income according to the VAT law. Value added tax levied on payroll of financial institutions is included in the item "Salaries and related expenses".

Deferred taxes

The Bank recognizes deferred taxes with respect to temporary differences between the stated value of assets and liabilities for financial reporting and their value for tax purposes. Deferred taxes, however, are not recognized with respect to the following temporary differences:

- The initial recognition of assets and liabilities in a transaction which is not a business combination and which does not affect the accounting profit and the profit for tax purposes,
- Differences arising on investment in subsidiaries and in equity basis investees, if the Group remains in control at date of reversal of the difference, and also if it is not anticipated that these would be reversed in the foreseeable future, whether by way of realizing the investment or by way of distribution of dividends by the investee.

The measurement of deferred taxes reflects the tax implications that will stem from the manner in which the Group anticipates, at the end of the reporting period, to recover or settle the stated value of assets and liabilities.

Deferred taxes are measured according to tax rates expected to apply to the temporary differences when these are realized, based on the laws enacted or practically enacted at balance sheet date.

A deferred tax asset is recognized in the books in respect of carry forward losses and in respect of deductible tax benefits and temporary differences where it is more likely than not that the Bank will have taxable income in the future against which these could be utilized. Deferred tax assets are being reviewed at each reporting date, and where it is not expected that the related tax benefits would be realized, the said tax assets are written off. In determining whether a deferred tax asset should be recognized, the Group takes into consideration all available evidence - both positive evidence supporting recognition of a deferred tax asset and the negative evidence denying such recognition.

Where it is not anticipated that the Group will have sufficient taxable income, the net deferred tax assets shall not exceed the amount of taxable temporary differences.

Offsetting deferred tax assets and liabilities

The Bank offsets deferred tax assets against deferred tax liabilities where a legal enforceable right exists for the setoff of current tax assets and liabilities which are attributed to the same taxable income assessed by the same tax authority in respect of the same taxable company, or in different companies in the Group that intend to settle tax assets and liabilities on a net basis or where the tax assets and liabilities are simultaneously settled.

The Group may be liable to additional taxes in case of dividend distribution by investee companies. Such additional tax liability is not included in the financial statements in view of the policy of investee companies

not to distribute dividends involving additional taxes to the receiving company, in the foreseeable future. In cases where an investee company is anticipated to distribute a dividend creating an additional tax liability to the receiving company, the Group records a provision for taxes in the amount of the additional tax which the Group may be liable for in respect of the dividend distribution.

Uncertain tax positions

The bank recognizes the effect of tax positions only if it is more likely than not that the positions would be approved by the tax authorities or the Court. Recognized tax positions are measured according to the maximum amount having realization prospects of over 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances have led to changes in judgment.

(19) Earnings per share

The Group presents basic per share data in respect of its ordinary share capital. The amount of basic per share earnings or loss, attributed to the ordinary shareholders of the Bank is computed by dividing the amount of earnings or loss by the weighted average number of ordinary shares outstanding during the reported period.

(20) Segment Reporting

A supervisory business segment is a component in the banking corporation that engages in certain operations or combines customers in specific classifications, defined by the supervisor of banks. The format of reporting was set in the Public Reporting Directives of the Supervisor of Banks.

A supervisory business segment is generally defined based on the classification of customers. Private customers are classified according to their volume of financial assets to the household segment or to the private banking segment. Customers, other than private individuals, are mostly classified according to the volume of their operations to business segments (differentiating between small businesses, middle market and corporate businesses), institutional bodies and the financial management segment. In addition, the Bank is required to implement the reporting requirements regarding business segments according to Management's approach, where the business segments according to this approach differ significantly from the supervisory business segments. The additional disclosure according to Management's approach is in accordance with the accepted accounting principles of US banks, ASC 280 (see Note 28 to the report).

The new format for reporting segment operations has initially been applied as from the report for 2015, this subject to relief and transitional instructions determined by the Supervisor of Banks. For details, see Note 1.C.9.

A business segment defined in accordance with Management's approach is a component of a banking corporation engaged in operations that may produce income and incur expenditure; the results of its operations are being reviewed on a regular basis by Management and the Board of Directors in order to evaluate its performance and make decisions as to the allocation of resources to it; and in respect of which separate financial data is available.

The Bank has established the segments based on characterization of customer segments. These segments include also banking products. The new format for reporting segment operations has initially been applied as from the report for 2015, this subject to relief and transitional instructions determined by the Supervisor of Banks. For details, see Note 1.C.9.

(21) Transactions with controlling parties

The bank implements US accepted accounting principles for the accounting treatment of transactions between a banking corporation and its controlling party and between companies under the control of the banking corporation. In cases where the said principles contain no reference to the manner of treatment, the Bank applies the principles determined in Standard 23 of the Israeli Accounting Standards Institute regarding the accounting treatment of transactions between an entity and its controlling party.

Assets and liabilities, being the subject of a transaction with a controlling party, are measured at fair value at date of the transaction. Due to the fact that the transaction in question is made at a capital level, the Group reflects in equity the difference between the fair value and the proceeds of the transaction.

Accepting liability or waiver

The Bank deletes the liability from the balance sheet at its fair value at date of settlement. The difference between the stated value of the liability and its fair value at date of settlement is reflected as a profit or loss. Upon accepting a liability, the difference between the fair value of the liability at date of settlement and the determined proceeds is reflected in equity. In case of a waiver, the fair value of the liability waived is reflected in equity.

Indemnification

The amount of the indemnification is reflected in equity.

Loans including deposits

At date of initial recognition, a loan granted to a controlling party or a deposit received from a controlling party, are presented in the financial statement of the Bank according to their fair value as an asset or liability, as the case may be. The difference between the amount of the loan granted or deposit received and their fair value at date of initial recognition is reflected in equity.

In reporting periods subsequent to the initial recognition, the said loan or deposit are stated in the financial statements of the Bank at their written down value, using the effective interest method, except in cases where according to accepted accounting principles they are stated at fair value.

(22) Instruction regarding the format of the statement of profit and loss of a banking corporation and adoption of accounting principles accepted by US banks regarding the measurement of interest income

As from January 1, 2014, the Bank implements the guidelines prescribed in the letter of the Supervisor of Banks regarding the adoption of accounting principles accepted by US banks in the matter of the measurement of interest income (ASC 310-20), which, among other things, determines rules for the treatment of commissions regarding the setting-up of credit, commitment to grant credit, changes in loan terms and premature repayment commission.

Credit setting-up commission

Commission charged on the setting-up of credit are not recognized immediately as income in the statement of profit and loss but are deferred and recognized over the period of the loan as an adjustment of the return. Income from such commissions is recognized by the effective interest method, and is reported as part of interest income.

Credit allocation commission

These commissions are treated in accordance with the probability of the commitment to grant the loan being realized. Where the probability is remote, the commission is recognized by the straight-line method over the life of the commitment. Otherwise, the Bank defers the recognition of income from such commissions until date of realization of the commitment or until its expiry date, whichever is earlier. Where the commitment is realized, commissions are recognized by way of adjustment of the return over the life of the loan, as stated above. Where the commitment has expired without being realized, the commission is recognized at date of expiry and is reported as part of commission income.

Changes in terms of the debt

In cases of refinancing or the restructure of debts that are not troubled debts, the Bank checks whether the terms of the loan had not been materially changed. In accordance therewith, the Bank checks whether the present value of future cash flows according to the new terms of the loan differs by more than 10% from the present value of the remaining cash flows according to the present terms, or whether the change refers to the currency of the loan. In these cases, all unamortized commissions as well as premature repayment commission charged to the borrower in respect of the change in terms of the credit, are recognized in profit and loss. Otherwise, the said commissions are included as part of the net investment in the new loan, and are recognized as an adjustment of return, as stated above.

Premature repayment commission

Premature redemption commissions charged in respect of premature repayments made prior to January 1, 2014, and not yet amortized, are recognized over a period of three years or over the remaining period of the loan, the shorter of the two.

Commissions charged on premature repayments made after January 1, 2014, are immediately recognized as interest income.

E. New accounting standards and new directives of the Supervisor of Banks in the period prior to their implementation**(1) Recognition of income from agreements with customers**

A circular letter was issued on January 11, 2015, regarding the adoption of the update to accounting principles in the matter of "income from agreements with customers". The letter updates the public reporting instructions in the light of the publication of ASU 09-2014, which adopts a new standard relating to the recognition of income as part of US accepted accounting principles. This Standard states that income shall be recognized in the amount expected to be received in consideration for the delivery of goods or the granting of services to a customer. In accordance with the draft transitional instructions for the year 2015, it is required to implement as from January 1, 2018, the amendments to the public reporting instructions in accordance with the circular letter regarding the adoption of the accounting principles in the matter of "income from agreements with customers".

Upon the initial application, the Bank has the option of using the method of retroactive application with the restatement of the comparative data, or alternatively, using the "from now onwards" method, recognizing in equity at date of initial application, the cumulative effect of the change in accounting. The new Standard

does not apply, among other things, to financial instruments or to contractual rights and liabilities to which Chapter 310 of the Codification applies.

The Bank has not yet begun to examine the impact of the Standard upon its financial statements, and has not yet elected the method for the implementation of the transitional instructions.

(2) Reporting by banking corporations and credit card companies in Israel according to US accepted accounting principles in the matter of business combinations, consolidation of financial statements and investments in investee companies

On June 10, 2015, a circular letter was published concerning the reporting by banking corporations and credit card companies in Israel in accordance with US accounting principles in the matter of business combinations, consolidation of financial statements and investments in investee companies. According to the letter, it is required to implement the US accepted accounting principles regarding these matters as detailed below:

- Presentation, measurement and disclosure rules as stated in Item 805 of the Codification regarding "business combination".
- Provisions of Item 810 of the Codification regarding "consolidation of financial statements".
- Provisions of Item 350-20 regarding "intangible assets - goodwill and other assets" regarding the accounting treatment of impairment of goodwill acquired in a business combination.
- Accounting principles accepted by US banks regarding investee companies, including presentation, measurement and disclosure rules, as well as the guidelines in respect of impairment as determined by the provisions of Item 323 of the Codification regarding "Investments - equity value method and joint ventures".
- The treatment stated in Section 74B(b) of the public reporting instructions regarding noncurrent assets held for sale according to the IFRS 5 shall not apply to equity base investees.
- It is clarified, that the transitional instruction, which permitted not to adjust the accounting policy relating to items being part of the core banking business, applied by a non-financial equity base investee in order to implement a uniform accounting policy with that of the bank, has been cancelled. Replacing it, is an additional Section in the transitional instructions for 2015, permitting a bank, for practical reasons, not to make adjustments in 2016 and 2017 to the accounting policy applied by a non-financial equity base investee, which prepares its financial statements according to the IFRS.

The provisions of the letter apply as from January 1, 2016 and thereafter. Upon the initial implementation, it is required to act in accordance with the transitional instructions determined for these matters in the US standards, with the necessary modifications, including the retroactive restatement of the comparative data, where required according to the rules of the US standards in the matter. The instructions in the matter of "push down accounting" shall apply on business combinations executed as from January 1, 2016.

The Bank is examining the implications of the letter upon its financial statements.

(3) Reporting in accordance with US accepted accounting principles in the matter of intangible assets

A circular letter was published on October 22, 2015, in the matter of the reporting by banking corporations and credit card companies in Israel according to US accepted accounting principles in the matter of intangible assets, and among other things, the presentation, measurement and disclosure rules stated in the provisions of Item 350 of the Codification regarding "intangible assets - goodwill and other".

Banks are required to implement the instructions as determined in the letter, as from January 1, 2016 and thereafter. Upon the initial implementation, it is required to act in accordance with the transitional instructions stated in the US Standards with respect to these matters, with the necessary modifications. The above stated includes an amendment to the data relating to prior periods, if this is required with respect to these issues.

Implementation of the letter is not expected to have a material impact on the financial statements.

(4) Taxes on income

A circular letter was published on October 22, 2015, in the matter of the reporting by banking corporations and credit card companies in Israel according to US accepted accounting principles in the matter of taxes on income. According to the letter, it is required to implement the accounting principles accepted by US banks in the matter of taxes on income, among other, the presentation, measurement and disclosure rules in accordance with Chapter 740 of the Codification regarding "foreign currency issues - taxes on income".

The letter requires to implement the new rules as from January 1, 2017. Upon the initial implementation, it is required to act in accordance with the transitional instructions determined in the US standards, including the retroactive restatement of the comparative data, where required. There is no requirement to present in the financial statements for 2017, a disclosure regarding non-recognized tax benefits.

The Bank is examining the implications of the letter upon its financial statements.

(5) Amendment No. 2014-11 to the Codification of the FASB regarding repurchase-to-maturity transactions and repurchase financing transactions

The Supervisor of Banks published on July 15, 2015 a draft letter regarding "Amendment No. 2014-11 to the Codification of the FASB regarding repurchase-to-maturity transactions and repurchase financing transactions". According to the draft letter, The FASB published in June 2014, Amendment No. 2014-11 to the Codification regarding repurchase-to-maturity transactions and repurchase financing transactions. Among other things, the Amendment clarifies that repurchase-to-maturity transactions are to be treated accounting wise as a secured debt, consistently with the accounting treatment of other repurchase transactions. Furthermore, the Amendment clarifies the accounting treatment of repurchase financing transactions, in which one party transfers to a counterparty a financial asset, and contemporaneously enters into an agreement with the counterparty for the repurchase and resale of the financial asset, as well as includes certain disclosure requirements. Banks are required to implement these amendments as from January 1, 2016 and thereafter, in accordance with the transitional instructions prescribed in the US, with the necessary modifications.

Implementation of the letter is not expected to have a material impact on the financial statements.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
A. Interest income (expenses) ⁽¹⁾						
From credit to the public	2,120	2,394	2,831	1,413	1,619	1,969
From credit to the Government	(3)	3	-	-	-	-
From deposits with banks	9	17	33	5	11	16
From deposits with Bank of Israel and from cash	28	106	192	19	64	107
From securities which were borrowed	1	6	15	1	4	11
From bonds ⁽²⁾	99	136	246	72	87	138
From Investees companies	-	-	-	9	12	18
From other assests	6	2	5	2	1	2
Total interest income	2,260	2,664	3,322	1,521	1,798	2,261
B. Interest expenses⁽¹⁾						
On deposits from the public	132	322	728	146	278	573
On deposits from the Government	6	7	9	6	6	7
On deposits from banks	1	1	8	8	10	17
On bonds and subordinated capital notes	168	222	354	123	182	291
On other liabilities	-	11	36	-	10	32
Total interest expenses	307	563	1,135	283	486	920
Total interest income, net	1,953	2,101	2,187	1,238	1,312	1,341
C. Details on net effect of hedging derivative instruments on interest income and expenses						
Interest expenses ⁽³⁾	(25)	(13)	(11)	(23)	(16)	(14)
D. Details of interest income from bonds on cumulative basis						
Held to maturity	20	21	30	17	15	20
Available for sale	74	104	176	51	64	92
Held for trading	5	11	40	4	8	26
Total included in interest income	99	136	246	72	87	138

(1) Including effective component in hedging relations.

(2) Including Interest income on mortgage-backed securities (MBS) in the amount of NIS 5 million (consolidated and the Bank) (2014 - NIS 9 million, consolidated and the Bank, 2013 - NIS 8 million, consolidated and the Bank).

(3) Details of effect of hedging derivative instruments on subsection (A).

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
A. Non-interest financing income (expenses) in respect of non-trading activities						
1. From activity in derivative instruments						
Non-effective part of hedging ratios (see C below) ⁽¹⁾	(1)	(2)	2	(1)	(2)	2
Net income (expenses) in respect of ALM derivative instruments ⁽²⁾	(46)	865	(584)	(70)	613	(437)
Total from activity in derivative instruments	(47)	863	(582)	(71)	611	(435)
2. From investments in bonds						
Profits from sale of bonds available for sale ⁽⁵⁾	87	164	167	48	78	89
Losses from sale of bonds available for sale ⁽³⁾⁽⁵⁾	-	(1)	(5)	-	(1)	(4)
Total from investment in bonds	87	163	162	48	77	85
3. Net exchange differences	76	(897)	507	91	(628)	388
4. Gains (losses) from investment in shares						
Gains from sale of shares available for sale ⁽⁵⁾	28	30	43	20	30	36
Losses from sale of shares available for sale ⁽⁵⁾	(4)(44)	(3)	(4)	(4)(44)	(3)	(3)
Dividend from shares available for sale	38	35	47	37	35	47
Total from investment in shares	22	62	86	13	62	80
Total non-interest financing income (expenses) in respect of non-trading activities	138	191	173	81	122	118

(1) Excluding the effective component of hedging ratios.

(2) Derivative instruments constituting part of the asset and liability management network of the Bank, which are not designated for hedging ratios.

(3) 2013 - including a provision for other-than-temporary impairment in the amount of NIS 3 million and NIS 2 million, consolidated and the Bank, respectively.

(4) Including loss in the amount of NIS 37 million in respect of verdict received about a lawsuit. See Note 25.G.4.

(5) Reclassified from other comprehensive income.

NOTE 3 - NON-INTEREST FINANCING INCOME (CONT'D)

(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
B. Net income in respect of non-interest financing activity for trading⁽³⁾						
Net income in respect of other derivative instruments	14	7	16	9	12	13
Net realized and unrealized gains from adjustments to fair value of bonds held for trading ⁽¹⁾	(3)	34	12	2	20	5
Net realized and unrealized losses from adjustments to fair value of shares held for trading ⁽²⁾	-	(2)	(1)	1	(2)	(1)
Total non-interest financing income from trading activities ⁽⁴⁾	11	39	27	12	30	17
Total non-interest financing income	149	230	200	93	152	135
Details on non-interest financing income in respect of trading activities, by risk exposure						
Interest rate exposure	(1)	28	14	2	20	5
Foreign currency exposure	1	1	1	-	1	1
Exposure to shares	11	10	12	10	9	11
Total	11	39	27	12	30	17
C. Non-effective part of hedging ratios – foreign operation⁽⁵⁾						
Non-effectiveness of hedges	-	-	-	-	-	-
Gains (loss) component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	(1)	(2)	2	(1)	(2)	2
Total	(1)	(2)	2	(1)	(2)	2

(1) No gains in respect of trading bonds on hand at balance sheet date (2014 - NIS 7 million and NIS 8 million consolidated and the Bank, respectively, 2013 - NIS 1 million and NIS 5 million consolidated and the Bank, respectively).

(2) No gains/losses in respect of trading shares on hand at balance sheet date.

(3) Including exchange differences arising from trading activity.

(4) See Note 2 for details on income from investment in trading bonds.

(5) See Note 2 for disclosure of the net effect of hedge derivative instruments on interest income and expense.

NOTE 4 - FEES

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
Account management	271	287	307	136	144	155
Credit cards	105	104	118	54	53	66
Securities and certain derivative instruments activity	453	449	421	320	302	277
Financial products distribution commissions ⁽¹⁾	81	81	64	46	45	39
Management, operation and trust to institutional entities ⁽²⁾	108	109	86	33	33	32
Credit handling	34	34	114	13	14	64
Conversion differences	141	130	120	93	82	75
Foreign-trade activity	56	57	58	45	44	44
Commissions from financing activities	77	70	75	72	65	69
Other fees	52	54	55	27	27	30
Total Fees	1,378	1,375	1,418	839	809	851

(1) Mutual and provident funds distribution fees.

(2) Operation of Provident and mutual funds and long-term savings.

NOTE 5 - OTHER INCOME

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
Capital gains from the sale of building and equipment	6	13	28	-	13	28
Capital gain from the sale of consolidated subsidiary	-	31	-	-	31	-
Other	8	18	18	192	220	204
Total other income	14	62	46	192	264	232

NOTE 6 - SALARIES AND RELATED EXPENSES

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2015	2014 ⁽¹⁾	2013 ⁽¹⁾	2015	2014 ⁽¹⁾	2013 ⁽¹⁾
Salaries	1,099	1,181	1,172	726	780	763
Other related expenses including study funds, vacation and sick days	130	122	128	83	82	86
Long-term benefits	(43)	35	27	(59)	27	23
National insurance and VAT on salaries	309	326	325	220	214	214
Pension expenses including severance pay and allowances (see note 23)						
Defined benefit	60	45	31	34	26	15
Defined deposit	66	65	56	46	44	35
Other post-employment benefits and non-pension post retire benefits (see note 23)	8	6	7	4	3	3
Total salaries and related expenses	1,629	1,780	1,746	1,054	1,176	1,139
Of which salaries and related expenses abroad	22	24	28	-	-	-

(1) Restated in respect of the retroactive application of the US accepted accounting principles regarding employee rights. See note 1.C.1.

NOTE 7 - OTHER EXPENSES

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
Marketing and advertising	51	51	52	22	20	18
Communications	88	79	82	59	50	51
Computer	111	125	124	100	109	112
Office	15	16	17	9	9	10
Insurance	6	6	5	2	2	2
Legal, audit and consultancy	58	61	59	32	33	30
Directors' fees and fees for participation in meetings	12	11	13	5	5	6
Professional instruction and training	5	6	6	3	3	3
Commissions	108	113	102	130	124	109
Other	68	81	71	54	59	55
Total other expenses	522	549	531	416	414	396

NOTE 8 - PROVISION FOR TAXES ON OPERATING EARNINGS

(NIS million)

A. Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
Current taxes in respect of the current year	279	351	421	163	233	284
Current taxes in respect of prior years	(12)	(3)	(2)	(12)	(1)	2
Total current taxes	267	348	419	151	232	286
Addition (deduction):						
Deferred taxes in respect of the current year	58	(1)(21)	(1)(54)	61	(1)(2)	(1)(47)
Deferred taxes in respect of prior years	1	1	1	-	-	-
Total deferred taxes**	59	(20)	(53)	61	(2)	(47)
Provision for taxes on income*	326	328	366	212	230	239
* Includes provisions for taxes (tax saving) of foreign consolidated subsidiary	1	(3)	4	-	-	-
** Deferred taxes						
Creation and reversal of temporary differences	56	(1)(20)	(1)(33)	59	(1)(2)	(1)(34)
Change in the tax rate	3	-	(20)	2	-	(13)
Total deferred taxes	59	(20)	(53)	61	(2)	(47)

(1) Restated in respect of the retroactive application of the US accepted accounting principles regarding employee rights. See note 1.C.1.

NOTE 8 - PROVISION FOR TAXES ON OPERATING EARNINGS (CONT'D)

(NIS million)

B. Reconciliation of provision for taxes to the theoretical tax expense

The following is a reconciliation between the theoretical tax which would have been payable had the operating earnings been chargeable to tax at the statutory rate prevailing on banks in Israel and the adjusted tax provision on ordinary operating earnings as reported in the statement of income:

	Consolidated			The Bank		
	For the year ended			For the year ended		
	December 31			December 31		
	2015	2014	2013	2015	2014	2013
Prevailing tax rate	37.6%	37.7%	36.2%	37.6%	37.7%	36.2%
Tax at the prevailing tax rate	288	(1)290	(1)323	198	(1)215	(1)214
Tax in respect of:						
Non deductible expenses	32	35	38	11	12	15
Tax-exempt income	-	(5)	(2)	-	(5)	(2)
Israeli tax on income of foreign consolidated subsidiaries	-	1	1	-	1	1
Reconciliation of statutory tax rate to tax rates applying to consolidated subsidiaries	(4)	(7)	(4)	(5)	(6)	(4)
Additional amounts to be paid in respect of impaired debts	13	13	21	13	10	18
Adjustment of depreciation and amortization	4	5	4	4	5	5
Real exchange rate differences from consolidated subsidiaries abroad	-	(1)	4	-	-	-
Taxes in respect of prior years	(11)	(2)	(1)	(12)	(1)	2
Changes in deferred tax balances due to changes in tax rates	3	-	(20)	2	-	(13)
Other differences	1	(1)	2	1	(1)	3
Provision for taxes on income	326	328	366	212	230	239

(1) Restated in respect of the retroactive application of the US accepted accounting principles regarding employee rights. See note 1.C.1.

C. Tax assessments and additional matters relating to the provision for taxes

- (1) The Bank has agreed tax assessments for the tax years up to and including the year 2010. Tax assessments without agreement had been issued to the Bank for the tax years 2011 to 2013, against which appeals have been lodged. The amount of tax in dispute (including interest and linkage increments) is approximately NIS 5 million. In Management's opinion, adequate provisions in respect thereof are included in the financial statements.
- (2) The investee companies have final tax assessments up to and including the tax year 2010.

NOTE 8 - PROVISION FOR TAXES ON OPERATING EARNINGS (CONT'D)

D. Details of deferred tax assets and liabilities

(1) Composition:

Consolidated	Deferred Tax Assets		Average		Deferred Tax Liabilities		Average	
	Balance		Tax rate		Balance		Tax rate	
	NIS million		%		NIS million		%	
	at December 31				at December 31			
	2015	2014	2015	2014	2015	2014	2015	2014
Deferred taxes in respect of:								
Excess liabilities in respect of employee benefits over assets of the scheme	105	(1)97	37.2	37.7	-	3	-	37.7
Vacation pay and other benefits	182	(1)226	37.2	37.7	-	-	-	-
Provision for credit losses	258	281	37.2	37.7	-	-	-	-
Securities	4	3	37.2	37.7	-	-	-	-
Adjustment of depreciable non-monetary assets	2	13	37.2	37.7	49	43	37.2	37.7
Undistributed earnings of equity-basis investees	-	-	-	-	14	9	10.7	11.2
Other time differences	11	5	31.2	37.7	-	3	-	-
Total	562	625			63	58		

The Bank	Deferred Tax Assets		Average		Deferred Tax Liabilities		Average	
	Balance		Tax rate		Balance		Tax rate	
	NIS million		%		NIS million		%	
	at December 31				at December 31			
	2015	2014	2015	2014	2015	2014	2015	2014
Deferred taxes in respect of:								
Excess provision over fundings for severance pay	84	(1)80	37.2	37.7	-	1	-	37.7
Vacation pay and other benefits	141	(1)178	37.2	37.7	-	-	-	-
Provision for credit losses	179	193	37.2	37.7	-	-	-	-
Securities	2	-	37.2	-	-	-	-	-
Adjustment of depreciable non-monetary assets	-	10	-	37.7	49	43	37.7	37.7
Undistributed earnings of equity-basis investees	-	-	-	-	14	9	10.7	11.2
Other time differences	8	-	30.0	-	-	2	-	37.7
Total	414	461			63	55		

(1) Restated in respect of the retroactive application of the US accepted accounting principles regarding employee rights. See note 1.C.1.

NOTE 8 - PROVISION FOR TAXES ON OPERATING EARNINGS (CONT'D)

(NIS million)

(2) Change in deferred tax assets and liabilities

For the year ended December 31 2015								
Consolidated	Provision for credit losses	Interest and securities	Investments in affiliates	Adjustment of depreciable non-monetary assets	Vacation pay and other benefits	Excess liabilities in respect of employee benefits over assets of the scheme	Other	Total
Balance of asset (liability)								
Deferred tax as at January 1, 2015	281	3	(9)	(30)	(1)226	(1)94	2	567
Changes allocated to profit and loss	(21)	1	(5)	(17)	(43)	15	9	(61)
Changes allocated to comprehensive profit	-	-	-	-	-	(4)	-	(4)
Effect of change in tax rate	(2)	-	-	-	(1)	-	-	(3)
Deferred tax as at December 31, 2015	258	4	(14)	(47)	182	105	11	499
Deferred tax asset	258	4	-	2	182	105	11	562
Balances available for setoff of deferred tax asset as of December 31, 2015								(28)
								534
Deferred tax liability	-	-	14	49	-	-	-	63
Balances available for setoff of deferred tax liability as of December 31, 2015								(28)
								35

For the year ended December 31 2015								
The Bank	Provision for credit losses	Interest and securities	Investments in affiliates	Adjustment of depreciable non-monetary assets	Vacation pay and other benefits	Excess liabilities in respect of employee benefits over assets of the scheme	Other	Total
Balance of asset (liability)								
Deferred tax as at January 1, 2015	193	-	(9)	(33)	(1)178	(1)79	(2)	406
Merger of a subsidiary company	6	2	-	(1)	2	2	2	13
Changes allocated to profit and loss	(19)	-	(5)	(15)	(38)	5	8	(64)
Changes allocated to comprehensive profit	-	-	-	-	-	(2)	-	(2)
Effect of change in tax rate	(1)	-	-	-	(1)	-	-	(2)
Deferred tax as at December 31, 2015	179	2	(14)	(49)	141	84	8	351
Deferred tax asset	179	2	-	-	141	84	8	414
Balances available for setoff of deferred tax asset as of December 31, 2015								(28)
								386
Deferred tax liability	-	-	14	49	-	-	-	63
Balances available for setoff of deferred tax liability as of December 31, 2015								(28)
								35

NOTE 8 - PROVISION FOR TAXES ON OPERATING EARNINGS (CONT'D)

For the year ended December 31 2014								
Consolidated	Provision for credit losses	Interest and securities	Investments in affiliates	Adjustment of depreciable non-monetary assets	Vacation pay and other benefits	Excess liabilities in respect of employee benefits over assets of the scheme	Other	Total
Balance of asset (liability)								
Deferred tax as at January 1, 2014	267	3	(9)	(19)	(1)221	(1)64	7	534
Changes allocated to profit and loss	14	-	-	(11)	(1)5	(1)17	(5)	20
Changes allocated to comprehensive profit	-	-	-	-	-	(1)13	-	13
Deferred tax as at December 31, 2014	281	3	(9)	(30)	226	94	2	567
Deferred tax asset	281	3	-	13	226	(1)97	5	625
Balances available for setoff of deferred tax asset as of December 31, 2014								(24)
								601
Deferred tax liability	-	-	9	43	-	3	3	58
Balances available for setoff of deferred tax liability as of December 31, 2014								(24)
								34

For the year ended December 31 2014								
The Bank	Provision for credit losses	Interest and securities	Investments in affiliates	Adjustment of depreciable non-monetary assets	Vacation pay and other benefits	Excess liabilities in respect of employee benefits over assets of the scheme	Other	Total
Balance of asset (liability)								
Deferred tax as at January 1, 2014	197	-	(9)	(20)	(1)176	(1)49	(1)	392
Changes allocated to profit and loss	(4)	-	-	(13)	(1)2	(1)18	(1)	2
Changes allocated to comprehensive profit	-	-	-	-	-	(1)12	-	12
Deferred tax as at December 31, 2014	193	-	(9)	(33)	178	79	(2)	406
Deferred tax asset	193	-	-	10	178	(1)80	-	461
Balances available for setoff of deferred tax asset as of December 31, 2014								(21)
								440
Deferred tax liability	-	-	9	43	-	1	2	55
Balances available for setoff of deferred tax liability as of December 31, 2014								(21)
								34

(1) Restated in respect of the retroactive application of the US accepted accounting principles regarding employee rights. See note 1.C.1.

NOTE 8 - PROVISION FOR TAXES ON OPERATING EARNINGS (CONT'D)

- (3) The deferred taxes were determined as follows:

Deferred tax assets arising from payments to the Income Tax Authorities in accordance with an agreement with them regarding the timing for tax purposes of the recognition of the provision for credit losses are presented according to the terms of the agreement.

Other deferred taxes were calculated according to the statutory tax rate of the Bank and the Group Companies.

E. See Note 10B regarding taxes on income recognized outside profit and loss.

- F. (1) Realization of deferred taxes is based on a forecast of income for tax purpose, in the foreseeable future.
- (2) The total amount of carry-forward capital losses for tax purposes as of December 31, 2015, in respect of which no deferred taxes have been recorded in the consolidated balance sheet, amounted to NIS 45 million (December 31, 2014 - business loss of NIS 2 million).

G. Changes in tax legislation

1. Corporation tax

Following are the relevant corporation tax rates for the years 2013-2015:

2013 - 25%

2014 - 26.5%

2015 - 26.5%

On January 4, 2016, the Knesset passed the Income Tax Ordinance Amendment Act (Amendment No. 216), 2016, which among other things, lowered the rate of corporation tax as from the tax year 2016 and thereafter, by 1.5%, so that the tax rate would be 25%. Had the legislation process been actually completed before December 31, 2015, then the effect of the change on the financial statements as of December 31, 2015, would have been a reduction of NIS 18 million in the balance of deferred tax assets. The updating of the deferred tax assets balances would have been recognized as to NIS 16 million in deferred tax expenses and as to NIS 2 million in other comprehensive profit.

The current tax expense for the reported periods is computed on the basis of the tax rates stated above.

NOTE 8 - PROVISION FOR TAXES ON OPERATING EARNINGS (CONT'D)

2. Updating of the Value Added Tax rate and of the profit tax and payroll tax rates

The Value Added Tax Order (The tax rate applying to not-for-profit organizations and to financial institutions) (Amendment), 2013, was formally published on June 2, 2013. The Order changed the profit tax and payroll tax rates to 18% in effect as from June 2, 2013. Due to the said change, the statutory tax rate applying to financial institutions increased in 2013 to a rate of 36.21% and in 2014 and thereafter to a rate of 37.71%.

On October 12, 2015, the Knesset passed the Value Added Tax Order (The tax rate applying to not-for-profit organizations and to financial institutions) (Amendment), 2015, which reduced the profit tax and payroll tax rates applying to financial institutions from 18% to 17%, with effect as from October 1, 2015. As a result of the said change, the statutory tax rate applying to financial institutions was reduced from 37.71% to 37.58% in 2015.

The said change in profit tax and payroll tax rates resulted in a reduction of NIS 6 million in the balance of liabilities for employee rights and in a reduction of NIS 6 million in the net deferred taxes. In respect of the said changes, an amount of NIS 2 million was recognized as an expense in profit and loss, while an amount of NIS 2 million was recognized as income in other comprehensive profit.

3. In view of the said legislation changes, the statutory tax rate as from the year 2016 and thereafter, would be 35.89%.

NOTE 9 - EARNINGS PER SHARE

The number of par value of shares used to calculate the primary earnings per share:

	Number of shares for the years 2015, 2014 and 2013
Shares of NIS 0.05 par value	100,330,040

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

A. Changes in cumulative other comprehensive income (loss), net after tax effect

	Other comprehensive income (loss) before attribution to minority interests				Other comprehensive income (loss) attributed to minority interests	Other comprehensive income (loss) attributed to the Bank's shareholders
	Adjustment in respect of reporting available for sale securities in fair value	Translation adjustments ⁽¹⁾ net after the effect of hedges ⁽²⁾	Adjustments in respect of employee benefits ⁽³⁾	Total		
Balance as of January 1, 2013	91	(1)	-	90	2	88
Effect of the initial application of US accepted accounting principles regarding employee rights ⁽³⁾	-	-	(81)	(81)	-	(81)
Balance as of January 1, 2013, following the initial application of the new rules	91	(1)	(81)	9	2	7
Net changes during 2013	(41)	-	12	(29)	(1)	(28)
Balance as of January 1, 2014	50	(1)	(69)	(20)	1	(21)
Net changes during 2014	(25)	-	(22)	(47)	(1)	(46)
Balance as of December 31, 2014	25	(1)	(91)	(67)	-	(67)
Net changes during 2015	(47)	-	7	(40)	(2)	(38)
Balance as of December 31, 2015	(22)	(1)	(84)	(107)	(2)	(105)

(1) Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.

(2) Net gains (losses) in respect of hedging net investment in foreign currency.

(3) Restated in respect of the retroactive application of the US accepted accounting principles regarding employee rights. See note 1.C.1.

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

b. Changes in the components of cumulative other comprehensive income (loss) before and after tax effect

	For the year ended December 31, 2015			For the year ended December 31, 2014			For the year ended December 31, 2013		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests									
Adjustments in respect of available for sale securities presentation according to fair value									
Unrealized net gains (losses) from adjustments to fair value	(21)	8	(13)	181	(68)	113	99	(36)	63
Gains (losses) in respect of available for sale securities reclassified to income statement ⁽¹⁾	(54)	20	(34)	(221)	83	(138)	(163)	59	(104)
Net changes during the period	(75)	28	(47)	(40)	15	(25)	(64)	23	(41)
Translation adjustments*									
Adjustments from translation of financial statements	-	-	-	2	-	2	(11)	-	(11)
Hedges**	-	-	-	(3)	1	(2)	16	(5)	11
Net changes during the period	-	-	-	(1)	1	-	5	(5)	-
Employee benefits:									
Net actuarial profit (loss) for the period	-	-	-	(34)	12	(22)	17	(5)	12
Net (gains) losses reclassified to the statement of profit and loss ⁽²⁾	11	(4)	7	(1)	1	-	-	-	-
Net change during the period	11	(4)	7	(35)	13	(22)	17	(5)	12
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests									
Total changes during the period	(3)	1	(2)	(2)	1	(1)	(2)	1	(1)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total changes during the period	(61)	23	(38)	(74)	28	(46)	(40)	12	(28)

* Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.

** Net gains (losses) in respect of hedging net investment in foreign currency.

(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.

(2) The amount before tax is reported in the statement of expenses in the item of employee benefits, see note 23.

NOTE 11 - CASH AND DEPOSITS WITH BANKS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2015	2014	2015	2014
Cash and deposits with Central banks	27,116	25,225	21,604	15,288
Deposits with commercial banks	3,611	3,957	3,312	2,783
Total ⁽¹⁾	30,727	29,182	24,916	18,071
(1) Includes cash and deposits with banks, the initial period of which does not exceed three months	30,265	28,615	24,081	17,278

NOTE 12 - SECURITIES

(NIS million)

A. Composition:		Consolidated			
		December 31, 2015			
	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
A. Debentures held to maturity					
Of Israeli government	539	539	21	-	560
Of financial institutions in Israel	63	63	11	-	74
Of foreign financial institutions	75	75	-	-	75
Of others in Israel	243	243	19	1	261
Total debentures held to maturity	920	920	51	1	970
	Book value	Amortized cost (in shares cost)	Cumulative other comprehensive income		Fair value (1)
			Profits	Losses	
B. Securities available for sale					
Debentures and bonds -					
Of Israeli government	7,080	7,091	15	26	7,080
Of foreign governments	3,244	3,253	-	9	3,244
Of financial institutions in Israel	458	463	1	6	458
Of foreign financial institutions	1,709	1,718	1	10	1,709
Mortgage backed (MBS) securities (6)	510	518	1	9	510
Of others in Israel	915	917	11	13	915
Of foreign others	360	361	-	1	360
Total debentures and bonds available for sale	14,276	14,321	29	74	14,276
Shares -	(4)(5)258	244	18	4	258
Total securities available for sale	14,534	14,565	(2)47	(2)78	14,534
	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
C. Securities held for trading					
Debentures and bonds -					
Of Israeli government	774	771	3	-	774
Of financial institutions in Israel	69	70	-	1	69
Of foreign financial institutions	72	72	-	-	72
Of others in Israel	47	47	-	-	47
Of foreign others	20	20	-	-	20
Total trading debentures and bonds	982	980	3	1	982
Shares -	3	3	-	-	3
Total trading securities	985	983	(3)3	(3)1	985
Total securities	16,439	16,468	101	80	16,489

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value", except for securities amounting to NIS 19 million, which include an embedded derivative measured according to fair value while reflecting changes in fair value in profit and loss (December 31, 2014 - NIS 31 million).

(3) Recorded in the Statement of Income.

(4) Including investments in private equity funds in the amount of NIS 115 million, perpetual capital notes of NIS 19 million (December 31, 2014 - investments in private equity funds in the amount of NIS 119 million, perpetual capital notes of NIS 31 million and capital hedge funds of NIS 1 million).

(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 128 million (December 31, 2014 - NIS 139 million).

(6) Securities guaranteed by GNMA and securities issued by FNMA & FHLMC.

A. Composition:		Consolidated			
		December 31, 2014			
	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
A. Debentures held to maturity					
Of Israeli government	497	497	21	-	518
Of financial institutions in Israel	67	67	11	-	78
Of foreign financial institutions	91	91	-	-	91
Of others in Israel	229	229	18	-	247
Total debentures held to maturity	884	884	50	-	934

		Cumulative other comprehensive income			
	Book value	Amortized cost (in shares cost)	Profits	Losses	Fair value (1)
B. Securities available for sale					
Debentures and bonds -					
Of Israeli government	6,098	6,082	23	7	6,098
Of foreign governments	128	130	-	2	128
Of financial institutions in Israel	504	503	1	-	504
Of foreign financial institutions	1,523	1,523	3	3	1,523
Mortgage backed (MBS) securities ⁽⁶⁾	633	630	8	5	633
Of others in Israel	1,023	1,022	11	10	1,023
Of foreign others	89	89	-	-	89
Total debentures and bonds available for sale	9,998	9,979	46	27	9,998
Shares -	⁽⁵⁾⁽⁴⁾ 310	285	25	-	310
Total securities available for sale	10,308	10,264	⁽²⁾ 71	⁽²⁾ 27	10,308

	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
C. Securities held for trading					
Debentures and bonds -					
Of Israeli government	1,222	1,218	6	2	1,222
Of financial institutions in Israel	40	39	1	-	40
Of foreign financial institutions	56	56	-	-	56
Of others in Israel	37	37	-	-	37
Of foreign others	6	6	-	-	6
Total trading debentures and bonds	1,361	1,356	7	2	1,361
Shares -	1	1	-	-	1
Total trading securities	1,362	1,357	⁽³⁾ 7	⁽³⁾ 2	1,362
Total securities	12,554	12,505	128	29	12,604

NOTE 12 - SECURITIES (CONT)

(NIS million)

A. Composition:		The Bank			
		December 31, 2015			
	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
A. Debentures held to maturity					
Of Israeli government	420	420	13	-	433
Of financial institutions in Israel	63	63	11	-	74
Of others in Israel	201	201	15	1	215
Total debentures held to maturity	684	684	39	1	722
	Book value	Amortized cost (in shares cost)	Cumulative other comprehensive income		Fair value (1)
			Profits	Losses	
B. Securities available for sale					
Debentures and bonds -					
Of Israeli government	4,533	4,546	4	17	4,533
Of foreign governments	3,240	3,249	-	9	3,240
Of financial institutions in Israel	183	183	1	1	183
Of foreign financial institutions	1,709	1,718	1	10	1,709
Mortgage backed (MBS) securities ⁽⁶⁾	510	518	1	9	510
Of others in Israel	881	882	9	10	881
Of foreign others	360	361	-	1	360
Total debentures and bonds available for sale	11,416	11,457	16	57	11,416
Shares -	(4)/(5)240	230	14	4	240
Total securities available for sale	11,656	11,687	(2)30	(2)61	11,656
	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
C. Securities held for trading					
Debentures and bonds -					
Of Israeli government	774	771	3	-	774
Of financial institutions in Israel	66	67	-	1	66
Of foreign financial institutions	71	71	-	-	71
Of others in Israel	39	39	-	-	39
Of foreign others	19	19	-	-	19
Total trading debentures and bonds	969	967	3	1	969
Shares -	3	3	-	-	3
Total trading securities	972	970	(3)3	(3)1	972
Total securities	13,312	13,341	72	63	13,350

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value", except for securities amounting to NIS 7 million, which include an embedded derivative measured according to fair value while reflecting changes in fair value in profit and loss (December 31, 2014 - NIS 31 million).

(3) Recorded in the Statement of Income.

(4) Including investments in private equity funds in the amount of NIS 112 million, perpetual capital notes of NIS 7 million (December 31, 2014 - investments in private equity funds in the amount of NIS 119 million, perpetual capital notes of NIS 31 million).

(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 122 million (December 31, 2014 - NIS 127 million).

(6) Securities guaranteed by GNMA and securities issued by FNMA & FHLMC.

A. Composition:		The Bank			
		December 31, 2014			
	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
A. Debentures held to maturity					
Of Israeli government	306	306	12	-	318
Of financial institutions in Israel	65	65	11	-	76
Of others in Israel	186	186	14	-	200
Total debentures held to maturity	557	557	37	-	594

B. Securities available for sale	Book value	Amortized cost (in shares cost)	Cumulative other comprehensive income		Fair value (1)
			Profits	Losses	
Debentures and bonds -					
Of Israeli government	2,681	2,682	2	3	2,681
Of foreign governments	128	130	-	2	128
Of financial institutions in Israel	322	321	1	-	322
Of foreign financial institutions	1,505	1,505	3	3	1,505
Mortgage backed (MBS) securities ⁽⁶⁾	633	630	8	5	633
Of others in Israel	368	365	5	2	368
Of foreign others	66	66	-	-	66
Total debentures and bonds available for sale	5,703	5,699	19	15	5,703
Shares -	(5)(4)298	279	19	-	298
Total securities available for sale	6,001	5,978	(2)38	(2)15	6,001

C. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Debentures and bonds -					
Of Israeli government	1,063	1,060	4	1	1,063
Of financial institutions in Israel	22	22	-	-	22
Of foreign financial institutions	53	53	-	-	53
Of others in Israel	28	28	-	-	28
Of foreign others	-	-	-	-	-
Total trading debentures and bonds	1,166	1,163	4	1	1,166
Shares -	1	1	-	-	1
Total trading securities	1,167	1,164	(3)4	(3)1	1,167
Total securities	7,725	7,699	79	16	7,762

D. Data regarding impaired bonds	Consolidated		The Bank	
	As of December 31,		As of December 31,	
	2015	2014	2015	2014
The recorded debt balance of:				
Impaired bonds accruing interest income	7	7	3	-
Impaired bonds not accruing interest income	-	-	-	-
Total recorded debt balances	7	7	3	-

NOTE 12 - SECURITIES (CONT'D)

(NIS million)

B. Fair value and unrealized losses, according to period and rate of impairment of bonds held to maturity and of available-for-sale securities being in an unrealized loss position

Consolidated	As of December 31, 2015							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses		Total	Fair Value	Unrealized losses		Total
		0-20%	20%-40%			0-20%	20%-40%	
(NIS million)								
Held to maturity bonds of other in Israel ⁽¹⁾	90	1	-	1	-	-	-	-
Securities available for sale								
Debtentures and Bonds								
Of Israeli government	4,125	25	-	25	732	1	-	1
Of foreign governments	3,120	7	-	7	124	2	-	2
Of Israeli financial institutions	344	6	-	6	-	-	-	-
Of foreign financial institutions	1,127	6	-	6	369	4	-	4
Mortgage backed (MBS) securities	367	4	1	5	127	4	-	4
Of others in Israel	190	3	-	3	387	8	2	10
Of foreign others	322	1	-	1	-	-	-	-
Shares	41	4	-	4	-	-	-	-
Total securities available for sale	9,636	56	1	57	1,739	19	2	21

Consolidated	As of December 31, 2014							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses		Total	Fair Value	Unrealized losses		Total
		0-20%	20%-40%			0-20%	20%-40%	
		(NIS million)						
Securities available for sale								
Debtentures and Bonds								
Of Israeli government	2,513	7	-	7	-	-	-	-
Of foreign governments	-	-	-	-	128	2	-	2
Of foreign financial institutions	757	3	-	3	-	-	-	-
Mortgage backed (MBS) securities	66	1	-	1	206	4	-	4
Of others in Israel	705	8	2	10	-	-	-	-
Total securities available for sale	4,041	19	2	21	334	6	-	6

(1) The balance of the amortized cost of bonds held to maturity amounts to NIS 91 million.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

1. Debts, credit to the public and provision for credit losses

Consolidated	December 31, 2015					
	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Recorded balance:						
Debts examined on an individual basis	32,066	-	426	32,492	4,280	36,772
Debts examined on an collective basis	4,382	20,032	16,473	40,887	-	40,887
Of which: according to the extent of arrears	397	20,032	-	20,429	-	20,429
Total	36,448	20,032	16,899	73,379	4,280	77,659
Of which:						
Debts restructuring	160	-	69	229	-	229
Other impaired debts	519	10	6	535	-	535
Total impaired debts	679	10	75	764	-	764
Debts in arrears of 90 days or more	21	182	31	234	-	234
Other problematic debts	579	2	173	754	-	754
Total problematic debts	1,279	194	279	1,752	-	1,752
Provision for credit losses:						
In respect of debts examined on an individual basis	449	-	15	464	-	464
In respect of debts examined on an collective basis	49	119	192	360	-	360
Of which: according to the extent of arrears	1	119	-	120	-	120
Total	498	119	207	824	-	824
Of which: in respect of impaired debts	190	-	7	197	-	197

Consolidated	December 31, 2014					
	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Recorded balance:						
Debts examined on an individual basis	(1)32,245	-	463	32,708	4,615	37,323
Debts examined on an collective basis	3,618	18,252	15,229	37,099	-	37,099
Of which: according to the extent of arrears	336	18,252	-	18,588	-	18,588
Total	35,863	18,252	15,692	69,807	4,615	74,422
Of which:						
Debts restructuring	187	-	60	247	-	247
Other impaired debts	482	17	53	552	-	552
Total impaired debts	669	17	113	799	-	799
Debts in arrears of 90 days or more	5	234	9	248	-	248
Other problematic debts	1,219	1	139	1,359	-	1,359
Total problematic debts	1,893	252	261	2,406	-	2,406
Provision for credit losses:						
In respect of debts examined on an individual basis	488	-	39	527	-	527
In respect of debts examined on an collective basis	46	132	171	349	-	349
Of which: according to the extent of arrears	1	132	-	133	-	133
Total	534	132	210	876	-	876
Of which: in respect of impaired debts	200	-	33	233	-	233

(1) Restated in respect of a change in accounting policy in a matter of the treatment of problematic debts secured by state guarantee. See note 1.C.3.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

1. Debts, credit to the public and provision for credit losses

The Bank	December 31, 2015					
	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Recorded balance:						
Debts examined on an individual basis	27,662	-	272	27,934	3,312	31,246
Debts examined on an collective basis	2,257	19,823	5,061	27,141	-	27,141
Of which: according to the extent of arrears	397	19,823	-	20,220	-	20,220
Total	29,919	19,823	5,333	55,075	3,312	58,387
Of which:						
Debts restructuring	110	-	31	141	-	141
Other impaired debts	453	10	2	465	-	465
Total impaired debts	563	10	33	606	-	606
Debts in arrears of 90 days or more	13	182	21	216	-	216
Other problematic debts	449	-	79	528	-	528
Total problematic debts	1,025	192	133	1,350	-	1,350
Provision for credit losses:						
In respect of debts examined on an individual basis	374	-	8	382	-	382
In respect of debts examined on an collective basis	21	117	92	230	-	230
Of which: according to the extent of arrears	1	117	-	118	-	118
Total	395	117	100	612	-	612
Of which: in respect of impaired debts	162	-	3	165	-	165

The Bank	December 31, 2014					
	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Recorded balance:						
Debts examined on an individual basis	25,586	-	223	25,809	2,783	28,592
Debts examined on an collective basis	1,946	18,008	4,674	24,628	-	24,628
Of which: according to the extent of arrears	336	18,008	-	18,344	-	18,344
Total	27,532	18,008	4,897	50,437	2,783	53,220
Of which:						
Debts restructuring	127	-	28	155	-	155
Other impaired debts	342	16	20	378	-	378
Total impaired debts	469	16	48	533	-	533
Debts in arrears of 90 days or more	3	234	5	242	-	242
Other problematic debts	1,146	-	69	1,215	-	1,215
Total problematic debts	1,618	250	122	1,990	-	1,990
Provision for credit losses:						
In respect of debts examined on an individual basis	378	-	17	395	-	395
In respect of debts examined on an collective basis	17	132	75	224	-	224
Of which: according to the extent of arrears	1	132	-	133	-	133
Total	395	132	92	619	-	619
Of which: in respect of impaired debts	143	-	13	156	-	156

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)
(NIS million)

2. Change in provision for credit losses

Consolidated	Credit to the public				Banks and Governements	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - debts						
Provision for credit losses at December 31, 2012	566	126	144	836	-	836
Expenses in respect of credit losses	30	33	21	84	-	84
- Accounting write-offs	(183)	(8)	(101)	(292)	-	(292)
- Collection of debts written off in accounting in previous years	129	-	70	199	-	199
Net accounting write-offs	(54)	(8)	(31)	(93)	-	(93)
Provision for credit losses at December 31, 2013	542	151	134	827	-	827
Expenses (income) in respect of credit losses	(16)	(4)	105	85	-	85
- Accounting write-offs	(112)	(15)	(104)	(231)	-	(231)
- Collection of debts written off in accounting in previous years	120	-	75	195	-	195
Net accounting write-offs	8	(15)	(29)	(36)	-	(36)
Provision for credit losses at December 31, 2014	534	132	210	876	-	876
Expenses in respect of credit losses	12	3	38	53	-	53
- Accounting write-offs	(207)	(16)	(122)	(345)	-	(345)
- Collection of debts written off in accounting in previous years	159	-	81	240	-	240
Net accounting write-offs	(48)	(16)	(41)	(105)	-	(105)
Provision for credit losses at December 31, 2015	498	119	207	824	-	824

Consolidated	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Changes in provision in respect of off-balance sheet credit instruments						
Provision at December 31, 2012	93	-	10	103	-	103
Increase in provision	13	-	-	13	-	13
Provision at December 31, 2013	106	-	10	116	-	116
Increase in provision	-	-	4	4	-	4
Provision at December 31, 2014	106	-	14	120	-	120
Increase (decrease) in provision	(36)	-	1	(35)	-	(35)
Provision at December 31, 2015	70	-	15	85	-	85

* For details regarding the initial application of a FAQ file of the Supervisor of Banks in the matter of impaired debts, see Note 1.C.8.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

2. Change in provision for credit losses

The Bank	Credit to the public				Banks and	
	Commercial	Housing	Other private	Total	Governements	Total
Change in provision for credit losses - debts						
Provision for credit losses at December 31, 2012	401	126	49	576	-	576
Expenses in respect of credit losses	3	34	18	55	-	55
- Accounting write-offs	(59)	(10)	(46)	(115)	-	(115)
- Collection of debts written off in accounting in previous years	79	-	31	110	-	110
Net accounting write-offs	20	(10)	(15)	(5)	-	(5)
Provision for credit losses at December 31, 2013	424	150	52	626	-	626
Expenses (income) in respect of credit losses	(30)	(3)	61	28	-	28
- Accounting write-offs	(70)	(15)	(49)	(134)	-	(134)
- Collection of debts written off in accounting in previous years	71	-	28	99	-	99
Net accounting write-offs	1	(15)	(21)	(35)	-	(35)
Provision for credit losses at December 31, 2014	395	132	92	619	-	619
Expenses (income) in respect of credit losses	(3)	1	34	32	-	32
- Accounting write-offs	(129)	(17)	(52)	(198)	-	(198)
- Collection of debts written off in accounting in previous years	121	-	25	146	-	146
Net accounting write-offs	(8)	(17)	(27)	(52)	-	(52)
Merging a subsidiary	11	1	1	13	-	13
Provision for credit losses at December 31, 2015	395	117	100	612	-	612

The Bank	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Changes in provision in respect of off-balance sheet credit instruments						
Provision at December 31, 2012	88	-	5	93	-	93
Increase in provision	9	-	-	9	-	9
Provision at December 31, 2013	97	-	5	102	-	102
Increase (decrease) in provision	(15)	-	3	(12)	-	(12)
Provision at December 31, 2014	82	-	8	90	-	90
Increase (decrease) in provision	(22)	-	1	(21)	-	(21)
Merging a subsidiary	2	-	-	2	-	2
Provision at December 31, 2015	62	-	9	71	-	71

* For details regarding the initial application of a FAQ file of the Supervisor of Banks in the matter of impaired debts, see Note 1.C.8.

