Annual Report

to the General Meeting of Shareholders

Report for 2015

Bank of Jerusalem Ltd. and its Consolidated Companies

Contents

Design: "Shachar Shoshana"
Studio of the "Scorpio 88" Group
Printed in The Old City Print Shop, Jerusalem.

Annual Report for 2015 - Table of Contents

Remarks by the Chairman of the Board

Dear Shareholders,

On behalf of the Board of Directors and myself, I am honored to present you with the Board of Directors' Report and Financial Statements of Bank of Jerusalem for 2015.

In 2015, the Bank continued implementing its multi-annual strategic plan, while meeting its business goals, and achieving a return on equity rate of 6.3% for its shareholders.

The Global Economy

The particularly stormy weather which appeared in the end of 2015 symbolized the storm which took place at the start of the year in stock exchanges around the world, which suffered sharp declines in all markets, and in all branches.

It was a particularly dramatic year for the global economy, characterized by several significant changes, including the decline of oil prices, which fell to their lowest levels since the 2008 crisis, the first interest rate hike in the United States in eight years, and the downturn in the Chinese economy, which can be included among the factors which caused markets to crash in early 2016. The economic recession in Russia continues, while Greek has been rescued, for now, from its debt crisis.

In summary, 2015 was similar to other recent years in reflecting a disappointing picture of global growth, even though the central banks continued injecting liquidity into the markets and adopted an expansionary monetary policy.

The Economic Environment in Israel

Last year will be remembered as a relatively quiet year in the Israeli economy. The basic indicators, including unemployment, inflation, balance of payments and budget, did not surprise for the worse. 2015 was characterized by full employment and a near-zero rate of price increases; the consumer price index for 2015 was negative, and declined by 1.0 percentage points, while the Shekel remained stable, with full control over government spending.

2015 was also characterized by low growth rates relative to growth potential, and a continued downtrend in growth. The GDP growth rate in Israel this year amounted to 2.3% only, while the growth rate of GDP per capita amounted to 0.3% only. The Israeli economy is currently in a state of deflation, and for the first time in many years, we are witnessing negative inflation over two consecutive years. These figures are alarming, and raise concerns of a recession. On the other hand, several positive trends can also be seen in the Israeli economy, including a budget deficit of 2.15% - lower than the planned target, a high growth rate in the Israeli IT industry, a high rate of savings, as well as gas reserves which will guarantee our energy security and low energy prices in the future. The decreased scope of public debt of the Israeli government, which has been continuing for approximately ten years, Israel's debt to GDP ratio, which serves as a highly important indicator of the state's fiscal and financial stability, and a very important factor influencing its credit rating, has been continuously decreasing over the last decade, and in 2015 amounted to 65% of GDP, as compared to over 90% in 2005.

The current level of private debt in Israel compared to GDP, according to data recently published by the Bank of Israel, was low by international standards, which strengthened the economy's stability.

The Banking System in Israel

The banking system continues to demonstrate stability and reasonable profitability, in consideration of the uncertainty caused by the series of regulatory changes and structural reforms which are intended to increase competition in the banking services segment in general, and competition between banks over the household segment in particular.

Measures implemented for this purpose included the establishment of the Strum Committee - the "Committee on increasing competitiveness in common banking and financial services in Israel", which recently published an interim report detailing its recommendations, including a recommendation to work towards diversifying the credit sources which are available to households and medium sized businesses, with the aim of reducing credit costs by creating competition between banking and extra-banking credit sources, and a recommendation to separate the credit card companies from the banks.

The Commissioner of Banks also revealed an ambitious program to increase competition in the system, including, inter alia, the separation of credit card companies from the two large banks, the issuance of a permit to the banks allowing them to distribute insurance products, providing the option for credit card companies to enter the retail credit market, the establishment of a consumer credit database, the application of deposit insurance, and many easements pertaining to online services.

The banks were also required to submit to the Bank of Israel a multi-annual plan for increased operational efficiency.

The planned structural changes and reforms, which are intended to increase competition, pose many more challenges to the banking system, while also allowing it to develop various new business opportunities.

These developments, along with the global boom in the "fintech" industry, is proof of the change and momentum in the financial technological services industry, which continues gaining momentum every day, while creating challenges and opportunities for the banking system, along with expansion of the financial arena, and increased scopes of financial activity in the economy.

Bank of Jerusalem - Results and Developments in 2015

During the year, the Bank successfully dealt with the implementation of the multi-annual strategic plan, while maintaining an adequate rate of profitability, despite the changing market conditions and the low interest rate environment. At the same time, management continued implementing the Bank's increased efficiency and development processes.