NOTE 14 - CREDIT TO THE GOVERNMENT

(NIS million)

	Consolidated	
	December 31,	
	2015	2014
Other credit	669	658
Total credit to the Government	669	658

NOTE 15 - INVESTEE COMPANIES

(NIS million)

A. Composition:

	Consolidated					
	December 31, 2015			December 31, 2014		
	Equity basis investee	Consolidated subsidiaries	Total	Equity basis investee	Consolidated subsidiaries	Total
Investments in shares on equity basis	438	-	438	(5)396	-	396
Other investments:						
Capital notes and subordinated capital notes	-	-	-	-	-	-
Total investments in investee companies	438	-	438	396	-	396
Earnings accumulated since acquisition, net	201	-	201	163	-	163
Items accrued in equity capital since purchase date:						
Adjustments in respect of presenting available-for-sale securities	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-

B. Details regarding major investee subsidiaries:

Name of investee	Major activity	Bank's share in equity		Bank's voting right		Carrying value of the investment on equity basis ⁽³⁾	
		December 31		December 31		December 31	
		2015	2014	2015	2014	2015	2014
		%	%	%	%	NIS million	
Israeli consolidated subsidiaries:							
UBank Ltd.	Commercial Bank	-	100.0	-	100.0	(6)-	280
UBank Investment and Holdings Ltd.	Holdings Company	100.0	100.0	100.0	100.0	150	144
Ubank Trust Company Ltd.	Trust Services	100.0	100.0	100.0	100.0	22	32
Bank Otsar Hahayal Ltd.	Commercial Bank	78.0	78.0	78.0	78.0	1,193	⁽⁵⁾ 1,177
Bank Poaley Agudat Israel Ltd.	Commercial Bank	100.0	100.0	100.0	100.0	⁽⁶⁾ 396	⁽⁵⁾ 359
Bank Massad Ltd.	Commercial Bank	51.0	51.0	51.0	51.0	294	284
International Leasing Ltd.	Equipment leasing	100.0	100.0	100.0	100.0	7	10
Foreign consolidated subsidiaries:							
F.I.B.I. Bank (Switzerland) Ltd. (registered in Switzerland)	Commercial Bank	100.0	100.0	100.0	100.0	242	243
Equity basis investees:							
Israel Credit Cards Ltd.	Credit Cards	28.2	28.2	21.0	21.0	438	⁽⁵⁾ 396

(1) The above list does not include wholly owned and controlled consolidated companies that are asset companies or that supply services to the Bank, whose assets and operating results are included in the financial statements of the Bank.

(2) The shares of all the companies in the above list are not listed for trading on the stock exchange.

(3) Including balance of excess cost relating to customers relation.

(4) Including amortization of goodwill relating to customers relation: Bank Otsar Hahayal Ltd. - NIS 34 million (2014 - NIS 41 million), Bank Massad Ltd. - NIS 9 million (2014 - NIS 9 million), Bank Poaley Agudat Israel Ltd. - NIS 1 million (2014 - NIS 1 million).

(5) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

(6) See the content of Section "F" below regarding the merger of UBank and PAGI Bank.

	The Bank					
	December 31, 2015			December 31, 2014		
	Equity basis investee	Consolidated subsidiaries	Total	Equity basis investee	Consolidated subsidiaries	Total
	438	2,371	2,809	⁽⁵⁾ 396	⁽⁵⁾ 2,582	2,978
	-	348	348	-	435	435
	438	2,719	3,157	396	3,017	3,413
	201	1,060	1,261	163	⁽⁵⁾ 1,004	1,167
	-	(3)	(3)	-	16	16
	(1)	(2)	(3)	-	⁽⁵⁾ (5)	⁽⁵⁾

	Other capital investments		Bank's equity earnings		Dividend recorded		Other items accumulated in shareholders' equity	
	December 31							
	2015	2014	2015	2014	2015	2014	2015	2014
	NIS million		NIS million		NIS million		NIS million	
	-	-	(5)	17	-	-	(9)	⁽⁴⁾
	-	-	6	1	-	-	-	-
	-	-	25	25	35	155	-	-
	-	-	⁽⁴⁾ 17	⁽⁴⁾ (2)	-	-	(6)	⁽¹⁴⁾
	-	-	⁽⁴⁾ 38	⁽⁴⁾ (5)24	-	20	(1)	⁽⁵⁾ (1)
	5	5	⁽⁴⁾ 10	⁽⁴⁾ (5)11	-	-	-	⁽⁵⁾ (2)
	-	-	-	-	3	17	-	-
	-	-	(1)	1	-	-	-	2
	-	-	43	40	-	17	(1)	-

NOTE 15 - INVESTEE COMPANIES (CONT'D)

C. The Bank's share in profits of equity-basis investees:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
	NIS millions					
The Bank's share in operating profits of equity-basis investees	43	40	33	137	*120	*185
Provision for taxes	-	(5)	(2)	-	(5)	(2)
Provision for deferred taxes	(5)	-	(1)	(5)	-	(1)
The Bank's share in operating profits of equity-basis investees, after tax	38	35	30	132	115	182

* Restated in respect of the retroactive application of the US accepted accounting principles regarding employee rights. See note 1.C.1.

D. Condensed information regarding equity basis investees, without adjustment to the group's share:

1. Following the condensed financial information

	Bank's share in equity	Total assets	Total liabilities	Capital attributed to the company's shareholders
	%	NIS millions		
Israel Credit Cards Ltd.				
31 December 2015	28.2	10,991	9,766	1,225
31 December 2014	28.2	10,081	8,889	1,192

2. Following the condensed operating results information

	Bank's share in equity	Net profit for the year	Profit attributed to the company's shareholders	Profit attributed to noncontrolling interest
	%	NIS millions		
Israel Credit Cards Ltd.				
31 December 2015	28.2	165	149	16
31 December 2014	28.2	143	139	4
31 December 2013	28.2	125	125	-

E. Non-controlling interest in subsidiaries

The following tables summarize data regarding the non-controlling interest in subsidiary companies, which are material to the Group, including adjustments to fair value made on acquisition date.

Condensed financial information:

	Otzar Hahayal Bank Ltd.*		Massad Bank Ltd.	
	December 31		December 31	
	2015	2014	2015	2014
	NIS millions		NIS millions	
Rate of ownership held by non-controlling interests	22%	22%	49%	49%
Total assets	19,172	16,892	6,421	5,701
Total liabilities	18,007	15,785	5,883	5,199
Total assets, net	1,165	1,107	538	502
Stated value of non-controlling interests	-	-	263	246
Stated value of temporary equity-noncontrolling interests	326	-	-	-

Condensed operating results information

	Otzar Hahayal Bank Ltd.*			Massad Bank Ltd.		
	For the year ended December 31			For the year ended December 31		
	2015	2014	2013	2015	2014	2013
	NIS millions			NIS millions		
Income	627	594	673	239	241	246
Net profit	66	38	100	37	39	37
Other comprehensive loss	(8)	(14)	(29)	(1)	(3)	2
Total Comprehensive income	58	23	71	36	35	39
Profit attributed to the non-controlling interests	15	-	-	17	19	20
Profit attributed to non-controlling interest classified to temporary capital	5	-	-	-	-	-
Net cash generated by operating activity	2,019	558	(124)	272	(289)	(161)
Net cash from investment activity	(42)	(556)	606	(287)	246	94
Cash flows from financing operations excluding dividend to non-controlling interests	(134)	(71)	10	-	-	-
Dividend paid to minority interests	-	-	(2)	-	-	-
Increase (decrease) in cash	1,843	(69)	490	(15)	(43)	(67)

* See Section "G" below regarding a put option granted to the non-controlling interest in Otzar Hachayal Bank. In prior years, put options granted to non-controlling interest, which are settled in cash or in another financial instrument, had been recognized as a liability in an amount equal to the present value of the exercise price. Moreover, the share of the Group in the profits of the subsidiary included the share in profit of the non-controlling interest, to which the group had issued the put option. As stated in Note 1.C.4, within the framework of the implementation as from January 1, 2015, of US accepted accounting principles regarding the differentiation between liabilities and equity, the Bank treats the shares in the consolidated subsidiary held by the non-controlling interest, and with respect to which the non-controlling interest have a put option, as rights which do not confer control and which are redeemable, and accordingly states them as temporary capital excluded from equity. In each period profits are attributed to the non-controlling interest in accordance with their share in the profits of the subsidiary.

NOTE 15 - INVESTEE COMPANIES (CONT'D)

F. Merger with Ubank and with Poalei Agudat Israel Bank

On June 30, the Bank signed a merger agreement with UBank Ltd. (hereinafter - "UBANK"), a wholly owned subsidiary of the Bank, as well as an additional merger agreement with Poalei Agudat Israel Bank Ltd. (hereinafter - "PAGI"), also a wholly owned subsidiary of the Bank. In accordance with these agreements, both UBank and PAGI shall merge with and into the Bank (in accordance with the provisions of Chapter I of Part Eight of the Companies Act, 1999, and in accordance with Chapter II of Part Two of the Income Tax Ordinance, 1961) in a manner in which the assets and liabilities of each of them, as in existence on date of the merger, would pass to the Bank at no consideration, and both UBank and PAGI shall be eliminated without liquidation and struck off the Register of Companies.

According to the merger agreements and to the merger certificates received from the Registrar of Companies, the merger date of the Bank with UBank took effect on September 30, 2015 (in accordance with a certificate dated October 1, 2015), while the merger of the Bank with PAGI took effect on December 31, 2015.

The said mergers were completed following the fulfillment of all preconditions, including: a pre-ruling of the Head of the Tax Authority, in accordance with Chapter II of Part Two of the Ordinance (above and hereunder - "Income Tax approval"), obtaining approvals from various Authorities where required and execution of all actions and fulfillment of all conditions for the merger in accordance with the Companies Act.

According to the merger agreements, the obligations of UBANK and PAGI for the indemnification of officiating and former directors and officers of these banks, was in effect on the dates of merger of UBANK and PAGI, as the case may be, in respect of any claim and/or legal proceedings served or which will be served against them in respect of their office at UBANK or PAGI, as the case may be, including in respect of the relevant merger, was passed on to the Bank as part of the completion of the relevant merger. Subject to any law, the Bank shall continue to commit that the directors and officers insurance policy of the Bank shall continue to cover the directors and officers of UBANK and of PAGI, as officiated until the date of the relevant merger, in respect of the actions taken or to be taken by them during the tenure of office at UBANK and PAGI, as the case may be, and until the said date, and this for a period of at least seven years from date of the relevant merger, as applying to directors and officers of the Bank.

The merging banks have received from the Tax Authority, in respect of each merger, exemptions from income tax and land betterment tax under the provisions of Chapter II of Part Two of the Ordinance (hereinafter - "the tax benefits"), with the exception of the payment of acquisition tax in respect of the transfer of rights in real estate from UBANK and PAGI to the First International Bank, which shall apply to the Bank and which is expected to be an immaterial amount for the Bank.

These tax benefits are conditional upon the fulfillment of conditions under Chapter II of Part Two of the Ordinance, among which, on condition that the Bank shall not sell most of its assets and most of the assets of UBANK or PAGI, as the case may be, during a period beginning on date of the relevant merger and ending two years from the end of the tax year in which falls the date of the relevant merger (hereinafter - "the required period"). Another requirement is that during the required period, the rights of those stakeholders in the Bank at dates of the relevant mergers (defined according to the Ordinance, inter alia, as those who hold at least 5% of the equity capital of the Bank, excluding a provident fund and a mutual fund - hereinafter - "the stakeholders"), shall not fall below 51% of each of the rights in the Bank, subject to the terms determined by the Ordinance. All

the above does not apply to the case where the rights of stakeholders diminished as a result of an involuntary sale of rights in the Bank by any stakeholder, or if a stakeholder sold all his rights in the Bank in consideration for cash during a period beginning after one year from date of the relevant merger (and among other things, the conditions prescribed in the Ordinance shall apply to the purchaser, as if he was a stakeholder at date of the merger).

Within the framework of obtaining the said approval by the Tax Authority, FIBI, the controlling stakeholder in the Bank, informed the Tax Authority and the Bank that whereas it holds as of that date 48.34% of the issued share capital of the Bank; and whereas both FIBI and the Bank had been defined as a significant financial body included in the list of significant financial bodies published on December 11, 2014, in accordance with the Enhancement of Competition and Reduction of Concentration Act, 2013 (hereinafter - "the Concentration Act"); and whereas FIBI and PAZ Oil Company Ltd. (hereinafter - "PAZ"), a company controlled by the controlling stakeholders in the Bank, had been defined as a significant nonfinancial corporation, included in the list of significant nonfinancial corporations, published on that date according to the Concentration Act (FIBI, PAZ and the Bank have also been defined as a concentrating factor); and in accordance with the existing situation where, following the transitional period determined in the Concentration Act, the controlling stakeholders in FIBI will no longer be permitted to simultaneously control both the Bank and PAZ; and whereas the Bank, FIBI and the controlling stakeholders in FIBI are subject to additional constraints, among other, the Regulation applying to banking corporations and to the control cores therein, including that relating to the control of the Bank; then FIBI may be required to examine, during the required period, the options of sale, deconcentration or distribution of its holdings in the Bank and/or find itself in a position in which it is compelled to carry out any one of the above actions, included in the above, a distribution of shares leading to the direct holding of the shares of the Bank by all stakeholders, eliminating FIBI as a "layer" corporation. It has been clarified that as of the present date, FIBI has not yet made any decisions regarding any action as above stated.

It is clarified that actual realization of the tax benefits does not constitute a precondition for the consummation of the merger.

Anything stated in this Section regarding the possibility of the tax benefits being realized, where realization of the relevant preconditions is uncertain and with respect to certain of them, is not under the control of the Bank, should be regarded as looking forward information, as defined in the Securities Act, 1968. Such information might not be realized, in whole or in part, or may be realized in a different manner than that forecasted, among other things, as a result of events or transactions that may lead to the non-fulfillment of the conditions required for obtaining the tax benefits, as described above.

Following the merger with UBANK, a special collective agreement was signed on July 30, 2015 between the Bank, UBANK, the committee of UBANK employees and the Federation of Labor, in which the terms of recruiting the employees transferred to the Bank following the merger and the retirement conditions of the employees that will end their employment at UBANK at the date of the merger or will be transferred to the Bank but their employment will be terminated by the Bank's initiative in the trial period while receiving enlarged severance pay. In respect of the above, an expense in the amount of NIS 25 million, was recorded in the reported year in respect of enlarged severance pay and additional payroll provisions.

NOTE 15 - INVESTEE COMPANIES (CONT'D)

Following are condensed pro-forma statements reflecting the financial position as of December 31, 2014, and the results of operation for the period of three years ended December 31, 2015, of the Bank and UBank (in NIS millions):

Condensed pro-forma balance sheet:

	On December 31, 2014		
	As reported in these statements	Including Ubank's data	Proforma data
Assets			
Cash and deposits with banks	18,071	5,612	23,683
Securities	7,725	2,021	9,746
Securities which were borrowed	319	158	477
Credit to the public	50,437	1,895	52,332
Provision for Credit losses	(619)	(12)	(631)
Credit to the public, net	49,818	1,883	51,701
Investments in investee companies	3,413	(351)	3,062
Premises and equipment	1,042	11	1,053
Intangible assets	217	1	218
Assets in respect of derivative instruments	2,748	308	3,056
Other assets	625	128	753
Total assets	83,978	9,771	93,749
Liabilities and Shareholders' Equity			
Deposits from the public	64,774	9,046	73,820
Deposits from banks	2,048	113	2,161
Deposits from the Government	234	29	263
Bonds and subordinated capital notes	4,069	-	4,069
Liabilities in respect of derivative instruments	2,856	321	3,177
Other liabilities	3,200	262	3,462
Total liabilities	77,181	9,771	86,952
Total equity attributed to the shareholders of the Bank	6,797	-	6,797
Total liabilities and shareholders' equity	83,978	9,771	93,749

Condensed proforma profit and loss statements

	For the year ended December 31, 2015			For the year ended December 31, 2014			For the year ended December 31, 2013		
	As reported in these statements	Including Ubank's data	Proforma data	As reported in these statements	Including Ubank's data	Proforma data	As reported in these statements	Including Ubank's data	Proforma data
Interest Income	1,521	39	1,560	1,798	77	1,875	2,261	128	2,389
Interest Expenses	283	2	285	486	10	496	920	29	949
Interest Income, net	1,238	37	1,275	1,312	67	1,379	1,341	99	1,440
Expenses from credit losses	11	-	11	16	(2)	14	64	(3)	61
Net Interest Income after expenses from credit losses	1,227	37	1,264	1,296	69	1,365	1,277	102	1,379
Non Interest Income									
Non Interest Financing income	93	19	112	152	39	191	135	13	148
Fees	839	70	909	809	90	899	851	84	935
Other income	192	(24)	168	264	(32)	232	232	(29)	203
Total non Interest income	1,124	65	1,189	1,225	97	1,322	1,218	68	1,286
Operating and other expenses									
Salaries and related expenses	1,054	63	1,117	1,176	74	1,250	1,139	74	1,213
Maintenance and depreciation of premises and equipment	269	16	285	276	25	301	274	27	301
Amortizations and impairment of intangible assets	86	-	86	85	1	86	91	1	92
Other expenses	416	27	443	414	38	452	396	41	437
Total operating and other expenses	1,825	106	1,931	1,951	138	2,089	1,900	143	2,043
Profit before taxes	526	(4)	522	570	28	598	595	27	622
Provision for taxes on profit	212	-	212	230	12	242	239	8	247
Profit after taxes	314	(4)	310	340	16	356	356	19	375
The bank's share in profit of equity-basis investees, after taxes	132	4	136	115	(16)	99	182	(19)	163
Attributed to shareholders of the Bank	446	-	446	455	-	455	538	-	538

NOTE 15 - INVESTEE COMPANIES (CONT'D)

- G. Within the framework of arrangements made in 2006 by the Bank with Chever Regular Servicemen and Pensioners Ltd. (hereinafter - "Chever"), which is an additional shareholder in Otzar Hachayal, the Bank has certain commitments towards Chever, among which is a put option, according to which, at Chever's request, the Bank is obliged to purchase from Chever its holdings in Otzar Hachayal, in whole or in part, at a price derived from the price of the transaction in which the Bank had acquired control over Otzar Hachayal in 2006 (with certain adjustments).

In August 2011 and in February 2014, the Bank and Chever entered into agreements for the extension of the option, and today the option is valid until February 17, 2018, and is exercisable by Chever in annual installments of 2% of the issued and paid share capital of Otzar Hachayal in a total of up to 8% during the option period, of which, Chever has exercised until now 2% (hereinafter - "the exercised holdings"), and this in addition to Chever's right to exercise at the end of the option period all of its holdings or a part thereof. Upon completion of the acquisition by the Bank of the exercised holdings, the Bank owns 78% of the equity and voting in Otzar Hachayal and Chever is entitled to recommend one director less, so that the Bank holds 73% of the right to appoint directors in Otzar Hachayal. In addition, Chever has the right to participate proportionally in a future sale of Otzar Hachayal shares by the Bank. See Note 1C (4) as to the implementation of US accepted accounting principles with respect to the differentiation between liabilities and equity in relation to the said option.

- H. On August 29, 2013, an agreement was signed between the Swiss government and the Justice Department in the USA regulating American citizens' tax payments via the banking system in Switzerland. Pursuant to the agreement, all the Swiss banks that are not under criminal investigation by the American authorities were supposed to inform the regulator in Switzerland and thereafter the Justice Department in the USA, by December 31, 2013, of their decision to join or not to join the agreement. FIBI Bank (Switzerland) had engaged Swiss and American legal advisors specializing in this area and after an examination conducted with their help, FIBI Bank (Switzerland) decided up to December 31, 2013, not to join the agreement in a track for a bank that is not declaring that it did not committed a violation (the second category). On October 30, 2014 it decided not to join the agreement on a track for a bank that is declaring that it did not committed a violation (the third category). The current business environment is subject to legal and regulatory risks and it is hard to estimate their impact on the financial situation and profitability of FIBI (Switzerland).

According to the present circumstances, in the opinion of FIBI Bank (Switzerland) and its advisors, there is no need to include a provision in the audited financial statements in respect of the above matter.

- I. A committee for increasing competition as regards prevalent banking and financial services was established in June 2015, headed by Advocate Dror Strom. The task of the committee was to submit recommendations regarding the measures required to increase competition in the said areas. On December 14, 2015, the committee presented an interim report, which included recommendations regarding the required changes in this field. Among other things, the committee recommended to increase competition with respect to retail banking services by introducing new players to the market, including by means of separation of the large banks from the ownership and control of credit card companies within a period of three years, with the intention that such companies would provide credit to households and small

businesses in competition with the banks. For this purpose, the committee has determined that "large banks" are banks having a retail credit activity with households amounting to 20% and over of the total credit provided to households by the banking sector. It is further recommended that within a period of four years an examination would be made of the need to separate Israel Credit Cards Company (ICC) from the ownership by Israel Discount Bank and the Bank, this, taking into consideration developments in competition in this field.

The estimated tax effect that might apply, if and when the Bank's investment in ICC would be realized, based on its stated equity value, amounts to NIS 27 million.

The outstanding balance of deferred taxes as of December 31, 2015, in respect of the investment in ICC amounts to NIS 14 million.

As to the carry-forward balance of capital loss of the Bank as of December 31, 2015, see Note 8F.

- J.** The companies VISA Inc. and VISA Europe Ltd. announced on November 2, 2015, the signing of an agreement whereby Visa Inc. will acquire Visa Europe.

The total amount of the transaction is estimated at euro 21.2 billion, made up of a cash payment of euro 11.5 billion and of a payment in special preferred shares of euro 5 billion, as well as a future consideration of euro 4.7 billion, subject to attaining income targets during the sixteen quarters following the consummation of the transaction, payable at the end of the period.

On December 21, 2015, VISA Europe informed ICC that the total consideration expected to be received by it in respect of its status as a "principal member" of VISA Europe, is estimated at euro 89 million (euro 66 million in cash and euro 23 million in non-marketable shares) (hereinafter - "the amount of consideration"). Furthermore, according to the terms of the transaction, additional consideration is expected to be received, subject to attainment of income targets.

The transaction is subject to obtaining various regulatory confirmations, and according to reports is expected to be consummated in the course of 2016. It is further reported that in order to complete the transaction VISA Inc. plans the raising of capital during the first quarter of 2016.

It is clarified hereby, that the above mentioned information is based upon preliminary information and assessments only, and that it may possibly change, among other things, according to decisions of VISA Europe, subject to appeal proceedings which are expected to be resolved by the end of February 2016. It is further clarified that there is no certainty that the transaction would in fact be consummated, and that the manner of dividing the amount of the consideration among ICC, Discount Bank and the First International Bank, which are also considered "principal members" of VISA Europe, has not yet been determined.

NOTE 16 - PREMISES AND EQUIPMENT

(NIS million)

A. Composition:

	Consolidated			The Bank		
	Bank premises ⁽¹⁾	Furniture, equipment and vehicles	total	Bank premises ⁽¹⁾	Furniture, equipment and vehicles	total
Cost						
On December 31 2013	1,793	816	2,609	1,334	541	1,875
Addition	111	46	157	100	43	143
Disposals	(38)	(10)	(48)	(36)	(9)	(45)
On December 31 2014	1,866	852	2,718	1,398	575	1,973
Addition	78	36	114	65	34	99
Disposals	(90)	(180)	(270)	(71)	(125)	(196)
Merging a subsidiary	-	-	-	26	8	34
On December 31 2015	1,854	708	2,562	1,418	492	1,910
Accumulated depreciation ⁽²⁾						
On December 31 2013	716	713	1,429	427	459	886
Depreciation	64	34	98	44	29	73
Disposals	(21)	(10)	(31)	(19)	(9)	(28)
On December 31 2014	759	737	1,496	452	479	931
Depreciation	56	33	89	38	29	67
Disposals	(74)	(178)	(252)	(63)	(125)	(188)
Merging a subsidiary	-	-	-	15	7	22
On December 31 2015	741	592	1,333	442	390	832
Amortized balance on December 31 2015	1,113	116	1,229	976	102	1,078
Amortized balance on December 31 2014	1,107	115	1,222	946	96	1,042
Amortized balance on December 31 2013	1,077	103	1,180	907	82	989
Weighted average depreciation rate in % on 31.12.15	4.3%	15.3%		3.5%	16.8%	
Weighted average depreciation rate in % on 31.12.14	4.8%	15.5%		4.2%	17.2%	

(1) Including fixtures and improvements in the rental.

(2) Depreciation accrued including losses accrued from impairment.

- B. The Bank and its consolidated subsidiaries own rights by means of rental or leasing in premises amounting to NIS 488 million (31.12.14 - NIS 457 million), of which NIS 408 million were discounted leasehold rights (31.12.14 - NIS 369 million).
- C. Land rights totaling NIS 394 million (31.12.14 - NIS 343 million) have yet to be recorded in the name of the Bank or its investee companies at Land Registry Offices.
- D. The balance sheet balance of premises and equipment available for sale amounted to NIS 6 million (31.12.14 - NIS 19 million).
- E. The balance-sheet balance of premises and equipment not in use by the Bank or the Group and which were classified as real estate for investment amounted to NIS 14 million (31.12.14 - NIS 7 million).
- F. The group has in use assets that were fully depreciated. The cost of these assets as of December 31, 2015 amounted to NIS 686 million (31.12.14 - NIS 777 million).

NOTE 17 - INTANGIBLE ASSETS

(NIS million)

	Consolidated			The Bank
	Customers relations	Software	Total	Software
Cost				
On December 31, 2013	532	1,150	1,682	1,136
Addition	1	66	67	65
Disposals	-	(9)	(9)	(9)
On December 31, 2014	533	1,207	1,740	1,192
Addition	-	76	76	75
Disposals	-	(466)	(466)	(466)
Merging a subsidiary	-	-	-	8
On December 31, 2015	533	817	1,350	809
Amortization and Losses from impairment				
On December 31, 2013	364	911	1,275	899
Amortization for the year	52	87	139	85
Disposals	-	(9)	(9)	(9)
On December 31, 2014	416	989	1,405	975
Amortization for the year	53	86	139	86
Disposals	-	(466)	(466)	(466)
Merging a subsidiary	-	-	-	7
On December 31, 2015	469	609	1,078	602
Book value				
On December 31, 2013	168	239	407	237
On December 31, 2014	117	218	335	217
On December 31, 2015	64	208	272	207

NOTE 18 - OTHER ASSETS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2015	2014	2015	2014
Deferred taxes, net (see Note 8)	534	(1)601	386	(1)440
Income tax advances, net of provisions and other institutions	156	(1)111	58	11
Severance pay funding net of provisions (see Note 23)	-	(1)6	-	(1)-
Net clearing relating to securities transactions	38	9	38	-
Assets relating to Maof market activity	317	142	317	46
Other receivables and debit balances	113	168	75	128
Total other assets	1,158	1,037	874	625

(1) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

NOTE 19 - DEPOSITS FROM THE PUBLIC

(NIS million)

A. Classes of deposits by place of origin and type of depositor

	Consolidated		The Bank	
	December 31		December 31	
	2015	2014	2015	2014
In Israel				
Demand				
- Non bearing interest	36,770	28,512	25,396	16,978
- Bearing interest	6,145	5,418	5,852	3,535
Total demand	42,915	33,930	31,248	20,513
Fixed-term*	59,463	60,018	48,964	44,261
Total deposits in Israel**	102,378	93,948	80,212	64,774
Outside Israel				
Demand				
- Non bearing interest	884	1,207	-	-
Total deposits outside Israel	884	1,207	-	-
Total deposits from the public	103,262	95,155	80,212	64,774
* Of which: non-bearing interest deposits	1,566	2,089	1,562	2,089
** Of which:				
Deposits of private individuals	50,253	44,030	30,773	24,954
Deposits of institutional entities	20,440	21,048	20,214	18,400
Deposits of corporates and others	31,685	28,870	29,225	21,420

B. Deposits of the public by size (consolidated)

	December 31	
Maximum amount of deposit	2015	2014
(NIS million)		(NIS million)
Up to 1	37,450	33,715
From 1 to 10	25,120	22,716
From 10 to 100	14,624	15,262
From 100 to 500	4,732	7,773
Over 500	21,336	15,689
Total	103,262	95,155

NOTE 20 - DEPOSITS FROM BANKS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2015	2014	2015	2014
In Israel				
Commercial Banks:				
Demand deposits	665	1,077	2,617	1,193
Fixed-term deposits	807	273	1,107	742
Acceptances	85	113	85	113
Outside Israel				
Commercial Banks:				
Demand deposits	8	6	-	-
Total deposits from banks	1,565	1,469	3,809	2,048

NOTE 21 - BONDS AND SUBORDINATED CAPITAL NOTES

(NIS million)

A. Composition:

	Duration (1) Years	Internal rate of return (1) %	Consolidated		The Bank	
			December 31		December 31	
			2015	2014	2015	2014
Bonds and subordinated capital notes in -						
- Non-linked Israeli currency	3.56	2.13	780	87	-	-
- Israeli currency linked to the CPI (2)	2.61	2.89	5,082	4,816	3,841	4,069
Total bonds and non-convertible subordinated capital notes			5,862	4,903	3,841	4,069
Including: subordinated capital notes			4,300	4,645	681	812

(1) Internal rate of return: The rate of interest which discounts the future flow of payments to the outstanding amount in the balance sheet.

Duration: The average period of payments weighted by the flow of payments discounted by the internal rate of return.

The data as to the internal rate of return and the duration to maturity are as at December 31, 2015, and related to the consolidated statements.

(2) Includes non-marketable subordinate capital notes in the amount of NIS 260 million, issued by the Bank by private placement to institutional investors on May 25, 2009. These capital notes have the mechanism of absorbing losses on a current basis, in accordance with directives of the Supervisor of banks. According to this mechanism, interest payments would not be made if at the relevant due date for the payment of interest suspending reasons exist, as defined in the capital notes. The suspended interest payments would, among other things be paid, if the suspending reasons are removed and the Bank has declared the distribution of dividend. It has been determined in this respect, that the Bank shall not pay a dividend so long as the suspended interest payments have not been paid in full.

NOTE 22 - OTHER LIABILITIES

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2015	2014	2015	2014
Deferred tax liabilities, net (see Note 8)	35	34	35	34
Provision for current taxes, net of advance tax payments	26	40	15	34
Excess of provision for severance pay over amounts funded (see note 23)	285	(1)283	249	(1)239
Income received in advance	49	57	36	36
Creditors in respect of credit cards activity	3,116	2,952	1,297	1,197
Liabilities relating to Maof market activity	317	142	317	46
Salaries and related costs (see also Note 23)	543	(1)694	398	(1)517
Short selling of securities	178	553	178	451
Other creditors and Credit balances	405	764	299	646
Total other liabilities	4,954	5,519	2,824	3,200

(1) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

NOTE 23 - EMPLOYEES BENEFITS

A. SIGNIFICANT BENEFITS

1. Pension and Severance Pay

A part of the Group's liabilities for severance pay and pensions is covered by current deposits, in the name of the employees, with provident and pension funds or by the purchase of insurance policies. The liability for severance pay and pension included in the balance sheet represents the portion of the liabilities which is not covered by deposits and/or insurance policies, as stated above. This liability is measured on an actuarial basis, using actuarial and other assumptions, including the discounting rate, increase in compensation, increased severance pay, mortality and retirement rates.

2. Staff Long-Service Awards

Most of the Group's employees are entitled to a special seniority award ("jubilee award") as well as to a special vacation period after having completed a defined period of employment at the Group. The amount of the award is equal to the number of monthly salaries and vacation days as determined for each period of service. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

3. Benefit in respect of nonutilized sick leave

Employees of the Bank and of a consolidated subsidiary are entitled to a benefit in respect of nonutilized accumulated sick leave. Towards the retirement date, this benefit is convertible into vacation days to be actually utilized, based on a determined conversion formula. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

4. Other post-employment benefits

Employees of consolidated subsidiaries are entitled to an award in respect of unutilized sick leave. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

5. Other post-retirement benefits

Employees of the group are entitled to certain post-retirement benefits. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

6. Vacation pay

Employees of the Bank are entitled by law and by labor agreements to paid annual vacation. The provision for vacation pay is calculated on the basis of the most recent salary amounts of employees and the vacation days accumulated in their favor, with the addition of the required related expenses.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

B. Composition of benefits:

	Consolidated		The Bank	
	December 31,		December 31,	
	2015	2014	2015	2014
	(NIS million)		(NIS million)	
Pension and severance pay				
Amount of liability	1,079	1,116	829	816
Fair value of assets of the scheme	(794)	(839)	(580)	(577)
Excess liabilities over assets of the scheme	285	277	249	239
Excess liability included in the item "other liabilities"	285	283	249	239
Excess assets of the scheme included in the item "other assets"	-	6	-	-
Long-service awards - amount of liability	196	307	167	268
Benefit regarding unused sick leave - amount of liability	34	-	32	-
Other post-employment benefits	22	22	6	5
Other post retirement benefits	121	119	76	74
Vacation pay	76	79	60	57
Other	94	167	57	113
Total				
Excess liabilities regarding employee benefits over assets of the scheme included in the item "other liabilities"	828	977	647	756
Excess assets of the scheme over liabilities regarding employee benefits included in the item "other assets"	-	6	-	-

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

C. Defined benefits severance pay and pension schemes

(1) Liabilities and financing situation

	Consolidated		The Bank	
	December 31,		December 31,	
	2015	2014	2015	2014
	(NIS million)		(NIS million)	
A. Change in liability regarding anticipated benefits				
Liability regarding anticipated benefit at beginning of period	1,116	1,053	816	772
Merging a subsidiary	-	-	59	-
Cost of service	25	24	11	10
Cost of interest	41	47	30	35
Actuarial (profit) loss	(13)	30	(7)	23
Benefits paid	(111)	(46)	(88)	(29)
Other, including loss from reduction or dismissal and structural changes	21	8	8	5
Liability regarding anticipated benefit at end of period	1,079	1,116	829	816
Liability regarding cumulative benefit at end of period	980	987	741	716
B. Change in fair value of assets of the scheme and the financing situation of the scheme				
Fair value of assets of the scheme at beginning of period	839	821	577	574
Merging a subsidiary	-	-	45	-
Actual return on assets of the scheme	9	34	8	23
Deposits in the scheme by the Bank	16	17	6	5
Benefits paid	(70)	(33)	(56)	(25)
Fair value of assets of the scheme at end of period	794	839	580	577
Financing situation - net liability recognized at end of period*	285	277	249	239

* Included in the item "Other assets/ Other liabilities".

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

	Consolidated		The Bank	
	December 31,		December 31,	
	2015	2014	2015	2014
	(NIS million)		(NIS million)	
C. Amounts recognized in the consolidated balance sheet				
Amounts recognized in the item "other assets"	-	6	-	-
Amounts recognized in the item "other liabilities"	285	283	249	239
Net liability recognized at end of period	285	277	249	239
D. Amounts recognized in other cumulative comprehensive profit (loss), before the tax effect				
Actuarial loss, net	83	16	72	8
Liability net, in respect of transition	41	108	41	107
Closing balance in other cumulative comprehensive profit	124	124	113	115
E. Schemes in which the liability regarding cumulative benefits exceeds the assets of the scheme				
Liability regarding anticipated benefit	1,024	1,011	829	816
Liability regarding cumulative benefit	927	896	741	716
Fair value of assets of the scheme	740	728	580	577
F. Schemes in which the liability regarding anticipated benefit exceeds the assets of the scheme				
Liability regarding anticipated benefit	1,079	1,066	829	816
Fair value of assets of the scheme	794	782	580	577

* Actuarial loss deriving from the gap between the discounting rates as of January 1, 2013 deducted actuarial profits deriving from current changes in discounting rates offsetting the said loss.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

(2) Expense for the period

	Consolidated			The Bank		
	December 31,			December 31,		
	2015	2014	2013	2015	2014	2013
	(NIS million)			(NIS million)		
A. Cost components of net benefit recognized in profit and loss**						
Cost of service	25	24	25	11	10	10
Cost of interest	41	47	46	30	35	35
Anticipated return on assets of the scheme	(31)	*(34)	*(51)	(22)	*(23)	*(37)
Amortization of non-recognized amounts:						
Net actuarial loss	3	-	-	3	-	-
Other, including loss from reduction or dismissal and structural changes	27	8	2	14	5	-
Total cost of benefits, net	65	45	22	36	27	8
B. Changes in assets of the scheme and in liability for benefits recognized in other comprehensive profit (loss), before the tax effect						
Net actuarial loss (profit) for the period	9	30	(14)	7	23	(16)
Amortization of actuarial profit	(3)	-	-	(3)	-	-
Dismissal	(6)	-	-	(6)	-	-
Total recognized in other comprehensive profit	-	30	(14)	(2)	23	(16)
Total net cost of benefit	65	45	22	36	27	8
Total net cost of benefit for the period recognized in other comprehensive profit	65	75	8	34	50	(8)

* For practical reasons, the Bank has elected to use actual rates of return in determining the forecasted rates of return for these periods. See also Note 1.C.1.

** Including amounts discounted to software costs.

	(NIS million)
C. Assessment of amounts included in other cumulative comprehensive profit expected to be amortized from other cumulative comprehensive profit to the statement of profit and loss as an expense (income) in 2016, before the tax effect	
Net actuarial loss	3
Total amount expected to be amortized from other cumulative comprehensive profit	3

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

(3) Assumptions

A. Assumptions on the basis of weighted average used to determine the liability in respect of the benefits and for the measurement of the net cost of benefits

	Consolidated		The Bank	
	December 31,		December 31,	
	2015	2014	2015	2014
	percent		percent	
1. Principal guidelines used to determine the liability for benefits				
Discounting rate	1.9	1.9	1.9	1.9
Forecasted rate of rise in the CPI	2.0	2.0	2.0	2.0
Retirement rate	2.1	2.0	2.0	2.0
Rate of increase in real-term compensation	1.6	1.6	1.7	1.6

	Consolidated			The Bank		
	For the year ended December 31,			For the year ended December 31,		
	2015	2014	2013	2015	2014	2013
	percent			percent		
2. Principal guidelines used to measure the net cost of benefits for the period						
Discounting rate	1.1-2.1	2.6	2.6	1.1-2.1	2.6	2.6
Anticipated long-term return on assts of the scheme*	3.8-4.0	4.2	7.7	3.8-4.0	4.3	7.2
Rate of increase in real-term compensation	1.6	1.6-1.9	1.9	1.7	1.7-2.0	2.0

* For practical reasons, the Bank has elected to use actual rates of return in determining the forecasted rates of return for the years 2013- 2014. See also Note 1.C.1.

B. Effect of a one percentage point change on the liability in respect of the anticipated benefit, before the tax effect

	Consolidated				The Bank			
	One percentage point growth		One percentage point decline		One percentage point growth		One percentage point decline	
	December 31,		December 31,		December 31,		December 31,	
	2015	2014	2015	2014	2015	2014	2015	2014
	(NIS million)		(NIS million)		(NIS million)		(NIS million)	
Discounting rate	(80)	(85)	96	99	(68)	(70)	78	79
Retirement rate	110	97	(117)	(106)	96	89	(101)	(98)
Rate of increase in compensation	96	103	(82)	(89)	79	83	(69)	(74)

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

(4) Assets of the scheme

A. Composition of the fair value of the assets of the scheme

Consolidated	December 31, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(NIS million)				(NIS million)			
Cash and deposits with banks	29	10	-	39	62	11	-	73
Shares	235	-	-	235	234	-	1	235
Bonds:								
Government bonds	276	29	-	305	299	20	-	319
Corporate bonds	149	35	-	184	130	55	-	185
Total	425	64	-	489	429	75	-	504
Other	10	15	6	31	9	9	9	27
Total	699	89	6	794	734	95	10	839

The Bank	December 31, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(NIS million)				(NIS million)			
Cash and deposits with banks	23	9	-	32	45	10	-	55
Shares	182	-	-	182	176	-	-	176
Bonds:								
Government bonds	221	-	-	221	210	-	-	210
Corporate bonds	123	22	-	145	95	41	-	136
Total	344	22	-	366	305	51	-	346
Other	-	-	-	-	-	-	-	-
Total	549	31	-	580	526	51	-	577

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

B. Fair value of the assets of the scheme according to classes of assets and allotment target for 2016

	Allotment target	Consolidated		The Bank	
		% of scheme's assets		% of scheme's assets	
		December 31,		December 31,	
		2016	2015	2015	2014
	percent		percent		percent
Cash and deposits with banks	6.8	4.9	8.7	5.4	9.6
Shares	28.8	29.6	28.0	31.4	30.4
Bonds:					
Government bonds	38.2	38.4	38.0	38.1	36.4
Corporate bonds	22.6	23.2	22.1	25.1	23.6
Total	60.8	61.6	60.1	63.2	60.0
Other	3.6	3.9	3.2	-	-
Total	100.0	100.0	100.0	100.0	100.0

C. Cash flows

(1) Deposits

	Forecast	Consolidated		The Bank	
		Actual deposits		Actual deposits	
		For the year ended December 31,		For the year ended December 31,	
		*2016	2015	2015	2014
	(NIS million)		(NIS million)		(NIS million)
Deposits	17	17	17	6	5

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2016.

(2) Benefits expected to be paid by the Bank in the future**

Year	Consolidated	The Bank
		(NIS million)
2016	67	55
2017	67	55
2018	69	54
2019	70	58
2020	69	54
2021-2025	317	241
2026 and thereafter	568	383
Total	1,227	900

** Non-discounted values. Not including future service cost.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

D. Special Collective Labor Agreement

On January 2015, Bank Leumi and the Organization of Bank Leumi Employees have signed a special collective labor agreement (hereinafter – "the collective agreement") for a period of four years until December 31, 2018.

The Bank and PAGI have collective labor agreements that specify a linkage of employment conditions for approximately 2,920 clerks and managers, to the agreements signed between the Management of Bank Leumi and the Organization of Bank Leumi Employees.

Hereunder are the main changes made to the collective agreement in relation to the previous collective agreement:

- The mechanism for the updating of the annual wage at an average rate of 5% for all employees has been changed, and is now as follows:
 - In the year 2015 – 4%
 - In the year 2016 – 4%
 - In the year 2017 – 3.5%
 - In the year 2018 – 3.5%
- Payment to all employees of a onetime award in an amount equal to one monthly salary.
- Early application of the update of the minimum wage determined by a Government decision, in a manner that the updating of the minimum wage to NIS 5,000 shall be made immediately and in one amount (and not gradually as specified in the Government decision) to all employees earning a minimum wage.
- Additional provisions have been added regarding reductions in the amounts of long-service awards (both as regards awards and vacation days), the updating of the rate of employer provisions for provident fund in respect of employees entitled to a "cumulative pension", encouragement for employees who do not utilize sick leave and updating of the maximum period service regarding entitlement to seniority additions.

The application of the collective agreement in 2015 amounted to a one-time decrease in payroll and related expenses of NIS 72 million, before the tax effect.

NOTE 24A - SHAREHOLDERS' EQUITY (CONT'D)

(NIS million)

A. Share capital - Composition:

	Authorized	Issued and paid up
	December 31	December 31
	2015 and 2014	2015 and 2014
Ordinary shares of NIS 0.05 each	18	5

All the ordinary shares are registered shares.

The ordinary shares of NIS 0.05 are traded on the Tel-Aviv Stock Exchange.

Each share entitles the holder to one vote at the general shareholders meeting. Each share entitles its holder to participate in the distribution of profits and to participate in the distribution of the Bank's net assets in the event of liquidation, pro-rata to its par value.

B. Dividends

1. Dividend distribution

- On June 4, 2013, the Board of Directors resolved on the distribution of a cash dividend to the shareholders of the Bank in the amount of NIS 200 million. The determining date for the distribution of the dividend was June 12, 2013, and the payment date was June 24, 2013.
- On January 14, 2014, the Board of Directors resolved on the distribution of a cash dividend to the shareholders of the Bank in the amount of NIS 100 million. The determining date for the distribution of the dividend was January 22, 2014, and the payment date was February 3, 2014.
- On March 25, 2014, the Board of Directors resolved on the distribution of a cash dividend to the shareholders of the Bank in the amount of NIS 130 million. The determining date for the distribution of the dividend was April 3, 2014, and the payment date was April 16, 2014.
- On November 18, 2014, the Board of Directors resolved on the distribution of a cash dividend to the shareholders of the Bank in the amount of NIS 55 million. The determining date for the distribution of the dividend was November 27, 2014, and the payment date was December 9, 2014.
- On June 9, 2015, the Board of Directors resolved on the distribution of a cash dividend to the shareholders of the Bank in the amount of NIS 60 million. The determining date for the distribution of the dividend was June 18, 2015, and the payment date was June 30, 2015.
- On November 18, 2015, the Board of Directors resolved on the distribution of a cash dividend to the shareholders of the Bank in the amount of NIS 70 million. The determining date for the distribution of the dividend was November 26, 2015, and the payment date was December 6, 2015.

	For the year ended December 31,		
	2015	2014	2013
Dividend declared and paid by the Bank	130	285	200

2. For details regarding the policy and restrictions on dividend distribution see note 33.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS

In May 2013, the Supervisor of Banks amended Proper Banking Management Directives Nos. 201-211 in the matter of measurement and capital adequacy, in order to modify them to the Basel 3 guidelines.

It is noted that the Basel 3 instructions determine significant changes in the computation of the regulatory capital requirements, among other things, in everything related to:

- Components of the regulatory capital;
- Deductions from capital and regulatory adjustments;
- Treatment of exposure to financial corporations;
- Treatment of exposure to credit risk in respect of impaired debts;
- Allocation of capital in respect of CVA risk.

The said amendments to the instructions entered into effect as from January 1, 2014, but were implemented in a gradual manner, in accordance with the transitional instructions stated in Proper Banking Management Directive No, 299 in the matter of measurement and capital adequacy - regulatory capital - transitional instructions, this in order to allow compliance with the new instructions of the regulatory capital within the framework of the implementation of Basel 3, and determine a transitional period until their implementation in full. Among other things, the transitional instructions relate to the regulatory adjustments and the deductions from capital, as well as to capital instruments that are not qualified for inclusion in the regulatory capital in accordance with the new criteria determined in the Basle instructions. In particular, according to the transitional instructions, the regulatory adjustments and deductions from capital as well as the non-controlling interest that is not qualified to be included in the regulatory capital, shall be gradually deducted from capital at the rate of 20% in each year starting with January 1, 2014 and until January 1, 2018. The capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. As of 2015, the rate of deductions from the regulatory capital amounts to 40% and the maximum level of instruments qualified as supervisory capital amounts to 70%.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

	December 31,	
	2015	2014
a. Consolidated		
1. Capital for calculation of capital ratio		
Tier 1 capital, after supervisory adjustments and deductions	7,349	*(2)7,157
Tier 2 capital after deductions	2,580	3,357
Total overall capital	9,929	10,514
2. Weighted balances of risk assets		
Credit risk	67,766	*66,148
Market risk	995	1,226
Operational risk	6,141	6,459
Total weighted balances of risk assets	74,902	73,833
		Percent
3. Ratio of capital to risk assets		
Ratio of equity capital tier 1 to risk assets		
Ratio of tier 1 capital to risk assets	9.81%	*(2)9.69%
Total ratio of capital to risk assets	13.26%	*(2)14.24%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)9.10%	(1)9.00%
Minimal ratio of capital required by the Supervisor of Banks	(1)12.60%	(1)12.50%
		Percent
B. Significant Subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of equity capital tier 1 to risk assets	9.83%	*(2)9.59%
Ratio of tier I capital to risk assets	13.25%	*(2)14.13%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(6)9.01%	(5)9.00%
Minimal ratio of capital required by the Supervisor of Banks	(6)12.51%	(5)12.50%
Bank Poaley Agudat Israel Ltd.		
Ratio of equity capital tier 1 to risk assets	12.30%	*12.00%
Ratio of tier I capital to risk assets	16.40%	*16.70%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	9.00%	(5)9.00%
Minimal ratio of capital required by the Supervisor of Banks	12.50%	(5)12.50%
Bank Massad Ltd.		
Ratio of equity capital tier 1 to risk assets	13.76%	*14.50%
Ratio of tier I capital to risk assets	15.01%	*15.70%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	9.00%	(5)9.00%
Minimal ratio of capital required by the Supervisor of Banks	12.50%	(5)12.50%

* Without the effect of adoption of US accepted accounting principles in the matter of employee rights, which took effect on January 1, 2015.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

	December 31,	
	2015	2014
C. Capital components for computation of capital ratio (consolidated)		
1. Equity capital tier 1		
Capital attributed to shareholders	7,073	(2)6,797
Differences between capital attributed to shareholders and equity capital tier 1		
Minority interests	(3)467	(3)466
Application of the transitional instructions in respect of the adoption of accepted accounting principles in the matter of employee rights	60	144
Total equity capital tier 1 before regulatory adjustments and deductions	7,600	7,407
Regulatory adjustments and deductions:		
Intangible assets	154	196
Commitment to invest in shares	(3)94	(3)45
Regulatory adjustments and other deductions- equity capital tier 1	3	9
Total regulatory adjustments and deductions- equity capital tier 1	251	250
Total equity capital tier 1 before regulatory adjustments and deductions	7,349	7,157
2. Tier 2 capital		
Tier 2 capital: instruments before deductions	1,878	2,613
Tier 2 capital: provisions before deductions	703	747
Total tier 2 capital before deductions	2,581	3,360
Deductions:		
Total deductions- tier 2 capital	1	3
Total tier 2 capital	2,580	3,357

	December 31,	
	2015	2014
D. Effect of transitional instructions on equity capital tier 1		
Ratio of capital to risk assets		
Ratio of equity capital tier 1 to risk assets before implementation of transitional instructions in directive 299	9.44	(2)(4)9.12
Effect of transitional instructions	0.37	(4)0.57
Ratio of equity capital tier 1 to risk assets after implementation of transitional instructions in directive 299	9.81	(2)9.69

- (1) Minimal capital ratio requested according to the Supervisor of Banks' directives effective from January 1, 2015. To these relations, as of January 1, 2015 will be added capital requirement of 1% of housing loans balance for the reporting date. This requirement is applied gradually until January 1, 2017. Accordingly minimal ratio equity capital tier 1 and minimal ratio capital to risk assets that will be required by the Supervisor of Banks as of January 1, 2017 for the reported data are 9.27% and 12.77% respectively. See Section E below for additional requirements regarding capital adequacy.
- (2) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.
- (3) As for the amount of NIS 154 million, with coordination of the Supervisor of Banks, the Bank implemented the transition instructions of Basel regarding the PUT option granted to minority interests (31.12.14 - NIS 240 million).
- (4) Including the effect of adoption of US accepted accounting principles in the matter of employee rights. The comparative data has been reclassified in order to reflect this effect. See Note 1.C.1.
- (5) Minimum capital ratio required according to the directives of the Supervisor of banks as of January 1, 2015.
- (6) Beginning January 1, 2015, a capital requirement is added to the capital ratios a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum common equity Tier 1 capital ration and the minimum total capital ratio required by the Supervisor of banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 9.02% and 12.52% respectively.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

E. Capital adequacy goals

The Group's policy, as approved by the Board of Directors and Management, is to maintain an adequate level of capital, in accordance with the capital target determined by an internal process, and which would not be less than the minimum capital goals required by the Supervisor of Banks. The capital target determined by the Board of Directors and Management reflects in the opinion of the Group, the proper capital level required in accordance with the risk profile and risk appetite of the Group.

As part of the gradual process of adoption of the Basel 3 instructions in Israel, The Supervisor of Banks published on March 28, 2013, a guiding letter in the matter of Basel 3 framework - minimum core capital ratios, requiring banks and credit card companies to attain a Tier I equity capital ratio of 9% and a total capital ratio of 12.5%, and this until January 1, 2015. It has been determined, in addition, that a bank, the total stated assets of which on a consolidated basis amount to at least 20% of the total amount of assets of the banking industry, would have to increase the said ratios by one additional percentage point and to attain a minimum Tier I equity capital ratio of 10% and a minimum total capital ratio of 13.5%, and this until January 1, 2017. In accordance with the above, the minimum ratio of Tier I equity capital ratio that would be required from the Bank is 9% and the minimum total capital ratio that would be required from the Bank is 12.5%. In addition according to the directive of the Supervisor of Banks regarding "restrictions on extension of housing loans", the banking entities are demanded to increase the targeted tier 1 capital in a rate constituting 1% of the balance of the housing loans. The targeted tier 1 capital will be increased in constant quarterly rates from January 1, 2015 until January 1, 2017. For the balance of the housing loans see note 29.B.3.

Within the framework of the ICAAP process, the Board of Directors has determined minimum capital targets in relation to Tier I equity capital and to comprehensive capital, in the case of regular business situation and in stress tests. The capital targets have, inter alia, been determined in view of the above, in view of the ICAAP findings and data as of June 30, 2015. Set out below are the minimum capital targets:

- In a regular business situation – the Tier I equity capital ratio shall not be lower than 9.30%, the comprehensive capital ratio being determined gradually, and shall not be lower than 12.70% by June 30, 2016, and not lower than 12.73% by December 31, 2016.
- Under stress tests - the Tier I equity capital ratio shall not be lower than 6.50%, and the comprehensive capital ratio shall not be lower than 9.00%.

The distribution of dividends by the Bank shall be made possible only to the extent that it would not impair the ability of the Bank to comply with the new capital requirements.

**NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE
OF THE SUPERVISOR OF BANKS (CONT'D)**

(NIS million)

F. Leverage ratio in accordance with instructions of the Supervisor of Banks

The Supervisor of Banks issued on April 28, 2015, Proper Banking Management Directive No. 218 in the matter of leverage ratio. The Directive states a simple and transparent leverage ratio that is not risk based, which would serve as a supplementary and reliable measurement of the risk based capital requirements, and which is intended to restrict the accumulation of leverage at a banking corporation.

The leverage ratio is expressed in percentages, and is defined as the ratio between the measurement of capital and the measurement of exposure. Capital for the purpose of measuring leverage is the Tier I capital as defined in Proper Banking Management Directive No. 202, taking into consideration the determined transitional arrangements. The total measurement of exposure of the Bank is the total of the balance sheet exposures, exposure to derivatives and to transactions financing the purchase of securities and off-balance sheet items. As a general rule, measurement is consistent with accounting values and risk weights are not taken into consideration. Furthermore, the Bank is not permitted to use physical or financial collateral, guarantees or other credit risk reducing techniques, in order to reduce exposure measurement, unless this is specifically permitted by the Directive. Balance sheet assets, deducted from Tier I capital (in accordance with Directive No. 202) are deducted from exposure measurement. In accordance with the Directive, the Bank computes exposure in respect of derivatives in accordance with the provisions of Appendix "C" of Proper Banking Management Directive No. 203, and exposure in respect of off-balance sheet items by converting the imputed amount of the items by the conversion coefficients for credit, as determined in Proper Banking Management Directive No. 203. In accordance with the Directive, a banking corporation shall maintain a leverage ratio of not less than 5% on a consolidated basis. A banking corporation, the total stated consolidated assets of which comprises 20% or more of the total stated assets of the banking industry, shall maintain a leverage ratio of not less than 6%. In accordance with the above, the minimum leverage ratio required from the Bank is 5%.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

	December 31, 2015
A. Consolidated	
Tier 1 capital	7,349
Total exposures	135,221
	percent
Leverage ratio	5.43%
B. Significant Subsidiaries	
Bank Otsar Hahayal Ltd.	
Liquidity coverage ratio	5.73%
Bank Poaley Agudat Israel Ltd.	
Liquidity coverage ratio	8.82%
Bank Massad Ltd.	
Liquidity coverage ratio	7.59%
Minimal liquidity coverage ratio required by the Supervisor of banks	5.00%

A banking corporation is required to maintain the minimum leverage ratio as from January 1, 2018. A banking corporation, which at date of publication of the Directive maintains already the minimum leverage ratio applying to it, shall not reduce the ratio below the minimum determined by the Directive. A banking corporation, which at date of publication of the Directive did not attain the minimum leverage ratio requirement applying to it, is required to increase the leverage ratio by fixed quarterly installments until January 1, 2018.