The Bank's net profit for 2015 amounted to a total of NIS 48.6 million, while the return on equity rate amounted to 6.3%, in accordance with the Bank's risk appetite, and in accordance with the expectations in light of changing market conditions, including increased competition in the banking system.

The rate of the increase in income for 2015 amounted to 2.6%, while the rate of the increase in operating expenses amounted to 3.8%. The net balances of the Bank's credit to the public portfolio amounted, as of the end of the year, to approximately NIS 10 billion, reflecting a growth rate of 3.4% in 2015.

The Bank's credit portfolio is a high-quality portfolio characterized by significant distribution. The share of retail credit out of the entire portfolio amounts to 85%, most of which is housing credit backed by real estate properties.

Along with the significant distribution, the quality of the Bank's credit portfolio is also reflected in the rate of the annual provision for credit losses, which amounted, in 2015, to 0.41%.

In 2015, the Bank continued to increase and strengthen its capital base, and at year end, the ratio of total capital to risk components amounted to 13.4%, while the leveraging ratio amounted to approximately 5.2%.

Bank of Jerusalem - Developments and trends in the last 5 years

The main data are as follows:

	2015	2010	
	NIS Millions		Change in percent
Total balance sheet	14,220	10,126	+ 40.4%
Credit to the public, net	9,889	8,037	+ 23.0%
Public deposits	11,019	7,408	+ 48.7%
Capital	784*	633	+ 23.9%
Total income	477	250	+ 90.0%
Total expenses	366	203	+ 80.2%
Net profit	49	34	+ 44.1%
Return on equity	6.3%	5.5%	0.8 + percentage points
Efficiency ratio	77.0%	81.2%	4.2 - percentage points
Tier I capital adequacy ratio	9.7%	9.1%	0.6 + percentage points
Number of positions	600	476	+ 26.0%

* After a dividend distribution in the total amount of NIS 73.5 million during the aforementioned five year period.

Data regarding the Bank's development throughout the last five years indicate an increase in activity at a rate of 40.4%, which led to an impressive increase in income, at a rate of 90%, as well as in net profit - an increase from NIS 34 million at the end of 2010, to NIS 49 million at the end of 2015, reflecting an increase of 44.1%, and an increase in the return on equity rate, from 5.5% at the end of 2010, to 6.3% at the end of 2015. This impressive development reflects the implementation of the Bank's multi-annual strategy, including focusing on retail activity, which constitutes the basis for Bank of Jerusalem's status as a unique retail bank. In parallel with the growth, in 2015 the Bank continued implementing the increased efficiency process, which resulted in an improvement in the efficiency ratio, from 81.2% at the end of 2010, to 77.0% at the end of 2015.

Business Strategy

The Bank's strategic plan is focused on controlled retail growth alongside growth of the customer base and the mix of products and services offered to households, as well as diversification and distribution of the Bank's retail operating segments. The Bank's growth strategy includes value offers to customers through differentiation which is based on the Bank's retail specialization, and continued development of this specialization.

The controlled growth, distribution and diversification of customers and income sources, with an emphasis on households, has achieved an additional main objective at the foundation of the strategic plan, which is the mitigation of systemic risk.

All of the above, along with the provision of personal, professional, effective and rapid service, in a variety of advanced and high-quality banking products, lead to excellence in service and the creation of value for the bank's customers, the core values of Bank of Jerusalem.

The Bank views itself as integrating into the regulatory plans which are intended to increase competition among the banks, and views itself as a leader capable of driving these trends in the Israeli economy, as a senior banking player which is familiar with the regulation and risk management on the one hand, while also being able to launch innovative enterprises on the other hand.

Goals and Trends for the Coming Year

In 2016, the Bank intends to continue implementing its retail strategy, which primarily involves providing housing loans and consumer credit, while continuing its cultivation of a deep commitment to the household segment. Additionally, the Bank intends to expand activities associated with checking accounts, securities transactions and brokerage services.

The growth targets which have been defined for the credit portfolio in 2016 are conservative, in accordance with the Bank's risk appetite policy.

The important goals which have been defined by the Bank for 2016 include the goal of improving capital adequacy ratios and fulfillment of the capital targets determined by the Board of Directors - a total capital ratio of 13.5% by the end of 2016.

In 2016, the Bank intends to continue implementing the increased efficiency measures, including encouraging customers to use technological means of communication with the Bank, inter alia by means of video branches, with the aim of minimizing the dependence on physical branches, increasing the efficiency of operations, and improving service.