F. Reporting the liquidity coverage ratio in accordance with instructions of the Supervisor of Banks

The Supervisor of Banks issued on September 28, 2014, a circular letter which added Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio". The Directive adopts the recommendations of the Basel Committee in the matter of liquidity coverage ratio as regards the banking industry in Israel. The liquidity coverage ratio examines a range of thirty days in a stress test, and is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets serving the liquidity needs of the corporation within that period of time. The Directive specifies the manner of computation of the liquidity coverage ratio, including the definitions of characteristics and operational requirements for the "inventory of high quality liquid assets" (numerator) and security coefficients in its respect, as well as the anticipated cash outflows in the stress test, as defined in the Directive for the thirty calendar days (denominator).

The stress test stated in the Directive includes a stress situation that combines a specific stress to the corporation with a system stress, within the framework of which, standard withdrawal rates have been defined for cash outflows and cash deposit rates for cash inflows, in accordance with the different categories of outstanding balances.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

A banking corporation, the liquidity coverage of which drops below the minimal requirement, is required to immediately report such deviation to the Supervisor of Banks

In accordance with the transitional instructions, as from April 1, 2015, the minimum requirement will be 60%, rising gradually to 80% on January 1, 2016 and to 100% on January 1, 2017 and thereafter. Notwithstanding, in periods of financial pressure, a banking corporation may reduce the ratio to below the said minimum requirements.

A banking corporation, the liquidity coverage ratio of which was below the minimal requirement for a period of three days, must report this fact to the Supervisor of Banks together with a scheme for the rectification of the difference.

The liquidity coverage ratio requirements apply as from April 1, 2015.

Following the adoption of the Basel rules in Israel, as stated above, the Board of Directors of the Bank has decided that the targeted ratio of the Bank and of the Group as from April 1, 2015, would be 10% higher than the minimal requirement.

During the reported period the Bank and the Group hold the liquidity coverage ratio as required.

In addition, on September 28, 2014, the Supervisor of Banks issued a circular letter in the matter of the provisional instruction - implementation of disclosure requirements according to pillar III of Basel - disclosure in respect of liquidity coverage ratio (hereinafter - "the letter"). Within the framework of the letter, amendments were made to the public reporting requirements in order to implement the disclosure requirements that banks will have to include as part of the adoption of the liquidity coverage ratio.

	For the three months ended December 31, 2015
	percent
A. Consolidated*	
Liquidity coverage ratio	104%
B. The bank**	
Liquidity coverage ratio	98%
Significant Subsidiaries**	
Bank Otsar Hahayal Ltd.	
Liquidity coverage ratio	376%
Bank Poaley Agudat Israel Ltd.	
Liquidity coverage ratio	208%
Bank Massad Ltd.	
Liquidity coverage ratio	340%
Minimal liquidity coverage ratio required by the Supervisor of banks	60%

* In terms of simple averages of monthly observations during the reported quarter.

** In terms of simple averages of daily observations during the reported quarter.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

H. Capital requirements in respect of exposure to central counterparties

The Supervisor of Banks published on October 22, 2015, a final letter in the matter of "Capital requirements in respect of exposure to central counterparties" (hereinafter - "the letter"). The letter amends Proper Conduct of Banking Business Directives 203 and 204, in order to match them to the Basel Committee recommendations in everything relating to the capital requirements with respect to exposure of banking corporations to central counterparties. The letter details the new guidelines applying to exposure to central counterparties arising from OTC derivatives, marketable derivative transactions and transactions financing securities. The guidelines differentiate between an unqualified central counterparty and a qualified central counterparty; where in respect of the latter, lower capital requirements have been established.

The contents of the letter apply as from July 1, 2016, while until June 30, 2017, it is possible to consider the Stock Exchange as a qualified central counterparty.

The Bank is updating the mode of computing the capital ratios and the leverage ratios in accordance with the updated Directive, as above. The Bank is also studying the effect of such updates upon the capital planning, capital goals and its leverage goal.

The said Directives may increase the capital requirements of the Bank in respect of the said exposure, even though at this stage the Bank is preparing for the implementation of the Directive and is studying the implications arising from its implementation.

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES

(NIS million)

A. Off-balance sheet commitment in respect of activity based on the collection of loans⁽¹⁾ at the end of the year

	Consolidated		The Bank	
	December 31		December 31	
	2015	2014	2015	2014
Balance of loans granted out of deposits repayable to the extent of collection of the loans (2)				
Non-linked Israeli currency	48	64	48	46
CPI linked Israeli currency	583	780	583	780
Foreign currency	5	8	5	-
Total	636	852	636	826

(1) Loans granted out of deposits repayable to the depositor to the extent of collection of the loans, earning a margin or a collection commission (instead of a margin).

(2) Standing loans and Government deposits made in respect thereof, in the amount of NIS 1,043 million, consolidated and in the Bank (December 31, 2014 - NIS 1,077 million consolidated and in the Bank), were not included in the above table.

Flows of collection commission and interest margins in respect of activity based on the collection of loans⁽¹⁾ consolidated

	December 31						December 31
	2015						2014
	Up to one year	One to three years	Three to five years	Five to ten years	Ten to twenty years	Total	Total
Contractual future flows	5	9	8	9	2	33	43
Expected future flows, net of management's estimate of premature repayments	5	7	5	4	-	21	29
Discounted future flows, net of management's estimate of premature repayments (2)	5	7	5	4	-	21	29

(1) The balance of deposits repayable according to collection in the non-linked shekel segment does not exceed 10% of all deposits repayable according to collection, therefore the data is given in respect of all operations.

(2) The capitalization is based on a discount rate of 0.3% (2014 - 0.4%).

Information as to the granting of housing loans during the year

	December 31	
	2015	2014
Loans granted out of deposits repayable to the extent of collection of the loans	1	2
Standing loans	3	2

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

(NIS million)

B. Other contingent liabilities and special commitments

	Consolidated		The Bank	
	December 31		December 31	
	2015	2014	2015	2014
1. Improvements to premises and acquisition of new premises, equipment and software	14	100	11	96
Commitments to invest in private investment funds	49	57	49	57

B. The Bank and its investees have leased premises and equipment on a long term basis. The rentals payable in the future subject to linkage terms (partly to the CPI and partly to foreign currency), are as follows:

	Consolidated		The Bank	
	December 31		December 31	
	2015	2014	2015	2014
First year	81	87	45	42
Second year	77	80	42	40
Third year	68	70	36	32
Fourth year	65	62	33	27
Fifth year	61	57	31	24
Sixth year and thereafter	387	342	179	133
Total	739	698	366	298

C. 1. On June 29, 2004, the General Meeting of Shareholders of the Bank (following approval of the Audit Committee and the Board of Directors) approved a resolution to grant exemption from responsibility for the violation of the duty of care towards the Bank, as well as the granting of an advance commitment for indemnification of acting directors and other officers and those who will serve the Bank from time to time (including controlling shareholders in the Bank, hereinafter: "Officers"). The said General Meeting also authorized the Board of Directors of the Bank to grant an exemption and commitment for indemnification also for former Officers of the Bank, to whom the Bank had undertaken that they would be entitled to indemnification arrangements as would be in effect from time to time with respect to Officers of the Bank. The Board of Directors of the Bank also approved the grant of an exemption and commitment for indemnification, as stated, for persons representing the Bank as Directors in other companies. All these commitments have been approved in accordance with the Companies Act, subject to the limitations therein, and subject to the provisions of the letter of commitment and indemnification.

The commitment and indemnification will apply to acts directly or indirectly connected to one or more of the events detailed in the Annex to the letter of commitment and indemnification.

The amount of the commitment and indemnification according to this resolution, to all Officers of the Bank and of its subsidiaries together, in respect of one set of events out of the events detailed in the Annex to the letter of commitment, is not to exceed 25% of the equity capital of the Bank, per the latest financial statements issued immediately prior to the actual granting of the indemnification.

In accordance with the said resolutions, letters of exemption and commitment to indemnify, as stated above, have been issued to Officers of the Bank. Also commitments for indemnifications were given according to the above-mentioned principles to the persons detailed as follows:

- directors who had served on the board of directors of the provident funds management company controlled by the bank, and to directors who had served in the provident funds that were controlled by the Bank prior to the sale of their activity.
- directors acting on behalf of the Bank in the consolidated companies FIBI Bank (UK) plc and FIBI Bank (Switzerland) Ltd.
- directors who had acted on behalf of the Bank in International Underwriting in the period when this company had been engaged in the underwriting business.

The amount of the indemnification is according to the Bank's policy in the matter.

On November 29, 2011, after having obtained the approvals of the Audit Committee and of the Board of Directors of the Bank, the general meeting of shareholders expanded the indebtedness and/or expenses in respect of which the Bank would be entitled to grant indemnification and this in accordance with the Companies Act (Amendment No. 3), 2005, Improving Efficiency of Enforcement by the Securities Authority Act (Legislation amendments), 2010, Increasing Enforcement in the Capital Market Act (Legislation amendments), 2011 and the Companies Act (Amendment No. 16), 2011, as well as in respect of any additional administrative proceedings, which in accordance with the law, indemnification may be paid in respect of payments made or expenses incurred in respect thereof, and to grant amended liability indemnification in accordance therewith to Directors and Officers acting at that time and which will act from time to time at the Bank and at investees of the Bank, including Directors who are controlling shareholders (Mr. Tzadik Bino and Mr. Gil Bino) and including former Officers (in accordance with a resolution of the general meeting of shareholders passed on June 29, 2004) and including other Officers of the Bank who are not Directors.

On October 30, 2014, the General Meeting of Shareholders, following the approvals of the Audit Committee and the Compensation Committee of the Board of Directors, resolved to reapprove the granting of letters of indemnification to Directors having a controlling interest and/or their relatives and/or persons whom the controlling shareholders might have a personal interest in granting them letters of indemnification, in accordance with the same terms and same form of the indemnification letters granted to Directors in 2011, as detailed above, for a period of three additional years, beginning on November 29, 2014 (the date of expiration of the period of three years since the date of approval by the General Meeting of Shareholders for the granting of letters of indemnification to Directors, including Directors who are controlling shareholders).

2. At the end of 1990 and beginning of 1991, the Bank issued letters of indemnity to certain directors of some of its investees. According to the letters of indemnity, the Bank has undertaken to indemnify each director in respect of any sum which he may be charged to pay, according to a final verdict of a court in Israel as a result of a claim submitted against him in respect of any acts of commission or omission committed by him in good faith in the exercise of his own duties as director, as well as for expenses incurred by him in the defense against such claim. As from the end of 2011, Directors who had received letters of indemnification of this type, no longer act in the Bank's Group.

3. a. According to a resolution of the board of directors of UBank Ltd. (hereinafter - "UBank") dated March 15, 2005, taken in accordance with the Articles of UBank, the directors and officers of UBank (as defined in the Companies Act, 1999, including the internal auditor, the chief accounting officer and the secretary of UBank) have been exempted by UBank from responsibility regarding the violation of the duty of care towards UBank as from December 22, 2004, as well as the waiver of any claim by UBank against them in respect of the above. The said exemption and waiver do not apply to cases where according to the Companies Act; UBank may not exempt the officer from responsibility.

Furthermore, that same meeting of the board of directors resolved that UBank would indemnify the said directors and officers in respect of a liability or expenditure imposed upon them as a result of actions taken by them in terms of their duties as officeholders at UBank, everything in accordance with the terms detailed in the commitment to indemnify officeholders.

The total amount of the indemnification to be paid by UBank (in addition to and over the amounts to be received under insurance policies, whether payable to UBank or payable to the officer) to all officers of UBank and its subsidiaries on a cumulative basis, in accordance with the said letter of indemnification and/or letters of indemnification that will be issued in accordance therewith, in respect of one of the events details therein, shall not exceed 25% of the shareholders' equity of UBank on a consolidated basis according to the latest financial statements (annual or quarterly) published prior to the actual payment in respect of the indemnification.

The exemption and the undertaking for indemnification were approved by a special general meeting of shareholders of UBank held on May 18, 2005, to the extent that such approval is required.

- b. On December 21, 2004, the parent company of the previous controlling shareholder of UBank, Investec Bank (UK) Limited undertook to indemnify UBank in respect of any payment that it will bear in respect of the directors and other Officers therein, or on their behalf, in accordance with the provisions of the letter of exemption and commitment, concerning actions effected prior to the date of transfer of control in UBank to the Bank. The amount of this commitment is limited to the maximum indemnification amount per the letter of exemption and indemnification, as stated in section a. above.
- c. In accordance with the resolution of the board of directors of UBank dated March 15, 2005, by which the directors and officers of UBank (see A. above), received an exemption from responsibility for violation of the duty of care towards UBank, the Audit Committee of UBank approved in October 2006 the granting of indemnification to directors in UBank Finance (2005) Ltd. (hereinafter - "the company") appointed by UBank and who are not officers of UBank. The letter of indemnification has been given in the version and format of the indemnification letters granted to officers of UBank, as adapted to the characteristics of the company.
- d. In February 2012, following approvals of the Audit Committee and the Board of Directors of UBank (and following amendment of the incorporation bylaws of UBank, as required) the general meeting of shareholders of UBank approved the granting of indemnification in an amended version, extending the obligations and/or the expenses to which the indemnification applies, this in accordance with the Improving Enforcement by the Securities Authority Act (Legislation amendments), 2010, and the Companies Act (Amendment No. 3), 2005 (hereinafter - the

"amended indemnification letter"), in respect of Directors, excluding Directors having a controlling interest, who are holding office at date of approval by the General Meeting and Directors who shall hold office from time to time in UBank and in investee companies of UBank.

It should be noted, that according to the said approval, all indemnification commitments that had been granted by UBank also to former officers, in accordance with a resolution of the General Meeting of Shareholders of June 29, 2004, have also been amended.

In addition, and in accordance with the decision of the Board of Directors of UBank (following the approval of the Audit Committee and amendment of the bylaws) an amended indemnification letter was also approved in respect of other Officers of UBank who are not Directors.

- e. As part of the merger of Ubank into the Bank all Ubank's liabilities and rights detailed in this section were transferred to the Bank (for this matter see note 15 regarding the merger of Ubank and PAGI).
4. Otsar Hahayal and Massad are committed to indemnify officers as defined in the Company Law, 1999. The amount of the indemnification provided by them in terms of this commitment to all its officers as a group, in respect of one or more of the events covered by this commitment, shall not exceed 33% of the equity of Otsar Hahayal and Massad according to their latest financial statements published shortly prior to the date of the actual indemnification.
5. In April 2010, the General Meeting of Shareholders of PAGI approve the granting of exemption to Directors and Officers of PAGI (as defined in the Companies Act, 1999, including the Internal Auditor and Secretary of the bank), from responsibility for violation of the duty of care towards PAGI and waiver of any claim of PAGI against them with respect to the above. The said exemption and waiver do not apply to cases where, according to the Companies Act, PAGI may not exempt an Officer from responsibility. Furthermore, it has been approved to grant the said Officers an indemnity commitment with respect to a liability or expense imposed upon them as a result of actions taken in the course of their duties at PAGI as above, and everything as detailed in the commitment for indemnity of Officers. The total amount of indemnity payable by PAGI (in addition to and over and above amounts receivable under the insurance policy, whether payable to PAGI or to the Officer) to all Officers thereof in accordance with the above letter of commitment and/or letters of indemnity to be issued under this decision, in respect of one series of events of the events mentioned therein, shall not exceed 25% of the shareholders' equity of PAGI according to the most recent financial statements (annual or quarterly) published prior to the date of actual payment of the indemnity amount.
In November 2012, following approvals of the Audit Committee and the Board of Directors of PAGI (and following amendment of the incorporation bylaws of PAGI, as required) the general meeting of shareholders of PAGI approved the granting of indemnification in an amended version, extending the obligations and/or the expenses to which the indemnification applies, this in accordance with the Companies Act (Amendment No. 3), 2005, the Improving Enforcement by the Securities Authority Act (Legislation amendments), 2010, and the Increased Enforcement in the Capital Market Act (Legislation amendments), 2011, (hereinafter - the "amended indemnification letter"), in respect of Directors holding office at date of approval by the General Meeting and Directors who shall hold office from time to time in PAGI.
It should be noted, that according to the said approval, all indemnification commitments granted by PAGI also to former officers, in accordance with a resolution of the general meeting of shareholders of April 2010, have also been amended.

In addition, and in accordance with the decision of the Board of Directors of PAGI (following the approval of the Audit Committee and amendment of the bylaws) an amended indemnification letter was also approved in respect of other Officers of PAGI who are not Directors.

As part of the merger of PAGI into the Bank all PAGI's liabilities and rights detailed in this section were transferred to the Bank (for this matter see note 15 regarding the merger of Ubank and PAGI).

6. According to a resolution dated September 29, 2009, International Underwriting is committed to indemnify all of its Officers (including Directors, General Manager, Internal Auditor and Company Secretary, but excluding anyone of them who has a controlling interest in the company, or a relation of whom, or he who is an employee or Officer of anyone of the shareholders therein). The cumulative amount of the indemnity to all Officers in respect of one of the indemnity events specified in the letter of indemnity shall not exceed 25% of the shareholders' equity of International Underwriting according to its most recent financial statements published prior to the date of actual payment of the indemnity.

On December 30, 2015 liquidation of International Underwriting was completed following voluntary liquidation of the company.

- D. The Clearing House of the Tel-Aviv Stock Exchange (hereinafter - "the Clearing House") established a risk fund with the purpose of securing the obligations of Clearing House members in respect to the activities of each member. The amount of the Fund is being updated on March 1, in every year, being equal to the total average daily clearing turnover in the calendar year that ended prior to the updating date, and in any event shall not be less than NIS 150 million. The share of the Bank and its consolidated companies amounted to NIS 88 million (December 31, 2014 - NIS 127 million).

According to a resolution of the Board of the Stock Exchange and the by-laws of the Clearing House the Bank and its subsidiaries are required to deposit only liquid assets as collateral (bonds of the State of Israel or cash) as required by the by-laws, and in addition to sign a pledge agreement to secure their obligations towards the Stock Exchange Clearing House regarding their operation as members of the clearing house.

In accordance with the said decisions, the Clearing House opened accounts in its name with the Clearing House for the Bank and for its consolidated subsidiaries, in which the Bank and the subsidiaries deposited securities as collateral in favor of the Clearing House.

In addition, the Clearing House opened with another bank accounts in its name for the Bank and for its subsidiaries, in which they may deposit funds as collateral, and also the Clearing House will deposit cash payable to the Bank and its subsidiaries, as income on their securities deposited and pledged as aforesaid.

As collateral for the due performance of the Bank's obligations towards the Clearing House as stated above, with no limitation on their total amount, the Bank and its subsidiaries registered on April 17, 2005, a first degree fixed pledge and an assignment by way of a pledge, in favor of the Clearing House, with respect to the account of the Clearing House at the Clearing House and the account of the Clearing House with another bank. It should be clarified that starting with the year 2010 the Bank provides services as a member of the Clearing House with respect to operations pertaining to assets cleared by the Clearing House, including with respect to collateral required for RTGS system operations also for Massad and Otzar Hachayal, which are Stock Exchange members who are not Clearing House members. Accordingly, the Bank's obligations as a Clearing House member towards the Clearing House, include also obligations in respect of the operations of Massad and Otzar Hachayal and their customers. In respect of such obligations of the Bank towards the Clearing House, the Bank has

received from Massad and Otzar Hachayal, as the case may be, guarantees, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the Clearing House in respect of their or their customers' operations. As to the pledge to the Clearing House see Note 26C above.

- E. Maof Clearing House formed a risk fund, the amount of which will be determined from time to time by the Board of Directors of the Clearing House. The initial amount determined for the risk fund is NIS 290 million linked to the consumer price index. Each member's share in the risk fund, including the Bank and its consolidated subsidiaries, is determined by the volume of his activity in the Clearing House on behalf of its clients (and on its own behalf, if applicable).

The demand for collateral from the Bank and its subsidiaries in respect of the risk fund amounts to NIS 167 million as of December 31, 2015 (compared to NIS 174 as of December 31, 2014).

Each of the member banks of the Maof Clearing House is committed towards the Clearing House for the payment of any monetary charge resulting from transactions on behalf of its customers. The amount at the balance sheet date relating to the Banks' and a consolidated subsidiaries' customer transactions in respect of Maof options is included in the balance sheet in the item "assets in respect of derivative instruments" and in the item "liabilities in respect of derivative instruments" in equal amounts based on the fair value. The balance of the liability of the Bank and of its consolidated subsidiaries to the Maof clearing house, over and above the amount stated in the balance sheet, based on the stock exchange models, is of NIS 353 million (December 31, 2014 - NIS 517 million).

The Bank and its consolidated subsidiaries registered in favor of the Maof Clearing House a fixed pledge and an assignment by way of a pledge unlimited in amount on the rights in an account of Maof securities managed in the name of the Maof Clearing House at the Stock Exchange Clearing House (hereinafter - "the main account") as well as on rights in an account managed in the name of the Maof Clearing House at another bank (hereinafter - "the monetary account"). In addition, the Bank and its consolidated subsidiaries registered in favor of the Maof Clearing House a floating pledge and an assignment by way of a pledge unlimited in amount on all securities deposited and/or to be deposited to the credit of the Bank and its consolidated subsidiaries at the Stock Exchange Clearing House, including securities deposited and/or to be deposited to the credit of the main account and to the credit of an additional account managed at the Stock Exchange Clearing House, and on the income and any other right derived there from. A further floating pledge was registered also on all rights attaching to the monetary account. . It should be clarified that starting with the year 2010 the Bank provides services at the MAOF Clearing House also with respect to operations pertaining to Massad and Otzar Hachayal, which are Stock Exchange members who are not MAOF Clearing House members. Accordingly, the Bank's obligations as a MAOF Clearing House member towards the Clearing House, include also obligations in respect of the operations of Massad and Otzar Hachayal and their customers. In respect of of such obligations of the Bank towards the MAOF Clearing House, the Bank has received from Massad and Otzar Hachayal, as the case may be, guarantees, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the MAOF Clearing House in respect of their or their customers' operations.

As to the pledge in favor of the Maof Clearing House - see Note 26A above.

- F. CLS Bank International is an inter-bank clearing house owned by the large banks in the world and is engaged in the transfer of payments resulting from currency exchange transactions, and the manner of its operation avoids the delivery risk inherent in such transactions.

The CLS Clearing House elected the Bank as the third bank to serve as a provider of shekel liquidity, in addition to Bank Leumi and Bank Hapoalim. The maximum amount of liability of the Bank in this respect amounts to NIS 1 billion, this after receiving a commitment by Bank of Israel for a parallel credit facility in this amount secured by a floating pledge on the Bank's rights to receive amounts and monetary charges in Israeli currency due and /or will be due from the Bank's customers comprising Israeli corporations.

- G. In the ordinary course of business, legal actions have been filed against the Bank and certain of its subsidiaries, including pleas for approval of class actions. In the opinion of the Management of the Bank and the Managements of its subsidiaries, based on legal opinions, as to the prospects of these actions, including the pleas for approval of class actions as detailed in this section, adequate provisions have been included in the financial statements, where required, to cover losses which might be sustained as a result of these actions.

Following are details of actions filed against the Bank, where the amount claimed therein is material, or that by their nature have characteristics similar to those of additional actions the cumulative amount of which is material:

- (1) In April 2007, an action was filed against the Bank and additional banks alleging that the Bank had illegally collected a brokerage commission from mutual funds related to it at rates that were higher than commission rates paid by other customers of the Bank.

The claim against the Bank amounts to NIS 75.5 million.

- (2) On March 20, 2008, an action was filed against the Bank together with a motion for approval of the action as a class action suit, on grounds that the Bank had illegally coordinated with other banks the commission charged to its customers. As a result thereof, the amounts of commission collected by the Bank were higher than it would have collected had there not been such coordination. The action does not state the amount claimed in the motion for approval of a class action suit. The parties have reached a compromise agreement in this case whereby it has been agreed that the Bank will pay in respect of these proceedings and the proceedings as stated in item 3 below, a total amount of NIS 8 million (an amount that would be deducted from the amount payable to the State Treasury in accordance with an agreed Order), which had been deposited in a trust account as stated in item "J" below) together with fees and compensation to the Appellant in the class action. On May 31, 2015, the agreement took effect as a Court verdict and the amounts, which the Bank had to pay in accordance with the compromise agreement, have been paid according to the dates stated therein (out of the amounts payable, as stated to the State Treasury, in accordance with the agreed Order).

- (3) On May 12, 2009, the Bank received notice of a claim together with a motion for approval of the claim as a class action suit. The claim and the motion were submitted against Bank Hapoalim, Bank Leumi, Discount Bank, Mizrahi Tefachot Bank and the Bank (hereinafter together - "the banks"). The Appellants stated the claim against the banks at NIS 1 billion.

The Appellant argue that the banks are parties to a binding arrangement regarding the coordination of commissions, which resulted in excessive costs of banking services, thus causing damage to the Appellants.

The parties have reached an agreement in this case, whereby it has been agreed that the Bank will pay in respect of these proceedings and the proceedings stated in item (2) above, a total amount of NIS 8 million (an amount that would be deducted from the amount payable to the State Treasury in accordance with an agreed Order), which had been deposited in a trust account as stated in item "J" below, together with fees and compensation to the in the class action. On May 31, 2015, the agreement took effect as a Court verdict and the amounts, which the Bank had to pay in accordance with the compromise agreement, have been paid according to the dates stated therein (out of the amounts payable, as stated to the State Treasury, in accordance with the agreed Order).

- (4) On October 29, 2009, two Appellants filed an action by way of an originating motion, against the Bank and six additional banks. The Appellants argued that the banks are not entitled to charge them with "violation" interest with respect to a loan that had been granted by the banks to the Appellants, and that their debt to the banks should be reduced by an amount of NIS 800 million, representing, according to them, the amount of "violation" interest.

According to the Appellants the share of the Bank in the above amount is 16%.

The verdict given on July 21, 2013, and a supplementary verdict given on November 3, 2013, admitted in part the arguments of the Appellants ordering the banks to refund a small part of the "violation" interest and pay part of the expenses of the Appellants. The banks and the Appellants have filed an appeal, within the framework of which, they even agreed with the Appellants on a stay of execution of the verdict until a decision is given in the appeal, this against the payment of expenses charged to them alone. In a verdict given on August 23, 2015, the Court admitted in part the appeal by the Appellants and dismissed the appeal by the Banks, stating that the banks shall refund to the Appellants an amount of NIS 287 million. The share of the Bank in the said refund is NIS 46 million, which has been paid in full. A motion for an additional hearing of the case filed by the banks was dismissed on October 12, 2015.

- (5) A claim and a motion to approve the claim as a class action suit were filed on October 3, 2011, against the Bank, arguing as follows:
- The Bank does not report to the Debt Execution Office amounts received by it within seven days of the receipt, as required by Law, but at a later date.
 - Sometimes the Bank does not report receipts at all.
 - When the Bank retroactively reports receipts, the credit recorded in the debt execution file is made based on the regular arrears interest rate and not in accordance with the arrears interest rate charged by the Bank, on the basis of which the debt execution file is charged.

The claim brief does not specify the amount of the personal claim or the amount of the class action suit.

- (6) On July 4, 2012, the Bank received a claim in the amount of NIS 74 million. The Appellants allege that the Bank had enticed them to invest in foreign currency options without disclosing the risks involved in such investment. The Appellants further argue that the consulting services provided to them were neglectful and were given by persons unauthorized to provide such services, and who also did not disclose the conflict of interests existing between the Bank and the customer.
- (7) In September, 2013, the Bank was served with a claim together with a motion for approval of the claim as a class action suit in an amount of not less than NIS 10.5 billion (hereinafter - "the claim and motion"). The claim and motion were served against the Bank, additional banks as well as against the

General Manager of each of these banks, though at a later stage, a motion was filed to cross out the claims against the latter defendants. The amount of the claim relates to all the banks together. The Plaintiffs claim that the said banks do not provide proper disclosure and even mislead their customers with respect to the costs involved in currency conversion services provided by them, upon selling foreign currency to the customer at a rate higher than the buying rate. The difference between the buying rate and the selling rate to the customer (named in the claim as - "mark-up commission") constitutes, as alleged by the Plaintiffs, a "brokerage commission" charged with no disclosure of it in any of the pricelists published by the banks. The Plaintiffs further claim that the Banks act in unison in this respect in order to hide the mark-up commission and that a binding agreement exists among them. In January 2014, the Court approved the motion of the Appellant for withdrawal from the claim against the general managers.

In March 2014, a motion for the approval of a claim as a class action suit, estimated at approximately NIS 2 billion, was filed against a consolidated subsidiary and against four additional banks (Mercantile, Mizrahi, Union and Yahav), the cause of action being identical to that alleged against the Bank in an action filed in September 2013, as stated above. On September 30, 2015, the parties filed with the Court a motion for approval of a compromise arrangement in this case, which on December 21, 2015, was awarded the power of a Court verdict. The financial implication of this arrangement on the consolidated subsidiary is negligible.

- (8) On October 20, 2014, the Bank was served with a motion for the approval of a lawsuit as a class action suit in the matter of management fees charged by all the banks in the Bank Group (hereinafter altogether - "the Bank") in respect of the management of securities deposits in Israel and abroad (hereinafter - "the management fees").

According to the Appellants, in the period from 2007 to 2012, the formula used by the Bank in computing the management fees charged (hereinafter - "the first formula") differs from the formula, which the Bank had to make use of and which was disclosed in the pricelist of the Bank.

As alleged by the Appellants, use of the first formula had created repeated distortions detrimental to the customers, so that in fact the Bank charged customers with management fees, the effective rate of which exceeded the rate of the quarterly management fees that the Bank was permitted to charge according to the pricelist. It is further stated by the Appellants that in the third quarter of 2013 the Bank stopped the use of the first formula and since that date does not charge excessive management fees.

The Appellants assess that the cumulative monetary damage in nominal terms caused to class members together with the nonmonetary damage exceeds the amount of NIS 40 million, though they have fixed the amount of the motion at only NIS 30 million.

On September 30, 2015, the parties filed a motion with the Court for approval of a compromise arrangement in this case, which on December 21, 2015, was awarded the power of a court verdict.

- (9) On March 1, 2015, the Bank received notice of a motion for approval of a class action suit. The Appellants argue that according to Section 2(b) of the Banking Rules (Customer service) (Commissions), 2008, which became effective only on August 1, 2013, "a commission which a bank is entitled to charge in respect of a service included in the full pricelist, shall be computed so that it does not exceed the amount or commission rate charged for the same service to a corporation that is not considered a small business". The Appellants allege that the Bank acts in violation of this clear instruction, and with regards to many

services, the commission charged to private individuals and to small businesses in accordance with the full pricelist, is higher than that charged to large businesses according to the business pricelist. The motion does not include quantification of the amount of the class action.

- (10) On January 1, 2015, a consolidated subsidiary was served with a motion for approval of a lawsuit as a class action suit against fifteen Defendants, being nine managers of mutual funds and six trust companies. The claim is in respect of alleged excessive payments of brokerage fees, while violating fiduciary duties and other duties towards holders of mutual funds units.

It is further alleged that the fund managers had conducted transactions on behalf of the funds being managed by them without making any effort to reduce the brokerage fees paid by investors in the funds, and that the Defendants had collaborated with the factor providing brokerage services, so that he would receive higher consideration for services paid for by the unit holders, while on the other hand, he would provide at no cost services, the price for which, if charged, would have to be paid by the fund managers. It is also alleged that the consolidated subsidiary charged trustee fees at a much higher rate than the fees charged by the other Defendants, this in order to compensate the consolidated subsidiary for operating services provided at no cost to managers of the funds.

The claim relates to whoever owned participation units in whatever mutual fund being managed by one or more of the defendant fund managers in the period ended on December 27, 2011, or during a part thereof, and which had been charged with brokerage commissions and/or charged, directly or indirectly, with payments for operating services. The amount of the claim is assessed at NIS 220 million in nominal terms, of which, the share of the consolidated subsidiary amounts to NIS 54 million.

- (11) On April 1, 2015,, a consolidated subsidiary received notice of a motion for approval of a lawsuit in the amount of NIS 661 million as a class action suit. It is alleged in this case that the consolidated subsidiary had misled customers as to the nature of State guarantee provided in respect of loans granted to businesses by the consolidated subsidiary, which are secured by State guarantees. The Plaintiffs argue that as guarantors for such loans, they were not told that the State guarantee is a residual guarantee, which the consolidated subsidiary may realize only after realization of collateral and taking every action to collect the debt from the guarantors.

The additional exposure of the Bank and of the subsidiary companies as of December 31, 2015, to pending claims, which in the opinion of Management of the Bank the probability of their realization, in full or in part, is not remote, and in respect of which no provisions have been included, amounts to NIS 24 million.

- H. Moreover, pending against the Bank and against a consolidated subsidiary of which, are motions for approval of class actions, as detailed below. In the opinion of the Managements of the Bank and of the consolidated subsidiary, based on Counsel's opinion, it is not possible at this stage to assess the prospects of these actions and no provision has been included in respect thereof.

1. On January 7, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit filed against the Bank. The Plaintiff alleges that the Bank had provided investment consulting services to its customers regarding the purchase and/or sale of ETF notes, without having the qualifications required to provide professional service in the matter, due to the lack of computerized systems supporting such investment decisions, thus allegedly violating fiduciary, fidelity and care duties applying to the Bank. In addition, the Plaintiff claims damages in respect of consultation regarding the purchase/sale of ETF notes

not at their fair value. The Plaintiff assesses the damage caused to the class at not less than NIS 30 million, and alternatively, not less than NIS 143 million.

2. On January 18, 2016, the Bank received a new claim in the amount of NIS 37 million (for Court fees purposes). The Plaintiffs allege that the Bank had violated a closed finance agreement with them without having any grounds for such violation, and had also acted negligently contrary to banking norms, including violation of fiduciary duties and/or violation of good faith duty regarding an agreement and/or violation of the duty of care, earning thereby unlawful wealth in a manner which caused the Plaintiffs considerable and irreversible financial damage. The Plaintiffs reserved the right to change the claim, inter alia. By increasing the amount of the claim in accordance with the full amount of the damage actually caused to them.

3. On January 31, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit, in an amount of NIS 698 million, filed against the Bank, a subsidiary company and against three additional banks hereinafter altogether – "the banks"), of which, NIS 658 million in respect of a nonmonetary damage and NIS 40 million in respect of a monetary damage.

The Plaintiffs claim that the banks do not maintain branches (or do not maintain a sufficient number of branches) in the Arab populated areas and do not provide this population with access to their banking services. Thus, as alleged by the Plaintiffs, the banks violate Section 3(a) of the Non-discrimination regarding Products, services and Entry into Places of Entertainment and Public Places Act, 2000, Section 2 of the Banking Act (Customer service), 1981 and the Human Dignity and Liberty Basic Act. The class which the Plaintiffs propose to represent relates to all citizens of the State of Israel Moslems, Christians and Druze, who suffer from discrimination in accessing banking services provided by the banks, due to the absence of bank branches in the areas in which they reside.

4. On February 18, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit filed with the Tel Aviv District Court against the Bank and four additional banks (hereinafter altogether – "the Respondents").

According to the Plaintiff, the Respondents discriminate on grounds of age between "young students" and "not-so-young" students, in a way which deprives "not-so-young" students from benefits and/or discounts offered to "young students" only.

The Plaintiff has defined the class as follows: "... all students discriminated against due to age in comparison with younger students, thus depriving them from benefits granted to students during the past seven years and at least as from July 15, 2014...".

The Plaintiff claims that the conduct of the banks caused monetary and nonmonetary damages to the class, and requests the charging of the banks, jointly and severally, with a payment to the class of NIS 219 million.

- I. 1. Following are details of claims against an affiliated company, Israel Credit Cards Ltd. ("ICC"), the amounts claimed therein is material:
 - A. On April 14, 2013, notice was received of a claim and a motion for approval and conduct of the claim as a class action suit under the Class Actions Act, 2006, filed with the Central Region District Court against ICC and another company.

The subject matter of the claim is the marketing of "Wish U" cards. The Plaintiff alleges that the marketing of these gift cards was made by the Defendants under misleading presentations while imposing prohibited terms, in violation of the provisions of the Consumer Protection Act, 1981 and the regulations under it. The Plaintiff claims that these acts had misled him and prevented him from making transactions to which he was legally entitled.

The Plaintiff assessed the amount of the claim on behalf of the whole class at NIS 214 million, on the assumption that the class numbers approximately half a million customers.

On February 17, 2015, the Plaintiff informed the Court, that the mediation proceedings conducted with the other company had terminated without bearing any fruit. On August 17, 2015, ICC filed a motion with the Court for the dismissal in limine of the claim.

Following the submission by the parties of their claims briefs within the framework of the motion filed by ICC for the in limine dismissal of the claim (including a motion by the Plaintiff to eliminate the response to the reaction of ICC, which was dismissed) the Court decided to admit the arguments of ICC regarding the in limine dismissal of the main causes of action of the Plaintiff, and stated that the motion for approval shall be dismissed in limine as regards the causes under the Consumer Protection Act and the injustice of violation of a legislated duty. However, the Court did not dismiss completely the motion for approval, stating that the Plaintiff argued additional causes. Notwithstanding the fact that the Court agreed with ICC's arguments that most of the additional causes are integrally connected with the consumer cause, the Court stated that, at this stage, there is no need to relate to all the causes, and it suffices that the cause of a discriminating clause in a uniform contract is not to be dismissed in limine.

The hearing of proof in the motion for approval is fixed for March 7, 2016.

- B. A lawsuit and a motion for its approval and conduct as a class action suit under the Class Actions Act, 2006, were filed on January 30, 2014, with the Tel Aviv Yaffo District Court, against ICC and against Israel Discount Bank Ltd. (hereinafter - "the claim and the motion"). The subject of the motion is a credit card named "Active", which grants revolving credit. The Appellant argues that ICC, at its discretion, charges the account of the holder of an "Active" credit card with only a minimal amount out of the amounts accumulated to the debit of the credit card, the remaining balance turning into a loan carrying interest at especially high rates. It is further argued that upon the marketing of this scheme, ICC refrained from emphasizing to the customers that cancellation of the credit requires an explicit request by the customer, and also refrained from providing information as to the cost of the credit granted. Encumbering the customers with a revolving credit mechanism and charging them with interest, has been done with no valid contractual basis while impairing the autonomy of customer.

The causes of action in this case are violations of the provisions of the Banking Act (Service to customers), 1981 and the Uniform Contracts Act, 1982.

The group which the Appellant wishes to represent has been defined as anyone whom ICC had marketed to a credit card serving as a customer club card of the marketing chains, which had cooperated and are cooperating with ICC in the marketing of the said cards, in which was integrated a revolving credit scheme operated as the default option according to the "Active" plan, or any of their alternatives, including the "CAL Choice" plan.

The Appellant stated the amount of the claim in respect of all class members at NIS 2,225 million.

According to the Court decision, the hearing of the case will be postponed until after the hearing by the Supreme Court of the appeal filed by the Appellant against the decision to dismiss in limine the motion for approval against Discount Bank. On December 2, 2015, a memorandum hearing was held in the case. The Court decided that the examination of the declarers will be held on April 13, 2016.

2. The amount of exposure due to claims submitted against ICC, the prospect of materialization of all or part of these claims is reasonably possible, totals NIS 1,483 million.
3. Pending against ICC are motions for approval of lawsuits as class action suits as well as other lawsuits, as detailed below. ICC notes in its financial statements that in the opinion of Management of ICC, based on Counsel's opinion, it is not possible at this stage to assess its prospects, and therefore no provision has been included in respect thereof.

- A. On April 28, 2014, ICC received notice of a claim and a motion for approval and conduct of the claim as a class action suit under the Class Actions Act, 2006, filed with the District Court, Central District against ICC and other credit card companies (hereinafter - "the claim and motion").

The motion refers to two binding arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards, which, as alleged by the Appellants, amount to systematic and continuous deception of customers of credit card companies.

As alleged, the first binding arrangement is an arrangement for the charging of cross-commission in respect of transactions made by debit cards and prepaid cards. The second binding arrangement is alleged to create an undue delay of twenty days in payments due to trading houses of monies collected by the credit card companies.

The class of those directly mistreated, which the Appellants propose to represent, is defined as "all trading houses in Israel which accept payment by debit cards". The class of those indirectly mistreated, which the Appellants propose to represent is defined as "anyone who had purchased goods or services from trading houses which accept payment by debit cards including the Appellants".

The Appellants stated the amount of the claim in respect of all class members and regarding all the Defendants, at NIS 1,736 million.

On February 24, 2015, the Appellants, with the consent of the Responders, filed a motion for withdrawal from the claim and from the request for approval of a class action, with no order for expenses.

On April 19, 2015, a motion was filed with the Court, requesting the Court to order the replacement of the Appellants who had filed for withdrawal, as above, and their representatives, by the new Appellant and his representative, and to instruct the continuation of the proceedings through the new Appellant.

It is alleged in this motion, that the request for withdrawal does not state the reasons meriting the request for withdrawal, and that it relies only on future action to be taken by the Regulator (Bank of Israel) with no compensation in respect of the past.

On July 1, 2015 the Court approved the withdrawal. Concurrently, the Court instructed that a replacement of the Appellant and its representative be found, who would take upon themselves the management of the proceedings in the name of the group.

Following this decision, the representatives for the Appellants presented on July 6, 2015, the text of a newspaper advertisement regarding the withdrawal from the claim which had been approved by the Court. Furthermore, following the decision of the Court, three motions were filed with the Court for the appointment of Appellants and their representatives in respect of the claim. On October 20, 2015, the Court decided that each of the groups of Appellants wishing to act as representatives for the group in this action, is required to present by November 17, 2015, a document referring to the possibility of cooperating in the conduct of the action; who are the lawyers and experts whom they wish to employ for the purpose of conducting the action; what is their experience in conducting class actions and in conducting actions relating to antitrust matters.

Following the submission of the above mentioned documents, the Court will decide as to who would act as Appellants and their representatives, and will fix a date for submission of an amended motion for approval of the class action.

As yet no decision has been given as regards the identity of the Appellant for the class, and accordingly, a new motion for approval has not yet been filed.

- B. As detailed to ICC by Israel Discount Bank Ltd. (hereinafter - "Discount"), Discount received notice on May 7, 2015, of a lawsuit and a motion for its approval as a derivative action, filed with the Tel Aviv-Yafo District Court. The Court is being asked to approve a derivative action against sixteen officers and other executives who officiated in the relevant period at ICC and at ICC international Ltd. (including former officers in Discount and the Bank), which on December 31, 2009 was merged into ICC and struck-off the Companies Register and the damage expected to be caused to it, as alleged, in connection with the international clearing activity of ICC and of ICC International in the years 2006-2009.

The Appellant claims that the responded officers and other executives have, among other things violated their duties and caused the alleged damage, which is assessed by him at NIS 100 million. The Appellant further refers to a potential risk of forfeiture of funds to the tune of NIS billions, within the framework of criminal proceedings, if these are instituted, and to reputation and other damage, not yet assessed, all as alleged by the Appellant.

On August 10, 2015, ICC (with the consent of the other parties) submitted a motion for an extension in submitting the response by the Respondents, among other things, due to criminal proceedings conducted in the matter. The Court has admitted the motion, and therefore, ICC and the other respondents have to respond to the motion by March 15, 2016.

- 4. ICC reported in its financial statements as of December 31, 2015, as follows:
 - A. In the second half of 2009 and in 2010, VISA Europe and the MasterCard International (hereinafter together – "the international organizations") raised arguments against ICC as to the prima facie violations of the rules of these organizations pertaining to the field of clearing of international electronic trading, with respect to transactions cleared by the subsidiary of ICC, ICC International (since merged with and into ICC). In this framework, penalties were imposed on ICC and its operations in this field were restricted for a period of several months.
ICC took immediate action for the implementation of a reduction plan for the purpose of complying with the requirements of the international organizations, within the framework of which,

various measures have been adopted by ICC, including changes in its management. Several trading houses and coordinators have raised demands regarding the burdening upon them of the monetary sanctions and the reduction in the international electronic trading clearing with them, causing them, as alleged by them, heavy damage.

- B. The announcement of the State Prosecution: following the investigation conducted by the police, ICC received on December 3, 2014, a notice from the economic department at the State Prosecution, informing that the file concerning the investigation of suspicions against ICC had been submitted for review by the State Prosecution. On April 20, 2015, ICC received notice from the State Prosecution, to which was attached a "suspicion brief", according to which, the State Prosecution is considering the serving of an indictment against ICC in respect of the commitment of offences consisting of deceitful receipt under aggravating circumstances and money laundering.

The "suspicion brief" details two cases in which, according to the Prosecution, ICC is involved together with others. It is argued in the first case that during the period from 2006 to 2009 (hereinafter – "the relevant period") ICC through the one who acted as the CEO of ICC in the relevant period and the CEO of ICC International in the relevant period (hereinafter jointly and severally – "the managers") together with others, acted deceitfully with respect to the coding of transactions cleared by ICC, as well as acted together in contravention of the Money laundering Prohibition Act. In the second case, it is argued that ICC, through the managers together with other factors, displayed false presentations regarding the splitting of records of trading houses which cleared transactions through ICC, thereby receiving monies and fraudulently earning profits, as well as acting in violation of the provisions of the Money Laundering Prohibition Act. The turnover of the operations allegedly attributed to ICC with respect to the prima facie offences claimed against it, amounts to NIS billions.

As stated in the notice of the Prosecution, ICC had been given the right to apply to the Prosecution, whether in writing or by way of an oral hearing, requesting that no indictment should be served against it.

The representative of ICC received on May 2015 a copy of the principal investigation material in this case. The representative of ICC studied the material delivered to him and prepared his response to the matter, following which, a hearing was held in October 2015.

The legal advisors of ICC are of the opinion that ICC has good arguments against being indicted, and these were presented in the hearing that was held.

The decision whether to serve an indictment against ICC, if at all, as well as the decision as to the charges that would be brought and on what facts would an indictment be based, would be taken only after the Prosecution forms its position in the case.

According to the law, the Court is empowered to impose penalties on ICC in respect of the alleged offences, as well as to instruct the forfeiture of funds which were proved to be felony monies.

As estimated by ICC, and based on the opinion of its legal advisors, at this stage being prior to a decision as to whether charges should be brought against ICC, it is not possible to estimate whether an indictment would in fact be served, and if served, what would be the charges and against whom they would be brought. Furthermore, it is not possible to estimate the results of the proceedings

instituted, if at all, and its implications of ICC. However, if the arguments raised in the suspicion brief are admitted, they may expose ICC to various additional risks, the prospects of their materializing cannot be estimated. Notwithstanding, ICC has good arguments in this respect.

On April 20, 2015, the Supervisor of Banks informed ICC that in view of the notice of the State Prosecution, as above, and the "suspicion brief" attached to it, he instructs ICC to refrain from the distribution of dividends until the proceedings are concluded and the results thereof and their implications on the financial position of ICC are clarified.

- J.** On April 26, 2009, the then Antitrust Commissioner (hereinafter - "the Commissioner") issued a statement under Section 43(a)(1) of the Antitrust Act, 1988 (hereinafter - "the Act") according to which binding arrangements in the matter of the transfer of information regarding commissions had existed between the five major banks in Israel - namely, Bank Hapoalim, Bank Leumi, Discount Bank, Mizrahi Bank and the First International Bank. As alleged in the statement, such binding arrangements have prevailed since the beginning of the nineties of the last century and until the beginning of the investigation performed in the matter by the Antitrust Authority in November 2004.

According to the Commissioner, no prior approval had been applied for in respect of these arrangements, and therefore none was given, resulting in a violation of the provisions of the Act.

In accordance with the law, the statement made by the Commissioner serves as a prima facie proof of that stated therein in any legal proceeding.

On June 15, 2014, the Antitrust Tribunal (hereinafter - "the Tribunal") granted power of an Order, under Section 50B of the Act, to the agreement reached between the Commissioner and the said five banks. According to the agreement, the statement is to be abolished and no enforcement measures shall be taken by the Commissioner or the Authority against any of the banks and/or anyone on their behalf with respect to any matter relating to the investigation made in the banking industry that had led to the publication of the statement (whether as to matters being the subject matter of the statement or any other matter dealt with by the investigation). As agreed, the banks will pay an amount of NIS 70 million, of which an amount of NIS 8 million is payable by the Bank. To the extent that the banks or any one of them would reach a compromise agreement as regards the class actions, as defined in the agreed Order, which will include an agreement as to a cash payment, and to the extent that within the period of time specified in the instructions, such a compromise agreement would be submitted for approval of the Court dealing with that class action, then the amount of cash payment would be deducted from the share of that bank in the amount payable. In the event that a balance will remain, the amount of the balance will be transferred to the State Treasury. The Order includes additional instructions in case the compromise agreement is not approved by the Court dealing with the class action, and in case that no compromise arrangement, which includes a cash payment, is submitted during the stated period, then the amount of payment in full will be transferred to the State Treasury. The banks do not admit any liability in accordance with the provisions of the Act; neither do they admit a violation on their part of the provisions of the Act. The Tribunal has found the above compromise agreement to be fair and proper and to the benefit of the public. The Bank has deposited its share, as stated, in a trust account opened for this purpose with the Union Bank Trust Company. The said amount has been used for payment according to the class action suits, as stated in Sections G2 and G3 above.

- K.** Since July 2006, the Accountant General announces the appointment of certain entities, including the Bank, as principal market makers for Government bonds, in accordance with Section 6(a) to the State Loans Law, 1979, this as part of the reform initiated by the Ministry of Finance regarding the process of issuance of Government bonds and the operations in the secondary capital market for bonds, in order to encourage entry of additional players into the market, the increase in liquidity and transparency in trading and for reducing the cost of raising funds by the Government. The Bank began operations as a market maker on September 4, 2006.

As part of the market making activity, the Treasury has granted to the Bank and its subsidiary a Government bond borrowing facility up to an amount of NIS 2 billion, this in order to cover short sale of bonds transactions as part of the market making activity. Against borrowings in this framework, the Bank deposits funds with the treasury in the amount of bond borrowings, which serve as a collateral for such borrowings. See also Note 26H. As from May 1, 2015, the consolidated subsidiary discontinued its activity as a market-maker and its appointment as a market-maker was cancelled. Accordingly, the government bond borrowing facility granted by the Treasury has been reduced to NIS 1 billion.

- L.** The practice of the Bank is to grant from time to time and under accepted circumstances in banking business, letters of indemnity limited and unlimited in amounts and in period, and all in the ordinary course of business of the Bank. Among other things, letters of indemnity are granted within the framework of the clearing house provisions regarding lost checks, to receivers and liquidators, to various providers of services, or as part of a contractual liability and to credit card companies. Furthermore, the Bank and International Issuances grant from time to time indemnity to trustees for capital notes issued by them, subject to the terms of the relevant trust documents.

- M.** During the year 2013, an audit with respect to the prevention of money laundering was performed by Bank of Israel and the Bank has submitted its response to the audit report.

On July 21, 2014, the Bank received notice of an application for the charging of the Bank with a monetary sanction under Section 17 of the Prohibition of Money Laundering Act, 2000, with respect to prima facie violations of the Prohibition of Money Laundering Order (Identification, reporting and the maintenance of records duties by banking corporations intended to avoid money laundering and the finance of terror activities), 2001, as regards the duty to verify details and identity documents of customers and the non-reporting to the Money Laundering Authority of transactions which seem as irregular.

The Committee for imposing monetary sanctions as regards banking corporations (hereinafter – "the Committee") met on January 6, 2015, and the Bank presented its arguments to the Committee.

On May 6, 2015, the Bank received notice of the decision of the Committee according to which a monetary sanction of NIS 1.15 million was imposed on the Bank. The Committee emphasized impression from the improvement occurred in the Bank since 2008, in handling money laundering prohibition and terrorism finance prohibition and had set the sanction considering the cooperation of the Bank during the audit process and the effective actions that the Bank took to rectify the deficiencies and avoid their repetition, close to the receiving the draft of the audit report.

NOTE 26 - LIENS

- A. To secure liabilities to the Maof Clearing House for its customers and for itself as said in Note 25.E, the Bank has pledged securities in favor of the Maof Clearing House, in accordance with an agreement of March 29, 2004.

Set out below is the balance of the collateral which the Bank provided to the Maof Clearing House (in NIS million):

	On December 31, 2015		Average balance for 2015		Highest balance for 2015	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	115	410	122	643	146	810
Cash deposited as collateral	52	-	47	-	51	-

	On December 31, 2014		Average balance for 2014		Highest balance for 2014	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	130	727	103	700	130	847
Cash deposited as collateral	44	-	40	-	44	-

- B. The Bank is a member of the Euroclear settlement system, which is a clearing house for securities that are traded in international markets. For the purpose of activity via this settlement system and as surety for a credit line in the amount of USD 40 million (or in a higher amount agreed/ to be agreed from time to time with the Bank in exceptional cases, not to exceed NIS 200 million) which the settlement system operator provided to the Bank, the Bank created a pledge at an unlimited amount of cash and securities for securing the activity framework.
- C. To secure the obligation of the Bank to the Stock Exchange Clearing House as said in Note 25D, the Bank has pledged securities in favor of the Stock Exchange Clearing House.

Set out below is the balance of the collateral which the Bank provided to the Stock Exchange Clearing House (in NIS million):

	December 31		Average balance		Highest balance	
	2015	2014	2015	2014	2015	2014
Securities	115	101	97	94	115	106
Cash deposited as collateral	30	33	26	29	30	35

NOTE 26 - LIENS (CONT'D)

- D. (1) As collateral for credit from Bank of Israel, the Bank and consolidated subsidiaries, have created bonds according to which they pledged under a fixed first degree pledge unlimited in amount, all assets and rights deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities accounts managed in the name of Bank of Israel at the Clearing House of the Tel Aviv stock Exchange Ltd. as well as at the Euroclear Clearing House, including all monies and all securities deposited or registered in the said accounts. Securities deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities account held at the Euroclear Clearing House are also pledge under a floating pledge.
- (2) Set out below are data on the bonds that were pledged to the Bank of Israel (in NIS million):

	On December 31		Average balance		Highest balance	
	2015	2014	2015	2014	2015	2014
Securities	120	119	120	119	120	120

- (3) See Note 25.F regarding a floating pledge in favor of Bank of Israel on rights to receive monetary sums and charges in Israeli currency due and/or will be due from customers comprising Israeli corporations as part of the Bank's operations as a supplier of CLS Clearing House services.
- E. The Bank form contractual associations with foreign banks and foreign brokers in CSA (Credit Support Annex) annexes to ISDA agreements that are intended to minimize the mutual credit risks arising between banks in derivatives trading. Under the annexes, a periodic measurement is made of the value of the stock of derivatives transactions that were conducted between the parties, and if the net exposure of one of the parties exceeds a pre-defined threshold, then that party receives from the other party monetary deposits to cover a part of the exposure.
- As of December 31, 2015, the Bank has transferred deposits in favor of Israeli and foreign banks in the amount of NIS 192 million (December 31, 2014 - NIS 348 million). At December 31, 2015 the Bank has recieved deposits from Israeli and foreign banks in the amount of NIS 41 million (December 31, 2014 - NIS 151 million).