Corporate Governance

The Bank attributes primary importance to conduct in accordance with corporate governance rules, including appropriate and advanced conduct of the Board of Directors with respect to all regulatory matters - laws and regulations, directives issued by the Bank of Israel, and other rules. In accordance with this policy, the Bank ensures the implementation of rules at a high standard, which define, inter alia, the set of relationships between the Board of Directors, management, and audit and control entities, and are reflected in the organizational structure, the definition of areas of responsibility and authority, work policies and rules for reporting, supervision, control and auditing.

The Bank also continuously strives to implement and apply an appropriate organizational culture, in accordance with the very highest standards of banking.

Cultivation of human resources and the system of working relationships

As a bank which views human resources as its most important asset, the Bank continued, also in 2015, promoting and developing the quality of human resources and the cultivation of the system of working relationships, which constitute a strategic asset for the Bank over the years.

The employees' organization plays an important part in leading the Bank towards achieving its business goals. In 2015, management and employees signed agreements which formalized the primary work conditions, including, inter alia, rights and obligations which have been practiced at the Bank for many years. The agreements which were signed express and reflect the mutual trust, collaboration and good working relationships which have existed at the Bank for years, and which, along with fair and appropriate work conditions for employees, contribute to the Bank's success and advancement.

Corporate Responsibility

The Bank of Jerusalem has operated within the areas of corporate responsibility for many years, and incorporates them as an integral part of its business activities. This approach, which believes that business success is inseparable from social-environmental considerations, has sharpened in focus in recent years, and has also been integrated into the Bank's overall strategy, and into its conduct as a bank which is honest and fair towards its customers. For example, around three years ago the Bank began offering to the general public and to its existing customers the option to open checking accounts for private customers, with a full exemption from fees. The Bank also developed, in recent years, short term deposit products (up to one year) which include a better financial value offer for customers than that which currently exists in the banking system, based on the comprehensive approach of fair conduct towards the Bank's customers.

The Bank also works to support the wellbeing and professional and personal development of employees, including their work environment, to create value for the community by means of donations to various associations and organizations which the Bank is familiar with and which perform impressive work involving dedication to the advancement of social causes, primarily including assistance to population groups in need. The Banks also focuses on the development of social awareness among bank employees, and the encouragement of social involvement. This area also includes the application of advanced principles of corporate governance with respect to the Bank's conduct, as well as principles involving an ethical and high-value culture of the Bank's employees, managers and Board members.

We are committed to our shareholders, customers, employees and to the society of Israel, the source of our strength.

To conclude, I would like to honor the memory of our dear friend Mr. Ovad Ben Ozer OBM, a member of the Bank's Board of Directors and one of the Bank's founders, who over the years served as one of the Bank's founding pillars, a towering figure who exemplified kindness alongside uncompromising professionalism, who worked tirelessly to promote the interests of the Bank, its employees and its customers, and contributed to many other areas as well. His absence is felt by all of the Bank's employees, managers, Board members and shareholders. May his memory be a blessing.

I wish to thank, on behalf of myself and the Board of Directors, the Bank's customers, who have given us their trust throughout every step of the way, as well as the Bank's CEO and members of management, and, of course, tremendous thanks to all of the Bank's employees, for their professional, loyal and dedicated work, and for their contribution to the Bank's success.

Sincerely,

Zeev Nahari

Chairman of the Board of Directors

February 23, 2016

Members of the Bank's Board of Directors

Bank of Jerusalem

Zeev Nahari, C.P.A.
Chairman of the Board [a]

Zalman Shoval [b]

Yehuda Orbach, C.P.A. [c] [e]

Shmuel Eshel [c] [f]

Moshe Bauer [b]

Ovad Ben Ozer OBM [b] [g]

Ram Harmelch [b]

Ira Sobel, C.P.A. [d]

Dr. Nurit Krausz [d]

Gideon Shoval [b]

(a) On October 11, 2015, Mr. Zeev Nahari began serving as the Chairman of the Bank's Board of Directors.
(b) On September 10, 2015, in the Bank's annual general meeting, a resolution was passed to appoint, for an additional period of tenure, the following directors who currently hold office in the Bank (and who are not outside directors): Messrs. Zalman Shoval, Gideon Shoval, Moshe Bauer, Ovad Ben Ozer and Ram Harmelch.
(c) Outside director in accordance with the Companies Law, 5759-1999.
(d) Outside director in accordance with Proper Banking Management Directive 301, and independent director in accordance with the Companies Law, 5759-1999.
(e) On September 10, 2015, in the Bank's annual general meeting, a resolution was passed to appoint Mr. Yehuda Orbach as an outside director in the Bank, in accordance with the Companies Law, for period of tenure lasting three years, beginning on September 13, 2015.
(f) On December 4, 2015, Mr. Shmuel Eshel commenced his tenure as an outside director in the Bank in accordance with the Companies Law, for an additional period of tenure (third period of tenure).
(g) Mr. Ovad Ben Ozer passed away on January 1, 2016.