NOTE 26 - LIENS (CONT'D)

- F. For the purpose of providing services to customers of the Bank and for the "Nostro" operations of the Bank in everything relating to certain operations in foreign securities, including global future contracts, options, lending of securities and short sales, the bank has engagements with foreign banks and/or foreign brokers (hereinafter - "the foreign brokers") for the purpose of obtaining global custody services, clearing and brokerage services, margin activity services and other global services. According to agreements with the foreign brokers, certain securities and cash of the Bank (Nostro) deposited with any of the foreign brokers, serve as collateral (by way of pledge, lien or transfer of ownership) in favor of the foreign broker securing the obligations of the Bank and/or covering the credit exposure of the foreign broker with respect to the operations of customers of the Bank and/or the Bank's Nostro operations. Furthermore, each of the foreign brokers has the right of lien and setoff with respect to cash balances standing to the credit of the Bank with the broker, including cash deposits made with the foreign broker as collateral with respect to the fulfillment of the Bank's obligations and/or the said credit exposure. Various arrangements have been made by the Bank with each of the foreign brokers regarding the value of the collateral and/or the amounts of cash on deposit with the foreign broker. As of December 31, 2015, the value of Nostro securities deposited by the Bank as collateral with all the foreign brokers amounted to US Dollar 50 million (December 31, 2014 - US Dollar 52.7 million), and the cash balances standing to the credit of the Bank with all the foreign brokers (including cash deposits, as stated) amounted to a total of US Dollar 86.1 million (December 31, 2014 - US Dollar 114.3 million).
- G. Set out below are details of the securities that were pledged to lenders as stated in A,C,D, F where the lenders are not entitled to sell or pledge them (in NIS million):

	December 31,	
	2015	2014
Securities held to maturity	311	229
Securities available for sale	644	1,053
Total	955	1,282

- H. Set out below are the sources of the securities that were received and which the Bank is entitled to sell (in NIS million):

	December 31,	
	2015	2014
Securities received in securities lending transactions in return for cash	353	477
Securities received under non-collateralized securities lending transaction	-	220
Total	353	697

NOTE 27A - DERIVATIVE INSTRUMENTS AND HEDGE OPERATIONS

A. General

1. The bank is exposed to market risks, including linkage base risks and interest risks. The linkage base risk is an existing or future risk to the income or capital of the Group, which might arise as a result of changes in the Consumer Price Index ("CPI") or in currency exchange rates, due to the existing difference between the value of assets and the value of liabilities. The interest risk is a risk to earnings or to the capital stemming from changes in interest rates. The changes in interest rates affect the profit of the Bank through a change in net income, and also affect the value of the Bank's assets, liabilities and off-balance sheet instruments, because the present value of future cash flows (or even the cash flows themselves) changes when a change in interest rates occurs. As part of the overall strategy of the Bank for the management of the level of exposure to linkage base and interest risks, the Bank makes use of derivative instruments such as: foreign currency and CPI forward transactions, foreign currency options and transactions for the swap of fixed interest by variable interest. The Bank has qualified derivative instruments intended for the hedging of fair value and of the net investment in foreign operations.
2. Where a derivative instrument is not intended for qualified hedge, the instrument is stated at fair value and changes in its fair value are recognized in profit and loss on a current basis.
3. The Bank enters into contracts, which in themselves are not considered derivative instruments but which contain embedded derivatives. In respect of each such contract, the Bank assesses whether the economic nature of the embedded instrument is clearly and closely related to those of the host contract, and determines whether a separate instrument of the same nature and terms as the embedded instrument, would have been considered by definition a derivative instrument. Where it is determined that the embedded instrument is of an economic nature which is not clearly and closely related to the economic nature of the host contract, and also that a separate instrument of the same nature and terms would have been qualified as a derivative instrument, the embedded instrument is separated from the host contract and is being treated as a derivative instrument in itself. A separated embedded derivative is stated in the balance sheet together with the host contract. When the host contract is being measured according to fair value and changes in its fair value are currently recognized in profit and loss, or when the Bank is unable to reliably identify and measure an embedded derivative for separation purposes from the host contract, then the contract as a whole is stated in the balance sheet according to fair value.
4. The Bank documents in writing all hedge relations between the hedging instruments and the hedged items, as well as the aim and strategy of the risk management through the creation of the different hedge relations. Documentation includes the specific identification of the asset designated as a hedged item, noting the manner in which the hedging instrument is expected to hedge against risks applying to the hedged item. The Bank assesses the effectiveness of hedge relations both at the beginning of the hedge transaction at on a continuous basis, in accordance with its risk management policy.

NOTE 27A - DERIVATIVE INSTRUMENTS AND HEDGE OPERATIONS (CONT'D)

5. The Bank discontinues hedge accounting from now onwards when:
- (a) it is determined that the derivative is no longer effective setting-off changes in fair value or in cash flows of the hedged item;
 - (b) the derivative expires, sold, cancelled or realized;
 - (c) Management withdraws the designation of the derivative instrument as a hedge instrument.

When hedge accounting is discontinued upon the determination that the derivative is no longer qualified as an effective fair value hedge instrument, the derivative continues to be stated in the balance sheet according to its fair value, but the hedged asset or liability will no longer be adjusted in accordance with changes in the fair value.

Fair value hedge

The Bank designates certain derivatives as fair value hedge. Changes in fair value of derivatives that hedge against exposure to changes in fair value of an asset are recognized in profit and loss on a current basis, as well as the changes in the fair value of the hedged asset, which can be attributed to the risk being hedged against.

For data regarding lack of effectiveness related to fair value hedge, the profit (loss) component in respect of derivative instruments, used for the purpose of assessing the effectiveness of hedge transactions, see Note 3 - "Non-interest financing income" in Section "C" - "the non-effective part of hedge relations".

Hedge of net investment in foreign operations

See Note 1.D.1.

NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

A. Volume of activity on a consolidated basis -

December 31, 2015						
		Interest Contracts		Foreign	Commodity	
		Shekel-CPI	Other	currency	Contracts	Total
				contracts	of shares	and other
						contracts
1.	Face value of derivative instruments					
A.	Hedging derivatives ⁽¹⁾					
	Forward contracts	-	-	402	-	-
	SWAPS	-	2,350	-	-	-
	Total	-	2,350	402	-	-
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,350	-	-	-
B.	ALM derivatives ⁽¹⁾⁽²⁾					
	Futures contracts	-	23	-	-	-
	Forward contracts	703	1,300	50,138	-	-
	Option contracts traded on an exchange:					
	- Options written	-	-	538	-	-
	- Purchased options	-	-	585	-	-
	Other option contracts:					
	- Options written	-	-	3,395	-	-
	- Purchased options	-	-	3,750	-	-
	SWAPS	75	11,447	541	-	-
	Total	778	12,770	58,947	-	-
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	6,330	-	-	-
C.	Other derivatives ⁽¹⁾					
	Futures contracts	-	3,076	2,300	23,937	130
	Forward contracts	-	-	4	-	4
	Option contracts traded on an exchange:					
	- Options written	-	-	7,346	39,983	-
	- Purchased options	-	-	7,346	39,983	-
	Other option contracts:					
	- Options written	-	-	317	569	-
	- Purchased options	-	-	301	391	-
	SWAPS	-	300	152	-	-
	Total	-	3,376	17,766	104,863	134
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	150	-	-	-
D.	Credit derivatives and spot swap foreign currency contacts					
	Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	195
	Foreign currency spot swap contracts	-	-	2,399	-	-

(1) Except for credit derivatives and foreign currency spot swap contracts

(2) Derivatives constituting part of the bank's asset and liabilities management, that have not been designated for hedging relationships.

**NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME,
CREDIT RISKS AND MATURITY DATES (CONT'D)**

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

		December 31, 2014				
		Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts
		Shekel-CPI	Other			Total
1. Face value of derivative instruments						
A. Hedging derivatives ⁽¹⁾						
Forward contracts		-	-	379	-	-
SWAPS		-	1,746	-	-	-
Total		-	1,746	379	-	-
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate		-	1,746	-	-	-
B. ALM derivatives ⁽¹⁾⁽²⁾						
Futures contracts		-	680	-	-	-
Forward contracts		1,573	1,300	46,590	-	-
Option contracts traded on an exchange:						
- Options written		-	-	1,415	-	-
- Purchased options		-	-	1,662	-	-
Other option contracts:						
- Options written		-	29	4,744	-	-
- Purchased options		-	-	5,496	-	-
SWAPS		75	12,645	856	-	-
Total		1,648	14,654	60,763	-	-
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate		75	7,332	-	-	-
C. Other derivatives ⁽¹⁾						
Futures contracts		-	1,287	82	19,526	338
Forward contracts		-	-	3	-	156
Option contracts traded on an exchange:						
- Options written		-	-	6,547	38,776	-
- Purchased options		-	-	6,547	38,776	-
Other option contracts:						
- Options written		-	-	1,516	233	11
- Purchased options		-	-	1,539	195	11
SWAPS		-	100	168	-	-
Total		-	1,387	16,402	97,506	516
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate		-	50	-	-	-
D. Credit derivatives and spot swap foreign currency contacts						
Credit derivatives for which the Banking corporation is guarantor		-	-	-	-	194
Foreign currency spot swap contracts		-	-	4,171	-	-

(1) Except for credit derivatives and foreign currency spot swap contracts

(2) Derivatives constituting part of the bank's asset and liabilities management, that have not been designated for hedging relationships.

NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

	December 31, 2015					
	Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
	Shekel-CPI	Other				
2. Gross fair value of derivative instruments						
A. Hedging derivatives ⁽¹⁾						
Gross positive fair value	-	4	8	-	-	12
Gross negative fair value	-	28	-	-	-	28
B. ALM derivatives ⁽¹⁾⁽²⁾						
Gross positive fair value	27	224	378	-	-	629
Gross negative fair value	8	297	343	-	-	648
C. Other derivatives ⁽¹⁾						
Gross positive fair value	-	6	127	859	2	994
Gross negative fair value	-	6	126	859	2	993
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:	-	-	-	-	1	1
Gross positive fair value	-	-	-	-	-	-
E. Total						
Gross positive fair value ⁽³⁾	27	234	513	859	3	1,636
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments ^{*(3)}	27	234	513	859	3	1,636
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-
Gross negative fair value ⁽³⁾	8	331	469	859	2	1,669
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments ^{*(3)}	8	331	469	859	2	1,669
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-

(1) Except for credit derivatives.

(2) Derivatives constituting part of the bank's asset and liabilities management, that have not been designated for hedging relationships.

(3) Of which gross negative fair value in respect of embedded derivative instruments of NIS 10 million.

**NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME,
CREDIT RISKS AND MATURITY DATES (CONT'D)**

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

	December 31, 2014					
	Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
	Shekel-CPI	Other				
2. Gross fair value of derivative instruments						
A. Hedging derivatives ⁽¹⁾						
Gross positive fair value	-	1	-	-	-	1
Gross negative fair value	-	55	12	-	-	67
B. ALM derivatives ⁽¹⁾⁽²⁾						
Gross positive fair value	31	230	870	-	-	1,131
Gross negative fair value	18	325	880	-	-	1,223
C. Other derivatives ⁽¹⁾						
Gross positive fair value	-	8	182	1,678	13	1,881
Gross negative fair value	-	8	181	1,678	13	1,880
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	-	-	-	-	2	2
E. Total						
Gross positive fair value	31	239	1,052	1,678	15	3,015
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments *	31	239	1,052	1,678	15	3,015
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-
Gross negative fair value ⁽³⁾	18	388	1,073	1,678	13	3,170
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments ^{*(3)}	18	388	1,073	1,678	13	3,170
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-

(1) Except for credit derivatives.

(2) Derivatives constituting part of the bank's asset and liabilities management, that have not been designated for hedging relationships.

(3) Of which gross negative fair value of liabilities in respect of embedded derivative instruments of NIS 8 million.

**NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME,
CREDIT RISKS AND MATURITY DATES (CONT'D):**

(NIS million)

**B. Credit risk in respect of derivatives instruments, according to transaction counterparty
on a consolidated basis**

	December 31, 2015					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	210	393	141	-	892	1,636
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(311)	-	-	-	(311)
Credit risk mitigation in respect of cash collateral received	-	(19)	-	-	-	(19)
Net amount of assets in respect of derivative instruments	210	63	141	-	892	1,306
Off balance sheet credit risk in respect of derivative instruments ⁽²⁾	-	429	-	-	579	1,008
Off balance sheet credit risk mitigation	-	(217)	-	-	(1)	(218)
Net off balance sheet credit risk in respect of derivative instruments	-	212	-	-	578	790
Total credit risk in respect of derivative instruments	210	275	141	-	1,470	2,096
Balance sheet balance of liabilities in respect of derivative instruments ⁽¹⁾	212	552	396	-	509	1,669
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(311)	-	-	-	(311)
Cash collateral which was attached by a lien	-	(125)	-	-	-	(125)
Net amount of liabilities in respect of derivative instruments	212	116	396	-	509	1,233

(1) Of which negative gross value of embedded derivative instruments is NIS 10 million (31.12.14 - NIS 8 million).

(2) The difference, if positive, between total amounts in respect of derivative instruments (including in respect of derivative instruments having a negative fair value) as computed for the purpose of limitations on indebtedness of a single borrower, according to credit risk mitigation, to the total balance of assets in respect of derivative instrument of the borrower.

C. Maturity dates (stated value amounts): year-end balance on consolidated basis

	December 31, 2015				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	50	234	494	-	778
- Other	4,170	2,599	7,481	4,246	18,496
Foreign currency contracts	59,633	18,742	955	184	79,514
Contracts of shares	99,799	4,052	1,012	-	104,863
Commodities and other contracts	169	121	39	-	329
Total	163,821	25,748	9,981	4,430	203,980

	December 31, 2014					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
	702	699	169	-	1,445	3,015
	-	(525)	-	-	-	(525)
	-	(115)	-	-	-	(115)
	702	59	169	-	1,445	2,375
	-	507	-	-	790	1,297
	-	(194)	-	-	-	(194)
	-	313	-	-	790	1,103
	702	372	169	-	2,235	3,478
	689	921	265	-	1,295	3,170
	-	(525)	-	-	-	(525)
	-	(220)	-	-	-	(220)
	689	176	265	-	1,295	2,425

	December 31, 2014				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
	201	964	483	-	1,648
	3,413	3,068	7,472	3,834	17,787
	49,179	31,265	1,049	222	81,715
	88,874	6,973	1,659	-	97,506
	456	60	194	-	710
	142,123	42,330	10,857	4,056	199,366

NOTE 28 - BUSINESS SEGMENTS AND GEOGRAPHIC REGIONS

A. General

In 2015, segments of operation were identified by the Bank in accordance with the instructions of the Supervisor of Banks and the reporting instructions, which were in effect until the publication of the new instructions in the matter of supervisory segments of operation. For details, see Note 1.C.9.

B. Definitions

Business segments information

The First International Bank Group divides the sources of its income into the following segments of operations, each of them comprising a cost center:

- **Corporate banking segment** - specializes in providing financial services to large corporation in Israel, while the main activity is extension of credit. The customers in the segment are large and medium size corporations, including entities related thereto in the Bank and in the subsidiary PAGI, most of which having credit facilities exceeding NIS 40 million and/ or their turnover exceeds NIS 200 million, as well as business and institutional bodies active on the capital and money markets.
- **Private banking segment** - private customers, both Israeli and foreign residents, of the Bank and PAGI, having an investment portfolio of NIS 0.20 million and over. The segment includes also the customers of FIBI Bank (Swiss).
- **Commercial banking segment** - small and medium size customers having a credit facility of NIS 5 million and up to NIS 40 million and or turnover of NIS 25 million and up to NIS 200 million. The segment includes also the middle market customers of the subsidiaries which their activity characteristics agree with that of the Bank.
- **Households** - this is a part of the personal banking segment of the Bank, that includes private customers having an investment portfolio of up to NIS 0.20 million of the Bank. The segment includes the customers of the subsidiaries whose activity characteristics of most of whom agree with those of the household customers, as defined by the Bank.
- **Small business segment** - customers in this segment include companies and businesses having a credit facility of up to NIS 5 million at the Bank. The segment includes the customers of the subsidiaries whose activity characteristics of most of whom agree with those of the small business customers, as defined by the Bank.
- **Financial management segment** - this segment includes the result of the ALM activity which include the market and liquidity risk management, investment in the securities portfolio, activities with banks and Bank of Israel, the difference between the fair value and the value on accrual basis of derivative financial instruments, and the share of the Bank in the earnings of ICC.

The Bank has made a change in the classification of the business customers of the Bank. This entailed a renewed definition of the division between the different segments of operation. Furthermore, the formula for the allocation of expenses to the different segments of operation has also been updated. These changes are reflected in the results of the operating segments for the year 2015, and the comparative data relating thereto has also been reclassified.

NOTE 28 - BUSINESS SEGMENTS AND GEOGRAPHIC REGIONS (CON'T)

C. Operational segment information

consolidated	Year ended December 31, 2015						
	Private banking	Households	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income							
- From external	60	890	263	408	294	38	1,953
- Inter - segment	79	(201)	(8)	(27)	(35)	192	-
Net interest income	139	689	255	381	259	230	1,953
Non interest income							
- From external	361	404	175	363	105	133	1,541
Total income	500	1,093	430	744	364	363	3,494
Expenses (Income) in respect of credit losses	2	46	9	(52)	13	-	18
Operating and other expenses							
-from external	510	1,069	359	439	242	91	2,710
Operating profit (loss) before taxes	(12)	(22)	62	357	109	272	766
Provision for taxes (tax saving) on operating profit	(5)	(8)	29	145	49	116	326
Operating profit (loss) after taxes	(7)	(14)	33	212	60	156	440
Bank's share in operating profit of investee companies	-	-	-	-	-	38	38
Net profit (loss):							
Before attribution to noncontrolling interests	(7)	(14)	33	212	60	194	478
Attributed to noncontrolling interests	-	(12)	(3)	-	(9)	(8)	(32)
Attributed to shareholders of the Bank	(7)	(26)	30	212	51	186	446
Return on equity (net profit as percentage of gross weighted capital)	(1.6%)	(1.1%)	6.3%	9.6%	5.9%	31.9%	
Average balance of assets	4,761	32,507	4,956	19,321	8,152	52,382	122,079
of which: Investee Company	-	-	-	-	-	423	423
Average balance of liabilities	25,183	26,327	9,428	32,005	5,324	16,570	114,837
Average balance of assets of provident funds, mutual fund and advanced study funds	-	-	-	41,459	-	-	41,459
Average balance of securities	40,971	19,216	8,270	189,037	3,555	-	261,049
Average balance of risk assets	4,756	23,724	4,752	22,829	8,947	9,856	74,864
Earnings from credit - granting activity	76	644	244	374	258		
Earnings from deposits - taking activity	64	62	15	37	8		
Other	(1)	(17)	(4)	(30)	(7)		
Total net interest income	139	689	255	381	259		

NOTE 28 - BUSINESS SEGMENTS AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

C. Operational segment information (con't)

consolidated	Year ended December 31, 2014*						
	Private banking	Households	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income							
- From external	(23)	500	269	494	298	563	2,101
- Inter - segment	184	209	(1)	(41)	(43)	(308)	-
Net interest income	161	709	268	453	255	255	2,101
Non interest income							
- From external	362	412	180	346	105	262	1,667
Total income	523	1,121	448	799	360	517	3,768
Expenses (Income) in respect of credit losses	10	100	29	(42)	(8)	-	89
Operating and other expenses							
-from external	555	1,124	378	481	257	117	2,912
Operating profit (loss) before taxes	(42)	(103)	41	360	111	400	767
Provision for taxes (tax savings) on operating profit	(17)	(37)	19	146	49	168	328
Operating profit (loss) after taxes	(25)	(66)	22	214	62	232	439
Bank's share in operating profit of investee companies	-	-	-	-	-	35	35
Net profit (loss):							
Before attribution to noncontrolling interests	(25)	(66)	22	214	62	267	474
Attributed to noncontrolling interests	-	(10)	-	-	(4)	(5)	(19)
Attributed to shareholders of the Bank	(25)	(76)	22	214	58	262	455
Return on equity (net profit as percentage of gross weighted capital)	(5.8%)	(3.6%)	4.8%	9.5%	7.1%	44.6%	
Average balance of assets	4,372	30,073	4,992	21,383	7,738	42,720	111,278
of which: Investee Company	-	-	-	-	-	394	394
Average balance of liabilities	23,382	23,489	8,848	28,286	4,920	15,130	104,055
Average balance of assets of provident funds, mutual fund and advanced study funds	-	-	-	37,901	-	-	37,901
Average balance of securities	40,056	19,422	9,173	167,966	3,575	-	240,192
Average balance of other managed assets	204	-	-	-	-	-	204
Average balance of risk assets	4,403	21,699	4,676	22,973	8,393	10,283	72,427
Earnings from credit - granting activity	69	597	242	419	247		
Earnings from deposits - taking activity	92	128	30	53	14		
Other	-	(16)	(4)	(19)	(6)		
Total net interest income	161	709	268	453	255		

* Reclassified.

NOTE 28 - BUSINESS SEGMENTS AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

C. Operational segment information (con't)

consolidated	Year ended December 31, 2013*						
	Private banking	Households	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income							
- From external	(68)	1,007	275	548	327	98	2,187
- Inter - segment	257	(272)	16	(97)	(82)	178	-
Net interest income	189	735	291	451	245	276	2,187
Non interest income							
- From external	339	450	218	326	126	205	1,664
Total income	528	1,185	509	777	371	481	3,851
Expenses (Income) in respect of credit losses	5	49	34	12	(3)	-	97
Operating and other expenses							
-from external	519	1,117	418	442	238	126	2,860
Operating profit before taxes	4	19	57	323	136	355	894
Provision for taxes on operating profit	1	12	25	125	56	147	366
Operating profit after taxes	3	7	32	198	80	208	528
Bank's share in operating profit of investee companies	-	-	-	-	-	30	30
Net profit (loss):							
Before attribution to noncontrolling interests	3	7	32	198	80	238	558
Attributed to noncontrolling interests	-	(12)	-	-	(4)	(4)	(20)
Attributed to shareholders of the Bank	3	(5)	32	198	76	234	538
Return on equity (net profit as percentage of gross weighted capital)	0.6%	(0.3%)	6.2%	8.8%	9.3%	30.7%	
Average balance of assets	4,273	28,559	5,396	21,062	7,670	38,193	105,153
of which: Investee Company	-	-	-	-	-	383	383
Average balance of liabilities	23,600	25,528	8,919	21,156	4,390	14,575	98,168
Average balance of assets of provident funds, mutual fund and advanced study funds	-	-	-	33,760	-	-	33,760
Average balance of securities	34,476	17,374	9,318	147,031	4,241	-	212,440
Average balance of other managed assets	670	-	-	-	-	-	670
Average balance of risk assets	4,100	20,084	5,102	22,560	8,237	7,515	67,598
Earnings from credit - granting activity	66	525	242	397	225		
Earnings from deposits - taking activity	122	209	49	54	19		
Other	1	1	-	-	1		
Total net interest income	189	735	291	451	245		

* Reclassified.

NOTE 28 - BUSINESS SEGMENTS AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

D. Geographical region information

(NIS million)

	Income ⁽¹⁾			Net earnings			Total assets	
	Year ended December 31			Year ended December 31			at December 31	
	2015	2014	2013	2015	2014	2013	2015	2014
Israel	3,458	3,726	3,793	447	458	532	124,556	115,907
Western Europe	36	42	58	(1)	(3)	6	920	1,900
Consolidated total	3,494	3,768	3,851	446	455	538	125,476	117,807

(1) Net interest income and non-interest income.

NOTE 28A - SUPERVISORY SEGMENTS OF OPERATION

(NIS million)

A. General

As mentioned above, the letter of the Supervisor of Banks dated November 7, 2014, requires that, as from the financial report for the year 2015, the report on segments of operation would be in accordance with the format and classifications determined in the public reporting instructions of the Supervisor of Banks.

B. Definitions

- **Private individuals** - individuals, including individuals conducting a joint account, who at date of the report have no indebtedness towards the bank, or where their indebtedness had been classified to the "private individuals - housing and other loans" economic sector.
- **Private banking segment** - private individuals the balance of their financial asset portfolio held with the bank on a consolidated basis (including monetary deposits, securities portfolios and other financial assets) does not exceed NIS 3 million.
- **Households** - private individuals, excluding customers included in the private banking segment.
- **Business** - a customer who is not included in the definition of "private individuals" and who is not an institutional body or a banking corporation.
- **Business turnover** - annual sales turnover or annual volume of income.
- **Minute business** - a business the turnover of which is less than NIS 10 million.
- **Small business** - a business the turnover of which is higher then or equals NIS 10 million, and is less than NIS 50 million.
- **Middle-market business** - a business the turnover of which is higher then or equals NIS 50 million, and is less than NIS 250 million.
- **Large business** - a business the turnover of which is higher then or equals NIS 250 million.
- **Financial management segment** - shall include the following activities: trading activity - investment in securities for trading, market making activity in securities and in derivative instruments, activity involving derivative instruments not intended for hedging and do not form part of the asset and liability management of the banking corporation, buyback transactions and the lending of securities for trading, the short-sale of securities, securities underwriting services; asset and liability management activity - including investment in available-for-sale bonds and in bonds held to maturity, which are not allocated to other segments of operation (where the borrower has no indebtedness to the Bank except for securities), derivative instruments intended for hedging and derivative instruments being part of the asset and liability management, deposits with banks and from banks in Israel and abroad, hedge or protection of exchange differences on investment in foreign extensions, deposits with governments and from governments; non-financial investment activity - investment in available-for-sale shares and in equity base business corporations; other - management, operating, trusteeship and safe-deposit services for banks, consulting services, sale and management of credit portfolio activities, and development of financial products activity.

(NIS million)

- ### C. Operational supervision segment information - consolidated

	December 31, 2015			
	Activity abroad			
	Private banking	Business activity	Total activity abroad	Total
	(NIS million)			
Balance of credit to the public	48	305	353	73,379
Balance of impaired debts	-	-	-	764
Balance in arrears over 90 days	-	-	-	234
Balance of deposits from the public	884	-	884	103,262
Balance of risk assets ⁽¹⁾	671	-	671	74,902

(1) Risk assets - as computed for capital adequacy purposes.

NOTE 28A - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

C. Operational supervision segment information - consolidated (Cont.)

	December 31, 2015								
	Private individuals - households and private banking - activity in Israel - consolidated								
	Households segment				Private banking segment				
	Housing loans	Credit cards	other	Total households	Housing loans	Credit cards	other	Total private banking segment	Total
	(NIS million)								
Balance of credit to the public	20,749	2,858	13,621	37,228	-	25	31	56	37,284
Balance of impaired debts	10	-	75	85	-	-	-	-	85
Balance in arrears over 90 days	182	-	31	213	-	-	-	-	213
Balance of deposits from the public	-	-	40,876	40,876	-	-	8,224	8,224	49,100
Balance of risk assets ⁽¹⁾	11,860	2,111	12,923	26,894	-	26	112	138	27,032

	December 31, 2015									
	Small and micro, medium and big businesses - activity in Israel - consolidated									
	Small and micro businesses segment			Medium businesses segment			Big business segment			
	Construction and real estate	other	Total	Construction and real estate	other	Total	Construction and real estate	other	Total	Total
	(NIS million)									
Balance of credit to the public	3,230	9,522	12,752	1,053	3,663	4,716	2,363	15,108	17,471	34,939
Balance of impaired debts	95	151	246	-	99	99	26	306	332	677
Balance in arrears over 90 days	2	18	20	-	-	-	-	-	-	20
Balance of deposits from the public	1,916	13,943	15,859	909	4,419	5,328	684	10,967	11,651	32,838
Balance of risk assets ⁽¹⁾	4,475	9,712	14,187	1,987	3,668	5,655	4,072	12,620	16,692	36,534

(1) Risk assets - as computed for capital adequacy purposes.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS millions)

A. Debts⁽¹⁾ and off-balance sheet credit instruments

Provision for credit losses

1. Change in provision for credit losses

Consolidated	For the year ended December 31, 2015 ⁽²⁾					
	Credit to the public				Banks and Governements	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	534	132	210	876	-	876
Expenses in respect of credit losses	12	3	38	53	-	53
- Accounting write-offs	(207)	(16)	(122)	(345)	-	(345)
- Collection of debts written off in accounting in previous years	159	-	81	240	-	240
Net accounting write-offs	(48)	(16)	(41)	(105)	-	(105)
Provision for credit losses at end of year	498	119	207	824	-	824
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	106	-	14	120	-	120
Increase (decrease) in the provision	(36)	-	1	(35)	-	(35)
Provision in respect of off-balance sheet credit instruments at end of year	70	-	15	85	-	85
Total provision for credit losses - debts and off-balance sheet credit instruments	568	119	222	909	-	909

Consolidated	For the year ended December 31, 2014					
	Credit to the public				Banks and Governements	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	542	151	134	827	-	827
Expenses (income) in respect of credit losses	(16)	(4)	105	85	-	85
- Accounting write-offs	(112)	(15)	(104)	(231)	-	(231)
- Collection of debts written off in accounting in previous years	120	-	75	195	-	195
Net accounting write-offs	8	(15)	(29)	(36)	-	(36)
Provision for credit losses at end of year	534	132	210	876	-	876
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	106	-	10	116	-	116
Increase in the provision	-	-	4	4	-	4
Provision in respect of off-balance sheet credit instruments at end of year	106	-	14	120	-	120
Total provision for credit losses - debts and off-balance sheet credit instruments	640	132	224	996	-	996

A. Debts⁽¹⁾ and off-balance sheet credit instruments (Cont.)

Provision for credit losses (Cont.)

1. Change in provision for credit losses (Cont.)

Consolidated	For the year ended December 31, 2013					
	Credit to the public				Banks and Governements	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	566	126	144	836	-	836
Expenses in respect of credit losses	30	33	21	84	-	84
- Accounting write-offs	(183)	(8)	(101)	(292)	-	(292)
- Collection of debts written off in accounting in previous years	129	-	70	199	-	199
Net accounting write-offs	(54)	(8)	(31)	(93)	-	(93)
Provision for credit losses at end of year	542	151	134	827	-	827
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	93	-	10	103	-	103
Increase in the provision	13	-	-	13	-	13
Provision in respect of off-balance sheet credit instruments at end of year	106	-	10	116	-	116
Total provision for credit losses - debts and off-balance sheet credit instruments	648	151	144	943	-	943

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) For details regarding the initial application of a FAQ file of the Supervisor of Banks in the matter of impaired debts, see Note 1.C.8.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts⁽¹⁾ and off-balance sheet credit instruments (Cont.)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts⁽¹⁾ and the underlying debts⁽¹⁾

Consolidated	For the year ended December 31, 2015 ⁽²⁾					
	Credit to the public				Banks and Governments	Total
	Commercial (4)	Housing	Other private	Total		
Recorded balance of debts⁽¹⁾						
Examined on an individual basis	32,066	-	426	32,492	4,280	36,772
Examined on a collective basis	4,382	20,032	16,473	40,887	-	40,887
Of which: provision for which was calculated according to the extent of arrears	397	20,032	-	20,429	-	20,429
Total debts	36,448	20,032	16,899	73,379	4,280	77,659
Provision for credit losses in respect of debts⁽¹⁾						
Examined on an individual basis	449	-	15	464	-	464
Examined on a collective basis	49	119	192	360	-	360
Of which: provision for which was calculated according to the extent of arrears	1	(3)119	-	120	-	120
Total provision for credit losses	498	119	207	824	-	824

Consolidated	For the year ended December 31, 2014					
	Credit to the public				Banks and Governments	Total
	Commercial (4)	Housing	Other private	Total		
Recorded balance of debts⁽¹⁾						
Examined on an individual basis	(5)32,245	-	463	32,708	4,615	37,323
Examined on a collective basis	3,618	18,252	15,229	37,099	-	37,099
Of which: provision for which was calculated according to the extent of arrears	336	18,252	-	18,588	-	18,588
Total debts	35,863	18,252	15,692	69,807	4,615	74,422
Provision for credit losses in respect of debts⁽¹⁾						
Examined on an individual basis	488	-	39	527	-	527
Examined on a collective basis	46	132	171	349	-	349
Of which: provision for which was calculated according to the extent of arrears	1	(3)132	-	133	-	133
Total provision for credit losses	534	132	210	876	-	876

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) For details regarding the initial application of a FAQ file of the Supervisor of Banks in the matter of impaired debts, see Note 1.C.8.

(3) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on an collective basis in the amount of NIS 72 million (31.12.14 - NIS 69 million).

(4) The balance of commercial debts include housing loans in the amount of NIS 2,256 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.2014- NIS 2,201 million).

(5) Restated in respect of a change in accounting policy in a matter of the treatment of problematic debts secured by state guarantee. See note 1.C.3.

A. Debts⁽¹⁾ and off-balance sheet credit instruments (Cont.)

Provision for credit losses (Cont.)

1. Change in provision for credit losses (Cont.)

The Bank	For the year ended December 31, 2015 ⁽²⁾					
	Credit to the public				Banks and Gouvernements	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	395	132	92	619	-	619
Expenses (income) in respect of credit losses	(3)	1	34	32	-	32
- Accounting write-offs	(129)	(17)	(52)	(198)	-	(198)
- Collection of debts written off in accounting in previous years	121	-	25	146	-	146
Net accounting write-offs	(8)	(17)	(27)	(52)	-	(52)
Merging a subsidiary	11	1	1	13	-	13
Provision for credit losses at end of year	395	117	100	612	-	612
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	82	-	8	90	-	90
Increase (decrease) in the provision	(22)	-	1	(21)	-	(21)
Merging a subsidiary	2	-	-	2	-	2
Provision in respect of off-balance sheet credit instruments at end of year	62	-	9	71	-	71
Total provision for credit losses - debts and off-balance sheet credit instruments	457	117	109	683	-	683

The Bank	For the year ended December 31, 2014					
	Credit to the public				Banks and Gouvernements	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	424	150	52	626	-	626
Expenses (income) in respect of credit losses	(30)	(3)	61	28	-	28
- Accounting write-offs	(70)	(15)	(49)	(134)	-	(134)
- Collection of debts written off in accounting in previous years	71	-	28	99	-	99
Net accounting write-offs	1	(15)	(21)	(35)	-	(35)
Provision for credit losses at end of year	395	132	92	619	-	619
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	97	-	5	102	-	102
Increase (decrease) in the provision	(15)	-	3	(12)	-	(12)
Provision in respect of off-balance sheet credit instruments at end of year	82	-	8	90	-	90
Total provision for credit losses - debts and off-balance sheet credit instruments	477	132	100	709	-	709

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts⁽¹⁾ and off-balance sheet credit instruments (Cont.)

Provision for credit losses (Cont.)

1. Change in provision for credit losses (Cont.)

The Bank	For the year ended December 31, 2013					
	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	401	126	49	576	-	576
Expenses in respect of credit losses	3	34	18	55	-	55
- Accounting write-offs	(59)	(10)	(46)	(115)	-	(115)
- Collection of debts written off in accounting in previous years	79	-	31	110	-	110
Net accounting write-offs	20	(10)	(15)	(5)	-	(5)
Provision for credit losses at end of year	424	150	52	626	-	626
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	88	-	5	93	-	93
Increase in the provision	9	-	-	9	-	9
Provision in respect of off-balance sheet credit instruments at end of year	97	-	5	102	-	102
Total provision for credit losses - debts and off-balance sheet credit instruments	521	150	57	728	-	728

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) For details regarding the initial application of a FAQ file of the Supervisor of Banks in the matter of impaired debts, see Note 1.C.8.

A. Debts⁽¹⁾ and off-balance sheet credit instruments (Cont.)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts⁽¹⁾ and the underlying debts⁽¹⁾

The Bank	For the year ended December 31, 2015 ⁽²⁾					
	Credit to the public				Banks and Governments	Total
	Commercial (4)	Housing	Other private	Total		
Recorded balance of debts⁽¹⁾						
Examined on an individual basis	27,662	-	272	27,934	3,312	31,246
Examined on a collective basis	2,257	19,823	5,061	27,141	-	27,141
Of which: provision for which was calculated according to the extent of arrears	397	19,823	-	20,220	-	20,220
Total debts	29,919	19,823	5,333	55,075	3,312	58,387
Provision for credit losses in respect of debts⁽¹⁾						
Examined on an individual basis	374	-	8	382	-	382
Examined on a collective basis	21	117	92	230	-	230
Of which: provision for which was calculated according to the extent of arrears	1	(3)117	-	118	-	118
Total provision for credit losses	395	117	100	612	-	612

The Bank	For the year ended December 31, 2014					
	Credit to the public				Banks and Governments	Total
	Commercial (4)	Housing	Other private	Total		
Recorded balance of debts⁽¹⁾						
Examined on an individual basis	25,586	-	223	25,809	2,783	28,592
Examined on a collective basis	1,946	18,008	4,674	24,628	-	24,628
Of which: provision for which was calculated according to the extent of arrears	336	18,008	-	18,344	-	18,344
Total debts	27,532	18,008	4,897	50,437	2,783	53,220
Provision for credit losses in respect of debts⁽¹⁾						
Examined on an individual basis	378	-	17	395	-	395
Examined on a collective basis	17	132	75	224	-	224
Of which: provision for which was calculated according to the extent of arrears	1	(3)132	-	133	-	133
Total provision for credit losses	395	132	92	619	-	619

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) For details regarding the initial application of a FAQ file of the Supervisor of Banks in the matter of impaired debts, see Note 1.C.8.

(3) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on an collective basis in the amount of NIS 72 million (31.12.14 - NIS 69 million).

(4) The balance of commercial debts include housing loans in the amount of NIS 1,948 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups (31.12.2014- NIS 1,872 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts⁽¹⁾

1. Credit quality and arrears (Cont.)

Consolidated	December 31, 2015					
		Problematic ⁽²⁾			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more ⁽⁴⁾	In arrears of 30 to 89 days ⁽⁵⁾
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	3,189	49	47	3,285	2	5
Construction and real estate - real estate activities	4,096	4	60	4,160	-	1
Financial services	7,358	17	25	7,400	1	9
Commercial - other	19,901	530	524	20,955	18	32
Total commercial	34,544	600	656	35,800	21	47
Private individuals - housing loans	19,838	⁽⁶⁾ 184	10	20,032	182	168
Private individuals - others	16,572	204	75	16,851	31	50
Total public - activity in Israel	70,954	988	741	72,683	234	265
Banks in Israel	1,362	-	-	1,362	-	-
Israeli government	669	-	-	669	-	-
Total activity in Israel	72,985	988	741	74,714	234	265
Borrower activity abroad						
Public - commercial						
Construction and real estate	124	-	14	138	-	-
Other commercial	501	-	9	510	-	-
Total commercial	625	-	23	648	-	-
Private individuals	48	-	-	48	-	-
Total public - activity abroad	673	-	23	696	-	-
Banks abroad	2,249	-	-	2,249	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	2,922	-	23	2,945	-	-
Total public	71,627	988	764	73,379	234	265
Total banks	3,611	-	-	3,611	-	-
Total governments	669	-	-	669	-	-
Total	75,907	988	764	77,659	234	265

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 29.B.2.c. below.

(4) Classified as unimpaired problematic debts, accruing interest income.

(5) Accruing interest income Debts in arrears of 30 to 89 days, in the amount of NIS 97 million (31.12.14 - NIS 72 million) were classified as unimpaired problematic debts.

(6) Includes a balance of housing loans, in the amount of NIS 7 million (31.12.14 - NIS 8 million) with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

(7) Restated in respect of a change in accounting policy in a matter of the treatment of problematic debts secured by state guarantee. See note 1.C.3.

Consolidated					December 31, 2014	
Borrower activity in Israel	Non-problematic	Problematic ⁽²⁾		Total	Unimpaired debts - additional information	
		Unimpaired	Impaired ⁽³⁾		In arrears of 90 days or more ⁽⁴⁾	In arrears of 30 to 89 days ⁽⁵⁾
Public - commercial						
Construction and real estate - construction	3,145	43	⁽⁷⁾ 108	3,296	-	2
Construction and real estate - real estate activities	4,157	10	30	4,197	-	2
Financial services	6,662	76	11	6,749	1	4
Commercial - other	19,641	1,095	⁽⁷⁾ 478	21,214	4	21
Total commercial	33,605	1,224	627	35,456	5	29
Private individuals - housing loans	18,000	⁽⁶⁾ 235	17	18,252	234	224
Private individuals - others	15,343	148	113	15,604	9	43
Total public - activity in Israel	66,948	1,607	757	69,312	248	296
Banks in Israel	1,442	-	-	1,442	-	-
Israeli government	658	-	-	658	-	-
Total activity in Israel	69,048	1,607	757	71,412	248	296
Borrower activity abroad						
Public - commercial						
Construction and real estate	73	-	32	105	-	-
Other commercial	292	-	10	302	-	-
Total commercial	365	-	42	407	-	-
Private individuals	88	-	-	88	-	-
Total public - activity abroad	453	-	42	495	-	-
Banks abroad	2,515	-	-	2,515	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	2,968	-	42	3,010	-	-
Total public	67,401	1,607	799	69,807	248	296
Total banks	3,957	-	-	3,957	-	-
Total governments	658	-	-	658	-	-
Total	72,016	1,607	799	74,422	248	296

Credit quality - the status of debts in arrears

The credit risk policy of the Bank defines principal indicators for the examination of credit quality, among which are the default situation, rating of the customer, status of the collateral etc. 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 debts (debts not accruing interest income) after 90 days of arrears. With regard to debts evaluated on a collective basis, the status of arrears effects the classification of the debt (the classification is more severe for more extensive arrears) and mostly after 150 days of arrears, the Bank performs an accounting write-off of the debt, except in cases where the debt has been referred to legal means, is examined specifically and it is found that no further credit losses are expected in excess of the amounts written off or provided for. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes a provision according to the method of the extent of arrears. The Bank also uses additional indications such as customer rating and status of collateral managed by computer systems in accordance with the credit risk management policy determined by the Board of Directors.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts⁽¹⁾ (Cont'd)

2. Additional information regarding impaired debts

Consolidated			Decembe 31, 2015		
	Balance ⁽²⁾ of impaired debts for which an individual provision exists ⁽³⁾	Balance of Individual provision ⁽³⁾	Balance ⁽²⁾ of impaired debts for which no individual provision exists ⁽³⁾	Total Balance ⁽²⁾ of impaired debts	Balance of contractual principal of impaired debts
A Impaired debts and the individual provision					
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	11	6	36	47	743
Construction and real estate - real estate activities	-	-	60	60	488
Financial services	2	1	23	25	381
Commercial - other	414	180	110	524	2,234
Total commercial	427	187	229	656	3,846
Private individuals - housing loans	-	-	10	10	10
Private individuals - others	8	7	67	75	146
Total public - activity in Israel	435	194	306	741	4,002
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	435	194	306	741	4,002
Borrower activity abroad					
Public - commercial					
Construction and real estate	14	3	-	14	14
Other commercial	9	-	-	9	85
Total commercial	23	3	-	23	99
Private individuals	-	-	-	-	-
Total public - activity abroad	23	3	-	23	99
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	23	3	-	23	99
Total public	458	197	306	764	4,101
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	458	197	306	764	4,101
(*) Of which:					
Measured at the present value of cash flows	458	197	257	715	
Debts in troubled debt restructuring	26	15	203	229	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.

(2) Recorded debt balance.

(3) Individual provision for credit losses.

(4) Restated in respect of a change in accounting policy in a matter of the treatment of problematic debts secured by state guarantee. See note 1.C.3.

Consolidated			December 31, 2014		
	Balance ⁽²⁾ of impaired debts for which an individual provision exists ⁽³⁾	Balance of Individual provision ⁽³⁾	Balance ⁽²⁾ of impaired debts for which no individual provision exists ⁽³⁾	Total Balance ⁽²⁾ of impaired debts	Balance of contractual principal of impaired debts
A Impaired debts and the individual provision					
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	(4)21	15	87	108	936
Construction and real estate - real estate activities	4	1	26	30	292
Financial services	1	-	10	11	570
Commercial - other	(4)312	172	166	478	2,124
Total commercial	338	188	289	627	3,922
Private individuals - housing loans	-	-	17	17	17
Private individuals - others	35	33	78	113	406
Total public - activity in Israel	373	221	384	757	4,345
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	373	221	384	757	4,345
Borrower activity abroad					
Public - commercial					
Construction and real estate	32	12	-	32	57
Other commercial	10	-	-	10	90
Total commercial	42	12	-	42	147
Private individuals	-	-	-	-	-
Total public - activity abroad	42	12	-	42	147
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	42	12	-	42	147
Total public	415	233	384	799	4,492
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	415	233	384	799	4,492
(*) Of which:					
Measured at the present value of cash flows	(4)412	233	273	685	
Debts in troubled debt restructuring	44	22	203	247	

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts⁽¹⁾ (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	For the year ended December 31,		
	2015		
	Average balance of impaired debts ⁽²⁾	Interest income recorded ⁽³⁾	Of which: recorded on a cash basis
B. Average balance and interest income			
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	66	-	-
Construction and real estate - real estate activities	42	-	-
Financial services	16	-	-
Commercial - other	543	6	6
Total commercial	667	6	6
Private individuals - housing loans	17	-	-
Private individuals - others	108	3	2
Total public - activity in Israel	792	9	8
Banks in Israel	-	-	-
Israeli government	-	-	-
Total activity in Israel	792	9	8
Borrower activity abroad			
Public - commercial			
Construction and real estate	21	-	-
Other commercial	2	-	-
Total commercial	23	-	-
Private individuals	-	-	-
Total public - activity abroad	23	-	-
Banks abroad	-	-	-
Governments abroad	-	-	-
Total activity abroad	23	-	-
Total public	815	9	8
Total banks	-	-	-
Total governments	-	-	-
Total	815	(4)9	8

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Average recorded debt balance of impaired debts in the reported period.

(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.

(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 72 million was recorded in the year ended December 31, 2015 (2014 - NIS 90 million, 2013 - NIS 99 million).

(5) Restated in respect of a change in accounting policy in a matter of the treatment of problematic debts secured by state guarantee. See note 1.C.3.

Consolidated	For the year ended December 31,					
	2014			2013		
	Average balance of impaired debts ⁽²⁾	Interest income recorded ⁽³⁾	Of which: recorded on a cash basis	Average balance of impaired debts ⁽²⁾	Interest income recorded ⁽³⁾	Of which: recorded on a cash basis
B. Average balance and interest income						
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	(5)176	2	2	320	2	1
Construction and real estate - real estate activities	25	-	-	44	-	-
Financial services	10	-	-	11	-	-
Commercial - other	(5)448	6	5	498	8	6
Total commercial	659	8	7	873	10	7
Private individuals - housing loans	16	-	-	16	-	-
Private individuals - others	108	2	2	129	5	5
Total public - activity in Israel	783	10	9	1,018	15	12
Banks in Israel	-	-	-	-	-	-
Israeli government	-	-	-	-	-	-
Total activity in Israel	783	10	9	1,018	15	12
Borrower activity abroad						
Public - commercial						
Construction and real estate	29	-	-	37	-	-
Other commercial	10	-	-	2	-	-
Total commercial	39	-	-	39	-	-
Private individuals	-	-	-	1	-	-
Total public - activity abroad	39	-	-	40	-	-
Banks abroad	-	-	-	-	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	39	-	-	40	-	-
Total public	822	10	9	1,058	15	12
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	822	(4)10	9	1,058	(4)15	12

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts⁽¹⁾ (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated		December 31, 2015			
		Recorded debt balance			Total ⁽³⁾
		Not accruing interest income	accruing ⁽²⁾ in arrears of 90 days or more	accruing ⁽²⁾ in arrears of 30 to 89 days	
C. Troubled debt restructuring				Accruing ⁽²⁾ , not in arrears	
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	13	-	-	1	14
Construction and real estate - real estate activities	8	-	-	2	10
Financial services	4	-	-	1	5
Commercial - other	108	-	-	14	122
Total commercial	133	-	-	18	151
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	58	-	-	11	69
Total public - activity in Israel	191	-	-	29	220
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	191	-	-	29	220
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	9	-	-	-	9
Total commercial	9	-	-	-	9
Private individuals	-	-	-	-	-
Total public - activity abroad	9	-	-	-	9
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	9	-	-	-	9
Total public	200	-	-	29	229
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	200	-	-	29	229

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.

(2) Accruing interest income.

(3) Included in impaired debts.

Consolidated		December 31, 2014			
		Recorded debt balance			
	Not accruing interest income	accruing ⁽²⁾ in arrears of 90 days or more	accruing ⁽²⁾ in arrears of 30 to 89 days	Accruing ⁽²⁾ , not in arrears	Total ⁽³⁾
C. Troubled debt restructuring					
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	9	-	-	2	11
Construction and real estate - real estate activities	1	-	-	4	5
Financial services	7	-	-	1	8
Commercial - other	134	-	-	19	153
Total commercial	151	-	-	26	177
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	52	-	-	8	60
Total public - activity in Israel	203	-	-	34	237
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	203	-	-	34	237
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	10	-	-	-	10
Total commercial	10	-	-	-	10
Private individuals	-	-	-	-	-
Total public - activity abroad	10	-	-	-	10
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	10	-	-	-	10
Total public	213	-	-	34	247
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	213	-	-	34	247

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.

(2) Accruing interest income.

(3) Included in impaired debts.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts⁽¹⁾ (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	Restructuring made		
	For the year ended December 31,		
	2015		
	Number of contracts	Debt balance before restructuring	Debt balance after restructuring
C. Troubled debt restructuring (Cont'd)			
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	41	8	6
Construction and real estate - real estate activities	5	1	1
Financial services	6	3	3
Commercial - other	300	64	59
Total commercial	352	76	69
Private individuals - housing loans	-	-	-
Private individuals - others	1,227	53	50
Total public - activity in Israel	1,579	129	119
Banks in Israel	-	-	-
Israeli government	-	-	-
Total activity in Israel	1,579	129	119
Borrower activity abroad			
Public - commercial			
Construction and real estate	-	-	-
Other commercial	-	-	-
Total commercial	-	-	-
Private individuals	-	-	-
Total public - activity abroad	-	-	-
Banks abroad	-	-	-
Governments abroad	-	-	-
Total activity abroad	-	-	-
Total public	1,579	129	119
Total banks	-	-	-
Total governments	-	-	-
Total	1,579	129	119

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

Consolidated	Restructuring made					
	For the year ended December 31,					
	2014			2013		
	Number of contracts	Debt balance before restructuring	Debt balance after restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring
C. Troubled debt restructuring (Cont'd)						
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	31	6	5	30	8	8
Construction and real estate - real estate activities	2	1	1	12	3	3
Financial services	2	-	-	4	-	-
Commercial - other	299	145	127	291	69	65
Total commercial	334	152	133	337	80	76
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - others	1,100	48	47	1,141	39	37
Total public - activity in Israel	1,434	200	180	1,478	119	113
Banks in Israel	-	-	-	-	-	-
Israeli government	-	-	-	-	-	-
Total activity in Israel	1,434	200	180	1,478	119	113
Borrower activity abroad						
Public - commercial						
Construction and real estate	-	-	-	-	-	-
Other commercial	1	10	10	-	-	-
Total commercial	1	10	10	-	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	1	10	10	-	-	-
Banks abroad	-	-	-	-	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	1	10	10	-	-	-
Total public	1,435	210	190	1,478	119	113
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	1,435	210	190	1,478	119	113

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts⁽¹⁾ (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated		Restructuring failed (2)					
		For the year ended December 31,					
		2015		2014		2013	
		Number of contracts	Balance of debt recorded	Number of contracts	Balance of debt recorded	Number of contracts	Balance of debt recorded
C.	Troubled debt restructuring (Cont'd)						
Borrower activity in Israel							
Public - commercial							
	Construction and real estate - construction	20	6	14	2	7	4
	Construction and real estate - real estate activities	2	-	-	-	3	-
	Financial services	-	-	1	-	-	-
	Commercial - other	110	7	62	22	56	15
	Total commercial	132	13	77	24	66	19
	Private individuals - housing loans	-	-	-	-	-	-
	Private individuals - others	321	(3)3	142	4	171	5
	Total public - activity in Israel	453	16	219	28	237	24
	Banks in Israel	-	-	-	-	-	-
	Israeli government	-	-	-	-	-	-
	Total activity in Israel	453	16	219	28	237	24
Borrower activity abroad							
Public - commercial							
	Construction and real estate	-	-	-	-	-	-
	Other commercial	2	9	-	-	-	-
	Total commercial	2	9	-	-	-	-
	Private individuals	-	-	-	-	-	-
	Total public - activity abroad	2	9	-	-	-	-
	Banks abroad	-	-	-	-	-	-
	Governments abroad	-	-	-	-	-	-
	Total activity abroad	2	9	-	-	-	-
	Total public	455	25	219	28	237	24
	Total banks	-	-	-	-	-	-
	Total governments	-	-	-	-	-	-
	Total	455	25	219	28	237	24

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debts during the 12 months that preceded the date in which they became debts in arrears.

(3) Starting with the reports for 2015 the Bank applied the amendment of the FAQ regarding impaired debts, credit risk and provision for credit losses, that require among other things that the debts valued on group basis that were restructured and the restructuring failed, will be written off no longer than 60 days. The Bank implemented the directive from this day forward. For further detail see note 1.C.8.

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)** , repayment type, and interest type

Consolidated	December 31, 2015			
	Balance of housing loans			Total Off- balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
LTV - Up to 60%	14,017	435	8,792	1,076
LTV - Over 60%	5,903	116	4,010	607
Secondary lien or no lien	112	5	61	9
Total	20,032	556	12,863	1,692

Consolidated	December 31, 2014*			
	Balance of housing loans			Total Off- balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
LTV - Up to 60%	12,645	577	8,433	1,071
LTV - Over 60%	5,521	178	4,015	612
Secondary lien or no lien	86	5	49	9
Total	18,252	760	12,497	1,692

* Restated.

** Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided. The minimal group provision, in the amount of 0.35% as requested by the Bank of Israel directives is tested quarterly against the provision in the amount of 0.75% of credit with LTV higher than 60%. The group provision is higher than the provision according to LTV.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONTD)

(NIS millions)

C Classification of Credit and Credit Risk of Off-Balance Sheet Items by Size of Borrowers

Consolidated		2015			2014		
Size of credit per borrower		Number of borrowers ⁽⁵⁾	Credit ⁽²⁾⁽³⁾	Off-balance sheet credit risk ⁽²⁾⁽⁴⁾	Number of borrowers ⁽⁵⁾	Credit ⁽²⁾⁽³⁾	Off-balance sheet credit risk ⁽²⁾⁽⁴⁾
NIS thousands				NIS million			NIS million
	Up to 10	176,382	281	606	170,255	258	557
From 10	to 20	72,247	446	700	69,754	455	666
From 20	to 40	93,678	1,245	1,577	93,650	1,277	1,550
From 40	to 80	98,762	3,100	2,638	99,365	3,143	2,642
From 80	to 150	71,388	5,252	2,617	68,478	4,992	2,564
From 150	to 300	45,017	7,223	2,183	40,971	6,526	2,049
From 300	to 600	24,733	9,013	1,554	23,052	8,624	1,524
From 600	to 1,200	14,593	10,063	1,991	13,048	10,138	1,976
From 1,200	to 2,000	3,085	3,700	943	2,835	3,348	923
From 2,000	to 4,000	1,605	3,372	1,126	1,616	3,316	1,137
From 4,000	to 8,000	806	3,170	1,302	806	3,169	1,324
From 8,000	to 20,000	610	5,188	2,331	643	5,436	2,445
From 20,000	to 40,000	250	4,231	2,632	247	3,945	2,528
From 40,000	to 200,000	219	11,144	6,518	224	11,638	6,420
From 200,000	to 400,000	29	5,016	2,323	29	4,980	2,483
From 400,000	to 800,000	5	2,051	359	3	1,334	272
From 800,000	to 1,200,000	1	999	3	-	-	-
From 1,200,000	to 1,600,000	1	(6)1,238	(6)316	-	-	-
Over 1,600,000		-	-	-	1	(6)1,619	(6)46
Total		603,411	76,732	31,719	584,977	74,198	31,106

(1) Specific consolidation was done in the five highest ranges. The total credit per borrower was calculated based on the sum of the credit and off-balance sheet credit risk items in the Bank and its subsidiaries.

(2) Credit and off-balance sheet credit risk are presented before the effect of the provision for credit losses, and before the effect of deductible collateral for the purposes of the indebtedness of a borrower.