On September 10, 2015, Mr. Zeev Gutman concluded his tenure as a director and as the Bank's Chairman of the Board; On May 10, 2015, Mr. Pinchas Volovelsky concluded his tenure as a director in the Bank; On September 12, 2015, Mr. Adiv Baruch concluded his tenure as an outside director in the Bank in accordance with the Companies Law.

For information regarding changes to the composition of the Board of Directors during the reporting period, see the chapter below regarding "Changes in the Board of Directors".

Additional details regarding the members of the Bank's Board of Directors are presented in the Bank's periodic report for 2015, and on the MAGNA website of the Israel Securities Authority:
http://www.magna.isa.gov.il

Members of the Bank's Management and Their Positions

Bank of Jerusalem

Gill Topaz, Adv. and C.P.A.
CEO

Israel Boker
Acting and Deputy CEO, Retail Division Manager

Michael Tayer
Deputy CEO, Resources Division Manager

Michael Ben Yishay
Vice President, Chief Risk Officer, Risk Division Manager

Sarit Weistuch, Adv.
Vice President, Legal Advisor, Legal Department Manager

Alexander Zaltsman, C.P.A.
Vice President, Chief Accountant, Monetary Division Manager

Moshe Omer
Vice President, Financial Division Manager

Ron Sagi
Vice President, Chief Internal Auditor

Carmel Florentz, Adv.
Secretary of the Bank and its Subsidiaries

Ayelet Russak
Real Estate Sector Department Manager

Kost Forer Gabbay & Kasierer
The Bank's Auditors

On April 30, 2015, Mr. Uriel Paz, the Bank's CEO, announced his intention to conclude his tenure as the Bank's CEO, and on October 31, he discontinued his tenure as the Bank's CEO.
Additional details regarding the Bank's management members are presented in the Bank's periodic report for 2015 and on the MAGNA website of the Israel Securities Authority at http://www.magna.isa.gov.il.

Report of the Board of Directors and Management

Report for 2015

Bank of Jerusalem Ltd. and its Consolidated Companies

Report of the Board of Directors and Management - Table of Contents

Report of the Board of Directors and Management as of December 31, 2015

Presented below is the annual report of Bank of Jerusalem Ltd. This report will be presented for discussion to the Bank's annual general meeting of shareholders.

The Board of Directors resolved, in its meeting on February 23, 2016, to approve and publish the consolidated financial statements of Bank of Jerusalem Ltd. (hereinafter: the "Bank" or "Bank of Jerusalem") and its subsidiaries for 2015 (hereinafter: the "Reporting Year"). The reports have been prepared in accordance with public reporting regulations issued by the Commissioner of Banks, and data is us presented based on reported amounts.

Forward looking information

Some of the information provided in the Board of Directors' report, which does not refer to historical facts, constitutes forward looking information as defined in the Securities Law, 5728-1968.

The Bank's actual results may differ significantly from the results which were included, if any, in the forward looking information, due to many different factors, including, inter alia, due to extraordinary economic events, such as extreme changes in interest rates, rise / fall of the currency and inflation, as well as unexpected security / political events, which could change the public's conduct, including in terms of the scope of credit taking, early repayments, refinancing or difficulties in routine repayment, in all of the Bank's operating segments, and also in terms of the ability to raise sources. Additionally, changes in regulation, in legislative provisions, in directives issued by supervisory entities, and the conduct of competitors, may affect the Bank's activities.

Forward looking information is characterized by words or phrases such as "the Bank believes", "the Bank intends", "expected", "may", "could", "assessment", and similar phrases which indicate the meaning of a forecast regarding the future, and not historical facts.