(3) Credit to the public, investments in corporate bonds, other assets in respect of derivative instruments against the public, at a total of NIS 73,379 million, NIS 2,173 million and NIS 1,180 million, respectively (31.12.2014 - NIS 69,807 million, NIS 2,116 million and NIS 2,275 million, respectively).

(4) Credit risk relating to off-balance sheet financial instruments as calculated for the purpose of the limitation on indebtedness of a borrower.

(5) The number of borrowers according to the total credit and off-balance sheet credit risk.

(6) The total of credit and off-balance sheet credit risk, less collateral eligible for deduction for the purpose of limitation on indebtedness of a single borrower, amounts to NIS 681 million (31.12.2014 - NIS 857 million).

D. Off-balance sheet financial instruments

	Consolidated				The Bank			
	Balance of contracts ⁽¹⁾		Balance of provision for credit losses		Balance of contracts ⁽¹⁾		Balance of provision for credit losses	
	December 31		December 31		December 31		December 31	
	2015	2014	2015	2014	2015	2014	2015	2014
Transactions the balance of which represents credit risk:								
Documentary credit	130	178	-	-	123	167	-	-
Guarantees securing credit	972	891	11	11	721	652	8	6
Guarantees to home purchasers (including commitments to provide guarantees)	2,614	2,303	14	24	1,985	1,741	11	17
Guarantees and letters of indemnity to subsidiaries to secure credit granted by them	-	-	-	-	156	132	-	-
Guarantees and other liabilities	3,529	3,697	22	35	3,166	3,295	21	29
Unutilized credit lines for derivatives instruments	32,967	31,130	-	1	32,802	23,179	-	-
Unutilized revolving credit and other on-call credit facilities	12,400	11,472	21	17	9,249	7,013	18	14
Irrevocable commitments to grant credit, not yet executed	2,755	4,122	4	10	2,324	3,374	3	8
Unutilized credit lines for credit card facilities	6,509	6,037	5	4	2,898	2,664	3	3
Facilities for the lending of securities	110	154	-	-	110	154	-	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses (see Note 25.3(D,E)).	254	301	-	-	254	200	-	-
Commitments to issue guarantees	1,513	2,034	8	18	1,397	1,524	7	13
Transactions the stated amount of which does not represents credit risk:								
Guarantees (including guarantees to the courts for claims which may arise upon the occurrence of certain events) and letters of indemnity ⁽²⁾	104	72	-	-	104	72	-	-

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.

(2) In addition, the Bank provided the courts with letters of self undertaking unlimited in amounts, given in connection with legal proceedings, in order to secure compensation for the damage to the defendants in the event that the action against them is dismissed or the legal proceedings terminated because of any other reason.

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES

(NIS million)

Consolidated	December 31, 2015						
	Israeli currency		Foreign currency ⁽¹⁾			Non-monetary items ⁽²⁾	Total
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other		
Assets							
Cash and deposits with banks	27,842	113	1,907	483	382	-	30,727
Securities	6,915	1,655	7,027	466	115	261	16,439
Securities which were borrowed	353	-	-	-	-	-	353
Credit to the public, net ⁽³⁾	55,908	10,700	3,855	1,153	308	631	72,555
Credit to the government	51	618	-	-	-	-	669
Investee companies	-	-	-	-	-	438	438
Premises and equipment	-	-	-	-	-	1,229	1,229
Intangible assets and goodwill	-	-	-	-	-	272	272
Assets in respect of derivative instruments	279	53	339	75	29	861	1,636
Other assets	702	102	17	-	9	328	1,158
Total assets	92,050	13,241	13,145	2,177	843	4,020	125,476
Liabilities							
Deposits from the public	70,392	7,095	20,122	3,583	1,430	640	103,262
Deposits from banks	1,300	-	223	30	12	-	1,565
Deposits from the Government	352	90	65	3	1	-	511
Bonds and subordinated capital notes	780	5,082	-	-	-	-	5,862
Liabilities in respect of derivative instruments	298	60	343	86	21	851	1,659
Other liabilities	4,317	212	61	6	15	343	4,954
Total liabilities	77,439	12,539	20,814	3,708	1,479	1,834	117,813
Difference	14,611	702	(7,669)	(1,531)	(636)	2,186	7,663
Hedging financial instruments							
Derivative instruments (not including options)	394	-	-	-	(394)	-	-
Non-hedging derivatives:							
Derivative instruments (not including options)	(9,537)	(505)	7,400	1,739	903	-	-
Options in the money, net (in terms of underlying asset)	225	-	(19)	(207)	1	-	-
Options out of the money, net (in terms of underlying asset)	(403)	-	406	(3)	-	-	-
Total	5,290	197	118	(2)	(126)	2,186	7,663
Options in the money, net (present value of stated amount)	341	-	(51)	(291)	1	-	-
Options out of the money, net (present value of stated amount)	(1,619)	-	1,725	(107)	1	-	-

(1) Including linked to foreign currency.

(2) Including derivatives instruments which their underlying assets represent non-monetary item.

(3) After deduction of provisions for credit losses attributed to the linkage base.

(4) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

Consolidated	December 31, 2014						
	Israeli currency		Foreign currency ⁽¹⁾			Non-monetary items ⁽²⁾	Total
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other		
Assets							
Cash and deposits with banks	24,844	213	3,008	446	671	-	29,182
Securities	5,545	2,228	2,762	1,558	150	311	12,554
Securities which were borrowed	477	-	-	-	-	-	477
Credit to the public, net ⁽³⁾	⁽⁴⁾ 50,576	12,207	4,286	808	489	565	68,931
Credit to the government	37	621	-	-	-	-	658
Investee companies	-	-	-	-	-	⁽⁴⁾ 396	396
Premises and equipment	-	-	-	-	-	1,222	1,222
Intangible assets and goodwill	-	-	-	-	-	335	335
Assets in respect of derivative instruments	318	56	867	36	48	1,690	3,015
Other assets	⁽⁴⁾ 780	68	4	1	20	164	1,037
Total assets	82,577	15,393	10,927	2,849	1,378	4,683	117,807
Liabilities							
Deposits from the public	61,562	8,111	19,571	3,694	1,650	567	95,155
Deposits from banks	1,142	-	285	19	19	4	1,469
Deposits from the Government	454	-	99	2	1	-	556
Bonds and subordinated capital notes	87	4,816	-	-	-	-	4,903
Liabilities in respect of derivative instruments	473	80	799	99	29	1,682	3,162
Other liabilities	⁽⁴⁾ 4,391	880	41	5	20	182	5,519
Total liabilities	68,109	13,887	20,795	3,819	1,719	2,435	110,764
Difference	14,468	1,506	(9,868)	(970)	(341)	2,248	7,043
Hedging financial instruments							
Derivative instruments (not including options)	379	-	-	-	(379)	-	-
Non-hedging derivatives:							
Derivative instruments (not including options)	(9,264)	(841)	8,770	740	595	-	-
Options in the money, net (in terms of underlying asset)	(821)	-	825	(4)	-	-	-
Options out of the money, net (in terms of underlying asset)	(602)	-	456	146	-	-	-
Total	4,160	665	183	(88)	(125)	2,248	7,043
Options in the money, net (present value of stated amount)	(1,174)	-	1,185	(11)	-	-	-
Options out of the money, net (present value of stated amount)	(3,131)	-	2,505	626	-	-	-

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

The bank	December 31, 2015						
	Israeli currency		Foreign currency ⁽¹⁾				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items ⁽²⁾	Total
Assets							
Cash and deposits with banks	22,314	349	1,728	386	139	-	24,916
Securities	4,829	1,073	6,763	302	102	243	13,312
Securities which were borrowed	353	-	-	-	-	-	353
Credit to the public, net ⁽³⁾	39,061	10,081	3,489	1,031	170	631	54,463
Investee companies	-	343	-	-	-	2,814	3,157
Premises and equipment	-	-	-	-	-	1,078	1,078
Intangible assets and goodwill	-	-	-	-	-	207	207
Assets in respect of derivative instruments	283	53	348	88	22	861	1,655
Other assets	552	5	16	-	-	301	874
Total assets	67,392	11,904	12,344	1,807	433	6,135	100,015
Liabilities							
Deposits from the public	50,868	6,215	18,264	2,963	1,262	640	80,212
Deposits from banks	2,307	574	590	285	53	-	3,809
Deposits from the Government	128	89	59	-	-	-	276
Bonds and subordinated capital notes	-	3,841	-	-	-	-	3,841
Liabilities in respect of derivative instruments	298	61	345	86	12	852	1,654
Other liabilities	2,279	151	52	5	1	336	2,824
Total liabilities	55,880	10,931	19,310	3,339	1,328	1,828	92,616
Difference	11,512	973	(6,966)	(1,532)	(895)	4,307	7,399
Hedging derivatives							
Derivative instruments (not including options)	394	-	-	-	(394)	-	-
Non-hedging derivatives:							
Derivative instruments (not including options)	(8,739)	(604)	6,675	1,738	930	-	-
Options in the money, net (in terms of underlying asset)	225	-	(19)	(207)	1	-	-
Options out of the money, net (in terms of underlying asset)	(403)	-	406	(3)	-	-	-
Total	2,989	369	96	(4)	(358)	4,307	7,399
Options in the money, net (present value of stated amount)	341	-	(51)	(291)	1	-	-
Options out of the money, net (present value of stated amount)	(1,619)	-	1,725	(107)	1	-	-

(1) Including linked to foreign currency.

(2) Including derivatives instruments which their underlying assets represent non-monetary item.

(3) After deduction of provisions for credit losses attributed to the linkage base.

(4) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

The bank	December 31, 2014						
	Israeli currency		Foreign currency ⁽¹⁾			Non-monetary items ⁽²⁾	Total
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other		
Assets							
Cash and deposits with banks	15,354	388	2,071	130	128	-	18,071
Securities	3,091	995	2,305	904	131	299	7,725
Securities which were borrowed	319	-	-	-	-	-	319
Credit to the public, net ⁽³⁾	33,543	11,247	3,729	628	225	446	49,818
Investee companies	-	431	-	-	-	⁽⁴⁾ 2,982	3,413
Premises and equipment	-	-	-	-	-	1,042	1,042
Intangible assets and goodwill	-	-	-	-	-	217	217
Assets in respect of derivative instruments	322	57	785	45	32	1,507	2,748
Other assets	⁽⁴⁾ 576	3	3	-	-	43	625
Total assets	53,205	13,121	8,893	1,707	516	6,536	83,978
Liabilities							
Deposits from the public	40,033	6,317	14,376	2,522	1,077	449	64,774
Deposits from banks	1,043	336	525	101	39	4	2,048
Deposits from the Government	172	-	62	-	-	-	234
Bonds and subordinated capital notes	-	4,069	-	-	-	-	4,069
Liabilities in respect of derivative instruments	443	79	742	69	23	1,500	2,856
Other liabilities	⁽⁴⁾ 2,284	805	29	4	1	77	3,200
Total liabilities	43,975	11,606	15,734	2,696	1,140	2,030	77,181
Difference	9,230	1,515	(6,841)	(989)	(624)	4,506	6,797
Hedging derivatives							
Derivative instruments (not including options)	379	-	-	-	(379)	-	-
Non-hedging derivatives:							
Derivative instruments (not including options)	(6,043)	(1,064)	5,732	747	628	-	-
Options in the money, net (in terms of underlying asset)	(821)	-	825	(4)	-	-	-
Options out of the money, net (in terms of underlying asset)	(609)	-	463	146	-	-	-
Total	2,136	451	179	(100)	(375)	4,506	6,797
Options in the money, net (present value of stated amount)	(1,173)	-	1,185	(12)	-	-	-
Options out of the money, net (present value of stated amount)	(3,163)	-	2,537	626	-	-	-

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES⁽¹⁾ - CONSOLIDATED

	Future expected cash flows				
	December 31, 2015				
	On demand and up to one month ⁽⁵⁾	One to three months ⁽⁵⁾	Three months to one year ⁽⁵⁾	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	42,018	7,745	11,213	10,688	7,061
Liabilities	66,267	3,877	10,097	2,875	1,708
Difference	(24,249)	3,868	1,116	7,813	5,353
Derivative instruments (except options)	(5,759)	(3,094)	(532)	(79)	(140)
Options (in terms of underlying assets)	(6)	(20)	(17)	-	-
Difference after effect of derivative instruments	(30,014)	754	567	7,734	5,213
Foreign currency					
Assets	4,068	2,536	3,318	2,672	1,005
Liabilities	20,317	3,569	1,779	200	177
Difference	(16,249)	(1,033)	1,539	2,472	828
Of which: Difference in U.S. dollar	(12,886)	(1,117)	1,618	2,332	612
Of which: Difference in respect of foreign operations	(164)	73	10	28	18
Derivative instruments (except options)	5,759	3,094	532	79	140
Options (in terms of underlying assets)	6	20	17	-	-
Difference after effect of derivative instruments	(10,484)	2,081	2,088	2,551	968
Total					
Assets*	46,086	10,281	14,531	13,360	8,066
Liabilities**	86,584	7,446	11,876	3,075	1,885
Difference	(40,498)	2,835	2,655	10,285	6,181
* Of which: Credit to the public	14,850	9,111	10,167	8,941	6,500
** Of which: Deposits from the public	82,379	6,373	9,787	1,705	942

	December 31, 2014				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets	⁽⁶⁾ 44,360	9,137	14,208	9,696	7,919
Liabilities	⁽⁶⁾ 84,471	6,539	7,262	3,678	2,202
Difference	(40,111)	2,598	6,946	6,018	5,717

(1) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.

(2) Including overdue amounts of NIS 2,052 million (31.12.14 - NIS 1,620 million).

(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.

(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this Note in respect of a financial item, to its stated balance.

(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 4,988 million (31.12.2014 - NIS 4,109 million). Credit in excess of credit facility in the amount NIS 256 million, classified without maturity date (31.12.2014 - NIS 1,444 million).

(6) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

							Balance-sheet balance (3)		
	Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Without maturity date(2)(5)	Total	Contractual return rate(4)
							NIS million		Percent
	6,406	5,152	12,190	8,283	1,765	112,521	1,123	105,409	2.53
	3,194	1,598	1,292	249	386	91,543	98	90,134	2.05
	3,212	3,554	10,898	8,034	1,379	20,978	1,025	15,275	
	(21)	(20)	-	-	-	(9,645)	-	(9,648)	
	-	-	-	-	-	(43)	-	(178)	
	3,191	3,534	10,898	8,034	1,379	11,290	1,025	5,449	
	1,078	645	1,465	79	20	16,886	45	16,047	2.49
	68	56	191	14	-	26,371	-	25,845	1.29
	1,010	589	1,274	65	20	(9,485)	45	(9,798)	
	812	394	921	64	8	(7,242)	7	(7,591)	
	15	17	-	-	12	9	-	226	
	21	20	-	-	-	9,645	-	9,648	
	-	-	-	-	-	43	-	178	
	1,031	609	1,274	65	20	203	45	28	
	7,484	5,797	13,655	8,362	1,785	129,407	1,168	121,456	2.53
	3,262	1,654	1,483	263	386	117,914	98	115,979	2.01
	4,222	4,143	12,172	8,099	1,399	11,493	1,070	5,477	
	4,917	3,877	10,615	7,901	1,650	78,529	376	71,924	2.71
	720	606	296	38	-	102,846	-	102,622	1.03
	Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Without maturity date(2)	Total	Contractual return rate(4)
							NIS million		Percent
	5,400	5,979	13,636	7,171	1,500	119,006	2,065	(6)113,124	2.66
	1,678	2,663	1,458	319	158	110,428	72	(6)108,329	2.47
	3,722	3,316	12,178	6,852	1,342	8,578	1,993	4,795	

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES⁽¹⁾ - THE BANK (CONT'D)

	Future expected cash flows				
	December 31, 2015 ⁽⁵⁾				
	On demand and up to one month ⁽⁵⁾	One to three months ⁽⁵⁾	Three months to one year ⁽⁵⁾	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	34,297	4,908	7,159	7,442	4,754
Liabilities	46,801	2,970	8,195	2,476	1,461
Difference	(12,504)	1,938	(1,036)	4,966	3,293
Derivative instruments (except options)	(5,681)	(2,474)	(532)	(79)	(140)
Options (in terms of underlying assets)	(6)	(20)	(17)	-	-
Difference after effect of derivative instruments	(18,191)	(556)	(1,585)	4,887	3,153
Foreign currency					
Assets	3,433	2,123	3,175	2,646	981
Liabilities	18,299	3,486	1,669	215	179
Difference	(14,866)	(1,363)	1,506	2,431	802
Of which: Difference in U.S. dollar	(11,783)	(1,325)	1,563	2,322	606
Derivative instruments (except options)	5,681	2,474	532	79	140
Options (in terms of underlying assets)	6	20	17	-	-
Difference after effect of derivative instruments	(9,179)	1,131	2,055	2,510	942
Total					
Assets*	37,730	7,031	10,334	10,088	5,735
Liabilities**	65,100	6,456	9,864	2,691	1,640
Difference	(27,370)	575	470	7,397	4,095
* Of which: Credit to the public	12,133	6,102	6,707	6,098	4,406
** Of which: Deposits from the public	60,869	5,635	8,258	1,501	815

	Future expected cash flows				
	December 31, 2014				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets	(6)29,901	5,291	9,214	6,462	5,373
Liabilities	(6)55,411	5,168	5,512	3,090	1,914
Difference	(25,510)	123	3,702	3,372	3,459

(1) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.

(2) Including overdue amounts of NIS 1,972 million (31.12.13 - NIS 1,318 million).

(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.

(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this Note in respect of a financial item, to its stated balance.

(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 3,314 million (31.12.2014 - NIS 2,111 million). Credit in excess of credit facility in the amount NIS 157 million, classified without maturity date (31.12.2014 - NIS 1,222 million).

(6) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

							Balance-sheet balance ⁽³⁾		
	Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Without maturity date ⁽²⁾ ⁽⁵⁾	Total	Contractual return rate ⁽⁴⁾
							NIS million		Percent
	4,300	3,139	9,720	7,759	1,760	85,238	856	79,455	2.49
	2,918	1,523	1,274	180	378	68,176	79	67,006	2.18
	1,382	1,616	8,446	7,579	1,382	17,062	777	12,449	
	(21)	(20)	-	-	-	(8,947)	-	(8,949)	
	-	-	-	-	-	(43)	-	(178)	
	1,361	1,596	8,446	7,579	1,382	8,072	777	3,322	
	1,004	601	1,260	78	8	15,309	43	14,425	2.48
	79	71	182	14	-	24,194	-	23,782	1.47
	925	530	1,078	64	8	(8,885)	43	(9,357)	
	746	390	840	64	8	(6,569)	-	(6,887)	
	21	20	-	-	-	8,947	-	8,949	
	-	-	-	-	-	43	-	178	
	946	550	1,078	64	8	105	43	(230)	
	5,304	3,740	10,980	7,837	1,768	100,547	899	93,880	2.49
	2,997	1,594	1,456	194	378	92,370	79	90,788	2.14
	2,307	2,146	9,524	7,643	1,390	8,177	820	3,092	
	3,392	2,808	8,544	7,443	1,646	59,279	224	53,832	2.59
	1,107	1,011	670	23	-	79,889	-	79,572	1.41

							Balance-sheet balance ⁽³⁾		
	Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Without maturity date ⁽²⁾	Total	Contractual return rate ⁽⁴⁾
							NIS million		Percent
	3,778	4,223	10,044	6,635	1,411	82,332	1,579	(6)77,442	2.59
	1,550	2,357	1,404	221	151	76,778	16	(6)75,151	2.67
	2,228	1,866	8,640	6,414	1,260	5,554	1,563	2,291	

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

	Consolidated				
	December 31, 2015				
	Stated in the Balance Sheet	Fair value ⁽¹⁾			
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	30,727	603	30,010	128	30,741
Securities ⁽²⁾	16,439	8,248	8,113	128	16,489
Securities which were borrowed	353	-	353	-	353
Credit to the public, net	72,555	1,836	1,941	69,381	73,158
Credit to the government	669	-	52	599	651
Assets in respect of derivative instruments	1,636	958	400	278	1,636
Other financial assets	436	317	-	119	436
Total financial assets	⁽³⁾ 122,815	11,962	40,869	70,633	123,464
Financial liabilities					
Deposits from the public	103,262	1,584	87,006	14,919	103,509
Deposits from Banks	1,565	-	1,543	25	1,568
Deposits from the Government	511	160	269	102	531
Bonds and non-convertible subordinated capital notes	5,862	5,053	-	1,088	6,141
Liabilities in respect of derivative instruments	1,659	958	633	68	1,659
Other financing liabilities	3,973	495	1,941	1,535	3,971
Total financial liabilities	⁽³⁾ 116,832	8,250	91,392	17,737	117,379

Off balance sheet financial instruments

Transaction were the balance represents credit risk	34	-	-	34	34
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(1) Level 1 - fair value measurements using prices quoted in an active market.

Level 2 - fair value measurements using other significant observable data.

Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 12, "Securities".

(3) Of which: assets of NIS 19,180 million and liabilities of NIS 3,908 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32.B-32.D.

	Consolidated				
	December 31, 2014				
	Stated in the Balance Sheet	Fair value ⁽¹⁾			
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	29,182	571	28,400	221	29,192
Securities ⁽²⁾	12,554	7,707	4,758	139	12,604
Securities which were borrowed	477	-	477	-	477
Credit to the public, net	⁽⁴⁾ 68,931	2,670	1,746	⁽⁴⁾ 65,183	69,599
Credit to the government	658	-	37	597	634
Assets in respect of derivative instruments	3,015	1,801	756	458	3,015
Other financial assets	285	142	-	143	285
Total financial assets	⁽³⁾115,102	12,891	36,174	66,741	115,806
Financial liabilities					
Deposits from the public	95,155	2,511	81,976	10,990	95,477
Deposits from Banks	1,469	-	1,447	26	1,473
Deposits from the Government	556	72	394	100	566
Bonds and non-convertible subordinated capital notes	4,903	4,077	-	1,300	5,377
Liabilities in respect of derivative instruments	3,162	1,828	1,237	97	3,162
Other financing liabilities	4,354	695	1,746	1,911	4,352
Total financial liabilities	⁽³⁾109,599	9,183	86,800	14,424	110,407

Off balance sheet financial instruments

Transaction were the balance represents credit risk	32	-	-	32	32
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(1) Level 1 - fair value measurements using prices quoted in an active market.

Level 2 - fair value measurements using other significant observable data.

Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 12, "Securities".

(3) Of which: assets of NIS 17,358 million and liabilities of NIS 6,448 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32.B-32.D.

(4) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

**NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES
OF FINANCIAL INSTRUMENTS - (CONT'D)**

A. Fair value of financial instruments.

The Note includes information regarding the fair value of financial instruments. There is no quotable "market value" for most of the financial instruments of the Bank since they are not traded in an active market. Therefore, the fair value is derived by accepted pricing models, such as discounting future cash flows at interest rates reflecting the credit risk inherent in the financial instrument.

Determination of fair value, estimated by discounting future cash flows and determining the relative interest rates is subjective. Furthermore, the fair value estimations for most of the financial instruments does not necessarily indicate the realizable value on the reporting date. The estimated fair value was calculated according to interest rates prevailing on balance sheet date and does not consider interest rate fluctuations. Given other interest rate assumptions fair value estimates may differ materially. This is mainly the case where financial instruments have fixed interest rates or do not bear interest.

In addition, in determining fair value, commissions to be received or paid as a result of the said transactions and tax effects, in respect of the gap between the fair value and the balances at the balance sheet, were not taken into consideration.

Furthermore, the difference between the balance sheet and the fair value amounts may not be realized as the Bank may hold the instruments until maturity. As a result of all of these it is necessary to emphasize that the data included in this note does not reflect the net worth of the Bank as a going concern. Also, as a result of the wide range of possible estimation techniques and methods, care should be taken when comparing fair value of different banks.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

B. Principal methods and assumptions used for the calculation of the fair value estimates of financial instruments

Deposits with banks, bonds and non-marketable securities and credit to the Government - By discounting future cash flows according to interest rates used by the Bank in similar transactions close to the reporting date.

Marketable securities - According to their value in the principal market. Where there are several markets on which the instrument is traded, the assessment is made according to the most beneficial market.

Credit to the public - The fair value of the credit to the public balance was estimated according to discounting the future cash flows in an appropriate discount rate. The balance was separated into homogenous categories. The receipts in each category were discounted at a discount rate which reflects the risk inherent in the category. In general, this discount rate is determined according to the interest at which the Bank transacts similar business at the reporting date.

The fair value of impaired debts is assessed using discount rates that reflect the high credit risk inherent in such debts. In any event, such discount rates are not lower than the highest interest rate used by the Bank in transacting business at the reporting date.

Anticipated future cash flows in respect of impaired debts and other debts have been assessed after deducting the effect of accounting write-offs and of provisions for credit losses in respect of the debts.

Accounting write-offs and provisions for credit losses are attributed, where possible, to periods in which these debts had been classified (example: where the provision was assessed on a specific basis, by the present value of future cash flows). In the absence of such data, accounting write-offs and provisions for credit losses are attributed proportionally to the outstanding balance of credit according to maturity periods at end of the period.

Deposits and subordinate capital notes - By discounting future cash flows according to interest rates used by the Group in raising similar deposits, or issuing similar capital notes (if a quoted price on an active market is not available) at reporting date. As regards bonds and subordinate debt notes that are traded as an asset on an active market, fair value is based upon quoted market prices or on traders' quotations regarding a similar liability traded as an asset on an active market.

Derivative financial instruments - Derivative financial instruments for which an active market exists have been estimated at market value, and where several active markets exist, have been estimated according to the most beneficial market.

Derivative financial instruments for which no active market exists have been calculated according to models which are used by the Group in current activity and take into account the inherent risks of the financial instrument (market risk, credit risk, etc.).

Off-balance sheet financial instruments and transactions the balance of which represents credit risk - the fair value has been assessed in accordance with commission earned in similar transactions at the reporting date, adjusted in respect of the remaining period of the transaction and the credit quality of the counterparty.

NOTE 32B - ITEMS MEASURED AT FAIR VALUE

(NIS million)

A. Items measured at fair value on a recurrent basis

	December 31, 2015				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	5,735	1,345	-	-	7,080
Government bonds - Foreign governments	-	3,244	-	-	3,244
Bonds of financial institutions in Israel	458	-	-	-	458
Bonds of foreign financial institutions	-	1,709	-	-	1,709
Mortgage backed securities (MBS)	-	510	-	-	510
Bonds of others in Israel	635	280	-	-	915
Bonds of foreign others	-	360	-	-	360
Shares of others	111	19	-	-	130
Total available for sale securities	6,939	7,467	-	-	14,406
Trading Securities:					
Government bonds - Israeli government	774	-	-	-	774
Bonds of financial institutions in Israel	69	-	-	-	69
Bonds of foreign financial institutions	-	72	-	-	72
Bonds of others in Israel	39	8	-	-	47
Bonds of foreign others	-	20	-	-	20
Shares of others	3	-	-	-	3
Total trading securities	885	100	-	-	985
Credit in respect of security borrowing	1,836	-	-	-	1,836
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	27	-	27
Interest rate contract: other	4	220	10	-	234
Foreign currency contracts	103	169	241	-	513
Shares contracts	849	10	-	-	859
Commodities and other contracts	2	1	-	-	3
Total assets in respect of derivative instruments	958	400	278	-	1,636
Assets in respect of MAOF activity	317	-	-	-	317
Total assets	10,935	7,967	278	-	19,180
Liabilities					
Deposits in respect of borrowing between customers	1,584	-	-	-	1,584
Deposits from the Government	160	-	-	-	160
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	8	-	8
Interest rate contract: other	4	327	-	-	331
Foreign currency contracts	103	306	60	-	469
Shares contracts	849	10	-	-	859
Commodities and other contracts	2	-	-	-	2
Total liabilities in respect of derivative instruments	958	643	68	-	1,669
Other liabilities					
Liabilities in respect of activity in the maof market	317	-	-	-	317
Short selling of securities	178	-	-	-	178
Total other liabilities	495	-	-	-	495
Total liabilities	3,197	643	68	-	3,908

NOTE 32B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

B. Items measured at fair value on a nonrecurrent basis

	December 31, 2015				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	-	-	46	46	(67)

NOTE 32B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

A. Items measured at fair value on a recurrent basis

	December 31, 2014				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	4,379	1,719	-	-	6,098
Government bonds - Foreign governments	-	128	-	-	128
Bonds of financial institutions in Israel	504	-	-	-	504
Bonds of foreign financial institutions	-	1,523	-	-	1,523
Mortgage backed securities (MBS)	-	633	-	-	633
Bonds of others in Israel	776	247	-	-	1,023
Bonds of foreign others	-	89	-	-	89
Shares of others	140	31	-	-	171
Total available for sale securities	5,799	4,370	-	-	10,169
Trading Securities:					
Government bonds - Israeli government	1,222	-	-	-	1,222
Bonds of financial institutions in Israel	40	-	-	-	40
Bonds of foreign financial institutions	-	56	-	-	56
Bonds of others in Israel	37	-	-	-	37
Bonds of foreign others	-	6	-	-	6
Shares of others	1	-	-	-	1
Total trading securities	1,300	62	-	-	1,362
Credit in respect of security borrowing	2,670	-	-	-	2,670
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	31	-	31
Interest rate contract: other	6	213	20	-	239
Foreign currency contracts	113	532	407	-	1,052
Shares contracts	1,670	8	-	-	1,678
Commodities and other contracts	12	3	-	-	15
Total assets in respect of derivative instruments	1,801	756	458	-	3,015
Assets in respect of MAOF activity	142	-	-	-	142
Total assets	11,712	5,188	458	-	17,358
Liabilities					
Deposits in respect of borrowing between customers	2,511	-	-	-	2,511
Deposits from the Government	72	-	-	-	72
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	18	-	18
Interest rate contract: other	6	382	-	-	388
Foreign currency contracts	140	854	79	-	1,073
Shares contracts	1,670	8	-	-	1,678
Commodities and other contracts	12	1	-	-	13
Total liabilities in respect of derivative instruments	1,828	1,245	97	-	3,170
Other liabilities					
Liabilities in respect of activity in the maof market	142	-	-	-	142
Short selling of securities	553	-	-	-	553
Total other liabilities	695	-	-	-	695
Total liabilities	5,106	1,245	97	-	6,448

NOTE 32B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

B. Items measured at fair value on a nonrecurrent basis

	December 31, 2014				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	4	-	109	113	(78)
Other	-	-	3	3	-

NOTE 32C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

For the year ended 31, December 2015								
	Fair value as at December 31, 2014	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2015	Unrealized profits (losses) in respect of instruments held as at December 31, 2015
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	31	14	-	(18)	-	-	27	10
Interest rate contract: other	20	5	-	(15)	-	-	10	5
Commodity and other contracts	-	14	-	(14)	-	-	-	-
Foreign currency contracts	407	2,174	114	(2,454)	-	-	241	66
Total assets	458	2,207	114	(2,501)	-	-	278	81
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	18	(6)	-	(16)	-	-	8	(3)
Foreign currency contracts	79	(13)	-	(32)	-	-	60	(14)
Total liabilities	97	(19)	-	(48)	-	-	68	(17)

For the year ended 31, December 2014								
	Fair value as at December 31, 2013	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2014	Unrealized profits (losses) in respect of instruments held as at December 31, 2014
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	8	15	-	8	-	-	31	25
Interest rate contract: other	13	14	-	(7)	-	-	20	13
Commodity and other contracts	2	6	-	(8)	-	-	-	-
Foreign currency contracts	218	1,947	66	(1,824)	-	-	407	281
Total assets	241	1,982	66	(1,831)	-	-	458	319
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	5	(17)	-	(4)	-	-	18	(12)
Foreign currency contracts	196	52	-	(65)	-	-	79	41
Total liabilities	201	35	-	(69)	-	-	97	29

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

**NOTE 32D -QUANTITATIVE INFORMATION ON ITEMS MEASURED
AT FAIR VALUE INCLUDED IN LEVEL 3**

as of December 31, 2015				
	Value Assessment technique	Unobservable inputs	Fair value (NIS million)	Range in %
A. Items measured at fair value on a recurrent basis				
Assets				
Assets in respect of derivative instruments:				
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	27	0.10-0.59
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	10	1.05-7.44
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	56	(1.12)-4.21
		2. Counter-party credit risk	185	1.05-7.44
Liabilities				
Liabilities in respect of derivative instruments:				
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	8	0.10-0.59
Foreign currency contracts	Discounted cash flow	CPI-linked interest	60	(1.12)-4.21
B. Items measured at fair value on a non-recurrent basis				
Impaired credit the collection of which is contingent on collateral	Collaterals value		46	

as of December 31, 2014				
	Value Assessment technique	Unobservable inputs	Fair value (NIS million)	Range in %
A. Items measured at fair value on a recurrent basis				
Assets				
Assets in respect of derivative instruments:				
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	31	(2.38)-4.43
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	20	1.25-5.75
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	65	(2.38)-4.43
		2. Counter-party credit risk	342	1.25-5.75
Liabilities				
Liabilities in respect of derivative instruments:				
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	18	(2.38)-4.43
Foreign currency contracts	Discounted cash flow	CPI-linked interest	79	(2.38)-4.43
B. Items measured at fair value on a non-recurrent basis				
Impaired credit the collection of which is contingent on collateral	Collaterals value		109	

NOTE 33 - RELATED AND INTERESTED PARTIES

(NIS million)

A. Balances

	December 31, 2015			
	Interest parties ⁽¹⁾			
	Shareholders			
	Controlling shareholders ⁽²⁾		Others ⁽³⁾	
	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾
Cash and deposits with banks	-	-	-	64
Securities ⁽⁹⁾	-	-	-	-
Credit to the public	-	-	-	-
Equity basis investees ⁽⁹⁾	-	-	-	-
Other assets	-	-	16	19
Deposits from Banks	-	-	1	10
Deposits from the public	2	3	-	1
Other liabilities	-	-	3	6
Shares (included in shareholders' equity) ⁽¹⁰⁾	3,419	3,419	656	656
Credit risk in off- balance sheet financial instrument ⁽⁹⁾⁽¹¹⁾	-	-	23	23

	December 31, 2014			
	Interest parties			
	Shareholders			
	Controlling shareholders		Others ⁽¹²⁾	
	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾
Cash and deposits with banks	-	-	75	129
Securities	-	-	-	-
Credit to the public	-	-	-	-
Equity basis investees	-	-	-	-
Other assets	-	-	18	20
Deposits from Banks	-	-	27	34
Deposits from the public	-	-	-	-
Bonds and capital notes	-	-	1	1
Other liabilities	-	-	-	1
Shares (included in shareholders' equity) ⁽¹⁰⁾	3,367	3,424	1,135	1,796
Credit risk in off- balance sheet financial instrument ⁽¹¹⁾	-	-	9	13

1. The disclosure format in the Note was updated in 2015 in accordance with the circular letter regarding "Disclosure of interested parties and related parties", see Note 1.C.5.

The comparative data has not been restated.

2. Note: For notes to the table see page 339.

	Interest parties ⁽¹⁾						Related parties held by the Bank ⁽¹⁾			
	Office-holders ⁽⁴⁾		Others ⁽⁶⁾		Whoever was an interested party at the time of the transaction		Equity basis investees ⁽⁷⁾		others ⁽⁸⁾	
	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	1	3	-	-
	9	10	4	5	40	88	200	600	49	72
	-	-	-	-	-	-	438	438	-	-
	-	-	4	4	-	-	-	1	-	-
	-	-	-	-	-	-	-	-	-	-
	13	27	30	103	-	-	2	3	1	3
	30	30	-	-	-	-	2	2	-	-
	-	-	-	-	-	-	-	-	-	-
	3	6	9	15	-	-	6	11	-	-

	Interest parties						Related parties held by the Bank			
	Key management personnel ⁽¹³⁾		Others ⁽¹⁴⁾		Whoever was an interested party at the time of the transaction		Equity basis investees		others ⁽¹⁵⁾	
	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾	Balance at balance sheet date	Highest balance during the year ⁽⁵⁾
	-	-	1	2	-	-	-	-	-	-
	-	-	-	-	-	-	3	4	-	-
	8	16	65	107	43	43	350	643	-	-
	-	-	-	-	-	-	396	396	-	-
	-	-	3	3	-	-	-	-	-	-
	-	-	1	54	-	-	-	-	-	-
	14	23	19	146	-	-	2	3	-	-
	-	-	-	-	-	-	-	-	-	-
	33	33	-	1	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	3	3	17	40	-	-	6	7	-	-

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

(NIS million)

B. Condensed results of transactions with related and interested parties

	Interest parties ⁽¹⁾		
	Shareholders		
	Controlling shareholders ⁽²⁾	Others ⁽³⁾	Office-holders ⁽⁴⁾
	For the year ended Decmeber 31, 2015		
Statement of income items			
Net interest income*	-	-	-
Non-interest income	-	-	-
Operating and other expenses**	-	-	33
Total	-	-	(33)

	Interest parties					
	Shareholders					
	Controlling shareholders		Others ⁽¹²⁾		Key management personnel ⁽¹³⁾	
	For the year ended Decmeber 31,		For the year ended Decmeber 31,		For the year ended Decmeber 31,	
	2014	2013	2014	2013	2014	2013
Statement of income items						
Net interest income*	-	-	3	5	-	-
Non-interest income	-	-	1	2	-	-
Operating and other expenses**	-	-	-	-	36	41
Total	-	-	4	7	(36)	(41)

* Details are provided in D below.

** Details are provided in C below.

1. The disclosure format in the Note was updated in 2015 in accordance with the circular letter regarding "Disclosure of interested parties and related parties", see Note 1.C.5.
The comparative data has not been restated.
2. Note: For notes to the table see page 339.

	Interest parties	Related parties held by the Bank ⁽¹⁾	
	Others ⁽⁶⁾	Equity basis investees ⁽⁷⁾	Others ⁽⁸⁾
	-	3	-
	-	-	-
	11	2	-
	(11)	1	-

	Interest parties		Related parties held by the Bank			
	Others ⁽¹⁴⁾		Equity basis investees		Others ⁽¹⁵⁾	
	For the year ended Decmeber 31,		For the year ended Decmeber 31,		For the year ended Decmeber 31,	
	2014	2013	2014	2013	2014	2013
	-	3	3	3	-	-
	-	-	7	6	-	-
	12	12	-	-	-	-
	(12)	(9)	10	9	-	-

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

(NIS million)

C. Benefits to interested parties (by the Bank and its invetees)

	Salaries to interested parties (by the Bank and its investees)*	
	For the year ended Decmeber 31, 2015	
	Office-holders ⁽⁴⁾	
	Total benefits	Number of Recipients
An interested party employed by the Bank	**28	17
Directors not employed by the Bank	5	13

	Salaries to interested parties (by the Bank and its investees)*			
	For the year ended Decmeber 31, 2014		For the year ended Decmeber 31, 2013	
	Key management personnel ⁽¹³⁾		Key management personnel ⁽¹³⁾	
	Total benefits	Number of Recipients	Total benefits	Number of Recipients
An interested party employed by the Bank	**31	18	35	17
Directors not employed by the Bank	5	11	6	12

* Not including VAT on salary.

** Of which: employee benefits for short term- NIS 26 million (2014 - NIS 28 million), other benefits after termination of employment - NIS 2 million (2014 - NIS 3 million).

D. Net interest income in respect of transactions with interested and related parties*

	For the year ended Decmeber 31, 2015	
	Consolidated	of which: investee companies
In respect of assets		
From credit to the public	3	3
Total net interest income	3	3

	Consolidated		of which: investee companies	
	For the year ended Decmeber 31,		For the year ended Decmeber 31,	
	2014	2013	2014	2013
In respect of assets				
From credit to the public	2	5	2	2
From deposits with banks	3	5	-	-
From bonds	1	1	1	1
Total net interest income	6	11	3	3

* For information regarding the terms of transactions and outstanding balances with related and interested parties, see Note 33E, below.

- The disclosure format in the Note was updated in 2015 in accordance with the circular letter regarding "Disclosure of interested parties and related parties", see Note 1.C.5.
The comparative data has not been restated.
- Note: For notes to the table see page 339.

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

(NIS million)

The disclosure format in the Note has been updated in accordance with the circular letter in the matter of disclosure regarding interested parties and related parties dated June 10, 2015. See also Note 1.C.5.

Notes:

- (1) Interested party, related party, related person - within the definition in Section 80(d) of the public reporting instructions.
- (2) Controlling shareholders and their kin - in accordance with Section 80(d)(1) of the public reporting instructions.
- (3) Other shareholders - including whoever holds 5% or more of the means of control of a banking corporation, and whoever is entitled to appoint one or more directors to the board of directors of a banking corporation or its general manager - in accordance with Section 80(d)(2) of the public reporting instructions.
- (4) Officers - in accordance with Section 80(d)(3) of the public reporting instructions.
- (5) On the basis of the outstanding balance at month-end.
- (6) Of which: total assets at balance sheet date in the amount of NIS 2 million and total liabilities at balance sheet date of NIS 20 million, in respect of corporations in which, a person or a corporation, included in one of the groups of interested parties according to the Securities Act, holds twenty-five percent or over of their issued share capital or of the voting therein, or is entitled to appoint twenty-five percent or over of their number of directors.
- (7) Equity based investees or investees under joint control - in accordance with Section 80(d)(7) of the public reporting instructions.
- (8) In accordance with Section 80(d)(8) of the public reporting instructions.
- (9) Details of these items are included also in the following Notes: Note 12 - Securities, Note 15 - Investee companies and Note 26 - Guaranties.
- (10) Holdings by interested and related parties in the equity of a banking corporation.
- (11) Credit risk inherent in off-balance sheet financial instruments, as computed for the purpose of limitations applying to a single borrower.
- (12) Including whoever is entitled to appoint one or more directors of the banking corporation or its chief executive officer.
- (13) Including their relatives as defined in IAS 24.
- (14) Corporations, which a person or corporation included in one of the groups of interested parties, controls them, holds them jointly, has a significant influence or holds 25% or more of their issued share equity or their voting rights or is entitled to appoint 25% or more of the directors.
- (15) Parties which are related parties according to IAS 24 and not included in other columns and party which the activity of the Bank and its subsidiaries are dependent in a significant volume in its activities.

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

E. Aquisition of control of the Bank

On September 19, 2003, the control of FIBI Holding Ltd. (hereinafter - "FIBI"), the parent company of the Bank holding 48.3% of the equity and 67.2% of the voting in the Bank, was transfered by way of the transfer by Palimon BV (hereinafter - "Palimon"), the owner of 51.89% in the equity and 70.59% of the voting in FIBI, of the said holdings to Binohon Ltd. and the Australian Lieberman Group, divided between them as to 55% to Binohon owned by Mr. Tzadik Bino, and 45% to the Lieberman Group (composed of the Michael and Helen Abeles family and the Lieberman family (Messrs Barry Liebrman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman), by way of Instanz Holdings Ltd. and Dolphin Energies Ltd. in equal parts). The purchasers have between them a voting and cooperation agreement. The sale was effected by an off-market transaction.

The transfer of control was in accordance of a permit issued by the Governor of Bank of Israel on August 27, 2003 to purchase the control and the means to control in FIBI Holdings Ltd. and The First International Bank of Israel Ltd. granted according to the Banking Law (licensing) 1981.

The permit states different condition and liabilities as to the holding of the means of control, their transfer and the relations between the permit holders, FIBI and the Bank.

The permit states that no dividend shall be distributed out of earnings retained by the Bank as of March 31, 2003, and in the event that the Bank would sustain losses subsequent to that date - no dividend shall be distributed until such losses are recovered. The balance of distributable retained earnings as of March 31, 2003 amounted to NIS 2,391 million.

The permit further determines that the appointment of the Chairman of the Bank and of its President and CEO will be subject to approval of the Supervisor of Banks.

It was also provided that the holders of the permit, including their relations and companies under their control, are not to receive any management fee or any other consideration or benefit from the Bank or from companies controlled by the Bank, however, they are entitled to render services which are provided in the usual manner by persons rendering such services and at market prices, after the Supervisor of Banks had been informed of the matter and given his approval, under terms specified in the permit. This provision does not apply to Directors' remuneration that is paid equally to all Directors.

Mr. Zadik Bino is the owner of 52.5% of the controlling interest in Binohon and his children (Messrs Gil Bino, Hadar Bino Shmueli and Daphna Bino Or) hold the remaining controlling interest in Binohon in equal parts, in accordance with the amended permit. Mr. Zadik Bino held all the voting rights and all the rights to appoint dorectors by power of attorny granted to him in the amended permit. Om April 2, 2015, FIBI reported that Binohon notified FIBI, that Mr. Zadik Bino transferred on that date (April 2, 2015) to the Bino children, shares of Binohon, without consideration, that after the transfer the holding rate of each of the Bino children in Binohon increased from 16% (holding that was transferred from Zadik Bino to the Bino children on February 28, 2008) to 25% and the holding rate of Mr. Zadik Bino decreased to 25%. In addition, it was notified that the power of attorny given to Mr. Zadik Bino by his children to vote in the general shareholders meetings of Binohon were revoked.

On March 24, 2013, Instanz Holdings transferred to Instanz Number 2 Ltd. (hereinafter - "Instanz 2"), in an off-market transaction, 4,139,233 shares in FIBI, comprising 15.77% of the issued and paid share capital of FIBI, being all the holdings of Instanz Holdings in FIBI. Instanz 2 is a company incorporated in Israel being fully owned by Sing Acquisitions Pte. Ltd. (hereinafter - "Sing"), a company incorporated in Singapore, which is wholly owned (through Australian entities) by Messrs. Helen and Michael Abeles, who also fully control Instanz Holdings (through the same Australian entities). The shares are held in trust for Instanz 2 by Guy Trust and Management Co. Ltd. Upon the transfer of the shares, Instanz 2 joined as a party to the shareholder agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz Holdings continues as a party to the shareholder agreement and is a guarantor for the obligations of Instanz 2. In addition the permit was amended that the control of the permit holders mentioned above in FIBI will be by Sing and Instanz 2 instead of Instanz Pty Ltd. and Instanz Holdings.

According to the reporting of FIBI, as of the date of the financial statements, the holdings of the controlling shareholders in FIBI (in the equity and voting rights) is as follows: Binohon Ltd.- 38.29%, Instanz number 2 Ltd.- 15.66% and Dolphin Energies Ltd.- 15.66%.

F. Agreement between FIBI Holdings Ltd. and Israel Discount Bank Ltd.

To the best knowledge of the Bank, a Letter of Consent dated July 31, 1983, had existed between FIBI and Discount (hereinafter - "the original arrangement"). In addition, on March 28, 2010, an agreement was signed between FIBI and Discount regarding the interest of Discount in the Bank (hereinafter in this Section - "the additional agreement"). The additional agreement entered into effect on September 6, 2010, after all the conditions precedent under the law, stated therein, had been fulfilled, including the distribution of dividend by the Bank and obtaining the relevant regulatory approvals. Also completed was the consolidation of the share capital of the Bank.

The principal terms relating to the holdings of Discount in the Bank, in accordance with the original arrangement, the additional agreement and proceedings in accordance therewith, relevant as of date of the report of the financial statements for 2014 are detailed in note 19.F. to the said financial statements.

On February 19, 2015 Discount reported that it sold in off market transaction 7,054,625 shares of the Bank in a price of NIS 49.51 per share (part of the transactions were cleared on February 22, 2015). According to Discount report it was obligated, within the transaction, not to sell additional share of the Bank, in the following 30 days after the transaction in a price lower than the price in the transaction.

In addition, on February 2, 2016 Discount announced that a day before it made a transaction for the sale of all the remaining shares of the Bank in its possession (9.28% of the issued equity and voting rights in the Bank). According to the announcement, the sale was carried off market in a price of NIS 44.70 per share.

After the sale of all of Discount holdings in the Bank, all the arrangement between FIBI and Discount are no longer relevant.

G. Dividend distribution policy

On August 30, 2010, the Bank Board of Directors adopted a dividend distribution policy, and on June 9, 2015 it was amended. According to the amended distribution policy the Bank would distribute annual dividends up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements shall be no less than the target specified, or to be specified, by the Bank Board of Directors from time to time. Past retained

earnings shall be distributed by specific resolution. Such distributions shall be made subject to statutory provisions and to proper conduct of banking business, provided that no adverse changes occur to Bank earnings and/or business condition and/or financial condition and/or overall state of the economy and/or to the statutory environment.

Nothing in this resolution shall detract from the Board of Directors' authority to review the policy from time to time and to resolve, at any time, after taking into account business considerations and to statutory provisions applicable to the Bank, to change the policy or to change the dividend amount to be distributed for any specific period, or to resolve not to distribute any dividend at all.

It is hereby clarified that any dividend distribution (including pursuant to the aforementioned resolutions) shall be subject to specific approval by the Board of Directors and to all restrictions applicable to the Bank with regard to dividend distribution, and shall be made public with all required details in accordance with statutory provisions.

Note that dividend distribution by the Bank is subject, in addition to provision of the Companies Act, to the following additional restrictions:

- Proper Conduct of Banking Business Regulation No. 331, whereby a banking corporation may not distribute dividends upon any of the following cases (without prior consent of the Supervisor of Banks): (1) if the cumulative retained earnings, net of differences in debit included in other cumulative comprehensive profit, as per the financial statements, is not positive, or such distribution would cause it to not be positive; (2) if one or more of the three most recent calendar years ended with a loss or with a comprehensive loss; (3) if a loss or a comprehensive loss is indicated by the cumulative results of the three quarters ending at the end of the interim period for which the most recent financial statements were published; (4) if the Bank's financial statements show non-monetary assets in excess of shareholders' equity, or should such distribution result in such condition. In any case, the distribution is contingent on compilation of a written forecast for the year following the dividend distribution, provided that such forecast would show that the banking corporation's ratio of capital to risk assets shall not be lower than the required minimum, thereof.
- On May 30, 2013, the Supervisor of Banks published an overall guideline including the manner of calculation of minimum capital ratio requirements. It was set that the ratio of tier 1 capital to risk assets will be 9% and the overall ratio of capital to risk assets will be 12.5% until January 1, 2015. Banking corporation which its balance assets on consolidated basis exceeds 20% of total assets in the banking system, a ratio was set of 10% and 13.5% for tier 1 capital and overall capital, respectively. The starting date is January 1, 2017. This additional requirement does not apply to the Bank. "Restrictions on extending housing loans"- as a result of the application of the amendment to proper conduct of banking business regulation no. 329 the target of capital tier 1 and overall target of capital in an amount of 1% of the balance of housing loans. The increase of the target will be in fixed instalment from January 1, 2015 until January 1, 2017.

In accordance to the supervisor directives from June 2010, in the interim period' until the adjustment of the supervisor directives to changes published by the Basel committee regarding the "strengthening of the banking sector", a banking corporation has to adopt target of core capital, as defined in the directives no less than 7.5%.

- In accordance with a letter of the Supervisor of Banks dated February 2, 2015, it is required to inform the Supervisor in advance as to the intention to distribute a dividend in the amount exceeding 33% of the annual profit..
- The permit by the Governor of the Bank of Israel given in 2003 to the controlling shareholders of the Bank, which stipulated that no dividends may be distributed out of earnings accrued by the Bank through March 31, 2003 (which amounted to NIS 2,391 million), and that if any loss would be accrued after said date, no dividends may be distributed until such loss is recouped.
- Terms and conditions of subordinated capital notes issued by the Bank to institutional investors on May 25, 2009 with respect to a deposit amounting to NIS 235 million, which those institutional investors deposited with the Bank. In accordance with the Bank of Israel permit, the aforementioned capital note is considered upper Tier 2 capital of the Bank. Determined in the capital notes were mechanisms for the absorption of losses on a current basis in accordance with the directives of the Supervisor of Banks. Under this mechanism, interest will not be paid if at the relevant date for its payment, suspending circumstances, as defined in the capital notes, exist. It was determined in this respect that the Bank will not pay a dividend for as long as the interest payments, which had been suspended as stated, if at all, have not been paid in full. As regards dividend distribution in the years 2013- 2014 and 2015 see Note 24A.

- H. (1) The employment agreement of the CEO was for a period of five years, starting on March 19, 2007, with a provision that at the end of the initial period of the agreement, the agreement will continue for an unspecified period, and each party will be entitled to bring about its termination by means of a written notice of three months in advance.

The salary of the CEO is linked to the CPI. In the case of a decline in the CPI, The salary will remain unchanged until a following rise in the CPI eliminates the decline. The CEO is entitled to social benefits, executive insurance or to a provident fund, to a further education fund (including the grossing-up for tax purposes of the contribution to the further education fund in excess of the tax allowed maximum amount), to recreation pay and to the reimbursement of reasonable expenses paid in the line of her duties, and to annual vacation and sick leave in accordance with the agreement. The CEO is entitled to a company car with the grossing-up of the tax in this respect. The provisions for social benefits shall be computed on the basis of the salary with the addition of the grossed-up tax in respect of the car, as stated. A non-competition period of three months with full pay shall apply upon termination of the employment, though the Board of Directors of the Bank is entitled to waive the "cooling-off" period, in whole or in part, with no payment for the waived period.

The entitlement of the CEO to an annual award in respect of the year 2014 and thereafter is in accordance with the updated award scheme that was approved in May 2014, (and which in essence modified the award scheme approved in 2012 to the senior Officers' compensation policy, as approved by the meeting of shareholders of the Bank).

Upon termination of office of the CEO for whatever reason (except for determined circumstances mostly involving cases where severance pay may be denied), the CEO would be entitled to 200% of the amount of severance pay in accordance with the Severance Pay Act, 1963, and Regulations under it, based on the monthly salary in effect on date of termination of employment relations. The amount

deposited with the personal severance pay fund of the CEO during the period of her employment will be included in the aforementioned amount.

- (2) The engagement agreement with the chairman of the board was for a specified period of two years (which terminated in May 2014), following which, the agreement continues for an unspecified period, and each party is entitled to bring about its termination at any time and for whatever reason, by means of a notice of three months in advance.

According to his engagement agreement, Mr. Hezkiyahu will act in a fulltime (100%) position as chairman of the board of the Bank. The Chairman's salary is linked to the CPI. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. The Chairman is entitled to social benefits, executive insurance or to a provident fund, to a further education fund (including the grossing-up for tax purposes of the contribution to the further education fund in excess of the tax allowed maximum amount), to recreation pay and to the reimbursement of reasonable expenses paid in the line of his duties, and to annual vacation and sick leave in accordance with the agreement. The Chairman is entitled to a company car, as is the practice with chairpersons of banks, with the grossing-up of the tax in this respect. The provisions for social benefits shall be computed on the basis of the salary with the addition of the grossed-up tax in respect of the car, as stated.

The agreement defines a non-competition period of three months with full pay (with no related benefits except for the car), though the Board of Directors of the Bank is entitled to waive the "cooling-off" period, in whole or in part, with no payment for the waived period. Upon the termination of office at the Bank for whatever reason except in the case of self termination during the specified period, the Chairman would be entitled to 200% of the amount of severance pay in accordance with the Severance Pay Act, 1963, and Regulations under it, based on the monthly salary in effect on date of termination of employment relations.

The entitlement of the Chairman to an annual award in respect of the year 2014 and thereafter, is in accordance with the updated award scheme as approved in May 2014 (and which in essence modified the award scheme approved in 2012 to the senior Officers' compensation policy, as approved by the meeting of shareholders of the Bank).

NOTE 34 - DATA IN NOMINAL TERMS (THE BANK)

(NIS million)

A. Condensed Balance Sheet Data

	December 31	
	2015	2014
Total assets	99,697	(1)83,853
Total liabilities	92,452	(1)77,097
Temporary equity	326	-
Capital attributed to the shareholders of the Bank	6,919	(1)6,756

B. Net Profit

	For the year ended December 31		
	2015	2014	2013
Net profit attributed to the shareholders of the Bank	456	(1)467	(1)551

(1) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

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BOARD OF DIRECTORS

Mr. Rony Hizkiaho, Chairman

Mr. Zadik Bino

Mr. David Assia

Mrs. Pnina Bitterman-Cohen

Mr. Gil Bino

Mr. Zeev Ben Asher

Mr. Dov Goldfriend (since 16.7.2015)

Mr. Joseph Horowitz

Mrs. Dalia Lev

Mr. Jacob Sitt

Mr. Ilan (Eilon) Aish (since 10.6.2015)

Mr. Menachem Inbar (since 10.6.2015)

Mr. Daniel Furman

Mr. Amnon Goldschmidt (until 12.4.2015)

DETAILS OF THE CORPORATION'S DIRECTORS IN ACCORDANCE WITH THE BANK OF ISRAEL'S DIRECTIVES FOR REPORTING TO THE PUBLIC (630) CONCERNING THE BOARD OF DIRECTORS' REPORT

Mr. RONY HIZKIAHO, Chairman

Chairman of the Board of Directors of the Bank Since 16.5.2012.

Chairman of the friends society of: YELADIM - Fair Chance for Children

Chairman of the friends society of the Hebrew language academic supporters; member of the managing board of Midot - Analyzing and Rating NPOs; member of the board of trustees at Beit Berl college.

Served as the Supervisor of Banks in the Bank of Israel and Director of the company: FIBI Bank (U.K.) PLC.

Mr. ZADIK BINO

Director of the Bank since 21.9.2003

Chairman of the Board of Directors: Paz Oil Company Ltd. *

Director of Companies: Bino Holdings Ltd.; Binohon Ltd.; Barbino Ltd.; Bigro Commodities Limited; G.H.D. Investments (2006) Ltd.; Neroteck Ltd (until its voluntary liquidation on 19.1.2016); DADA Management Ltd

Served as Chairman of the Board of Directors: F.I.B.I. Holding Ltd.; F.I.B.I. Investment House Ltd; F.I.B.I. Investment House A (1998) Ltd.

Served as a Director of Companies: Binofree Ltd; Nero Investment Company Ltd; Skylight-Advanced Simulation (Investments 1996) Ltd.; Paz Ashdod Refinery Ltd.

Mr. DAVID ASSIA

External Director (according to proper Banking Management Directives) of the bank since 24.12.2012.

Chairman of the Board of Directors: Biocatch Ltd; iAngels Crowd Ltd.

Director of Companies: ETORO Israel Ltd.; RRSAT Global Communications Networks Ltd.; MOB-ART Consulting Ltd.; Yeda Research and Development Co. Ltd.; N.D.Y.R. Investments Ltd.; Nadir Holdings Millenium Ltd.; S.M. Telecom Ltd.; Enformia Software Ltd.; The Fund for Advancement of Education in Israel Founded by Iraqi Jews Fund in Israel Ltd.; Mashov Investments and Technologies (1993) Ltd. (Inactive); Kismet Investments Ltd; DB Maestro Ltd; IMPACT; Israeli Friends of the Weitzman Institute of Science; Israel Association of Electronics & Software.

Mrs. PNINA BITTERMAN-COHEN

External Director (according to companies law) of the Bank since 3.6.2009.

Served as vice president and legal counsel in Polar Investment Ltd. and as director in Subsidiaries of Polar Group.

Director of companies: Al Daf Engineering Ltd.; Poligir Capital Ltd..

Mr. GIL BINO

Director of the Bank since 21.9.2003

Chairman of the Board of Directors: F.I.B.I. Holding Ltd.

CEO of: Bino Holdings Ltd.; Barbino Ltd.; G.H.D. Investments (2006) Ltd.

Director of Companies: Paz Oil Company Ltd.*; Alden Hotel AG.

Served as Chairman of the Board of: ; F.I.B.I. Investment House Ltd

Served as a Director of Companies: Paz Industries and Services (Oil) Ltd.; Paz Ashdod Refinery Ltd; F.I.B.I. Investment House A (1998) Ltd.

* The term of office in this corporation is limited in accordance with the transitional provisions of the Law for the Promotion of Competition and the Reduction of Concentration, 2013.

DETAILS OF THE CORPORATION'S DIRECTORS IN ACCORDANCE WITH THE BANK OF ISRAEL'S DIRECTIVES FOR REPORTING TO THE PUBLIC (630) CONCERNING THE BOARD OF DIRECTORS' REPORT (CONT'D)

Mr. ZEEV BEN ASHER

External Director (according to companies law) of the Bank since 23.12.2010.

Director of Company: Sokolovsky Lor Ltd.

Coaches Executives.

Served as Director of: Excellence Investments Ltd; Clal Industries Ltd (until 10.12.2015).

Mr. DOV GOLDFRIEND

External Director (according to Proper Banking Management Directives) of the bank since 16.7.2015.

CEO of A.T.R.N Management & Consulting Ltd.

Served as an external director of the companies: Leumi Card Ltd; Scorpio Real Estate Ltd.

Served as CEO of Poaley Agudat Isarel Bank Ltd.

Served as Vice President, member of the management and as Head of Chief Accountant Division and as a director of subsidiaries of The First International Bank of Isreal Ltd.

Mr. JOSEPH HOROWITZ

External Director (according to companies law) of the Bank since 15.11.2011.

Director of the company: Yosef Horowitz Advising Ltd; and Yad Vashem The Holocaust Martyrs' and Heroes' Remembrance Authority.

Served as Chief Internal Auditor of Bank Leumi Group and other sinior rolls in Bank Leumi.

Mrs. DALIA LEV

Director of the Bank since 24.12.2012

Director of Companies: Strauss Group Ltd; Paz Oil Company Ltd;* Belgal Ltd.

Member of the board of trustees of Tel-Aviv University and Beer-Sheva University.

Served as Chairman of the Board of Directors: Mei Avivim Ltd.

Served of a Director of Companies: Israel Airports Authority; The First International Bank of Israel Ltd.; Paz Ashdod Refinery Ltd.

Mr. JACOB SITT

Director of the bank since 30.8.2010.

CEO of F.I.B.I. Holding Ltd.

Director of Companies: SITT Assets Management Ltd; Panmar Ltd.

Served as Director and CEO of F.I.B.I. Investment House Ltd., as Joint Managing Director of Leumi & Co. Underwriters Ltd. and as Investments Manager and business development Vice President of Barbino Ltd.

Mr. ILAN (EILON) AISH

External Director (according to Proper Banking Management Directives) since 10.6.2015.

Director and CEO of Harvest Capital Markets Ltd.

Served as an external Director of Israel Discount Bank Ltd.

* The term of office in this corporation is limited in accordance with the transitional provisions of the Law for the Promotion of Competition and the Reduction of Concentration, 2013.

Mr. MENACHEM INBAR

External Director (according to Proper Banking Management Directives) since 10.6.2015.

Director of the companies: Shifman Inbar Ltd; Shifman Inbar Advisers Ltd.

Served as a director of the companies: "Bezeq" - The Israel Telecommunication Corporation Ltd; Poalei Agudat Israel Bank Ltd; Alrov (Israel) Ltd; Carmel Group Ltd.

Mr. DANIEL FURMAN

External Director (according to Proper Banking Management Directives) since 30.10.2014.

Chairman of the Board of Directors: L.F. Soldering Materials Development Ltd.

Director of companies: Orad Hi-Tech Systems Ltd; Arba V. C. Management Co. Ltd; Cohanzick Absolute Return Master Fund Ltd; Cohanzick Absolute Return Fund Ltd.

Director and General Manager of ARBA Finance Company Ltd.

Joint Managing Director of Societe Palais De La Promenade SARL.

Member of the Management Committee and Chairman of the Endowment Funds Committee of The Hebrew University of Jerusalem.

Mr. AMNON GOLDSCHMIDT (until 12.4.2015)

External Director (according to Proper Banking Management Directives) of the bank since 11.4.2006.

Chairman of the Board of Directors: A.Goldschmidt Investments Ltd.

Director of Companies: First Israel Mezzanine Investors Ltd.; Israel Mezzanine Fund (In Israel) L.P; Fimi Opportunity 2005 Ltd; Fimi 2001 Ltd; FIMI Opportunity IV LP; FIMI Opportunity IV (in Israel) LP; FIMI IV 2007 Ltd; Fimi Opportunity Fund II L.P; Fimi Israel Opportunity Fund II L.P; Fimi Opportunity Fund L.P; Fimi Israel Opportunity Fund L.P.

Serves as consultant to the general comptroller at the finance ministry.

Served as Chairman of the Board of Directors of Memador Ltd.

Served as the chairman of the investment committee at Harel Finance Management and Investments Ltd. And as consultant at the airport authority.

Served as Head of the Finance Division at Bank Discount.

Engages in Finances.

For further details on the members of the Board of Directors of the Bank, see Article 26 "Board of Directors of the Bank" in the Bank's periodic report for 2015, which is published on the Securities Authority's magna site.

REPORTING ON DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE

Pursuant to the Companies Law, 1999, at least one of the external directors must have accounting and financial expertise, and the others should be professionally competent or have accounting and financial expertise (as these terms are defined in the law). In addition, under Bank of Israel directives, at least five of all the members of the Board of Directors and at least two members of the Audit Committee must have accounting and financial expertise.

In practice, of the thirteen directors currently serving on the Board of Directors, twelve directors (including two directors from the public) have accounting and financial expertise. On the Audit Committee, five out of the six directors on the committee have such expertise.

Set out below are details of the present members of the Bank's Board of Directors with accounting and financial expertise, with mention of their membership of the Audit Committee and a description of their professional background and/or education in accordance with which they are to be regarded as having accounting and financial expertise:

1. **Chairman of the Board of Directors, Mr. Rony Hizkiaho.** BSc. in Industrial Engineering and Management at Ben-Gurion University in Beer Sheva. Served as Supervisor of Banks at the Bank of Israel.
2. **Mr. Zadik Bino** served as Chairman of the Board of Directors and CEO of the First International Bank of Israel Ltd. and CEO of Bank Leumi Le-Israel B.M. Served as Chairman of the Board of Directors of FIBI Holdings Ltd., parent company of the First International Bank of Israel Ltd. Director of companies.
3. **Mr. Gil Bino.** Attorney-at-law, law and business administration graduate and EMBA, serves as Chairman of FIBI Holdings Ltd., the parent company of First International Bank Israel Ltd.; CEO of Bino Holdings Ltd. Director of companies.
4. **Mr. David Assia.** Economics and social science graduate and EMBA at Tel Aviv University. Serves as Chairman of: Biocatch Ltd; iAngels Crowd Ltd. Director at: Arar Sat Global Communications Network Ltd; Move-Art Consulting Ltd.; Yeda R&D Co. Ltd.; Nadir Investments Ltd.; Nadir Millennium Holdings Ltd.; S.M. Telecom Ltd.; Enformia Software Ltd.; Israel Education Funds under Iraq Descendants' Education Fund Ltd.; Mashov Investments and Technologies (1993) Ltd. (inactive); Kismet Investments Ltd; DB Maestro Ltd. Director at foundations: Impact, Israel Association of Electronics & Software; Weizmann Institute of Science Board of Governors.
5. **Mr. Zeev Ben-Asher,** (external director, member of the Audit Committee); EMBA graduate at Tel Aviv University; graduation certificate of Advanced Business Administration program at Harvard University. Served as a member of the Management at Bank Hapoalim and the First International Bank of Israel Ltd. Served as Director at Excellence Investments Ltd and Clal Industries Ltd. Coaches managers.
6. **Mr. Dov Goldfiend,** (member of the Audit Committee); CPA, BA in Economic and accounting and MA in Business Management at Tel Aviv University. Serves as CEO at A.T.R.N. management and consulting Ltd. Served as external director: Leumi Card Ltd., Scorpio Real Estate Ltd. Served as the CEO of Poaley Agudat Israel Bank Ltd, as Deputy CEO and Chief Accounting Officer and member of management at The First International Bank of Israel Ltd. And as Director of companies
7. **Mr. Joseph Horowitz** (director from the public and Chairman of the Audit Committee), attorney-at-law, LLB in law from the Hebrew University of Jerusalem (Tel Aviv branch); serves as director at Yad Vashem memorial authority for the holocaust; served as Chief Internal Auditor and member of the Board of

Management of Bank Leumi Le-Israel B.M. for 15 years, and previously served in senior functions at Bank Leumi.

8. **Mrs. Dalia Lev** (member of the Audit Committee). CPA, law degree from Bar-Ilan University, ISMP from Harvard University, qualified arbitrator, risk manager. Served as Chairman at Mei Avivim Ltd. and Director at: Airports Authority; First International Bank of Israel Ltd.; Paz Ashdod Oil Refinery Ltd. Serves as Director at: Strauss Group Ltd.; Paz Oil Co. Ltd.
9. **Mr. Jacob Sitt**, attorney-at-law, LLB Law degree, BA in economics from Tel Aviv University, MBA (Financing) from the Multi disciplinary Center, Herzliya. Serves as CEO of FIBI Holdings Ltd. and as directors of companies. Served as CEO and director at: FIBI Investment House Ltd.. Served as Co-CEO at Leumi & Co. Underwriters Ltd. and as Investment Manager and VP, Business Development, at Barbino Ltd..
10. **Mr. ILAN (EILON) AISH**, (member of the Audit Committee); CPA, BA in Economic and accounting from the University of Tel Aviv. Served as external director in Israel Discount Bank Ltd. Serves as director and joined CEO at Harvest Capital Markets Ltd.
11. **Mr. Menachem Inbar**, Social Sciences B.A. graduate and Law M.A. Graduate at Tel Aviv University. Served as a director of the companies: "Bezeq" - The Israel Telecommunication Corporation Ltd; Poaley Agudat Isarel Bank Ltd; Alrov (Israel) Ltd; Carmel Group Ltd.
12. **Mr. Daniel Furman**, Economics and statistics graduate at the Hebrew University of Jerusalem and MBA of Business Administration at INSEAD France. Chairman of L.F. Soldering Materials Development Ltd. Director of Orad Hi-Tech Systems Ltd; Arba V. C. Management Co. Ltd; Cohanzick Absolute Return Master Fund Ltd; Cohanzick Absolute Return Fund Ltd. Director and General Manager of ARBA Finance Company Ltd. Joint Managing Director of Societe Palais De La Promenade SARL. Member of the Management Committee and Chairman of the Endowment Funds Committee of The Hebrew University of Jarusalem.

During 2015, the Bank's Board of Directors held 30 meetings in plenary session and 52 meetings of its various Board Committees.

APPOINTMENTS AND RETIREMENTS

On April 11, 2015 ended the service of Dr. Amnon Goldshmidt in the Bank after nine years of service as external director according to the Bank of Israel directives. The Board of Directors thank him for his contribution to the work of the Board of Director and its committees.

On June 10 2015 the General Meeting approved the appointment of Mr. Ilan (Eilon) Ayash and Mr. Menachem Inbar as external directors in accordance with Proper Conduct of Banking Business Regulation No. 301, for a period of 3 years.

On July 16 2015 the General Meeting approved the appointment of Mr. Dov Goldfriend as external directors in accordance with Proper Conduct of Banking Business Regulation No. 301, for a period of 3 years.

On October 1, 2015 Mr. Aviel Sternshouss was appointed as vice CEO and member of management and on October 18, 2015 was appointed as head of the finance sub-division.

On October 17, 2015 the service of Mrs. Liat Ben-Ari as head of the finance sub-division was ended.

Mr. Yanon Shweika (who acted as General Manager of PAGI Bank until its merger with the Bank on December 31, 2015), was appointed on January 1, 2016, Vice President Member of Management and Head of the PAGI sub-division.

MEMBERS OF SENIOR MANAGEMENT AND THEIR FUNCTIONS

Mrs. Smadar Barber-Tsadik	Chief Executive Officer
Mr. Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division
Mr. Yossi Levy	Executive Vice President, Head of Resources Division
Mr. Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division
Mr. Nachman Nitzan, C.P.A.	Executive Vice President, Head of Chief Accountant Division
Mr. Benzi Adiri	Executive Vice President, Chief Risk Officer & Head of Risk Management Division
Mrs. Yael Ronen, C.P.A.	Executive Vice President, Chief Internal Auditor
Mrs. Ella Golan	Executive Vice President, Head of Banking Division
Mr. Aviel Strenschuss	Executive Vice President, Head of Financial Division (since 18.10.15)
Mr. Yinnon Shveka	Executive Vice President, Head of Pagi Division (since 1.1.16)
Mr. Aviad Biller, Adv.	Corporate Secretary
Somekh Chaikin, C.P.A.	The Bank's auditors

MEMBERS OF SENIOR MANAGEMENT AND THEIR FUNCTIONS

Mrs. SMADAR BARBER-TSADIK

Serves as CEO since 20.3.2007(*).

Serves as chairman of the board: Bank Otsar Hachayal Ltd; FIBI Bank (Switzerland) Ltd.

Serves as director of company: Shay Sh.Y.S Holdings (1999) Ltd.

Member of the Executive Committee and Acting President at The Association of the Banks in Israel.

Served as member of the managing committee of "Matan" (until 4.1.2016).

Served as chairman of the Board: FIBI Bank (U.K.) PLC.

Served as CEO at FIBI Holdings Ltd.; FIBI Investment House Ltd.; Sahar developments and Holdings Ltd.

Served as the Head of Business division of First International Bank of Israel Ltd.

Mr. ILAN BATZRI

Serves as Deputy CEO and Head of Corporate division since 20.3.2007(*).

Serves as Chairman of the Board of: Bank Massad Ltd.;

Serves as director at Fanka Ltd; FIBI Bank (Switzerland) Ltd.

Served as chairman of the board of FIBI Bank (U.K.) PLC.

Served as Head of Financial Management and Risk Management Division at First International Bank of Israel Ltd.

Mr. YOSSEI LEVY

Serves as Executive Vice President, Head of Resources Division since 1.12.2003(*).

Serves as Director of companies Bank Massad Ltd.; Fortrab Investment Company Ltd.

Served as Chairmen of the Board at First International Underwriting and Investment Ltd.

Served as Chairman of the Board and CEO at MATAF - Computerizing and Financial Operations Ltd.

Served as Director at the companies: Ubank Ltd (until 30.9.15); Poalei Agudat Israel Bank Ltd (until 31.12.15).

Served as Head of IT and Operation Division at First International Bank of Israel Ltd.

Mr. YORAM SARKIS

Serves as Executive Vice President, Head of Client Assets Management Division, member of management, since 20.3.2007(*).

Serves as chairman of the board: Ubank Trust Company Ltd.

Serves as director of companies: First International Issues Ltd; The Tel-Aviv Stock Exchange Ltd.

Served as chairman of the Board at the companies: Ubank Ltd (Until 30.9.15); First International Insurance Agency (2005) Ltd.

Served as a director at The First International Bank of Israel Nominees Company Ltd

Served as manager of securities department at First International Bank of Israel Ltd.

Mr. NACHMAN NITZAN

Serves as Executive Vice President, Head of Chief Accountant Division, member of management, since 1.9.2011(*).

Serves as chairman of the board at First International Insurance Ltd.

Director of companies: Bank Otsar Hachayal Ltd.; MATAF - Computerizing and Financial Operations Ltd.

Served as director at Israel Credit Cards Ltd.

Served as replacement and Deputy CEO, Head of the Financial Division and member of the executive committee at Jerusalem Bank Ltd.; CFO and Vice President at IDI insurance company (direct insurance); Chief Accountant and Vice President of Jerusalem Bank Ltd.

MEMBERS OF SENIOR MANAGEMENT AND THEIR FUNCTIONS (CONT'D)

Mr. BENZI ADIRI

Serves as Executive Vice President, Chief Risk Officer (CRO) and Head of Risk Management Division, since 23.2.2012(*).

Served as Manager of Corporate division, Vice President and member of the management of Jerusalem Bank Ltd.

Mrs. Yael RONEN

Serves as Chief Internal Auditor and Internal Auditor at the banking subsidiaries of First International Bank of Israel's group (excluding FIBI Bank (Switzerland) Ltd since 23.5.2011(*)).

Serves as director at the internal audit union (from 1.1.2015).

Served as chairman of the SOX committee at the Insurance companies union; member of the audit committee of Information Systems at the Institute of the Internal Auditors; Lecturer at the pre-exams CISA course of the Israeli Union for audit and security information and in the course of Information systems of the institute of Internal Auditors.

Served as manager of SOX department in Clal Insurance Ltd. group and as manager in the Information systems risk management at Somekh Chaikin CPA.

Mrs. ELLA GOLAN

Serves as Executive Vice President, Head of the Banking Division since 1.1.2014(*)).

Serves as director at Massad Bank.

Served as director at Ubank Ltd (until 30.9.15); The Stock exchange clearing house.

Served as Deputy Head of Client Assets Management Division and as Manager of the Countrywide Securities Department of The First International Bank of Israel Ltd.

Mr. AVIEL STERN SCHUSS

Serves as Executive Vice President, Head of Financial Division, member of management, since 18.10.2015(*)/(**).

Serves a director of the companies: Stocofin (Israel) Ltd; Israel Credit Cards Ltd; Ubank Trust Company Ltd; Ubank Investments and Holdings Ltd; Ubank Underwriting and Consulting Ltd; Ubank Finance (2005) Ltd.

Served as chairman of the board at First International Issues Ltd.

Served as CEO of Ubank Ltd (until 30.9.15).

Served as director of companies: FIBI Bank (Switzerland) Ltd.; Business Research Institute.

Acted as Manager of Insurance and Provident Fund Investment sector, Vice President of Menorah - Mivtachim Insurance Ltd.

Served as chairman of the Board at Menorah - Mivtachim Trust Funds Ltd.

Served as director of Menorah - Mivtachim Investment Portfolio Management Ltd.

Mr. YINNON SHVEKA

Serves as Executive Vice President, Head of Pagi Division, member of management since 1.1.2016(*)

Served as CEO of Poalei Agudat Israel Bank Ltd.

(*) The date of which the office holders get their present title.

(**) On 1.10.15 was appointed as Executive Vice President and member of the executive committee. On 18.10.2015 was appointed as Head of Financial Division as well.

For further details on the senior manager members, see Article 26A "Senior Office Holders at the Bank" in the Bank's periodic report for 2015, which is published on the Securities Authority's magna site.

DISCLOSURE REGARDING THE INTERNAL AUDITOR

Details of the Chief Internal Auditor

Mrs. Yael Ronen CPA has served as Chief Internal Auditor of the Bank since May 2011, and serves as Internal Auditor at all the banking subsidiaries in the First International Group with the exception of the overseas subsidiary FIBI Bank (Switzerland). At the non-banking subsidiaries, the Deputy Internal Auditor was appointed as the internal auditor.

The Chief Internal Auditor has a bachelors in economics and psychology and in the accounting track for graduates at the University of Tel Aviv. In her previous position, she managed the Sarbanes Oxley Department of Clal Insurance Ltd., and was manager of the Information Systems Risk Management Department at the KPMG Somekh Chaikin accountants office, with an emphasis on auditing and consulting in the area of banking.

The Chief Internal Auditor is an employee of the Bank and conforms to the conditions prescribed in Paragraph 3(a) of the Internal Auditing Law. The Internal Auditor and her employees serve in auditing functions alone, without any conflict of interests, and act in accordance with the Internal Auditor's Regulations as stated in Paragraph 146 (b) of the Companies Law, the provisions of Paragraph 8 of the Internal Auditing Law, 1992 and Proper Conduct of Banking Business Regulation 307.

Manner of appointment and organizational subordination

The appointment of the Internal Auditor was approved by the Audit Committee on March 15, 2011 and by the Board of Directors on March 22, 2011.

The Internal Auditor's superior in the organization is the Chairman of the Board of Directors.

The Internal Audit work program

The Internal Auditing Department operates on the basis of a 4-5 year multi-year work program and an annual work program derived from it, which covers all of the Bank's activities and the entities operating within it, including the subsidiaries in Israel. The work program is based on a systematic risk assessment methodology and takes into account inter alia the assessment of risks expressed in the ICAAP document and the Internal Audit's assessments concerning the risk centers in the Bank's activity, including focal points of operational, embezzlement and fraud risks, and the findings arising from previous audits which the Internal Audit and external entities had conducted. The work program includes the allocation of inputs and the frequency at which audits are to be conducted in accordance with the level of risk of the audited entity/activity.

The work program is submitted for discussion by the Audit Committee which recommends its approval to the Board of Directors, and which is then approved by the Board.

Under the work program, the Chief Internal Auditor is permitted at her discretion to deviate from the program and to conduct unplanned audits. Material changes from the approved work program are submitted for discussion by the Audit Committee.

Subsidiaries abroad

The Internal Auditor at FIBI Bank (Switzerland) is employed under an outsourcing arrangement and his work is reviewed and supervised by the Chief Internal Auditor. His work program is sent to the Chief Internal Auditor and is reported to the Bank's Audit Committee. His audit reports are sent to the Chief Internal Auditor on a permanent basis.

Positions

As stated, the Chief Internal Auditor is an employee of the Bank and is employed in a full-time position. The number of employees in the Internal Auditing Department of the Bank and its subsidiaries averaged 60 in 2015. The number of employee posts is derived from the multi-year work program and includes outsourcing.

Conduct of the audit

Audit work is carried out on the basis of legal requirements, including the Internal Audit Law, the Banking Order, the Banking Regulations, the directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Regulation 307 and the directives of other supervisory bodies.

Proper Conduct of Banking Business Regulation 307 governs the matter of the internal audit function at the banking corporation in accordance with the Basel working framework, with the aim of enhancing corporate governance principles. The regulation covers inter alia the positions involved in the function, the extent of its activity, its working methods and the reports which it is required to send.

The Internal Audit operates in accordance with accepted professional standards determined by the international Institute of Internal Auditors.

The Board of Directors and the Audit Committee, which examined the Internal Audit's work program and its actual implementation, expressed their satisfaction that the Bank's Internal Audit conforms to the said requirements.

Access to information

As required in Paragraph 9 of the Internal Auditing Law, the Internal Auditor is given full access to all the information which she requires, including constant and unimpeded access to the information systems of the Bank, including financial data. It should be noted that such full access is given when auditing the subsidiaries, with the exception of FIBI Bank (Switzerland).

Reporting by the Chief Internal Auditor

The Internal Audit reports, including periodic reports, are submitted in writing.

The Internal Audit reports are submitted to the members of Management in charge of the units/matters audited, and in accordance with criteria specified in the Board of Directors' procedures, to the CEO of the Bank and to the Chairman of the Board. Significant audit reports, as relevant, are discussed at meetings with the CEO of the Bank.

In consultation with the Chief Internal Auditor, the Chairman of the Audit Committee determines which audit reports will be presented in their entirety for discussion at the Audit Committee. In addition, a monthly report compiled by the Internal Audit, which contains executive summaries of all the audit reports that were circulated

in the past month, is submitted to the members of the Audit Committee, who are entitled to peruse any audit report which they see fit and ask the Chairman to present it in its entirety at the Audit Committee.

The Internal Audit's periodic reports include a monthly report, a half-yearly report and an annual report. The monthly report is submitted to the CEO and to the members of the Management of the Bank, to the Chairman and members of the Audit Committee, and to the Chairman of the Board of Directors. The Internal Audit's half-yearly report and annual report include reporting concerning the performance of the work program versus the plan, a list of all the audit reports that were circulated in the period reported, a report on the findings from the monitoring of remedial action with respect to deficiencies arising from the audit reports, a summary of the material findings emerging from the audit reports, and the annual report appraising the effectiveness of the Internal Control.

The Board of Directors are sent copies of the Audit Committee's minutes, in order to notify those Board members who are not members of the Audit Committee of the content of the Committee's discussions.

In cases of particularly serious findings, an immediate report is sent to the CEO, to the Chairman of the Audit Committee and to the Chairman of the Board of Directors. The Internal Audit's reports for 2014 were discussed by the Bank's Audit Committee on March 31, 2015 and on May 5, 2015. The Internal Audit's reports for the first half of 2015 were discussed by the Bank's Audit Committee on September 8, 2015. The Internal Audit's reports for 2015 will be discussed in April 2016.

Material transactions carried out during 2015 were examined by the internal audit including the way of their approval.

The Board of Directors' appraisal of the Chief Internal Auditor's activity

In the opinion of the Board of Directors and the Audit Committee, the scale, the nature and the continuity of the Internal Auditor's activity and work program are reasonable in the circumstances of the matter, and are adequate for the purpose of achieving the objectives of the internal audit function at the Bank.

Remuneration

Set out below are details of the payments to the Chief Internal Auditor and the components of these payments (in NIS thousand), in accordance with the details required in the table of the Bank's highest salary recipients:

	Year	
	2015	2014
Salary and bonuses	960	971
Severance pay, provident fund, advanced study fund, vacation, seniority bonus, national insurance and additional benefits	287	285
Value of benefits	68	75
Total salary and included expenses	1,315	1,331

The compensation of the Chief Internal Auditor is commensurate with her position. In the estimation of the Board of Directors, nothing in the compensation of the Chief Internal Auditor can be regarded as leading to bias in her professional discretion.

DISCLOSURE OF THE PROCESS OF APPROVAL OF THE FINANCIAL STATEMENTS

The office-holders engaged in the preparation of the financial statements of the Bank are the CEO of the Bank, Mrs. Smadar Barber Zadik, and the Chief Accountant, Nachman Nitzan CPA.

In accordance with the SOX 302 directives, a Disclosure Committee chaired by the CEO and with the participation of the Head of the Chief Accountant's Division, heads of divisions and department managers subordinate to the CEO and/or the Board of Directors, the Chief Disclosure Coordinator and the Bank's External Auditor meet every quarter. The Disclosure Committee discusses material matters that could have an effect on the data in the financial statements, and deficiencies that were discovered in the financial reporting control system, and monitors the rectification of those deficiencies.

Before the financial statements are presented to the plenum of the Board of Directors, initial discussions concerning them are held at the Bank's Management, at the Disclosure Committee and with the participation of the CEO, the Head of the Chief Accountant's Division and the Bank's External Auditor. Discussed at this forum are material issues that may arise in the preparation of the financial statements and the accounting policy that needs to be applied.

The Board of Directors has authorized the Audit Committee to act as the Committee for the Review of the Financial Statements, in accordance with the Companies Regulations (Terms and Conditions Concerning the Process of Approval of the Financial Statements), 2010. The Audit Committee is headed by an external director and most of its members are qualified as independent directors and all its members have declared themselves capable of perusing and comprehending financial statements.

In accordance with a resolution of the Board of Directors, at least two directors with accounting and financial speciality must serve on the Board of Directors and on the Audit Committee. Currently, 12 out of the 13 members of the Board of Directors and 5 out of the 6 members of the Audit Committee have accounting and financial speciality. The Audit Committee consists of six directors:

1. **Mr. Joseph Horowitz**, Chairman of the Audit Committee, Serves as external director under the Companies Law, 1999 (and as external director under Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division), and with qualification as an independent director. Has accounting and financial speciality and the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law), in view of the following: Served for 15 years as Chief Internal Auditor and member of the management of Bank Leumi Le-Israel B.M. and previously served in various senior functions at Bank Leumi.
2. **Mrs. Pnina Bitterman-Cohen**, a member of the Audit Committee, serves as an external director in accordance with the Companies Law, 1999 (and as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division) and is qualified as an independent director. Does not have accounting and financial speciality. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: has served for over 20 years as senior office-holder at a public company traded on the Tel Aviv Stock Exchange; has served for over 20 years as director of companies operating in various fields; and has attended courses on the analysis of financial statements and risk management.

3. **Mr. Zeev Ben-Asher**, a member of the Audit Committee, serves as external director in accordance with the Companies Law, 1999 (and as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division) and is qualified as an independent director. Has accounting and financial speciality. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: MBA from Tel Aviv University; Certificate of Advanced Management Program from Harvard University. Served as a member of the Board of Management of Bank Hapoalim and the First International Bank of Israel. Served as Director at Excellence Investments Ltd. and Clal Industries Ltd; managers coach.
4. **Mr. Dov Goldfriend** (starting at July 16 2015), a member of the Audit Committee. Serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is not qualified as an independent director. Has accounting and financial speciality. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, BA in Economic and accounting and MA in Business Management from the University of Tel Aviv. Served as the CEO of Poaley Agudat Israel Bank Ltd, as Deputy CEO and Chief Accounting Officer and member of management at The First International Bank of Israel Ltd. and as Director of companies.
5. **Mrs. Dalia Lev**, a member of the Audit Committee. Does not serve as an external director and is not qualified as an independent director. Has accounting and financial speciality, and has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, ISMP from Harvard University, Bar-Ilan University law graduate, qualified arbitrator, risk manager. Served as Chairman of the Board of Directors at Mei Avivim Ltd. and Supersal Ltd. Served as joined CEO at IDB Development company Ltd., and as Director at: Airports Authority, Paz Oil Refinery Ashdod Ltd. Serves as Director at: Strauss Group Ltd; Paz Oil Co. Ltd; Belgal Ltd.
6. **Mr. Ilan (Eilon) Aish**, (starting at June 10, 2015) a member of the Audit Committee, serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is qualified as an independent director. Has accounting and financial speciality. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, BA in Economic and accounting from the University of Tel Aviv. Served as external director in Israel Discount Bank Ltd. Serves as director and joined CEO at Harvest Capital Markets Ltd.

As in each quarter, the Board of Directors' Audit Committee at its meeting on February 16, 2016, discussed allowances for credit losses, in order to approve these allowances and the provisions for writedown in the nostro portfolio before the financial statements were submitted for approval by the Board of Directors. The discussion was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

In addition, at its meeting on February 21, 2016 the Audit Committee discussed the findings of the Disclosure Committee in accordance with the provisions of SOX, and with the participation of the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

The Board of Directors' Audit Committee held a detailed preliminary discussion of the draft financial statements. The discussion was held on February 21, 2016, and was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank. Discussed at this meeting were material issues that may arise in the preparation of the financial statements and the accounting policy that was applied. Following the Audit Committee's discussion, the financial statements, amended as requested by the Audit Committee, were sent to the Board of Directors with the Committee's recommendation that the members of the Board approve the financial statements, since it had compiled recommendations to the Board in all the matters required in the Securities Regulations.

The Audit Committee sends its recommendations regarding the approval of the financial statements to the Board of Directors within a reasonable time period prior to their discussion at the Board of Directors, and reports any deficiency or problem discovered in the course of its review, if any.

When the Audit Committee and the Board of Directors are in the process of approving the financial statements, drafts of the financial statements and the Board of Directors Report are submitted for perusal and comments by the directors several days before the date of the meeting that is set for the discussion of the financial statements.

The Board of Directors is the ultimate control and auditing authority at the Bank.

The Board of Directors, at its meeting on February 28, 2016, discussed the approval of the financial statements of the Bank, with the participation of the members of Bank management, including the CEO, the Chief Accountant and the Bank's External Auditor. The aforementioned recommendations by the Audit Committee were submitted to the members of the Board of Directors on February 23, 2016, in due time before the plenary discussion. At the discussion by the plenum of the Board of Directors, the CEO presented the financial results of the Bank and a comparison with previous periods. At this stage, a discussion was held during which the Bank's office-holders answered the directors' questions on matters relating to the financial results and to the financial statements. At the end of the discussion, the Board of Directors resolved to adopt the aforementioned recommendations of the Audit Committee, to approve the Bank's financial statements and to authorize for the Chairman of the Board of Directors, the CEO and the Chief Accountant to sign the financial statements.

AUDITORS' REMUNERATION ⁽¹⁾⁽²⁾⁽³⁾

(NIS thousands)

	Consolidated		The Bank	
	2015	2014	2015	2014
For audit work ⁽⁴⁾ :				
Auditors of the Bank	9,863	10,524	5,253	4,999
Another auditor	1,865	1,806	-	-
Total	11,728	12,330	5,253	4,999
For additional Auditing related services ⁽⁵⁾ :				
Auditors of the Bank	-	92	-	62
For tax services:				
Auditors of the Bank	322	311	322	248
Other services:				
Auditors of the Bank	1,080	1,404	867	979
Total	1,402	1,807	1,189	1,289
Total auditors' remuneration	13,130	14,137	6,442	6,288

(1) Report of the Directors to the Annual Meeting of shareholders on the remuneration of the auditors for audit work and for additional services, according to sections 165 and 167 of the Companies Law - 1999.

(2) The auditors' remuneration includes payments to partnership and companies under their control as well as payment under the Value Added Tax Law.

(3) Includes remuneration paid and accrued.

(4) Includes audit of annual financial statements, review of interim statements, audit of internal control over financial reporting.

(5) Audit related fees include mainly: Prospectus work, special confirmation letters and comfort letters.

REMUNERATION OF SENIOR OFFICERS

(NIS thousands)

2015						
Name	Title	Position	Holdings in the Bank's equity	Salary	Bonus	benefits ⁽³⁾
Rony Hizkiaho	Chairman of the Board of Directors	100%	-	2,445	-	130
Smadar Barber-Tsadik	Chief Executive Officer	100%	-	3,032	-	153
Shuli Garburg	Fibi Bank (Switzerland) Chief Executive Officer	100%	-	1,690	*255	-
Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division	100%	-	1,327	-	81
Yossi Levy	Executive Vice President, Head of Resources Division	100%	-	1,387	-	117
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	100%	-	1,271	-	96
Amnon Beck	MATAF Chief Executive Officer	100%	-	1,129	-	79

2014						
Name	Title	Position	Holdings in the Bank's equity	Salary	Bonus	benefits ⁽³⁾
Rony Hizkiaho	Chairman of the Board of Directors	100%	-	2,546	-	152
Smadar Barber-Tsadik	Chief Executive Officer	100%	-	3,033	-	154
Ella Golan	Executive Vice President, Head of Banking Division	100%	-	998	-	61
Shuli Garburg	Fibi Bank (Switzerland) Chief Executive Officer	100%	-	1,633	*157	-
Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division	100%	-	1,436	-	89
Yossi Levy	Executive Vice President, Head of Resources Division	100%	-	1,389	-	134
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	100%	-	1,272	-	96

(1) Not including VAT on salaries.

(2) Loans granted to senior executives at conditions similar to those that were granted to all Bank employees, the amounts of which were determined on the basis of uniform criteria.

(3) Value of benefits (including: car benefit, cellular phone, rental value, health insurance, etc.).

(4) The Data for 2014 were not restated according to accepted accounting standards applicable in the US regarding employees rights.

* The bonus is conditional on three years of employment.

	Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Total payroll and related expenses ⁽¹⁾	Other payments	Loans granted under ordinary market terms ⁽²⁾
	803	-	3,378	-	-
	1,116	-	4,301	-	-
	383	-	2,328	-	-
	392	-	1,800	-	63
	259	-	1,763	-	3,448
	315	-	1,682	-	-
	362	-	1,570	-	48

	Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Total payroll and related expenses ⁽¹⁾	Other payments	Loans granted under ordinary market terms ⁽²⁾
	738	-	3,436	-	-
	1,084	-	4,271	-	-
	417	795	2,271	-	833
	429	-	2,219	-	-
	331	-	1,856	-	153
	219	-	1,742	-	3,596
	273	-	1,641	-	-

Notes:

- A. On background of a legal position published by the Israel Securities Authority on February 13, 2011, as regards the disclosure required in the directors' report of reporting corporations, according to Regulation 10(b)(4) of the Securities Regulations (Periodic and immediate reports), 1970, and considering the clarification issued by the Securities Authority on February 11, 2014, following the adoption of the compensation policy for officers, and notwithstanding the fact that the above Regulation does not apply to the Bank, the Board of Directors of the Bank has found that the compensation granted in 2014 to the senior officers described above, is fair and reasonable, whether because it complies with the compensation policy of the Bank (in respect of those officers to whom the compensation policy applies) or considering the position and duties of any of them, their contribution to the activity and progress of the Bank and additional criteria as determined by the Board of Directors and which served as a basis for the Board's considerations, as above.
- B. The bank accounts management conditions for senior executives, including all activity in those accounts, are similar to other customers conditions with similar characteristics.
- C. For details regarding the Compensation policy for senior officers see immediate report of the Bank dated May 22, 2014 (reference no. 2014-01-070887). In 2015 the return on equity was lower than 8.5% and the Bank did not meet the threshold condition of the remuneration plan. Accordingly, no bonuses were paid to senior officers according to the plan for 2015.

Mr. Rony Hizkiaho - was appointed Chairman of the Board of Directors of the Bank on May 16 2012.

For description of the engagement agreement with Mr. Ronny Hizkiaho - see Note 33.H(2) to the financial statements. For details of the compensation policy, within the framework of which, the manner of determining the annual award for 2014 and later years has been regularized, among others, also to Mr. Hezkiyahu, see immediate report of the Bank dated May 22, 2014, mentioned above.

Mrs. Smadar Barber-Tsadik - has been employed by the bank since January 9 2005 and has served as CEO of the Bank since March 19 2007.

For description of the engagement agreement with Ms. Smadar Berber-Tsadik- see Note 33.H(1) to the financial statements. For details of the compensation policy, within the framework of which, the manner of determining the annual award for 2014 and later years has been regularized, among others, also to Ms. Berber-Tsadik, see immediate report of the Bank dated May 22, 2014, mentioned above.

Mr. Ilan Batzri - has been employed at the Bank since October 4, 1978, under a collective agreement, and as from October 1, 2000, under a personal agreement for an unassigned period.

Each of the parties to the agreement is entitled to terminate the contractual association at any time and for whatever reason, at six months prior written notification.

On termination of his employment at the Bank. Mr. Batzri is eligible to an ordinary severance payment at a level of 100% of his last monthly salary. The redemption value of the severance payment in the pension fund to which the Bank allocated money in his favor will be deducted from these amounts.

The non-competition period is six months from the date of termination of his employment at the Bank.

Mr. Batzri's salary is linked to the Consumer Price Index.

For details of the compensation policy providing for the way of determining the annual award in respect of the year 2014 and following years, among others, to Mr. Batzri see immediate report of the Bank dated May 22, 2014, mentioned above.

Mr. Yossi Levy - Mr. Levy has a personal employment agreement with Mataf and has been seconded to the Bank.

Mr. Levy commenced his employment at Mataf on April 1, 1979, and the present personal employment agreement is valid from September 1, 1980.

Each of the parties to the personal agreement is entitled to terminate the contractual association at any time and for whatever reason, at three months prior written notification.

On termination of his employment, Mr. Levy is eligible to an ordinary severance payment at a level of 100% of the last monthly salary. The redemption value of the severance payment in the pension fund to which the Mataf allocated money in his favor will be deducted from these amounts.

Mr. Levy's salary is linked to the Consumer Price Index.

For details of the compensation policy providing for the way of determining the annual award in respect of the year 2014 and following years, among others, to Mr. Levy see immediate report of the Bank dated May 22, 2014, mentioned above.

Mr. Yoram Sirkis - has been employed at the Bank since February 9, 1993, under a collective agreement and a personal agreement valid from Mars 20, 2007, for an assigned period until Mars 20, 2010. After that date the agreement will continue for an unassigned period in which each of the parties to the agreement may terminate the agreement at any time and for whatever reason by a prior and written notification of six month and in accordance with

the condition of the employment. On termination of his employment Mr. Sirkis is eligible to an ordinary severance payment at a level of 100% of his last monthly salary, or 200% of his last monthly salary before the signing of the personal agreement, whichever is higher. The redemption value of the severance payment in the pension fund to which the Bank allocated money in his favor will be deducted from these amounts.

The non-competition period is six month from the date of termination of his employment at the Bank. In case of termination of employment not as a result of dismissal, the Bank may waive the non-competition condition by prior written notice of one month.

Mr. Sirkis's salary is linked to the consumer price index.

For details of the compensation policy providing for the way of determining the annual award in respect of the year 2014 and following years, among others, to Mr. Sirkis see immediate report of the Bank dated May 22, 2014, mentioned above.

Mrs. Ella Golan - has been employed at the Bank since January 16, 1994, under a collective agreement and a personal agreement valid from December 1, 2013, for an unassigned period in which each of the parties to the agreement may terminate the agreement at any time and for whatever reason by a prior and written notification of six month.

On termination of her employment Ms. Golan is eligible to an ordinary severance payment at a level of 100% of her last monthly salary, or 200% of her last monthly salary before the signing of the agreement, whichever is higher. The redemption value of the severance payment in the pension fund to which the Bank allocated money in her favor will be deducted from these amounts. The non-competition period is three month from the date of termination of her employment at the Bank.

Mrs. Golan's salary is linked to the consumer price index.

For details of the compensation policy providing for the way of determining the annual award in respect of the year 2014 and following years, among others, to Mrs. Golan see immediate report of the Bank dated May 22, 2014, mentioned above.

Mr. Amnon Beck - Serves as CEO of MATAF since November 1, 2006.

Mr Beck started work at MATAF on March 1, 1980, under a personal employment agreement. Each of the parties to the agreement may terminate the engagement, for whatever reason, giving a prior notice in writing of three months. Upon termination of his employment, Mr. Beck is entitled to severance pay based on 100% of his last monthly salary. From this amount shall be deducted the value of the severance pay component of the executive insurance policy purchased in his favor by MATAF. The salary of Mr. Beck is linked to the rise in the CPI.

For details of the compensation policy providing for the way of determining the annual award in respect of the year 2014 and following years, among others, to Mr. Beck see immediate report of the Bank dated May 22, 2014, mentioned above.

ents.

Mr. Yaacob Malkin - was engaged by the Bank in the period from June 10, 2011 and until November 30, 2013, and as from December 1, 2013 act as General manager of Otzar Hachayal Bank, under engagement terms approved by the Board of Directors of Otzar Hachayal. His engagement is for an indeterminate period and each of the parties may terminate it, at any time and for whatever reason, giving a written notice six months in advance. Upon termination of his employment by Otzar Hachayal bank, Mr. Malkin entitled to the amounts deposited by the bank in his favor with a severance pay fund. A non-competition period of six months applies

upon the termination of his employment, three of which are with pay. The salary of Mr. Malkin is linked to the rise in the Consumer Price Index. In the case of a decline in the index, his salary will remain unchanged until a future rise in the index offsets such a decline.

Mrs. Shuli Garburg - Acts as General Manager of FIBI Bank (Switzerland) under a personal engagement agreement in effect for a period of three years as from January 1, 2012. Each of the parties to the agreement may terminate the engagement giving an advance notice of six months and in accordance with the terms prescribed in the agreement. Mrs. Garburg is entitled to an annual award based on the annual return on equity of FIBI Bank (Switzerland) exceeding the LIBOR rate in accordance with a certain scale. Beginning with a return of 4% and up to a return of 7.5%, she would be entitled to an award of SFR 50,000 and up to a maximum of SFR 180,000, respectively. Mrs. Garburg is also entitled to a conditional award in the amount of SFR 120,000, payable at the end of three years in office (SFR 40,000 in respect of each year).

TRANSACTIONS WITH INTERESTED PARTIES

a. Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970 - Reports on transactions with controlling shareholders.

From time to time the Bank concludes or is likely to conclude transactions in the normal course of business with controlling shareholders or their relatives or with corporations in which controlling shareholders at the Bank are likely to be regarded as having a personal interest (hereinafter: "controlling shareholders").

Under the Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970, of 2008 (hereinafter: "the Securities Regulations"), a reporting corporation must publish an immediate report on details of a transaction with a controlling shareholder or in which a controlling shareholder has a personal interest in its approval, including the main elements of the transaction or the contractual engagement, details of the competent organ that approved the transaction and a summary of its reasons for doing so, except in connection with transactions of a type which in the most recent financial reports were determined as negligible as implied by the term in Regulation 41(a)(6)(a) of the Securities Regulations (Annual financial statements), 2010. A similar instruction is applicable on reporting such transaction in the periodic report.

Since the Supervisor's directives concerning the compilation of annual financial reports apply to the banks, and not the said regulations, the Association of Banks approached the Securities Authority regarding the matter of applying the directive concerning a "negligible transaction" with respect to the banks and the disclosure format. As agreed between the Association of Banks and the Securities Authority, the banks received an exemption from immediate reporting with respect to banking transactions that are not exceptional, providing that the banks have determined criteria for exceptional and negligible transactions.

As a result of this approach to the Securities Authority and the meetings that were subsequently held as a result, the Authority instructed the Bank to provide disclosure in the Bank's prospectus and thereafter in the annual reports, in the format detailed below:

- Regarding banking transactions with controlling shareholders that are not exceptional transactions, the Bank will report within the framework of the prospectus and periodic reporting on balances of credit and balances of deposits, in accordance with the format appearing in the table at the end of this section.
- In the credit table, the disclosure will be split between the controlling shareholder's credit balance and the credit balance of the controlling shareholder's relatives (on a cumulative basis). Credit to any reporting corporation connected with the controlling shareholder will be reported at the level of the reporting corporation in the consolidated report.

In view of the aforementioned, the Bank's Audit Committee determined criteria regarding the nature of the said transactions as exceptional or as unexceptional or as negligible, in connection with transactions with controlling shareholders or in which controlling shareholders have a personal interest.

The criteria will also be applied to transactions conducted in the ordinary course of business by companies that are controlled by the Bank, such as banking corporations that are controlled by the Bank.

It should be noted that the criteria are likely to be examined from time to time by the Audit Committee inter alia as the result of changes in the Bank's policy and business activities and in market conditions, and that the Audit Committee is likely to change them from time to time and/or add to them additional types of transactions and/or various criteria.

According to additional amendment of the securities regulation from 2015 (applicable from January 2016) the duty to publish an immediate report on such transaction was abolished and the requirement to report these transaction on the periodical report remained.

Accordingly and with respect to banking transactions, the Bank published the report detailed at the end of this section.

In the matter of a non-banking transaction, the Bank has specified that a “negligible transaction” is a transaction that is conducted in the ordinary course of business at market conditions, which conforms to the criteria detailed below:

A one-time transaction for the purchase of services or products from a controlling shareholder, or a transaction as stated in which a controlling shareholder has a personal interest and whose amount does not exceed a minimum amount (as defined below) or a continuing transaction as stated (a number of essentially identical transactions with the same company) whose cumulative amount in the course of the calendar year does not exceed 0.75% of total operating and other expenses as reported in the most recent financial statements of the Bank. It is clarified that the aforementioned are not to be applied to a contractual engagement with a controlling shareholder or his relative regarding the terms of his service and employment. In this respect, the definition of the term “minimum amount” will be as defined in Proper Conduct of Banking Business Regulation 312 "Transactions of banking corporation with related persons".

Transactions involving the rental of sites from a controlling shareholder or transactions as said in which a controlling shareholder has a personal interest, which were approved in a single calendar year, providing that the overall amount of the transactions does not exceed the minimum amount.

Transactions involving the rental of sites to a controlling shareholder or transactions as said in which a controlling shareholder has a personal interest, which were approved in a single calendar year, providing that the overall amount of the transactions does not exceed the minimum amount.

Any other transaction the amount of which does not exceed the minimum amount, or the total amount of transactions of its type for the calendar year which do not exceed the minimum amount.

In the matter of a banking transaction, the Bank has specified that a “negligible transaction” is a transaction that is conducted in the normal course of business at market conditions, which conforms to the criteria detailed below:

1. A transaction for which or as a result of which the indebtedness amount does not exceed the minimum amount (as defined above).
2. Any other transaction for which its amount does not exceed the minimum amount.

An immediate report inasmuch as required under the Securities Regulations will be issued in respect of transactions as said that are not banking transactions and that are not negligible transactions.

In addition to the aforementioned, with respect to an indebtedness transaction to which Proper Conduct of Banking Business Regulation 312 does not apply, if the Bank is informed of the said transaction, the Bank undertakes to submit any such transaction for approval in accordance with Proper Conduct of Banking Business Regulation 312, and to provide disclosure on it in the Bank's annual report. The definitions “negligible transaction” and “exceptional transaction” with respect to these transactions will be the same as the above-mentioned definitions specified by the Bank with respect to the Securities Regulations.

b. Determination of criteria for the purpose of the Bank's transactions with interested parties

Under Paragraph 117 (1a) of the Companies Law, 1999 (hereinafter: "the Companies Law") which was amended as part of Amendment No. 16 to the Companies Law, the Audit Committee was charged with responsibility for deciding on the causative basis for the specification of the Bank's transactions with office-holders in it or for transactions in which office-holders have a personal interest and the Bank's transactions with controlling owners or transactions in which a controlling owner has a personal interest, whether these are exceptional or non-exceptional transactions. Paragraph 117 (1a) also stipulates that the Audit Committee may decide as said regarding a type of operation or transaction, on the basis of standards which it will determine once a year in advance.

Accordingly the Audit Committee of the Bank specified standards, and stipulated that once a year a discussion will be held for the purpose of determining or re-approving the standards.

The standards were determined on the basis of quantitative criteria, and it was stipulated that a transaction that is not exceptional is a transaction executed during the normal course of business at the Bank and at market terms. The audit committee determined standards regarding examination of market terms.

The said criteria will also apply to transactions during the normal course of business which are conducted by companies controlled by the Bank, such as banking corporations controlled by the Bank. The said criteria will not apply in connection with the Bank's transactions with corporations under its control. In addition, it is clarified that the criteria do not concern approval of terms of employment and service at the Bank.

It should be noted that the criteria are likely to be examined from time to time by the Audit Committee inter alia in view of changes in the Bank's policy and business activity or in market conditions, and that the Audit Committee is likely to change from time to time and/or add to the criteria additional types of transaction and/or criteria.

On January 2014, Paragraphs 117(1b) and 117(2a) of the Companies Law went into effect within the framework of an indirect amendment to the Companies Law, which was included in the Law for Increasing Competition and Reducing Concentration, 2013. Pursuant to the said paragraphs, the Audit Committee is required to stipulate a requirement to fulfill a competitive process with respect to transactions with controlling owners or in which a controlling owner has an interest, even if these are not extraordinary transactions, under the supervision of the committee or the person deciding in this matter and in accordance with standards that will be prescribed, or to stipulate that other process determined by the Audit Committee are to be fulfilled before engagement in the said transactions, all this in accordance with the type of transaction, and is entitled to specify standards once a year in advance. In addition, pursuant to the said paragraphs, the Audit Committee is required to determine the manner in which non-negligible transactions are to be approved, and including in this respect to determine types of transactions as said which will require the Audit Committee's approval,

The Audit Committee approved standards concerning the obligation to perform competitive process according to paragraph 117(1b) to the Companies Act (they will be submitted for approval at least once a year) and the manner of approval of non-negligible transactions in accordance with paragraph 117(2a) to the Companies Act.

c. Restrictions with respect to “related persons” in accordance with Proper Conduct of Banking Business Regulation 312

At the end of February 2010 the Banking Supervision Division informed the Bank that in addition to the restrictions specified in Proper Conduct of Banking Business Regulation 312 on controlling shareholders' total indebtedness to the Bank, it wished to apply further restrictions with the result that the maximum indebtedness of each of the components of the core of control at the Bank, out of the total indebtedness permitted for all related persons under Proper Conduct of Banking Business Regulation 312, will be in accordance with its relative share in the core of control, even if the indebtedness of that component in the Group is not mainly to the Bank. The Bank of Israel clarified that it intends to apply such a restriction on an industry basis, and to amend the said regulation accordingly. As a result of this letter, the Bank requested clarifications from the Banking Supervision Division concerning the application of the restriction and the manner in which it is to be applied. It is clarified that the Bank does not deviate from the said restriction and will not deviate from it even if it is not revoked or additional clarifications/guidelines are not received.

On July 10, 2014 Bank of Israel published an amendment to Proper Conduct of Banking Business Regulation no. 312 concerning business of banking corporation with interested parties, which went into effect on January 1, 2015. The regulation was amended regarding the said restriction and other matters, as described in the legislation section.

d. Transactions approved in accordance with Paragraph 270(4) of the Companies Law (including framework transactions still valid at the report date and transactions approved in accordance with the Companies Regulations (Relaxations in Transactions with Interested Parties), 2000 (hereinafter: “the Relaxation Regulations”):

1. In view of the termination of a framework transaction dated October 2009, and following approvals of the Audit Committee, the Compensation Committee and the Board of Directors, the general meeting of shareholders of the Bank approved on June 29, 2014, the following resolutions concerning insurance for directors and officers:
 - Renewal of “directors and officers” insurance policy for a period of eighteen months beginning on July 1, 2014 (“the insurance period”) issued by Clal Insurance Co. Ltd. for the Bank and for the Bank Group, including subsidiaries of the Bank and the controlling owner, FIBI Holdings Ltd. (hereinafter – “Group companies”), which will apply to officers serving at the Bank and at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.
 - Prior approval, for the purchase by the Bank of an insurance policy, as stated above, covering the Bank and Group companies for a period of five years following the termination of the insurance period, including by way of extension of the original policies and/or by way of the purchase of new policies, which will apply with respect to officers who may serve at the Bank and at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.

The said resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations, as well as a resolution under Section 267A of the Companies Act, as part of the compensation policy of the Bank (as long as this policy remains in effect, details of which were published in an immediate report by the Bank dated January 5, 2014, Ref. No. 004648-01-2014), as stated in item 1B(1) of the Relief Regulations.

- Approval of the manner in which the said insurance fees are to be allocated among FIBI Holdings Ltd., the Bank and Group's companies which elect to join the insurance policy as from July 1, 2014.

The terms of the policy for a period of eighteen months commencing on July 1, 2014, the terms for the renewal of the policy following the termination of the insurance period within the framework transaction, the compensation policy and the manner of allocation of the insurance fees between FIBI Holdings Ltd., the Bank and the Bank's subsidiaries, are described in an immediate report of the Bank dated May 22, 2014 (Ref. No. 071067-01-2014). The contents of this report are presented here by way of reference.

According to the above, on December 1, 2015 the Bank's Board of Directors passed a resolution, after obtaining the approval of the Audit Committee and the Remuneration Committee dated November 18, 2015, and in accordance to regulations 1(3), 1a1, 1b(5) and 1b1 to the relief regulations, to approve the renewal of the policy for an 18 months period starting January 1, 2016 till June 30, 2017 ("The current insurance period") through Menora-Mivtachim Insurance Ltd. For the companies in the group, as defined above. The policy include the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest. The terms of the policy for the current insurance period are detailed in the immediate report of the Bank dated December 1, 2015 (reference no. 2015-01-170883) and the contents of this report are presented here by way of reference.

2. On October 30, 2014, after obtaining the authorizations from the Compensation Committee and the Board of Directors of the Bank, the general meeting of shareholders approved the continued employment of Mrs. Yehudit Dagan, who is "a relative of a controlling shareholder" in the Bank, as a clerk in the Banking Operations Division at MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF"), a wholly owned and wholly controlled subsidiary of the Bank, for a period of up to three additional years beginning on November 15, 2014 (date of expiry of three years since date of the general meeting's approval in 2011 of her continued employment) or until her retirement, whichever is earlier, at the existing terms of Mrs. Dagan's employment which are based on collective labor agreements. Also approved were certain potential changes in the terms of her employment, as is accepted and reasonable in the employment of an employee at the Bank and at MATAF of Mrs. Dagan's seniority and grade, all this as specified in the approval of her employment.
3. On September 23, 2014, after receipt of the approval of the Compensation Committee and in accordance with Regulation 1b. of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000, the Board of Directors of the Bank reapproved the continued payment of remuneration to directors from among the controlling shareholders of the Bank on the basis of the remuneration which was approved for all the directors (excluding the Chairman of the Board of Directors) at the general meeting of the Bank's shareholders of September 14, 2008. The amounts of remuneration approved are in accordance with the policy for the compensation for officers of the Bank, the details of which as regards directors' remuneration are specified in section 7 to the immediate report of January 5, 2014, and to the corrective report of that

date (reference nos. 003511-01-2014 and 004648-01-2014, respectively), the contents thereof is presented herewith by way of reference. The approved amount of remuneration and the reasons for its approval are stated in an immediate report of the Bank dated September 23, 2014 (reference no. 163920-01-2014), the contents of which is presented herewith by way of reference.

4. The provision of indemnification obligations to directors and office-holders at the Bank (including directors from among the controlling shareholders in the Bank) and its revision in 2011, as detailed in Note 25.c to the financial statements.

e. Additional information on transactions with interested parties

1. See Note 33 to the financial statements for details of the balances and condensed results of transactions with interested parties and related parties.
2. The Group, including FIBI Holdings and its subsidiaries, purchases insurance policies jointly, including liability insurance for directors (including directors who are controlling owners and their relatives) and office-holders.
3. In addition, the Bank and its subsidiaries conduct transactions with interested parties in the Bank from time to time which are during the normal course of business and at market terms.
4. The Group purchases during the ordinary course of business from the Paz group (Paz Oil Ltd. and subsidiaries and affiliates), which is controlled by the controlling owners in the Bank, fuels for vehicles used by the company's employees (including leased vehicles). In 2015, the Bank Group purchased fuels from Paz group at an overall amount of NIS 6.6 million (2014 - NIS 7.6 million). In addition, the Bank is renting from Paz Group office premises of 345 square meter occupied by the Bank's Netanya branch until September 2017, and a consolidated company is renting from Paz Group office premises of 25 square meter for use of the Kfar Kara branch until February 2020. The rental fee for 2015 amounted to NIS 0.8 million (2014 - NIS 0.8 million).

5. Set out below is a collation of data concerning banking transactions that were conducted by the Bank and companies under its control with the controlling owners at the Bank (including their relatives and companies in which controlling owners at the Bank are interested parties), including data concerning transactions conforming to the criteria that were determined with respect to negligible transactions (NIS thousand):

Indebtednesses	Credit	Investment in bonds	Fair value of derivatives	Total balance-sheet monetary indebtedness	Unutilized credit balance	Guarantees granted by Bank for securing credit to a controlling owner or to a party related thereto	Guarantees granted to Bank by controlling owner in favor of third party	Indebtednesses of controlling owner in respect of transactions in derivatives	Total
NIS thousand									
December 31, 2015									
Paz group ⁽²⁾	47,808	-	-	47,808	2,736	886	-	-	51,430
Others ⁽⁴⁾	11	-	-	11	145	-	92	-	248
Total	47,819	-	-	47,819	2,881	886	92	-	51,678
December 31, 2014									
Paz group ⁽²⁾	37,043	-	4	37,047	14,133	828	-	(1)156	52,164
FIBI Holdings group ⁽³⁾	-	-	-	-	100	-	-	-	100
Others ⁽⁴⁾	30	-	-	30	104	-	100	-	234
Total	37,073	-	4	37,077	14,337	828	100	156	52,498

Deposits	December 31, 2015		December 31, 2014	
	Balance on balance-sheet date	Highest balance during period ⁽⁵⁾	Balance on balance-sheet date	Highest balance during period ⁽⁵⁾
NIS thousand				
Paz group ⁽²⁾	15,149	109,525	6,559	122,981
FIBI Holdings group ⁽³⁾	-	2,730	2,730	2,849
Others ⁽⁴⁾	1,766	4,624	1,608	4,247
Total	16,915	116,879	10,897	130,077

(1) On December 31, 2014 the par value of derivative transactions amounted to NIS 15,600 thousand.

(2) Paz Oil Co. Ltd. and its subsidiaries and affiliated companies. Paz group is controlled by the Bank's controlling shareholders.

(3) FIBI Holdings Ltd. and its subsidiaries and affiliated companies. FIBI Holdings is the parent company of the Bank and is controlled by the Bank's controlling shareholders.

(4) Relatives of controlling shareholders of the Bank. As the definition of relative in the Banking Law (licencing)-1981.

(5) On the basis of balances at the end of each day.

DETAILS OF THE OWNERS OF CONTROL IN THE BANK

Acquisition of control in FIBI and in the Bank in 2003 and the Bank of Israel permit

On September 19, 2003, Binohon Ltd. and the Lieberman Group of Australia purchased shares in FIBI in a manner whereby Binohon, which is controlled by Mr. Zadik Bino, held 28.54% of the equity rights and 50.59% of the voting rights in FIBI, and the Lieberman Group held 23.35% of the equity rights and 20% of the voting rights (in equal parts via Instanz Holdings Ltd., which is controlled by Messrs. Michael and Helen Abeles from Australia, and Dolphin Energies Ltd., which is controlled by Messrs. Barry Lieberman, Casey Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia, all of them via a chain of Australian entities)). The buyers are party to a voting and cooperation agreement, which includes various arrangements concerning their holdings in the controlling stake at FIBI, and indirectly, at the Bank, which include, to the best of the Bank's knowledge, the following provisions:

- 1) Subject to any law, arrangement for appointment of directors at FIBI Holdings and at the Bank: With respect to FIBI Holdings' Board of Directors, it was determined that at least 9 directors will be appointed, with five or more directors to be recommended by Binohon, one director to be recommended by Instanz Holdings, one director to be recommended by Dolphin Energies and two external directors to be appointed on the basis of Binohon's recommendation after consultation with Instanz Holdings and with Dolphin Energies. With respect to the Bank's Board of Directors, the parties agreed to act in order for the Bank's Board of Directors to consist of at least 11 directors; that FIBI will support the appointment of five directors to be recommended by Binohon, one director to be recommended by Instanz Holdings and one director to be recommended by Dolphin Energies, and for external directors at the Bank to be elected by consensus, as well as an arrangement in case no such consensus is reached;
- 2) With respect to participation of the parties at general meetings of FIBI's shareholders, the parties agreed to vote at such meetings in line with Binohon's position (after discussion among the parties), except regarding decisions on the appointment of directors at FIBI and at the Bank (to which the aforementioned agreement shall apply), and except for transactions by FIBI, the Bank and/or a subsidiary company thereof with interested parties in them, for which arrangements were determined whereby such transactions will not be made without the written consent of Binohon and either of Instanz Holdings or Dolphin Energies;
- 3) Subject to any law, arrangements regarding the exercise of their control at FIBI concerning voting by FIBI at general meetings of the Bank's shareholders, as follows: (a) In all matters concerning the subjects on the agenda of the Bank's general meeting, in respect of which the Board of Directors of the Bank issued resolutions or recommendations to the meeting, FIBI will vote in accordance with the position of FIBI's Board of Directors; (b) In all matters concerning issues in respect of which the Board of Directors of the Bank did not issue resolutions or recommendations or which were submitted to the Bank's general meeting at the request of a shareholder, without their having been discussed by the Board of Directors of the Bank, FIBI will vote in accordance with the position of FIBI's Board of Directors, providing that one of the directors who was appointed by Instanz Holdings or by Dolphin Energies supports the position and in the absence of such support, will vote against the proposed resolution. In the event that a personal interest exists for both the directors who were appointed as said by Instanz Holdings or Dolphin Energies, FIBI will vote in accordance with the position of FIBI's Board of Directors. It is clarified that these arrangements do not apply to the appointment of directors at the Bank, to which the aforementioned agreement applies. It is

also clarified in the agreement that the shareholders' agreement is not to be construed as constituting a voting agreement applying to the directors at the Bank;

- 4) Agreement to act in accordance with the permit from the Bank of Israel for holding the means of control at the Bank which was granted to the controlling shareholders;
- 5) Right of first refusal granted to Binohon for the purchase of FIBI shares which constitute part of the controlling stake held by Instanz Holdings and Dolphin Energies, should any of the latter enter into an agreement to sell these shares;
- 6) Tag-along right granted to Dolphin Energies and to Instanz Holdings at the time of sale by Binohon of FIBI shares which constitute part of the controlling stake held by Binohon;
- 7) Binohon's right to require Dolphin Energies and Instanz Holdings to join its sale of FIBI shares.

Transfer of control of FIBI was made in accordance with the permit issued by the Bank of Israel on August 27, 2003 (hereinafter: "the permit"), which prescribed inter alia terms and obligations regarding the direct and indirect means of control in FIBI and the Bank, their transfer and the relationships between the recipients of the permit, FIBI and the Bank, including as follows (to the best of the Bank's knowledge):

- 1) For as long as the permit recipients are in control of FIBI, FIBI will not sell and will not transfer, directly or indirectly, means of control in the Bank if as a result of this, its rate of holding in the Bank falls below the minimum rate that was determined (48.34% of share capital and 67.25% of voting rights), and a minimum rate for the holdings in FIBI was also determined. The permit stipulates that the controlling group must at any time retain a minimum holding rate in FIBI and the Bank. For this purpose, the controlling group will purchase means of control if the rate of holding in any type of means of control falls below the minimum rate. It was also determined that if FIBI or the Bank issues rights to shares or any other security that is convertible into shares, the controlling group will retain the minimum rate of holding minus three percentage points when calculated at full dilution. Notwithstanding the foregoing, if an equalization of rights is made between the different types of shares existing at FIBI or at the Bank, the core of control or the minimum holding rate with respect to the voting rights, will be equalized to the minimum rate with respect to the share capital, providing that the group continues to retain sole and exclusive control in FIBI and the Bank. Additional means of control in the Bank may be purchased, to be held directly by FIBI, at a rate not exceeding 3% of the Bank's share capital and of the voting rights deriving from this additional holding (means of control at this rate were purchased by FIBI in 2005 and sold by it in April 2013). In addition, it was determined that FIBI's principal activity will be holding of the control in the Bank.
- 2) Since five years have passed since the permit was granted, the permit holders may sell or transfer means of control in FIBI, but only if (a) they sell or transfer jointly all means of control which constitute the minimum stake in FIBI, to an individual or group lawfully licensed to receive them; or (b) the buyer or transferee are lawfully licensed to purchase and receive the means of control, and to regularly act in coordination with the other permit holders, pursuant to the aforementioned shareholders' agreement in FIBI, or any other agreement approved by the Supervisor of Banks.
- 3) The means of control in FIBI (which were purchased when the control was purchased) which are held directly by the permit holders as well as the means of control in the Bank which are held by FIBI (at a minimum rate mentioned in Paragraph 1 above) will be deposited with an Israeli resident trustee, whose identity, deed of trust and instructions that were given to it will be subject to the approval of the Supervisor

of Banks. The aforementioned means of control in FIBI and the Bank are held in the said manner in accordance with the conditions of the permit via Gai Trust and Management Co. Ltd.

- 4) Dividends will not be distributed from the earnings accrued at the Bank up to March 31, 2003, and if losses are accrued after this date, dividends will not be distributed unless these losses have been covered. The balance of the distributable surpluses at the Bank as of March 31, 2003 amounted to NIS 2,391 million.
- 5) Appointments of the Chairman of the Board of Directors and the CEO of the Bank will be subject to the consent of the Supervisor of Banks.
- 6) The permit recipients, including their relatives and corporations controlled by any of them, will not receive management fees or any proceeds and other benefit from the Bank or from corporations controlled by the Bank. They will however be entitled to provide services that are supplied on a regular basis by their providers and at market prices, after prior notification to the Supervisor of Banks at the conditions specified in the permit. Should the Supervisor of Banks notify that the service is not of a type that is provided on a regular basis to others or that the consideration therefor is unreasonable, the service is not to be provided. This directive will not apply to director remuneration which is paid at an equal amount to all the directors at the Bank.
- 7) Without the Supervisor of Banks' approval, the permit recipients and corporations under their control, including FIBI and corporations under its control, will not engage in any business activity, in Israel or outside Israel, which constitutes the receipt of deposits, the granting of credit or any other financial activity that involves an element of competition with the Bank's business activity. In addition, without the Supervisor of Banks' approval, the permit recipients or any of them or corporations under their control will not be interested parties (as defined in the permit), directors or senior executives at corporations that engage in the said business activities.
- 8) The purchase of means of control in FIBI or in the Bank, including provision of a guarantee for the said finance, will not be financed, directly or indirectly, by the Bank or by banking corporations under its control.
- 9) Minimum rates of holding have been determined for the permit recipients in FIBI as well as directives concerning arrangements within the group of permit recipients, including directives concerning their purchase of additional means of control in FIBI, from the aspect of the manner in which they hold additional means of control that will be purchased and from the aspect of the ratio of the rates of holding of FIBI shares among the members of the controlling group.
- 10) The controlling group undertook to inform the Bank's Board of Directors of the permit and its conditions, with the exception of certain conditions.

Following amendments to the permit, FIBI has been permitted to increase its holdings in the Bank by a rate not exceeding 8% of the Bank's share capital, over and above the holding rates detailed in the permit. Accordingly and taking into account FIBI's holdings in the Bank as at the date of this report, FIBI is entitled to increase its holdings in the Bank by a rate of up to 8% of the Bank's share capital and at a rate of voting rights deriving from this additional holding.

The permit states that the Bino family will hold the means of control in FIBI (being part of the control core acquired in 2003) through Binohon Ltd. directly; furthermore, following the amendments to the permit, the holders of Binohon may be Mr. Zadik Bino and/or the children of Mr. Zadik Bino - Mr. Gil Bino (acting as Director of the Bank), Ms. Hadar Bino Shmueli, Ms. Daphna Bino Or (hereinafter together - "the Bino family").

The Bino family is entitled to hold the surplus rate in FIBI (over and above the minimum rate that is determined in the permit, as stated above), through another corporation.

Additional details regarding the stake in FIBI held by the controlling shareholders

According to amendment to the permit from 2008, Mr. Zadik Bino was the owner of 52.5% of means of control at Binohon and his children (Mr. Gil Bino, Ms. Hadar Bino Shmueli, Ms. Daphna Bino Or) hold in equal parts, the remaining means of control in Binohon. By virtue of a power-of-attorney granted to him, Mr. Zadik Bino held all voting rights and all rights to appoint directors at Binohon.

On April 2, 2015 FIBI reported that it was advised by Binohon Ltd., a controlling shareholder in FIBI through which the Bino family controls the Bank, that Mr. Zadik Bino, a controlling shareholder in Binohon transferred on that day (April 2, 2015) to his three children- Mr. Gil Bino, Mrs. Hadar Bino-Shmueli and Mrs. Dafna Bino-Or, shares in Binohon, with no proceeds, that after the transfer the holding rate of each of the Bino children in Binohon was increased from 16% (holdings that were transferred from Zadik Bino to the Bino children on February 28, 2008) to 25% and that the holding rate of Mr. Zadik Bino in Binohon decreased to 25%. In addition it was said that the power of attorney given to Mr. Zadik Bino by the Bino children to vote at the general meetings of the shareholders of Binohon, were cancelled.

In 2009, FIBI completed the capital consolidation of its shares.

FIBI reported on March 24, 2013 that Instanz Holdings transferred to Instanz no. 2 (hereinafter - "Instanz 2") in an off-floor transaction 4,139,233 of FIBI shares which constitute 15.77% of the issued and paid-up share capital of FIBI and the entire holdings of Instanz in FIBI. Instanz 2 is a company incorporated in Israel and is wholly owned subsidiary of Sing Acquisitions Pte. Ltd (hereinafter - "Sing") which is a company incorporated in Singapur and controlled solely by Messers Helen and Michael Abeles (via Australians bodies), that also fully control (via the same Australian bodies) Instanz. The transferred shares are held in trust for Instanz 2 by Gai Trust and Management Co. Ltd. After the transfer of the shares, Instanz 2 became a party to the shareholders agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz will continue to be a party to the shareholders agreement and will be a guarantor for the obligations of Instanz 2. In addition the permit was amended that the control of the permit holders mentioned above in FIBI will be by Sing and Instanz 2 instead of Instanz Pty. Ltd and Instanz holdings.

As of the publication date of the financial statements and in accordance to FIBI reports, the holdings in FIBI of the control holders (in equity and voting rights) are as follows: Binohon - 38.29%, Instanz 2 - 15.66% and Dolphin Energies - 15.66%.

On December 10, 2014 FIBI reported that its controlling owners announced negotiations, that FIBI reported on January 2013, with the Banking Supervision Division for the purpose of amending the permit (as defined above), which will enable them to hold the core of control in the Bank directly ended for now.

Details concerning FIBI's holdings in the Bank

To the best of the Bank's knowledge, as of the publication date of the financial statements, FIBI holds 48.34% of the equity and voting rights in the Bank (a rate constituting the core of control, in accordance with the control permit from the Bank of Israel).

FIBI is a publicly-traded company whose shares are listed on the Tel Aviv Stock Exchange.

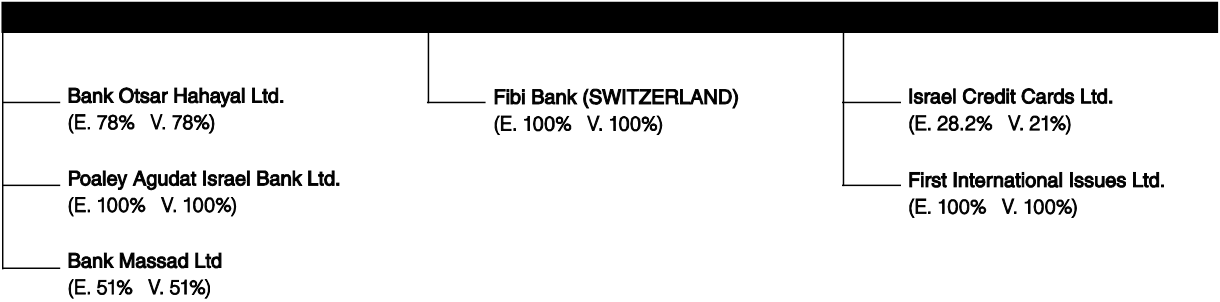
In accordance with the provisions of the Promotion of Competition and Reduction in Centralization Act, 2013 and the list of centralized factors in the market that were published lately, the Bank has been defined as a significant financial institution and PAZ Oil Company Ltd. ("PAZ") has been defined as a significant non-financial corporation. In view of the above, and in accordance with the existing situation, at the end of a transitional period of six years from date of publication of the Centralization Act, the controlling shareholders of the Bank would not be permitted to control both the Bank and PAZ at the same time.

To the best of the Bank's knowledge, interested parties in the Bank, FIBI and Israel Discount Bank Ltd. (hereinafter - "Discount"), a publicly-traded company whose shares are listed on the Tel Aviv Stock Exchange, were party to arrangement as detailed in Note 33.f to the financial statements. As mentioned in the note, after the sale of all Discount holdings in the Bank, according to Discount reports dated February 2, 2016, all the arrangements are no longer relevant.

ADDITIONAL INFORMATION

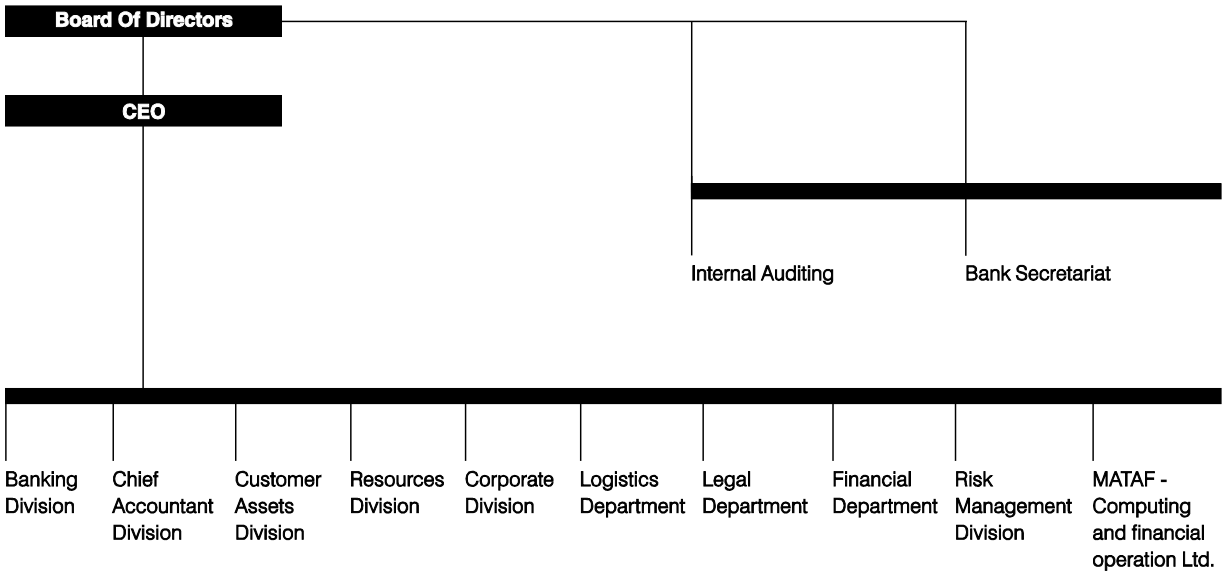
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**CHART OF PRINCIPAL
INVESTEE COMPANIES**



V - Bank's Voting Right
E - Bank's Share in Equity

ORGANIZATIONAL STRUCTURE



The following is a description of the areas of activity and responsibility of the Bank's divisions and departments:

The Corporate Division - The Division's Corporate Department coordinates the entire range of activities of large and international corporate clients with an obligo of NIS 40 million and above or income turnover of NIS 200 million, as well as the activities of borrowers with complex credit requirements, such as telecommunications, diamonds and project finance. The Commercial Banking Department processes customers of the Bank holding credit lines of between NIS 5 million and NIS 40 million and turnover of NIS 25 million up to NIS 200 million. A Corporate Area operates within the Division, coordinating the activity of the Bank's main business branches. The Corporate Division also contains an International Banking and Foreign Trade Department and the International Trade Center, which provides services to all the banks in the Group. The division is also responsible for processing corporate and institutional clients operating in the investment area. The Head of the Division is a member of the Bank's Management, and serves as Board Chairman of Bank Massad.

The Banking Division - is responsible for the Bank's branch network (except for the ten largest business branches, which are subordinate to the Corporate Division, and the Rothschild Branch, which is subordinate to the Customer Assets Division). The Division coordinates the activities of private banking, households and small business customers. The Division is responsible for the Bank's marketing and advertising activity, and for the entire range of direct banking activities, including the "Beinleumi Call" Center. The collection department and the public enquiries unit are subordinated to this division. In addition, the Division is responsible for credit card activity and the Mortgage Department, which supports the mortgage activity of all the banks in the Group, and operates via 97 mortgage counters that are located throughout the country at branches of the Bank, Otsar Hahayal, Bank Poalei Agudat Israel and Bank Massad. The Head of the Division is a member of the Bank's Management.

The Customer Assets Division - coordinates the Bank's activity in the area of capital market activity and deposit activity, including the dealing rooms specializing in activity with branches, professional customers and institutional entities in the areas of Israeli and foreign securities, and Israeli and foreign currency deposits and derivatives. The Division is in charge of a network of qualified investment consultants who are employed at the Bank's branches, the Bank's services to portfolio managers, the International Private Banking Unit, the private banking centers, initiated advice and the Rothschild Branch, which is a specialized private banking branch. At the Group level, the Division is responsible for pension advice activity, structured products and provident fund operational services, as well as the investment advice system and research services in the capital market. The Division is also responsible for the subsidiaries: International Unique investment management LTD (hereinafter: International Unique) and First International Insurance Agency (2005) Ltd. (hereinafter: International Insurance Agency). The Head of the Division is a member of the Bank's Management.

The Resources Division - is in charge of the Human Resources Department, which is responsible for the management of human resources at the Bank and their welfare, including the assignment and advancement of the employees and managers of the Bank; and of the Training Department, which is responsible for the instruction and training of employees and managers at the Bank and at the Group. Subordinate to the Resources Division is foreign securities and foreign currency back office system, the capital market back office system, which includes the Securities Execution Unit, the Mutual Fund Operation Unit, the Management Engineering Department, the Strategy and Branding Department, and the Project Management Office. The Head of the Division is a member of the Bank's Management.

The Chief Accountant's Division - is responsible for accounting management, and financial and managerial reporting in various areas. The Division contains the Planning Department, the banks reconciliation unit, payments unit, taxation unit and SOX. The Division supports the activity of the entire Group in the management of regulatory projects. The Head of the Division is a member of the Bank's Management.

The Risk Management Division - is the central risk management function of the Group and acts as the main instrument for the development and promotion of risk management at the Group. The division's function is to instill an in-depth understanding of the risks inherent in the Group's activity and to provide independent supervision of the management of the risks.

The division's authority and missions are governed by the Proper Conduct of Banking Business Directive 310 and inter alia include: creating a group-wide risk management culture, planning of risk strategy including the development of risk appetite and policy, review of the policy and methodology in all areas of risk management, involvement in the development of tools and models for assessment and management of risk and exposures, concentration and analysis of risk management information and implementation of risk management procedures within the Bank and the Group, assessment of the capital adequacy of the Bank's Group and formulation of recommendations regarding capital goals, evaluation of possible ways to manage risk exposures and a recommendation, if necessary, to reduce or hedge the risk in order to limit exposure.

There are 9 risk units within the division, 3 of which deal with credit (the credit risks assessment unit, the credit control unit and the credit process control unit), 4 units are subordinate to the head of the risks and controls department; the operational risk management unit, the analysis unit for model implementation, validation and research, the liquidity and market risk management unit and the unit for risk management and supervision of subsidiaries. The division also includes a unit for the implementation of Basel directives and a compliance unit (which consists of the unit for the prohibition of money laundering, compliance including FACTA, and internal enforcement in securities). The head of the division is a member of the Bank's management.

The Financial Department - is responsible for the Bank's ALM management, nostro management, liquidity management and management of the Group's financial risks, money price quotations in the different linkage segments, and the raising of supplementary capital for the Bank. The Middle Office Unit is subordinate to the department, which is the first line of control in the supervisory and control mechanisms operating in the area of market and liquidity risk management and also the insurance unit. The head of the department is a member of management of the bank.

Logistics Department - Responsible for the Group Purchase Department, which coordinates all of the purchasing of goods and services and manages engagements with external suppliers at the group level. The Construction and Properties, the Security and the Safety Departments and the Vehicle Officer operate under this Department, and these also provide services to the entire Group.

MATAF - Computing and Financial Operation Ltd. (hereinafter: MATAF) is a wholly-owned subsidiary providing computer and operational services systems to all of the Group's banks in Israel and the provident funds operated by the Bank. MATAF develops advanced technological systems and maintains the business applications at the Bank, while endeavoring to improve the effectiveness, quality and efficiency of the Group's computer services. A Methods and Banking Process Analysis Department operates within the company, and is responsible for the compilation and distribution of working procedures and circulars, and The Banking Operation Area. MATAF is also responsible for all information security matters and for combating cyber threats.

Legal Department - The Legal Department is responsible for the management of legal risks at the Bank in accordance with the risk management policy prescribed by the Board of Directors, and serves as the Group's head office unit in the matter of legal risk management. The Department detects, maps and assess the legal risks in the entire range of the Bank's activities, and prevents or minimizes these risks.

The Bank's legal counselling department continually monitors developments in legislation, regulation and ruling, which could have implications on the Bank's day-to-day activities. The department provides the necessary legal counselling, backing and support to the different Bank units.

Internal Audit department - The Internal Audit department is directly subordinate to the Board of Directors. The department's function is to carry out current auditing of the business and administrative activities of the Bank and its subsidiaries in Israel. The head of the Internal Audit department is the Bank's Chief Internal Auditor, who also serves as the Chief Internal Auditor of all the banking subsidiaries in Israel, as detailed above in the section on "Disclosure concerning the internal auditor in the corporation." The Chief Internal Auditor is a member of the Bank's Management.

The divisions and departments that are subordinate to the CEO provide professional support for all the Bank's branches and other divisions in their areas of expertise. For example, the Corporate Division supports all the divisions in the area of credit operation and control; the Banking Division provides support in the areas of direct banking activity, such as Internet, the Beinleumi Call Center, mortgages, credit cards, marketing and collection; the Customer Assets Management Division provides professional support for services relating to borrowing activity, via private banking centers and dealing rooms specializing in foreign and Israeli securities and the deposits dealing room. As stated, following the adoption of the shared services model, most of these services are provided to all the banks in the Group.

The branch network - As at December 31, 2015, the Bank Group had 172 branches and offices (82 branches and offices of the Bank, 46 branches and offices of Otsar Hahayal, 22 PAGI branches and offices, 22 Massad branches and offices). The Group examines on a current basis developments in the branches' profitability and business activity relative to the target populations which they are intended to serve, the objectives defined in the work programs of the banks in the Group, and the ability to fully utilize the potential inherent in the geographical region in which each branch is located. In this respect, a regular examination is made of the suitability of the branch deployment to the business environment and of changes in regions showing a potential for business development among the target population of each one of the banks in the Group.

Direct banking - The Group endeavors to improve the quality of the service provided to its customers and to increase the number of customers consuming financial banking services outside the branches. Accordingly, Beinleumi Call enables information to be obtained and transactions to be conducted outside branch business hours, and the banks in the Group also operate an internet site for these purposes. Other direct banking channels, including cellular applications, have been expanded as well.

Capital market activity - in the group operates International Unique investment management Ltd. Unique engage in portfolio management to private customers and corporations and consulting in securities to corporate and institutional entities.

FIXED ASSETS

	As of December 31			
	2015		2014	
	Cost	Accumulated depreciation	Balance	Balance
	NIS million			
Buildings and land (including installations and improvements to rented properties)	1,854	741	1,113	1,107
Equipment (including computers, furniture and vehicles)	708	592	116	115
Total	2,562	1,333	1,229	1,222

As of December 31, 2015, the Bank Group owned or leased a total area of 71 thousand square meters in 72 properties. In addition, the Group rents in Israel a total area of 48 thousand square meters in 165 properties throughout the country. The rental agreements for rented premises are for varying periods and in most cases an option to extend the rental periods is provided. The majority of rental contracts are linked to the consumer price index.

See Note 16 to the financial statements for details on additional aspects of the investment in premises and equipment.

HUMAN CAPITAL

Human Resources Strategy

The Bank's human resources strategy is formulated in accordance with the Bank's policy and business objectives, and is centered on strategic partnership for the purpose of achieving these objectives and realizing the full potential of the Bank's human capital. Accordingly, human resources strategy in 2015 was focused on a number of main areas:

Development of human capital - Strengthening and development of human capital in accordance with the Bank's requirements and business objectives, from the long-term aspect: detection and full exploitation of the potential inherent among employees, outlining of knowledge gaps and assimilation of core abilities, professional and managerial instruction and executive development.

Long-term personnel planning - Outlining and planning human capital requirements for the purpose of achieving the Bank's objectives, from the aspect of quality, quantity and timing, adaptation of career tracks, recruitment and training of managerial cadres and professional cadres in accordance with the Bank's requirements.

Organizational development - Development of advanced tools in all areas for processing the human capital at the organization, including: enhancement of recruitment processes, employee assimilation and retention, recognition of employees' endeavor, increasing the efficiency of organizational processes and development of control devices, performance appraisal, and support at the Bank's units.

Intra-organizational communications - Management of intra-organizational communications in order to promote cross-organizational dialog and cooperation while strengthening human capital, emphasis on openness and transparency of information, employing various means for encouraging dialog at the Bank, and branding of the Bank's welfare activities.

Organizational culture - Supporting a culture that strengthens the values and objectives of the Bank, with an emphasis on excellence in all areas of endeavor, ethical behavior, social accountability and contribution to the community.

Personnel

The number of full-time employees in the First International Bank Group on December 31, 2015 was 4,682 compared with 4,940 at the end of 2014, a decrease of 5.2%.

The following are details of the Group's employees:

	2015				2014			
	Bank	Subsidiaries		Group total	Bank	Subsidiaries		Group total
		Israel	Abroad			Israel	Abroad	
Full-time employees at end of year	3,168	1,485	29	4,682	3,150	1,758	32	4,940
Annual average no. of full-time employees at end of year*	3,259	1,700	32	4,991	3,298	1,791	31	5,120

(*) Including overtime.

The following are details of the Group's employees according to segments of activity:

	Year 2015	Year 2014
Corporate banking segment	753	792
Private banking segment	809	913
Commercial banking segment	410	405
Household segment	2,023	2,061
Small business segment	587	613
Financial management segment	100	156
Total	4,682	4,940

Human resource characteristics

The average seniority of the Bank's employees amounted to 17.7 years compared with 17.8 years in 2014. The average age of the Bank's employees was 46.5 compared with 46.0 in 2014.

Employee mobility

In order to reduce as far as possible the dependency on office-holders and as part of employees' personal and professional development, the Bank insists on employee mobility and rotation of employees within the Bank. For this purpose, the Bank regularly moves employees in sensitive functions who have served in their positions for more than the desirable number of years on the basis of a multi-year rotation plan, according to the type of position and/or personnel requirements and subject to the constraints imposed by the work agreements at the Bank.

Human resource quality and managerial quality

The enhancement of human resources continued in 2015 via the creation of advanced processes at the different stages of the employee's life at the organization: recruitment, classification and absorption of new employees, the conferral of tenure and new appointments and management development.

Management cadres and management development plans

The Bank's management cadre was built up on the basis of the managerial profile and critical core proficiencies. This cadre is used as a means for monitoring employees with managerial potential, for personal planning and development purposes and in order to map qualitative and quantitative gaps. As a result, different tracks for management development have been established during recent years, in order to train managerial reserves for various terms.

In this respect, the Bank is continuing to increase the proportion of graduate employees. The proportion of graduate employees at the Bank amounted to 58% at the end of 2015 compared with 57% at the end of 2014. The increase derived from the policy of recruiting graduate employees or employees who are close to the completion of their graduate studies, conditioning promotion to a managerial grade on the completion of studies, and the Bank's encouragement and financing of the completion of its employees' academic studies.

Code of Ethics

The Bank's Code of Ethics was compiled in cooperation with employees and was published in 2009. Since then, the Bank has institutionalized the process of developing tools for assimilation of the code and for promoting a culture of ethical behavior and social accountability. For this purpose, the Bank established ethical institutions at the bank, including an Ethics Committee headed by a member of management, which is responsible for assimilation of the code and for providing guidance and training on the basis of the values in the Code of Ethics, among other things, using a Code of Ethics Portal was instituted at the Bank. This portal contains interactive tools for the use of all employees.

Intra-organizational communication

Intra-organizational communication serves as a strategic managerial tool for supporting the Bank's objectives and activities, for assisting in all key processes and events, and for fostering dialog and a sense of connection between employees and the organization. The Bank has placed an emphasis on effective management of intra-organizational communication for the purpose of promoting transparency, increasing the level of employee satisfaction and strengthening the connection between all of the Bank's employees.

Professional instruction and training

In 2015, an emphasis was placed on the development of a climate of study and excellence among the Bank's employees, and innovative information tools and processes were employed for mapping knowledge gaps and for the development of advanced professional instruction activities in the Bank Group. An emphasis was also placed on instruction in the Bank's core areas of activity, and on managers' development before entering into and during the function.

The number of days of instruction at the Bank Group totaled 18,723 in 2015, which were equivalent to 73 employee positions and an average of 3.6 days of instruction a year per employee at the Group. This compares with 20,766 days of instruction in 2014, which were equivalent to 81 employee positions and an average of 4 days of instruction a year per employee.

LABOR RELATIONS AT THE BANK

Two employee organizations operate at the Bank and PAGI: the Managers and Authorized Signatories Organization, which represents 800 employees, and the Clerks Organization, which represents 2,120 employees of the Bank and of Bank Poalei Agudat Israel. The Bank and Bank Poalei Agudat Israel have a collective agreement that stipulates linkage of clerks' and managers' conditions to the agreements signed between the management of Bank Leumi Le-Israel (hereinafter: "Bank Leumi") and the employee committees at that bank.

- a. On January 29, 2015, Bank Leumi Le-Israel signed a collective labor agreement for four years between 2015 and 2018. For additional details see note 23 to the financial statements.
- b. The First International Bank announced on June 17, 2015, the merger of Ubank into the Bank, and the merger took place on October 1, 2015 while maintaining the Ubank brand name (for further information see note 15 to the financial statements).

A special collective agreement was signed on July 30, 2015, between UBank, UBank Trust Company and the First International Bank on the one part and the Federation of Labor and the representative committee of UBank employees on the other part. The agreement regularizes the manner implementation of the

merger between UBank and the First International Bank. Hereunder are the principal issues regularized by the agreement:

1. Most of the employees of UBank will be reassigned for service with the First International Bank or with other companies within the First International Bank Group. Within this framework, all branches of UBank will become part of the First International Bank, continuing to operate during the same operating hours and work procedures as hitherto.
2. Employees who would not be interested in a reassignment to the First International Bank and who will continue to work until date of the merger, would be entitled to increased termination of work terms (increased severance compensation and adaptation period at a differential rate according to length of service of the employee). These terms would apply also to employees reassigned to the First International Bank without being entitled to a permanent worker status, and whose employment would be terminated at the initiative of the First International Bank.
3. Reassignment to the First International Bank would preserve the benefits applying to seniority, accumulated vacation and sick leave periods relating to the term of office at UBank. Most of the employee would maintain at least the level of salary that had prevailed at UBank, including the salary basis for pension. The period of service with UBank shall not be taken into consideration for the purpose of permanency of office and for jubilee awards, and the period of service for such purposes shall begin as from date of the merger.
4. It has been agreed that negotiations will be held as regards the signing of a collective agreement between UBank Trust Company and the Federation of Labor regularizing the employment of UBank Trust Company employees.

In the framework of the merger 120 of Ubank's employees retired.

- c. The First International Bank announced on June 17, 2015, the merger of PAGI into the Bank, while maintaining the PAGI brand name. The merger took place on January 1, 2016 (for further information see note 15 to the financial statements).
- d. On April 29, 2013, the General Labor Federation and the Clerks Organization at the Bank declared a labor dispute, in accordance with which they would be able to announce organizational measures from May 16, 2013, onwards, for the following reasons: an alleged attempt to curtail the activities of the Clerks Organization; the alleged rejection of the employees' demand to extend the work agreements; the alleged ignoring of the employees' demand to regulate the matter of work load.

On November 11, 2015, the Bank signed a special collective labor agreement with the Federation of Labor and the Clerks Representative Committee of the Bank, according to which the labor dispute has been terminated, thus all past claims of the Clerks Representative Committee have been exhausted, excluding any legal claims.

In addition, the agreement established various arrangements, among which the commitment by the Clerks Representative Committee for full industrial peace for a period of three years, excluding a countrywide or sectorial strike or an extreme event in the life of the Bank; the employer contribution by the Bank to the provident payments to clerks of the Bank shall be increased to a rate of 7.5% of payroll, similarly to the labor agreement signed at the beginning of the year by Bank Leumi; and the payment of the balance of the award to clerks for the year 2013, which had been suspended following the labor dispute.

Furthermore, the agreements relates also to the merger of UBank with and into the Bank and states that the parties would act facilitate the smooth and easy absorption of UBank and its employees by the Bank as required by the needs of the merger while maintaining the unique office hours of the branches of UBank.

A special collective labor agreement has also been signed between the Bank and PAGI and the Federation of Labor and the Clerks Representative Committee of PAGI, whereby various arrangements were determined with respect to the employees of PAGI, to apply upon the implementation of the merger between the Bank and PAGI. The agreement states among other things, that the operation of the PAGI branches as well as the employment terms of PAGI employees would continue subsequently to the merger in the same format as hitherto.

The implementation of the said agreements does not affect the financial statements of the Bank.

- e. According to immediate report published by Bank Leumi on February 17, 2016, a special collective agreement was signed between Bank Leumi and the representative of the employees of Bank Leumi concerning conversion of employee rights to Bank Leumi shares as a preparation to adhere to the capital regulatory stages. The agreement requires the signature of the general employee organization.

At this stage the Bank is examining the content of the special collective agreement of Bank Leumi concerning the conversion of the entitlement to jubilee grants and jubilee vacation to shares and the conditions for the applicability of the agreement, if at all (all other conversion items detailed in the immediate report of Bank Leumi are not relevant to the Bank). In addition, at this stage the Bank is unaware of the rates the conversion will take place according to the collective agreement of Bank Leumi, if at all, regarding the jubilee grants and jubilee vacations. Thus, it is impossible to estimate the volume of effect on the financial results of the Bank and other balance sheet items.

OTHER MATTERS

On November 26, 2014, the Israeli Securities Authority published a preliminary Bill Memorandum intended to create a change in ownership of the Stock Exchange, while separating the ownership of the Stock Exchange from the membership therein and turning it into a profit earning corporation. Following this proposed structural change, access to trading on the Stock Exchange would no longer be dependent on the existence of ownership rights in the Stock Exchange, but would be based upon contractual engagements between the Stock Exchange and potential members thereof. The amendment regularizes the licensing and manner of management of the Stock Exchange following the change.

On background of that stated above and as a preliminary move, the General Meeting of the Stock Exchange held on July 30, 2015, approved a proposal for an arrangement plan between the present members of the Stock Exchange, among themselves, and between them and the Stock exchange, for the purpose of implementing the structural change of the Stock Exchange turning it into a profit earning corporation, having a share capital of one class of shares; this by the allotment of shares to the present members of the Stock Exchange, on the basis of an economic model, while making a number of adjustments. According to the approved outline, the share of the Bank group (prior to allotment of shares to officers and other employees of the Stock Exchange) would amount to 21.6%.

In addition, the arrangement plan includes a framework for the application of a compensation plan to officers and employees of the Stock Exchange and of clearinghouses under its ownership. The arrangement plan, if realized, would first of all be subject to the completion of legislation proceedings. Furthermore, to the extent that the legislation proceedings are concluded, and subject to the final terms determined by the legislation, it is the intension of the Stock Exchange to present a detailed arrangement plan for approval of its members in terms of a process under Section 350 of the Companies Act.

MATERIAL AGREEMENTS

Apart from the agreements in the normal course of business, the agreements detailed below, which were signed in 2015 and/or were signed previously and are still binding on the Bank, are likely to be considered as material agreements not in the normal course of business:

1. Agreement with the holders of shares and a PUT option in Otsar Hahayal

As part of the arrangements reached in 2006 between the Bank and "Hever" Servicemen and Veterans Ltd. (hereinafter – "Hever"), being an additional shareholder of Otsar Hahayal, the Bank has certain obligations towards Hever, among which is a PUT option whereby Chever is entitled to obligate the Bank to purchase from its holdings in Otsar Hahayal, in whole or in part. For details regarding the PUT option see note 15 to the financial statements.

Hever has the right of relative participation in the sale of Otsar Hahayal shares by the Bank.

Hever has the right to object to the appointment of the CEO at Otsar Hahayal, providing that it does not object to more than two candidates. Arrangements were determined for the appointment of directors and the fulfillment of functions on the board of directors on the part of Hever. It was also determined that Otsar Hahayal will adopt a dividend policy whereby a dividend will be distributed at the maximum legitimate rate. At this stage however and with Hever's consent, such a policy has not been adopted. It should be noted that Otsar Hahayal's articles of association contain a right of refusal mechanism. Under the control permit which the Bank and Hever received from the Bank of Israel, the Bank and Hever were permitted to own control and holdings in Otsar Hahayal together, cooperation between the Bank and Hever was permitted under restrictive terms, and additional terms were prescribed with respect to control, prevention of competition and the services which Otsar Hahayal will receive. On January 29, 2015, Hever informed the Bank that it was waiving its right to appoint an external director on Otsar Hachayal from the four directors it is entitled to recommend, in accordance with the agreement.

In addition, under the Bank's permit for control in Otsar Hahayal, the Bank is required to maintain its existing rate of holdings in Otsar Hahayal and in the event of a public offering, to maintain a rate of holding of not less than 50.1%.

2. Collective Labor Agreements:

There are two employees' organizations at the Bank - the clerks organization, and the managers and authorized signatories' organization.

The following is a summary of the principal agreements signed with the two employees' organizations:

- A collective agreement of November 19, 1975 between the Bank's management and the National Organization of the Association of the Managers and Authorized Signatories of the Bank regarding the linkage of salary conditions and related work conditions as practiced with respect to authorized signatories at Bank Leumi Le-Israel Ltd. On November 12, 2000 a special collective agreement was signed. The agreement stipulated employees' obligations and rights inter alia concerning mobility between functions, overtime policy, annual vacation, vacation provision, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute).

Apart from these agreements, individual agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.

- A collective agreement of October 25, 1974 between the Bank's management and the national organization of the Bank's employees concerning the receipt of related payments such as are received by the employees of Bank Leumi le-Israel Ltd. There is also a special collective agreement from that year which determines the obligations and rights of employees inter alia concerning mobility between functions, overtime policy, annual vacation, vacation provision, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute). In addition to these agreements, individual agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.
3. Indemnification of officers of the Bank and its subsidiaries - see Note 25.3.C to the financial statements.
 4. Deeds of trust and guarantees in the issue of bonds, subordinated deeds of liability and subordinated capital notes.
 First International Issues Company Ltd., a wholly owned subsidiary of the Bank, concluded deeds of trust in connection with the issue of bonds, subordinated deeds of liability and subordinated capital notes of different series issued by First International Issues, in accordance with prospectuses in public or private placements.
 Agreements were signed between First International Issues and the Bank concerning issues whose proceeds are placed in deposits or subordinated deposits at the Bank at terms identical to the terms of certificates of liability, including the repayment of principal and payments of interest.
 On May 15, 2007 a similar agreement was signed between First International Issues and Otsar Hahayal with respect to the proceeds of issues that are deposited at Otsar Hahayal.
 The total revaluated value of the certificates of liability that were issued under the said deeds of trust, whose proceeds were deposited at the Bank and at Otsar Hahayal, and which are held by the public, amounted to NIS 4,885 million on December 31, 2015 (including linkage differentials, accrued interest, issue expenses, discounting and premium).
 5. Arrangements concerning matters connected with the capital market - a notification which the Bank sent on August 1, 1984 to the Supervisor of Banks at the time, concerning a number of restrictions which the Bank took upon itself in connection with its activity in the capital market.
 6. Pledge of the Bank's assets to clearing houses in Israel and abroad and to foreign banks and brokers - see Note 26 to the financial statements.
 7. Pledge to the benefit of the Bank of Israel - see Note 26 to the financial statements.
 8. Mutual guarantee for the Maof Risk Fund and a risk fund that was established by the stock exchange - see Note 25.3.D and 25.3.E to the financial statements.

LIMITATIONS REGARDING LEGISLATION, STANDARDS AND SPECIAL CONSTRAINTS AFFECTING THE BANK GROUP

GENERAL

The legislative coverage of banking in Israel applying to the Bank includes the Banking Order of 1941, The Bank of Israel Act of 2010, the Banking Act (Licensing) of 1981 and the Banking Act (Customer Services) of 1981. Under these Acts, the Bank is subject to supervision by the Bank of Israel and, in particular, by the Governor of the Bank of Israel and the Supervisor of Banks, and the directives, regulations, guidelines and orders of the Supervisor of Banks ("banking legislation") applying to the Bank. The banking legislation constitutes the legal and primary basis for the activity of the Bank Group.

Apart from the banking legislation, the Bank is subject to parallel legislative systems that govern its operations in such areas as capital market activity and mortgage activity. In addition to the primary legislative provisions, the Bank is bound by the directives, regulations and guidelines of such competent State authorities as the Securities Authority, the Capital Market, Insurance and Savings Commissioner at the Ministry of Finance, the Stock Exchange and the Antitrust Authority. Additional laws on special subjects impose specific requirements and directives on the banking system. Examples in this respect are the Anti Money laundering and Terrorism Financing Act, regulation concerning operation with foreign citizens and FATCA.

The Bank Group acts in compliance with the provisions of the law and the regulations applying to it.

Set out below are brief details of legislative changes and legislative initiatives relevant to the period of the report, which have an effect on or are likely to affect the Bank's activity.

BANKING

Banking Rules (Customer Service - Fees) (Amendment), 2015

The amendment that was published on January 29, 2015, combines amendments from several previous drafts and additional amendments, as follows -

- Provisions regarding joining the tracks.
- Amendment to the "small business" definition, pursuant to which a company that submits an "annual report" to the Bank, pursuant to which its business turnover in the year preceding the date of submission did not exceed NIS 5 million, will not be required to submit an additional annual report and will continue to be considered a "small business" until the circumstances specified in the amendment, which allow the Bank to classify the company as other than a small business, start to apply.
- Amendments to different fees - prohibition to charge a transaction fee in the direct channel, in respect of charges through immediate debit cards, amendments in cash handling fees, transmission on RTGS and credit card fees, cancellation of loan management/charge fees.
- Addition of items to the price list such as debit card transaction clearing fees and discounting services to businesses.

An additional amendment was published on June 28, 2015, to the Banking Rules (Customer services) (Fees) (Amendment No. 2), 2015, relating mainly to fees regarding credit cards included in the previous amendment, the effective date of which has been deferred to July 1, 2015, for the purpose of the said additional Amendment.

The Banking Order (Customer services) (Supervision of notice or warning services), 2015, was published on May 26, 2015. The Order declares the notice or warning service as a price controlled service and determines the maximum amount for fees in respect thereof.

Banking Rules (Customer services) (Fees) (Amendment No. 2), 2015.

The above amendment was published on June 28, 2015, and includes, among other things, the cancellation of "bounced checks deposit charges", cancellation of "notice" fees in respect of "follow-up letters" and changes in different fees with regard to charge cards including restriction on the collection of card fees in respect of immediate debit cards.

The Rules took effect of July 1, 2015.

The Bank estimates that the said amendments to commission fees is not expected to have a material effect on commission income.

Proper Conduct of Banking Business Directive No. 423 in the matter of "service channels"

The aim of the Directive, published on June 21, 2015, is to increase awareness of customers to the "service channels" as determined in the Banking Rules (customer services) (Fees), 2008. The Directive includes guidelines to banking corporations regarding the manner of informing customers as to the service channels upon opening of a current account, and through publication on the Internet website of the banking corporation, as well as regarding the provision of specific information in writing to a customer wishing to join a service channel.

The Directive took effect in full on January 1, 2016.

Furthermore, the Bank issued notice to customers who had not joined a service channel that include information regarding the fee amounts actually charged to them in comparison with the channel pricelist, as well as regarding the manner of joining the channel service.

Bank of Israel letter regarding measures applying to commission fees.

On January 24, 2016, Bank of Israel published a letter to banking corporations with respect to measures in the matter of commission fees. To the letter was attached a draft amendment to the Banking rules (Customer service (Commission fees), 2008, according to which, banks would be required, on their own initiative and giving notice to the customer, to attach to the basic commission channel customers classified as "senior citizens" or "handicapped", and which according to the draft, may benefit from the transfer to the basic channel. The customer is entitled to cancel the attachment to the channel, as stated.

In the letter, Bank of Israel further stated that, within the framework of the treatment of exceptional commissions, it plans to perform during 2016 an comprehensive survey of all prices of bank services included in the First Addendum to the commission rules, as above, with a view of identifying and dealing with such commissions. Specific guidelines would be issued to the banks in accordance with the findings of the survey.

Moreover, Bank of Israel has issued drafts for the supervision/limitation of the prices of several commissions charged to individuals and small businesses: reports requested by the customer – standard reports, changes in repayment dates of housing loans, and as regards services applying to securities transactions – commissions

on the purchase, sale and redemption of marketable securities traded on the Tel Aviv Stock Exchange (excluding short-term loans MAKAM)

Proper Conduct of Banking Business Directive No. 418 in the matter of "opening of accounts via the Internet"

The Directive, published on July 16, 2014, permits the Bank the online opening and management of bank accounts for customers, provided that those wishing to open accounts in this manner are adult individuals who are residents of Israel and that no one except the account owner may be the beneficiary in the account. Unique procedures shall be applied in order to identify the customers and verify their personal details, including verification based on copies of identification documents, the online signature of beneficiaries declaration, identification by visual imaging technologies, and performing a wider "know your customer" procedure. The Directive stipulates certain limitations as regards the management of the account (maximum transaction amounts, balance of assets at the end of each day and a facility for charge card operations, identification of those entitled to operate the account, type and quantity of check forms issued to the customer). These limitations would be removed after the customer's visit in person to the branch and completion in full the identification process.

The Bank is providing the said service as from May 4, 2015.

Within the framework of the draft Proper Conduct of Banking Business Directive in the matter of online banking, discussed below, Bank of Israel has included also instructions in the matter of an online account, which are to replace Proper Conduct of Banking Business Directive No. 418, while introducing certain changes in comparison to the existing Directive.

Proper Conduct of Banking Business Directive No. 425 in the matter of "annual reports to customers of banking corporations"

Bank of Israel published on June 21, 2015, Proper Conduct of Banking Business Directive regarding annual reports to customers of banking corporations. The Directive introduces the duty of providing customers with an annual report and defines the manner of its delivery detailing the information to be included therein. The report should include comprehensive information regarding the assets and liabilities of the customer.

The Directive applies to private individuals and small businesses and will take effect on February 28, 2016 (the Bank submitted to the Supervisor of Banks at the set date, details of the formulas used in computing the data, as well as the preliminary format of the reports).

Proper Conduct of Banking Business Directive No. 432 in the matter of "the transfer of banking activity and the closing of a customer's account"

Bank of Israel published on December 21, 2014, an amendment to Proper Conduct of Banking Business Directive in the matter of the transfer of banking activity and the closing of customer accounts. The principal points of the amendment refer to increasing the possibilities of closing a bank account or the transfer of banking activity by means of additional communication channels, as well as the delivery of information to a customer in a format similar to that stated in Directive 425 of Bank of Israel regarding annual reports to customers.

The Directive applies to private individuals and to small businesses and will become fully effective on February 28, 2016.

Proper Conduct of Banking Business Directive No. 454 – Early repayment of non housing loan

Bank of Israel published on June 21, 2015, an amendment to Proper Banking Business Directive in the matter of early repayment of non-housing loans. The purpose of the amendment is to expand the scope of the existing arrangement stipulated in the Directive, to establish a uniform and visible mechanism for setting the interest rate used to calculate the discount component and to create uniformity, to the extent possible, between the prepayment of housing loans and the prepayment of non-housing credit. Pursuant to the amendment, the said arrangement will apply to loans granted to private individuals or to small businesses, as defined in the public reporting instructions, in contrast to the previous version which applied only to loans the original amount of which did not exceed NIS 750 thousand and were granted for a minimum period of 6 months ("protected loans"). Moreover, a new mechanism for the calculation of the discounting component was established in respect of protected loans, which is based on the average rate of interest and eliminates the risk premium applying to the borrower in the case of premature repayment. In addition, customer disclosure requirements have been expanded in respect of all loans, among other things, by means of an explanatory note to be provided also upon the granting of the loan.

The amendment will take effect on April 1, 2016.

Steps to expand the distribution and use of immediate debit cards

On June 30, 2015, Bank of Israel issued instructions for the integration of the use of immediate debit cards in Israel and for the enhancement of competition in the credit card market, as detailed below:

1. Within the framework of the amendment of Proper Conduct of Banking Business Directive No. 470, two chapters have been added to the Directive – Chapter regarding "immediate debit card and rechargeable card", which includes reference to dates for the transfer of money in immediate debit transactions (from date of charging the card holder to date of crediting the trading house), as well as to the manner of disclosure to the customer of immediate debit transactions, including within the framework of a current account.
Chapter regarding the use of debit cards under EMV Standard" ("clever cards"), which includes instructions for the conversion of the debit card layout (issuing, clearing, automatic appliances) to the EMV Standard.
The amendment to the Directive will take effect gradually as from October 1, 2015 and until December 31, 2018.
2. Letter of the Supervisor of Banks in the matter of expanding the distribution of immediate debit cards – banking corporations are required to take active action with respect to existing and new customers, offering them immediate debit cards, as well as maintain follow-up and periodic reporting to Bank of Israel regarding the distribution of immediate debit cards.
3. Banking Order (Customer services) (Supervision over the service provided by an issuer to the clearing agent in respect of cross-clearing of immediate debit transactions (Provisional instruction)), 2015 – the cross commission for immediate debit transactions has been declared as a price controlled fee, at a rate of 0.3% (in contrast to the average cross commission of 0.7% in practice at the present time for ordinary charge transactions). This will apply as from April 1, 2016, for a period of one year, in order to allow

preparations for the determination of the fee by the Antitrust Commissioner. The Order was published on August 26, 2015.

Furthermore, the Banking Rules (Customer services) (Fees) (Amendment No. 2), 2015, was published on June 28, 2015, which, among other things, includes restrictions on the charging of card fees for immediate debit cards, including a prohibition on the charging of card fees for an immediate debit card issued to a customer having already a valid credit card that had been issued by the same banking corporation. This for a period of 36 months from date of issue of the immediate debit card.

The Bank is preparing for the implementation of the said instructions.

Circular letter by Bank of Israel in the matter of restrictions on indebtedness of a borrower and of a group of borrowers.

The Supervisor of Banks issued on June 9, 2015, a circular letter amending Proper Conduct of Banking Business Directive No. 313 regarding restrictions on indebtedness of a borrower and a group of borrowers. The letter reduces the capital definition in respect of Tier I capital, thus stiffening the restrictions on the granting of credit to a single borrower and groups of borrowers. Furthermore, the restriction applying to the indebtedness of a banking borrower group to a banking corporation has been changed, forming now 15% of the said capital instead of 25%.

The amendments to the Directive take effect on January 1, 2016, except for the change in the definition of capital the reduction thereof shall be effected gradually over twelve quarters until December 31, 2018.

Proper Conduct of Banking Business Directive No. 327 in the matter of "leveraged loans"

This Directive was published on April 28, 2015. The Directive states the expectations of the Supervisor of Banks regarding appropriate and careful risk management as regards the practice of banking corporations involving leveraged loans. Banking corporations are required, among other things to maintain a transaction structure reflecting appropriate business assumptions, an appropriate capital structure, a reasonable level of leverage as well as a definition of a leveraged loan allowing consistent application by all lines of business. Banking corporations are further required to determine underwriting procedures, a framework for credit limitations and concentration of credit, which agrees with the risk appetite, as well as maintain a proper management information system.

The Directives took effect on January 1, 2016.

The Bank is preparing for the implementation of the Directive.

Draft Memorandum of the Banking Act (Customer service) (Amendment No. 20), 2015

The draft, published on September 3, 2015, includes several items, among which:

1. Determination of a disputable status according to which, refusal on the part of a banking corporation to provide service, shall be considered a reasonable refusal if it stems from the customer's refusal to provide information required by law, and in particular by the Prevention of Money Laundering Order and of Proper Conduct of Banking Business Directive No. 411. Furthermore, refusal on the part of a banking corporation to provide service where there is a reasonable basis for the assumption that the transaction pertains to money laundering or the finance of terror, shall also be considered a reasonable refusal according to Section 2(a) to the Banking Act (Service to customer).

2. Expanding the arrangement for the removal of pledges securing a debt that had been already settled, also to caveats and to commitments to register a mortgage, registered to secure such debts, allowing also their removal by the customer himself, including authorizing the Supervisor of Banks to impose a monetary sanction in respect of a violation of this duty (replacing the fine in effect at the present time).
3. Amendment of the definition "customer" in relation to commissions, in a manner that would allow the definition of an individual who maintains a bank account for business purposes as a "small business" or as a "large business", in accordance with his business turnover, this according to the amendment already made to the Banking Rules (Customer service) (Commissions), 2008, the effect of which had been suspended until the said amendment to the Banking Act (Customer service) takes effect.
4. Authorizing the Supervisor of Banks to publish data of banking corporations regarding their actual average income from charges to customers for services rendered, as well as the rates of interest actually payable to customers on shekel deposits, and actually charged to customers for credit granted.

Draft Proper Conduct of Banking Business Directive No. 450 in the matter of "procedures for the collection of debts"

Bank of Israel published on May 4, 2015, a draft directive in the matter of debt collection procedures aimed at regularizing the actions which a banking corporation should adopt in the area of bank/customer relations, and creating higher transparency and fairness in the process of debt collection. Among the principal issues of the draft are – requirement for determining a policy in respect of the collection of customer debts, creating a new function for this matter, determination of a maximum rate for interest on arrears of a loan, including an approved credit facility in an account, and the required proper disclosure.

Letter of the Supervisor of Banks in the matter of initiated approaches to retail customers regarding the granting of credit

On November 17, 2015, Bank of Israel published a letter (replacing previous letters) addressed to banking corporations, according to which, banking corporations and credit card companies have to determine a policy, procedures and processes with respect to approaches initiated by them to retail customers and verify that the process of initiated approach for the granting of loans to retail customers is organized and detailed, including – definition of targeted customer populations, determination of conversation scenarios that would include disclosure of the terms of loans and reference to the customer's needs and characteristics, determination of the manner of approaching the customer, while adapting the marketing means to the nature of the targeted population, documentation of the approach to the customer including the recording of approaches made by telephone calls. With respect to marketing calls made by the Branches, a banking corporation may replace the recording by detailed documentation. Moreover, additional responsibility is imposed on Management and the Board of Directors of a bank to verify that loan marketing processes are conducted fairly and in a proper manner, and that the loan offered agrees with the needs of the customer. According to the Bank of Israel clarification, the provisions of the letter will at this stage apply to loans granted to private individuals.

The Bank is preparing for the updating of the procedures and policy according to the Bank of Israel directives.

Draft Bank of Israel instructions regarding online banking

On January 31, 2016, Bank of Israel published a draft of a new designated Proper Conduct of Banking Business Directive in the matter of "Online banking", as well as other drafts that increase the number of agreements, which may be approved via the Internet, and the online delivery of notices and letters.

The aim of these instructions is to remove existing barriers hindering the continued development of digital banking, and allowing flexibility in accordance with the changing technology, while expanding the variety of services and products, which may be offered to customers online.

The new instructions include relief and changes, among other, regarding the following issues – the opening of a new bank account with no need to visit the bank branch, joining online banking services via the Internet, online agreements, online payments and transfer of funds, updating personal details of customers without having to visit the branch, data aggregation services, correspondence with the bank via e-mail and receipt of notices from the bank otherwise than by postal services.

Alongside the proposed reliefs, the instruction imposes on banks increased responsibility for the risk management involved in the expansion of distance banking activity and for customer data protection, including the addition of controls, the monitoring of irregular operations, delivery of warning notices to customers and guidance provided to customers.

Electronic clearing of checks Act, 2016

The Act was formally published on January 10, 2016.

The Act eliminates the need for the physical conveying of checks, their storage and retrieval, thus making the clearing process more efficient. It allows the use of advanced electronic means for the depositing of checks, regularizes the manner of returning a dishonored check, and admittance of an electronic check as evidence in legal proceedings. The scope of responsibility of a bank toward its customers shall not change following the change in the clearing process. The Act takes effect six months after date of publication. During a period of eighteen month from the date on which the Act takes effect, it would be possible to simultaneously clear checks both physically and electronically, Thereafter, only electronic clearing would be possible.

The Economic Plan Act (Legislation amendments for the implementation of the economic policy for the budget years 2015 and 2016), 2015

The Act was published on November 30, 2015, amending, among other things, the Banking Act (Licensing), 1981, in a manner that allows also off-banking entities granting credit to the public to raise capital by way of public issuance of debt notes, as defined in Section 35A of the Securities Act. The Act limits to a total of NIS 2.5 billion, the amount of credit that an entity as above may grant, the source of which, among other things, being the issuance of debt notes. It also states additional conditions for such activity.

The Pledge Bill, 2015

On July 17, 2015, the Knesset passed, in first reading, the Pledge Bill.

The Bill proposes to establish a comprehensive reform of the pledge laws and to replace the provisions of the existing Pledge Act and of the Companies Ordinance in this matter.

Among the central changes of the Bill are: the right of an individual to pledge an asset not yet in his possession or even an asset that has not yet come into existence; revocation of the concept of a "floating pledge" – the

borrower company would be able to create a fixed pledge upon its future assets, and the status of such pledge would not be automatically inferior to specific pledges; cancellation of the possibility of a creditor to limit the power of the debtor to effect transactions regarding the pledged asset, and more.

The Credit Data Bill, 2015

According to this Bill, which passed its first reading on October 13, 2015, the Credit Data Service Act, 2002, would be replaced by a new Act, regularizing the establishment of a credit data participation system, having at its center a public credit database to be established, managed and operated by Bank of Israel. The Bill proposes several central changes, among which: the scope of information provided and received with respect to customers of a bank would be enlarged. This scope will be determined in continuation, by the Minister of Justice, with the consent of the Governor of Bank of Israel and the Minister of Finance; the database will maintain credit data of a customer, unless that customer requests that no data should be collected in his respect; the holder of a credit data service license would be permitted to provide a credit report to a provider of credit, on condition that he obtained the consent of the customer to the delivery of a credit report in his respect; imposing a personal liability on officers of a corporation in respect of violation of the provisions of the Act, and authorizing the officer in charge of participation in credit data, appointed by the Governor of Bank of Israel, to impose a monetary sanction in respect of the violations stated in Section 85 to the Bill.

The Regulation of Off-banking Loans (Amendment No. 3), 2015 (the "Fair Credit Bill")

The Bill passed its first reading on July 27, 2015. This Bill follows the recommendations of the team appointed to examine the increasing of competition in the banking sector, and its aim is to equalize the norms applying to non-institutional lenders to those applying to institutional lenders, including the banking sector. According to the proposed amendment, all the provisions of the Regulation of Off-banking Loans Act, including provisions in respect of the process of credit granting and collection thereof, shall apply also to institutional lenders, on condition only that this does not derogate from the duties pertaining to an institutional lender under another law. The Bill proposes to add a definition to the maximum rate of credit cost, and to establish a uniform formula for the calculation of the maximum interest rate charged by all lending entities granting credit to individuals or to corporations of a class to be determined by the Minister of Justice.

The Committee for the increase of competition regarding prevalent banking and financial services

In June 2015, "a committee for the increase of competition regarding prevalent banking and financial services" was appointed, headed by Adv. Dror Strom. The task of the Committee was recommend measures required to increase competition in the said sectors. On December 14, 2015, the Committee presented the interim report formed by it, which includes recommendations regarding the changes required in this field. Among other things, the Committee recommends to increase competition regarding retail banking services by the introduction of new players to the market, including by means of separating the holdings and control of credit card companies from the large banks within a period of three years, with the intention that these companies would offer credit to households and small businesses in competition to the banks. In this respect, the Committee had determined that "large banks" are banks that have a retail credit activity with households in an amount of 20% and over of the total credit granted to households by the banking sector as a whole. It is further recommended that an examination would be made within four years as to the need to separate the ownership of ICC from Discount

Bank and the Bank, taking into consideration the development of competition in this field. In addition, the Committee recommends further measures, such as the increase of competition with respect to the clearing of transactions, the increase in the supply of credit offered by institutional bodies by granting them incentives, introducing into the market, under supervision, of new off-banking financial corporations, increasing competition between existing banks, and the granting of relief to new competitors.

As of date of publication of this report, the final recommendations of the Committee have not yet been published.

Bank of Israel letter regarding operating efficiency in the banking sector in Israel

On January 12, 2016, Bank of Israel published a letter regarding operating efficiency in the banking sector in Israel. The letter states, that the economic activity, the regulatory and the changing technological environments of the banking sector in Israel, may materially impact the volume of earnings of the banking sector. It is further stated, that an analysis of the Israeli banking sector data and the use of different performance indices, indicate a low level of efficiency, as compared with banking systems in other advanced countries. In accordance therewith, banking corporations are required to outline a multi-annual program for increasing efficiency. The program has to determine specific actions for the range of the next five years, as well as principles for improving efficiency in the longer term. In order to encourage the implementation of an efficiency program, the Supervisor of Banks shall grant banks, subject to fulfillment of certain conditions, a deferment in dates set for attainment of the capital adequacy goals determined for them, based on the effect of the estimated reduction in the regulatory capital at date of approval of the program, caused by the defined costs involved in the implementation of the efficiency program.

THE CAPITAL MARKET

A. Mutual funds

Mutual Investment Trusts Act (Amendment no. 23), 2014

The Mutual Investment Trusts Act (Amendment no. 23), 2014, was published on July 30, 2014. Among other things, the proposed Amendment regulates the possibility of offering to the public in Israel units of a foreign fund, which had been approved by the supervisory authority in its country of origin, which allows also the issue of instructions by the Minister of Finance in the matter of the payment of a distribution commission by the manager of the foreign fund.

The Act took effect three months from the date of publication, but the chapter regulating the offerings of foreign funds shall become effective upon the entry into effect of regulations designed to ensure the interests of the investor population in Israel.

B. Securities

Securities Act (Amendment No. 53), 2013

Amendment 53 to the Securities Act was approved on October 28, 2013. The amendment is intended to encourage those holding securities to exercise their voting rights by means of an electronic voting system which the Securities Authority will establish, without having to obtain confirmation of the ownership of a security from a

stock exchange member. Stock exchange members will be required to supply to the system all the required data on potential voters who hold securities via them and to provide to those potential voters the information and the details necessary for them for the purpose of voting at a meeting. The model proposed in the bill is not intended to replace the currently existing opportunities for voting at meeting, and constitutes an additional channel for exercising the voting rights of those holding securities.

The amendment to the Act took effect on June 17, 2015, together with the applicability of the Regulations enacted in this respect.

C. Provident funds

The Capital market group at the Ministry of Finance published on July 29, 2015, a draft of the Supervision over Financial Services Regulations (Provident funds) (Purchase, sale and holding of securities) (Amendment), 2015. Among other things, it is proposed in the draft Regulations that, with certain exceptions, an institutional investor, being a member of a group of investors (according to the relevant definitions in the draft Amendment) one of whom has an engagement agreement with a banking corporation for the granting of management or operating services, shall not be entitled to buy or sell securities or foreign currency and shall not be entitled to hold and settle securities by means of or with that banking corporation. Restrictions in this matter have also been determined with respect to a related party to that institutional investor. The draft further proposes extension of the rules and number of participants in the required competitive process, including a demand for a competitive process, at least once every three years, with respect to the holding of securities.

A draft of the Supervision over Financial Services Regulations (Provident funds) (Personal management of provident funds) (Amendments), 2015, was also published at the same time, proposing a parallel amendment to the Amendment described above, with certain changes.

The Bank is studying the possible implications of the said drafts on its operations.

CORPORATE GOVERNANCE AND COMPANIES

Compensation of Officers of Financial Corporations Bill (Special approval and the non-deductibility tax wise of expenses relating to exceptional compensation), 2014.

The Compensation of Officers of Financial Corporations Bill (Special approval and the non-deductibility tax wise of exceptional compensation), 2014, was published on July 21, 2014 (to which has recently been applied the continuity rule). The Bill includes two principal rulings. The one, the establishment of a corporate mechanism for the approval of an engagement for the granting of compensation to a senior officer or to an employee of a financial corporation, in an amount exceeding NIS 3.5 million per year. The compensation amount is to be computed on a cumulative basis for all member companies of a financial group. The mechanism includes the approval by the compensation committee/and in the absence of which, by the audit committee, if such exists, the approval by the board of directors, with the majority of external/independent directors (where such exist), and the approval by the general meeting of shareholders. In the case of a corporation which is a public corporation, approval by the meeting of shareholders requires a supermajority vote by the minority shareholders. The other rule states that in computing the taxable income of a financial corporation, deductions shall not be allowed in respect of payroll of senior officers and employees exceeding the maximum amount of

NIS 3.5 million, and that from that maximum amount shall be deducted the amount of annual expense relating to the granting of shares or to the right to receive shares.

The definition of financial corporations to which the Bill applies includes banking corporations, insurers, provident fund management companies, mutual fund management companies, investment portfolio management companies, companies engaging in the issue of indices products and corporations controlling any of the above and to which apply additional criteria stated in the Bill.

In accordance with the Bill, the Act shall apply to engagements approved as from date of publication of the Act onwards. Engagements that had been approved prior to the publication of the Act, will have to be approved within one year from date of publication of the Act. It is noted that, according to the Bill, the provision that limits the amount deductible tax wise from the taxable income of a financial corporation, was supposed to take effect on January 1, 2015, and to apply to the payroll cost borne by the financial corporation as from that date onwards.

Amendment of Proper Conduct of Banking Business Directive No. 301A – Compensation policy of a banking corporation

Bank of Israel issued on August 13, 2015, an amendment of the above Directive. The Amendment focuses on three principal issues. The first – an instruction that all members of the Board of Directors including the chairman of the board shall be entitled to fixed compensation only. In addition, regarding the chairman of the board, criteria have been set for the manner of examining the amount of the fixed compensation and it was set that social benefits can be paid to the chairman as for all other officers in the banking corporation. As for the other directors, it was set, as is the practice at the Bank, that the fixed compensation will be determined according to the mechanism for external directors. The second – a requirement that the variable compensation granted to central employees of a banking corporation shall be refundable in particularly exceptional circumstances, to be determined by the banking corporation, taking into account circumstances determined in the instruction. It has also been determined that a banking corporation shall take all reasonable steps in order to reimburse itself with an appropriate amount, where circumstances for reimbursement exist. The period for reimbursement has been fixed for five years, with the possibility of extension, for office holders, for additional two years on the occurrence of the circumstances set in the directive. The compulsory will not occur if the total variable compensation for central employee does not exceed 1 sixth of the fixed compensation which he received in one calendary year. The third – (to take effect six months after date of publication), a directive that each corporation in the banking group will carry the costs of its officers and employees, as well as prohibiting receipt of compensation by central employees (which are not directors, but including the chairman and external directors) of a banking corporation from the owner of the control permit or from a major stakeholder in the banking corporation, including his family members and corporations controlled by any of them and which do not belong to the banking group. It has been clarified that the requirements under the Amendment shall not apply to rights accrued prior to the Amendment. Furthermore, a transitional instruction has been included according to which, it was, among other things, set that with respect to compensation agreements signed prior to the publication the Amendment, the amendment shall apply no later than December 31, 2017. As to compensation agreements signed after date of publication of the Amendment, including the change of existing compensation agreement – the Directive shall apply immediately.

Foreign Account Tax Compliance Act - FATCA

Under the provisions of the Foreign Account Tax Compliance Act (FATCA), The regulations enacted by the US Treasury for its implementation entered into effect on July 1, 2014. With a view of increasing the collection of taxes from American entities owning assets outside the USA, foreign financial institutions, including banks worldwide, are required to send information on accounts which those entities hold with them. For this purpose, the foreign financial institutions must conclude an agreement with the Internal Revenue Service (IRS) in the USA. A financial institution that does not sign an agreement as said and/or does not act in accordance with the said provisions will be subject inter alia to a requirement to deduct tax at source at a rate of 30% of the payments owing to the bank and/or its customers from American sources. On June 30, 2014, a bilateral agreement was signed between Israel and the USA concerning application of the FATCA. (Agreements on this subject have been reached between the USA and other countries.) This agreement turns the Israeli Tax Authority into an intermediary between Israeli financial institutions and the IRS in the USA.

On April 6, 2014, the Supervisor of Banks issued a letter concerning the preparations for the implementation of the FATCA provisions. In this letter, the Supervisor clarifies that refusal to open a new account for a customer who does not cooperate with the banking corporation in the manner required for the implementation of the FATCA provisions, and refusal to provide bank services in respect of an existing account, which expose the banking corporation to the risk of being considered a collaborator of the customer in evading the provisions of FATCA, shall be considered a "reasonable refusal" for the purpose of the Banking Act (Customer Service), 1981. As required from non-US financial institutions, the Bank and its relevant subsidiaries in the Bank's Group, have registered with the US Tax Authorities.

The Bank is following legislative developments in this respect and has made the appropriate dispositions.

Automatic exchange of information with OECD countries regarding tax matters relating to financial accounts

On October 28, 2014, the Ministry of Finance informed the Organization for Economic Cooperation of the Developed Countries that Israel decided to adopt the procedures for the automatic exchange of information regarding tax matters of financial accounts (Common Reporting Standards - CRS), this being part of the effort for the reduction of "black" capital. In accordance with this procedure, financial institutions, including banks, have to institute identification measures in respect of owners of accounts held with them and to provide the Tax Authorities with information relating to account owners who are foreign residents. The information is to include the balance of the account as well as financial income.

Legislative amendments as well as the signing of agreements between the authorities in the different countries will be required for the implementation of the said procedure.

On November 24, 2015, Israel joined the multilateral treaty regarding mutual administrative assistance concerning tax matters, which had been developed by the OECD and the European Union Council, as a tool for the cooperation regarding tax matters and struggle against avoidance and evasion of taxes. Until now, ninety countries, including all member countries of the OECD signed the treaty. According to the provisions of the treaty, the tax authorities of the different countries will assist each other, among other things, in the exchange of information required by a country for the purpose of its tax laws, either according to a specific request regarding a certain taxpayer or a transaction, or automatically in respect of each period according to predetermined categories.

The Income Tax Ordinance Amendment Act (No. 207), 2015, was passed on November 26, 2015. The Act enables the State of Israel to share information, under certain conditions, with both another country, with which the State of Israel has a treaty for the avoidance of double taxation, as well as with a country with which the State has an agreement for the exchange of information.

The Minister of Finance shall publish a formal notice regarding agreements for the exchange of information, which had been signed.

On February 10, the Income Tax Ordinance Amendment Bill (Amendment No. 221), 2016, was published. According to this Bill, in order to be able to implement the FATCA agreement already signed and agreements for the automatic exchange of information to be signed by the competent authorities in the format determined by the OECD, the Minister of Finance shall be authorized to issue Regulations regarding measures which a reporting financial institution has to take in order to identify the owners of accounts managed at the financial institution and their details, which the financial institution has to obtain from the account owner, and instructions regarding the information that has to be provided in respect of the accounts held with the financial institution and the manner of providing such information. In accordance with the Bill, effective enforcement would be ensured by a prompt process of imposing monetary sanctions on a financial institution, which had failed to obtain the required information from the account owner, or which had not performed the required examinations as regards the account owner.

Management of risks associated with cross-border transactions

On March 16, 2015, the Supervisor of Banks issued a draft circular letter regarding the management of risks associated with cross-border transactions. In accordance with the circular, in view of the growing risks involved in the activity regarding foreign residents, a banking corporation has to review and update its policy, procedures and controls with respect to operations of foreign residents. It is further stated in the circular that refusal to open a new account for a customer who does not cooperate with the banking corporation in the manner required for the implementation of the policy and procedures of that banking corporation with respect to the cross-border risks, and refusal to provide banking services with respect to an existing account, which expose the banking corporation to the risk of being considered a collaborator of the customer in evading the foreign legislation applying to the customer, shall be considered "reasonable refusal" in terms of the Banking Act (Customer service), 1981.

In the months of September to November 2014, the Supervisor of Banks approached the Bank and certain other banks in the Group (hereinafter – "the Bank") (and to the best knowledge of the Bank, also other banks) in the matter of its preparations regarding regulation risks concerning banking operations of its foreign resident customers. In the opinion of the Supervisor of Banks, the intensified regulation and enforcement on the part of foreign tax authorities and the efforts made in discovering taxable funds transferred by their citizens through foreign banking corporations may have implications on the manner of conduct of customers, thereby exposing the bank to compliance and reputation risks.

The Bank is aware of the risks involved in the operations of foreign residents and of the intensified regulation and enforcement exercised by the foreign tax authorities, including risks regarding possible tax evasion by customers subject to US tax laws ("American customers"). The Bank has a policy within the framework of the prohibition on money laundering and measures for the facing of risks involved in the activity with foreign residents being part of the different procedures of the Bank, alongside the preparations for the implementation

of the FATCA rules, as described in this Chapter. The Bank had adopted in the past and is adopting also at the present time examination and monitoring measures as regards exposure, also with respect to activity with customers, in order to reduce to the extent possible, concerns regarding unreported accounts. In this respect,, as regards American customers, and even prior to the passing of the FATCA Regulations, the Bank had adopted preventive measures, including close supervision of over the relevant unit at the Bank, the examination of transfers of funds from Switzerland and other countries defined as international financial centers (recognized as tax havens), to accounts owned or controlled by American customers, as well as restrictions regarding the opening of new accounts for American customers. In accordance with the approach of the Supervisor of Banks, the Bank has adopted additional measures, including the adoption of a designated policy document dealing with the regulatory risk management arising from operations of foreign residents, and performance of internal audit at the banks in the Group, with the assistance of a firm of independent accountants, with respect to the appropriateness of the legal and regulatory risks management process inherent in the activity of foreign residents and regarding American customers.

With respect to American customers, and as mentioned by the Bank in its report for the year 2014, at the request of the Securities Authority, the Bank and FIBI Bank (Switzerland) have no knowledge of any investigation being conducted against any of them by the US authorities, with respect to exposure to and violation of US laws regarding tax evasion by American customers of the Bank or of FIBI Bank (switzerland), and no communication with the US authorities has been conducted by the Bank and by FIBI Bank (Switzerland), which may have any reference to such exposure. The Bank has never had an extension, branch or a subsidiary company in the US. The Bank and FIBI Bank (switzerland) had never made any active and focused effort to attract American customers. Thus, for instance, they never maintained an "American desk" or representative offices in the US, and no business travel had been made by representatives of these banks for the purpose of attracting American customers. In fact, American customers have never comprised a marketing target for the First International Bank or for FIBI Bank (switzerland), (which focused on Israeli customers or customers having relation to Israel). In view of the above, and to the best knowledge of the Bank, the Bank is of the opinion that, in its particular circumstances and from the qualitative aspect, its potential exposure to violation of the US law regarding tax evasion by American customers of the Bank or of FIBI Bank (switzerland), is no different from the potential exposure to the violation of any law applying to the operations of the Bank and of its subsidiaries. Accordingly, to the best estimates of the Bank at this stage, and based on all that stated above, the bank is unable to quantify a non-remote possible exposure to violation of the US law regarding tax evasion by American customers of the Bank or of FIBI Bank (switzerland).

For additional details regarding FIBI Bank (switzerland), see Note 15H to the financial statements.

Compliance with Israeli tax laws

The Intensification of Tax Collection and of Enforcement (Mean for enforcement of tax payments and for deterrent of money laundering) (Legislation amendments), 2015.

In accordance with this Bill, published on August 31, 2015, financial institutions, including banking corporations, shall be obliged to provide the Tax Authorities with current reports regarding operations conducted in business accounts of their customers (accounts of corporations and any account defined by them as a business account).

Furthermore, the tax authorities will be authorized to demand information from financial institutions with respect to a group of customers having joint characteristics, due to the suspicion that such customers had violated the tax laws in a manner causing the loss of tax revenues in an other than insignificant scope.

It is further proposed to amend the Prevention of Money Laundering Act by adding severe tax offenses as original offences, including offences under Section 220 of the Income Tax Ordinance and additional tax offenses characterized by a special basic mental intention to avoid the payment of tax.

Draft letter of Bank of Israel to banking corporations in the matter of operations of Israeli residents with banking corporations and their overseas extensions.

According to the last draft letter, dated December 14, 2015, a banking corporation may be exposed to risk when opening or maintaining an account in which funds are deposited, that might have originated in the customer's tax evasion or which originated in income that had not been reported to the Tax Authorities, as required. Accordingly, banking corporations are required to adopt measures required to minimize such risk and to integrate them within the risk management framework of the banking corporation. It is further stated in the draft letter, that refusal to provide banking services stemming from the implementation of the policy and procedures determined under power of this letter, shall be considered a reasonable refusal as regards the Banking Act (Customer service).

The Emir Reform

In 2012 rules were issued in the USA for the purpose of applying the Dodd Frank Wall Street Reform and Consumer Protection Act, which was enacted in the USA in 2010 (hereinafter: "DF reform"). The purpose of the DF reform inter alia is to reduce the credit risk in trading in the OTC derivatives market and the systemic risks deriving from them, and to increase the transparency in that market.

Under the reform, rules were prescribed inter alia regarding settlement of transactions by a central clearer, collateral requirements and the reporting of transactions to trade repositories.

Concurrent with the Dodd Frank reform published in the USA, a reform with similar principles, the European Market Regulation Infrastructure (EMIR) was published in Europe.

Since the EMIR reform applies to every European body, it is expected to affect the Bank's mode of operation in derivative instruments. The central clearing pursuant to the EMIR reform is planned to begin in June 2016, for the European members of the clearing house.

The Bank is preparing for the implementation of the rules under the EMIR reform, inasmuch as they are relevant for the Bank.

LEGAL PROCEEDINGS

Note 25 (3) to the financial statements includes details of material claims pending against the Bank and its subsidiary companies.

THE RATING OF THE BANK BY RATING AGENCIES

Set out below is the Bank's rating as determined by rating agencies in Israel and by an international rating agency:

- S&P Maalot rated the Bank iIAA+/Stable and its subordinated notes at iIAA.
- Midrug rated the Bank's internal finance resolution at Aa3.il/Stable, the Bank's short-term deposits P-1.il, its long-term deposits and senior debt Aa1.il/Stable and its subordinated notes Aa2.il/Negative.
- Moody's rates the Bank as follows: long and short-term foreign-currency and local currency deposits A3/Prime-2. The rating forecast is Stable, this after an upgrading in June of the rating forecast from negative to stable.

THE BANK GROUP'S SEGMENTS OF ACTIVITY

For the description of segments of activity see note 28 to the financial statements and the chapter of segments of activity in the Board of Directors and Management report.

Structure of the competition in the segment and changes in it

CORPORATE SEGMENT

- The majority of business customers in Israel manage accounts at a number of banks, and often at all the large banks operating in Israel as well as at foreign banks
- The level of competition in the banking system for quality corporate segment customers is very high. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products.
- Apart from the expansion of the non-bank market in Israel as a substitute for bank credit as described above, globalization and liberalization have provided the Corporate Segment's customers with opportunities for raising capital in worldwide capital markets, and with ready access to credit and banking services from foreign banks and financial entities abroad.

THE PRIVATE BANKING SEGMENT

- Activity in the private banking segment, which is characterized by a high level of competition, comprises a central layer of the Group's strategy. The Group competes in this segment against all Israeli banks as well as against representative offices in Israel of foreign banks and investment houses, against institutional bodies, private brokers and investments in overseas markets.
- On this background, and in view of the relatively low credit risk level involved in the private banking segment operations, competition as regards customers is fierce and very dynamic. This competition is expressed in the allocation of considerable resources for the raising of the level of service and consulting to private banking customers, in the training of staff, in a continuous expansion of the array of products being offered, the upgrading of decision supporting technological systems, in the benefits regarding account management terms, in the erosion in the level of bank charges and fees, in many advertizing campaigns, focus on personal service and creation of a customer adjusted overall service program.
- In the upper section of the private banking segment, as well as with respect to activity with foreign resident customers (including by way of the FIBI Bank (Switzerland) extension), the Group faces competitors in the global private banking market, which is characterized by a specially high level of competition. In particular, the Group competes against Israeli banks operating abroad, against banks and other institutions specializing in private banking for the foreign population and against international investment houses.
- The Bank and the Group are constantly acting to improve work processes and introduce technological improvements with the aim of improving the level of service and expanding the variety of products, including the upgrading and development of services offered on the Internet and on cellular phones.

THE COMMERCIAL BANKING SEGMENT

- The competition in the banking system for commercial segment customers is growing continually. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products. Competition also comes from non-banking entities, such as insurance companies, and from the opportunity for raising capital in local and overseas markets.
- Most commercial customers in Israel manage accounts at a number of banks, which increases the competition for these customers. In addition, regulatory requirements that restrict the banks in their activity with large business customers and their increased severity in recent years are prompting the banking system to focus on commercial, mainly middle-market customers.
- Competition also exists in investment and savings activity with the segment's middle-market customers, against other banks and against non-bank entities that specialize in the capital and money markets (including insurance companies and investment houses).

THE HOUSEHOLD SEGMENT

In recent years the Group acts on several levels to improve its competitive position in the household segment:

- Modifications to the branch layout in accordance with developments in the targeted population of the Group and in accordance with business potential areas.
- Focusing on the development of the online services of the Group; "International online", advanced cellular phone applications, self service stations, etc.
- An extensive marketing activity based on supportive computer systems.
- Strengthening the personal bond and relations with the customer.
- At the same time, the group continues to focus on specific target populations within the household segment, such as: defense agencies staff and retirees, teaching staff population, professionals, employees of large corporations, the ultra-orthodox customer segment and more.

The improved position of the Group in the household segment will continue to comprise a central layer of the business strategy of the Group. This strategy is designed to decentralize the income mix of the Group, as well as create a new customer pool, which will provide reserve of private banking customers in the future. The Bank strives to preserve and enlarge the activity of the Group among existing customers, including dual customers, who conduct a part of their financial activity with other banks. Moreover, the Group continues to attract new customers from among the target population of the Group, each member bank in its own specialized field, and to introduce measures for the efficiency and improvement of the retail infrastructure.

The following processes are being implemented and/or planned in the course of business for the realization of this strategy:

- Strengthening the concept of focusing on the customer, while modifying value offers, products, the level of service and distribution channels to the preferences and financial needs of each customer.

- Educated management of the retail network with a multi-channel concept, based both on the adequate deployment of the branch layout, and on the constant expansion of online banking services, including the Internet website, cellular phone applications, advanced automatic appliances, etc.
- A data based systematic initiation of activity with customers in all lines of operation, including account management services, investment activity and consulting, consumption credit and mortgages.
- Preservation of leadership and competitive advantage in the field of savings and investments, including the continuing development of products and sophisticated added value services, such as: "FIBI-virtual banking", "Information at a click", etc.
- Development of mortgage activity as a supplementary retail product.

THE SMALL BUSINESS SEGMENT

The competition in the Small Business Segment has increased during recent years. In this segment, the Group competes with all the banks in Israel and mainly with the four largest banks. During recent years however, competition has also increased from the small banks, which are expanding their activity with the segment. Competition also derives from such financial entities as credit card companies, leasing companies and insurance companies. Additional factor contributing to the intensification of the competition in the segment is the existence of specific government funds for granting credit to small and medium sized businesses.

CONTRIBUTION TO THE COMMUNITY

"Turning point" - the long running community project of the Bank, in operation already for eight years, in cooperation with MATAN- investing in the community and JOINT- "Ashalim" Organization. In its first years the project focused on young persons that were emmited from different frameworks with the aim of giving these young persons the oportunity to change their lives and leave a normative life within the Israeli society. Within the framework of the program the young persons were combined in business enterpenuers and different programs combining studies with work and grooming business enterpenuership by development of skills.

In 2014 The Bank launched new projects the purpose of which is to advance wellness, the quality of life and a healthy lifestyle in the community, with a focus on children and youth in risk situations concentrating on sport instruments, quality of life and healthy lifestyle.

The Bank encourages and supports the volunteers from among employees of the Bank, that are interested to take part in the project and to contribute their time, experience and skills in favor of these young persons.

In addition to these projects, the Bank and its subsidiaries donate to various foundations and organizations. The total amount of contribution in the bank's group amounted to NIS 2.8 million.

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APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

A. Average balances and interest rates - assets

	Year ended December 31, 2015		
	Average balance ⁽¹⁾	Interest income	Rate of income
	NIS million	%	
Interest-bearing assets			
Credit to the public ⁽²⁾⁽⁵⁾			
- In Israel	65,454	2,111	3.23
- Outside Israel	377	9	2.39
Total	65,831	2,120	3.22
Credit to the Government			
- In Israel	651	(3)	(0.46)
- Outside Israel	-	-	-
Total	651	(3)	(0.46)
Deposits with banks			
- In Israel	3,177	8	0.25
- Outside Israel	508	1	0.20
Total	3,685	9	0.24
Deposits with central banks			
- In Israel	22,970	28	0.12
- Outside Israel	-	-	-
Total	22,970	28	0.12
Securities borrowed or repurchased			
- In Israel	498	1	0.20
- Outside Israel	-	-	-
Total	498	1	0.20
Held to maturity or available for sale bonds ⁽³⁾			
- In Israel	13,170	92	0.70
- Outside Israel	116	2	1.72
Total	13,286	94	0.71
Trading bonds			
- In Israel	965	5	0.52
- Outside Israel	3	-	-
Total	968	5	0.52
Other assets			
- In Israel	147	6	4.08
- Outside Israel	-	-	-
Total	147	6	4.08
Total Interest-bearing assets	108,036	2,260	2.09
Non-interest-bearing debtors regarding credit cards	3,005		
Other non-interest-bearing assets ⁽⁴⁾	11,029		
Total assets	122,070		
Total interest-bearing assets attributed to activity outside Israel	1,004	12	1.20

See notes in page 422.

	Year ended December 31, 2014			Year ended December 31, 2013		
	Average balance ⁽¹⁾	Interest income	Rate of income	Average balance ⁽¹⁾	Interest income	Rate of income
	NIS million		%	NIS million		%
	63,023	2,385	3.78	62,308	2,819	4.52
	433	9	2.08	447	12	2.68
	63,456	2,394	3.77	62,755	2,831	4.51
	439	3	0.68	12	-	-
	-	-	-	-	-	-
	439	3	0.68	12	-	-
	2,502	16	0.64	2,509	32	1.28
	458	1	0.22	342	1	0.29
	2,960	17	0.57	2,851	33	1.16
	17,562	106	0.60	14,077	192	1.36
	-	-	-	-	-	-
	17,562	106	0.60	14,077	192	1.36
	980	6	0.61	1,113	15	1.35
	-	-	-	-	-	-
	980	6	0.61	1,113	15	1.35
	9,703	123	1.27	8,963	204	2.28
	134	2	1.49	116	2	1.72
	9,837	125	1.27	9,079	206	2.27
	1,416	11	0.78	1,663	40	2.41
	4	-	-	2	-	-
	1,420	11	0.78	1,665	40	2.40
	613	2	0.33	179	5	2.79
	114	-	-	111	-	-
	727	2	0.28	290	5	1.72
	97,381	2,664	2.74	91,842	3,322	3.62
	2,921			2,875		
	10,913			10,359		
	111,215			105,076		
	1,143	12	1.05	1,018	15	1.47

**APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES
IN INTEREST INCOME AND EXPENSES (CONT'D)**

B. Average balances and interest rates - liabilities and capital

	Year ended December 31, 2015		
	Average balance ⁽¹⁾	Interest expenses	Rate of expense ⁽¹⁾
	NIS million	%	
Interest-bearing liabilities			
Deposits from the public			
- In Israel			
Demand	5,968	1	0.02
Fixed-term	57,367	131	0.23
- Outside Israel			
Fixed-term	-	-	-
Total	63,335	132	0.21
Deposits from the Government			
- In Israel	618	6	0.97
- Outside Israel	-	-	-
Total	618	6	0.97
Deposits from banks			
- In Israel	1,344	1	0.07
- Outside Israel	-	-	-
Total	1,344	1	0.07
Bonds			
- In Israel	5,902	168	2.85
- Outside Israel	-	-	-
Total	5,902	168	2.85
Other liabilities			
- In Israel	522	-	-
- Outside Israel	-	-	-
Total	522	-	-
Total Interest-bearing liabilities	71,721	307	0.43
Non-interest-bearing deposits from the public	36,100		
Non-interest-bearing creditors in respect of credit cards	3,005		
Other non-interest-bearing liabilities ⁽⁶⁾	4,011		
Total liabilities	114,837		
Total capital resources	7,233		
Total liabilities and capital resources	122,070		
Interest spread			1.66
Net return on interest-bearing assets ⁽⁷⁾			
- In Israel	107,032	1,941	1.81
- Outside Israel	1,004	12	1.20
Total	108,036	1,953	1.81
Total interest-bearing liabilities attributed to activity outside Israel	-	-	-

See notes in page 422.

	Year ended December 31, 2014			Year ended December 31, 2013		
	Average balance ⁽¹⁾	Interest expenses	Rate of expense ⁽¹⁾	Average balance ⁽¹⁾	Interest expenses	Rate of expense ⁽¹⁾
	NIS million		%	NIS million		%
	4,253	6	0.14	3,954	19	0.48
	59,274	316	0.53	58,285	709	1.22
	-	-	-	-	-	-
	63,527	322	0.51	62,239	728	1.17
	710	7	0.99	465	9	1.94
	-	-	-	-	-	-
	710	7	0.99	465	9	1.94
	926	1	0.11	1,204	8	0.66
	-	-	-	-	-	-
	926	1	0.11	1,204	8	0.66
	5,474	222	4.06	5,639	354	6.28
	-	-	-	-	-	-
	5,474	222	4.06	5,639	354	6.28
	1,026	11	1.07	1,175	36	3.06
	10	-	-	15	-	-
	1,036	11	0.78	1,190	36	3.03
	71,673	563	0.79	70,737	1,135	1.60
	25,711			21,463		
	2,921			2,875		
	3,750			3,093		
	104,055			98,168		
	7,160			6,908		
	111,215			105,076		
			1.95			2.02
	96,238	2,089	2.17	90,824	2,172	2.39
	1,143	12	1.05	1,018	15	1.47
	97,381	2,101	2.16	91,842	2,187	2.38
	10	-	-	15	-	-

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES
IN INTEREST INCOME AND EXPENSES (CONT'D)

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

	Year ended December 31, 2015		
	Average balance ⁽¹⁾	Interest income (expenses)	Rate of income (expense)
	NIS million	%	
Non-linked Israeli currency			
Total interest-bearing assets	80,839	1,762	2.18
Total interest-bearing liabilities	46,836	(67)	(0.14)
Interest spread			2.04
Israeli currency linked to the CPI			
Total interest-bearing assets	13,929	277	1.99
Total interest-bearing liabilities	13,031	(205)	(1.57)
Interest spread			0.42
Foreign currency (including linked to f-c)			
Total interest-bearing assets	12,264	209	1.70
Total interest-bearing liabilities	11,854	(35)	(0.29)
Interest spread			1.41
Total activity in Israel			
Total interest-bearing assets	107,032	2,248	2.10
Total interest-bearing liabilities	71,721	(307)	(0.43)
Interest spread			1.67

See notes in page 422.

	Year ended December 31, 2014			Year ended December 31, 2013		
	Average balance ⁽¹⁾	Interest income (expenses)	Rate of income (expense)	Average balance ⁽¹⁾	Interest income (expenses)	Rate of income (expense)
	NIS million		%	NIS million		%
	70,018	1,959	2.80	64,798	2,263	3.49
	44,723	(174)	(0.39)	44,617	(413)	(0.92)
			2.41			2.57
	14,828	458	3.09	15,003	804	5.35
	14,166	(348)	(2.46)	13,889	(677)	(4.87)
			0.63			0.48
	11,392	235	2.06	11,023	240	2.18
	12,774	(41)	(0.32)	12,216	(45)	(0.37)
			1.74			1.81
	96,238	2,652	2.75	90,824	3,307	3.64
	71,663	(563)	(0.78)	70,722	(1,135)	(1.60)
			1.97			2.04

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES
IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analysis of changes in interest income and expenses

	Year ended December 31, 2015 compared with the year ended December 31, 2014			
	Increase (decrease) due to the change			
	Quantity	Price	Net change	
			NIS million	
Interest-bearing assets				
Credit to the public				
- In Israel	78	(352)	(274)	
- Outside Israel	(1)	1	-	
Total	77	(351)	(274)	
Other interest-bearing assets				
- In Israel	28	(158)	(130)	
- Outside Israel	-	-	-	
Total	28	(158)	(130)	
Total interest income	105	(509)	(404)	
Interest-bearing liabilities				
Deposits from the public				
- In Israel				
Demand	-	(5)	(5)	
Fixed-term	(4)	(181)	(185)	
- Outside Israel				
Fixed-term	-	-	-	
Total	(4)	(186)	(190)	
Other interest-bearing liabilities				
- In Israel	5	(71)	(66)	
- Outside Israel	-	-	-	
Total	5	(71)	(66)	
Total interest expenses	1	(257)	(256)	
Total interest income less interest expenses	104	(252)	(148)	

- (1) On the basis of opening balances, excluding the non linked Shekel segment in which calculated on daily balances.
- (2) Before deduction of the average balance of provisions for credit losses including impaired debts which are non-interest-bearing income.
- (3) From the average balance of available for sale bonds was deducted the average balance of unrealized gains from adjustments to fair value of bonds, included in other comprehensive income in the item "adjustments to fair value of available for sale securities" for the year ended on December 31, 2015 in the amount of NIS 9 million (year ended on December 31, 2014 amount of NIS 63 million and for the year ended on December 31, 2013 an amount of NIS 77 million).
- (4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.
- (5) Fees in the amount of NIS 137 million, NIS 143 million and NIS 106 million were included in interest income for the years ended December 31, 2015, December 31, 2014 and December 31, 2013 respectively.
- (6) Including derivative instruments.
- (7) Net return- net interest income to total interest-bearing assets.
- (8) Change attributed to quantity was calculated by multiplying the price in the reported period by the change in the quantity in the compared periods.
Change attributed to price was calculated by multiplying the quantity in the previous period by the change in the price in the compared periods.

	Year ended December 31, 2014 compared with the year ended December 31, 2013		
	Increase (decrease) due to the change		
	Quantity	Price	Net change
	NIS million		
	27	(461)	(434)
	-	(3)	(3)
	27	(464)	(437)
	38	(259)	(221)
	-	-	-
	38	(259)	(221)
	65	(723)	(658)
	-	(13)	(13)
	5	(398)	(393)
	-	-	-
	5	(411)	(406)
	(10)	(156)	(166)
	-	-	-
	(10)	(156)	(166)
	(5)	(567)	(572)
	70	(156)	(86)

APPENDIX 2 -
CONSOLIDATED STATEMENTS OF INCOME FOR 2014-2015 - MULTY QUARTER DATA
(NIS million)

Year	2015				2014			
Quarter	4	3	2	1	4	3	2	1
Interest Income	527	621	730	382	591	690	764	619
Interest Expenses	28	124	217	(62)	93	171	217	82
Interest Income, net	499	497	513	444	498	519	547	537
Expenses (income) from credit losses	(17)	9	14	12	97	(11)	(7)	10
Net Interest Income after expenses from credit losses	516	488	499	432	401	530	554	527
Non Interest Income								
Non Interest Financing income	32	14	28	75	74	67	48	41
Commissions	337	340	344	357	353	340	335	347
Other income	1	4	3	6	2	17	34	9
Total non Interest income	370	358	375	438	429	424	417	397
Operating and other expenses								
Salaries and related expenses	424	419	410	376	(1)452	(1)444	(1)438	(1)446
Maintenance and depreciation of premises and equipment	105	110	105	108	110	115	107	112
Amortizations and impairment of intangible assets	32	31	37	31	35	36	34	34
Other expenses	139	126	123	134	146	134	140	129
Total operating and other expenses	700	686	675	649	743	729	719	721
Profit before taxes	186	160	199	221	87	225	252	203
Provision for taxes on profit	71	77	84	94	(1)41	(1)97	(1)104	(1)86
Profit after taxes	115	83	115	127	46	128	148	117
The bank's share in profit of equity-basis investees, after taxes	10	10	10	8	7	12	8	8
Net profit:								
Before attribution to noncontrolling interests	125	93	125	135	53	140	156	125
Attributed to noncontrolling interests	(8)	(7)	(7)	(10)	(1)(2)	(1)(5)	(1)(6)	(1)(6)
Attributed to shareholders of the Bank	117	86	118	125	51	135	150	119
	2015				2014			
	NIS				NIS			
Primary profit per share attributed to the shareholders								
Net profit per share of NIS 0.05 par value	1.17	0.86	1.17	1.25	(1)0.51	(1)1.35	(1)1.49	(1)1.19

(1) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

APPENDIX 3 -

CONSOLIDATED BALANCE SHEETS FOR 2014-2015 - MULTY QUARTER DATA

(NIS million)

Year	2015				2014			
Quarter	4	3	2	1	4	3	2	1
Assets								
Cash and deposits with banks	30,727	33,046	28,827	29,314	29,182	22,502	26,836	28,027
Securities	16,439	13,605	15,434	13,614	12,554	12,181	11,982	11,197
Securities which were borrowed	353	332	549	479	477	1,225	894	992
Credit to the public	73,379	70,726	(1)71,423	(1)71,595	(1)69,807	(1)70,709	(1)68,652	(1)68,693
Provision for Credit losses	(824)	(848)	(834)	(849)	(876)	(827)	(843)	(825)
Credit to the public, net	72,555	69,878	70,589	70,746	68,931	69,882	67,809	67,868
Credit to the government	669	662	664	669	658	660	659	328
Investments in investee companies	438	427	416	(1)404	(1)396	(1)388	(1)381	(1)377
Premises and equipment	1,229	1,220	1,241	1,230	1,222	1,198	1,209	1,204
Intangible assets	272	273	292	313	335	340	364	388
Assets in respect of derivative instruments	1,636	2,189	2,146	2,452	3,015	1,937	982	1,122
Other assets	1,158	1,226	(1)1,266	(1)1,084	(1)1,037	(1)999	(1)913	(1)862
Assets held for sale	-	-	-	-	-	-	-	102
Total assets	125,476	122,858	121,424	120,305	117,807	111,312	112,029	112,467
Liabilities, Temporary equity and Shareholders' Equity								
Deposits from the public	103,262	100,652	98,634	97,277	95,155	88,737	90,686	91,103
Deposits from banks	1,565	938	1,233	1,271	1,469	1,289	1,171	1,278
Deposits from the Government	511	402	575	538	556	1,144	867	846
Bonds and subordinated capital notes	5,862	5,950	6,050	6,106	4,903	5,468	5,570	5,574
Liabilities in respect of derivative instruments	1,659	2,149	2,274	2,373	3,162	1,849	1,277	1,340
Other liabilities	4,954	5,149	5,117	5,267	(1)5,519	(1)5,783	(1)5,548	(1)5,526
Liabilities held for sale	-	-	-	-	-	-	-	12
Total liabilities	117,813	115,240	113,883	112,832	110,764	104,270	105,119	105,679
Temporary equity - noncontrolling interests	326	324	322	316	-	-	-	-
Capital attributed to the shareholders of the Bank	7,073	7,035	(1)6,966	(1)6,905	(1)6,797	(1)6,797	(1)6,671	(1)6,554
Noncontrolling interests	264	259	253	252	246	245	239	234
Total equity	7,337	7,294	7,219	7,157	7,043	7,042	6,910	6,788
Total liabilities, Temporary equity and shareholders' equity	125,476	122,858	121,424	120,305	117,807	111,312	112,029	112,467

(1) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.C.

THE FIRST INTERNATIONAL BANK OF ISRAEL LTD

THE FIRST INTERNATIONAL BANK OF ISRAEL LTD

Head Office

42, Rothschild Blv., Tel Aviv 6688310

Tel Aviv Main Branch

42, Rothschild Blv., Tel Aviv 6688310

Jerusalem Main Branch

10, Hillel Street, Jerusalem 9458110

Haifa Main Branch

3, Habankim Street, Haifa 3326115

82 Branches all over the country

Our Web Site: www.fibi.co.il

BANK OTSAR HAHAYAL LTD

11, Menahem Begin Street,
Ramat Gan 5268104
46 Branches

BANK POALEY AGUDAT ISRAEL LTD*

9, Ahad Ha'am Street, Tel Aviv 6525101
22 Branches

* Merged with the First International Bank of Israel Ltd since January 1, 2016.

BANK MASSAD LTD

12, Abba Hillel Street, Ramat Gan 5250606
22 Branches

FIRST INTERNATIONAL ISSUES LTD

42, Rothschild Blv., Tel Aviv 6688310

THE INTERNATIONAL LEASING LTD

42, Rothschild Blv., Tel Aviv 6688310

THE INTERNATIONAL UNIQUE INVESTMENT MANAGEMENT LTD

38 Rothschild Blv., Tel Aviv 6688307

UBANK TRUST COMPANY LTD

38 Rothschild Blv., Tel Aviv 6688307

SUBSIDIARY ABROAD

FIBI BANK (SWITZERLAND) LTD

Seestrasse 61, ch-8027
ZURICH, SWITZERLAND

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