Such forward looking phrases are associated with risks and uncertainty, due to the fact that they are based on management's assessment regarding future events, including, inter alia:

- Mergers and acquisitions in the banking system, and their impact on the structure of competition in the segment.
- The impact of changes in regulatory provisions on customer preferences and/or on the scope of operations in the banking system and the structure of competition therein, and/or on the Bank's profitability.
- The possibility of realizing the Bank's plans in accordance with the determined targets, in accordance with the Bank's strategy.
- Unexpected responses by additional entities (customers, competitors, and others) who operate in the Bank's business environment.
- The future realization of forecasts in the sector and of macro-economic forecasts, in accordance with the Bank's early assessments.
- Possible results of legal proceedings.
- Changes in the preferences and/or behavior of consumers.

The information presented below relies, inter alia, on the Bank's professional assessments, on macro-economic forecasts by forecasters regarding the situation of the economy and the business environment, on publications and assessments by entities in the segment and on statistical analyses conducted by the Bank regarding the conduct of its customers.

The above reflects the perspective of the Bank and its subsidiaries as of the preparation date of the financial statements, with respect to future events, which is based on assessments that are uncertain. These data and assessments are used to derive the assessments of the Bank and its subsidiaries, and their business plans. As stated above, actual results may differ significantly and could have implications on the realization of the business plans, or may result in the implementation of changes to those plans.

The Bank does not commit to publish an update regarding the forward looking information which is included in these reports.

Chapter 1 - General Survey, Goals and Strategy

1.1 Summary description of the Bank

Bank of Jerusalem Ltd. was founded in 1963 as a public company, as defined in the Companies Ordinance (New Version), 5743 - 1983, under the name Bank of Jerusalem for Development and Mortgages Ltd. In 1992, the Bank performed its initial public offering of stocks, and thereby became a company traded on the Tel Aviv Stock Exchange Ltd. In 1996, the Bank's name was changed to the current name. For details regarding the controlling shareholders, see the chapter on corporate governance - additional details, and the annexes to the annual report.

The Bank constitutes a banking corporation, holds a banking license in accordance with the Banking Law (Licensing), 5741 - 1981, and has operated as a commercial bank since 1998. The Bank relies on a broad customer base which includes households, Israeli residents and foreign residents, and operates in the following segments: mortgages, consumer credit, savings and deposits, financing of residential construction, other commercial credit and activities on the capital market.

The Bank's headquarter offices are located in Airport City. As of the publication date of the report, the Bank operates by means of 24 branches, which are distributed throughout Israel.

Summary description of operating segments

The Bank operates through the Bank's headquarters, branches and subsidiaries, and provides a variety of banking services through four main operating segments. Presented below are details regarding the reported operating segments:

- **Households segment** - the customers of this segment are households and small businesses which have similar operational indicators to households.
- **Private banking segment** - the customers of this segment are customers with a medium to high degree of financial wealth, to whom services are given through a branch specializing in private banking, primarily for foreign residents (mostly from North America, England and France).
- Business segment - the customers of this segment are construction companies, contractors and real estate companies, business customers, corporations and associations.
- **Financial management segment** - this segment includes the management of the Bank's free financial capital and positions, management of the Bank's nostro portfolio and transaction rooms, activity vis-à-vis banks in Israel and abroad, and vis-à-vis the Bank of Israel, as well as the execution of transactions regarding derivative financial instruments.

1.2. Condensed financial information regarding the financial position and results of operations

Consolidated statement of income and comprehensive income for the last five years

	For the year ended December 31				
	2015	**2014**	**2013**	**2012**	**2011**(1)
Interest income	**406.3**	458.4	543.2	555.7	559.0
Interest expenses	**72.2**	141.4	286.0	324.8	384.2
Interest income, net	**334.1**	317.0	257.2	230.9	174.8
Expenses with respect to credit losses	**40.4**	18.4	54.7	36.0	15.1
Interest income, net, after expenses with respect to credit losses	**293.7**	298.6	202.5	194.9	159.7
Non-interest income					
Non-interest financing income	**0.9**	18.1	14.2	22.6	6.1
Fees	**124.5**	118.3	91.4	90.2	91.9
Other income	**17.3**	11.5	0.9	0.6	25.5
Total non-interest income	**142.7**	147.9	106.5	113.4	123.5
Operating and other expenses					
Payroll and associated expenses	**166.3**	171.2(2)	152.9(2)	141.6(2)	135.2
Maintenance and depreciation of buildings and equipment	**81.8**	71.2(2)	57.6(2)	47.0(2)	37.6
Other expenses	**117.7**	110.0	82.1	69.8	51.4
Total operating and other expenses	**365.8**	352.4	292.6	258.4	224.2
Profit before taxes	**70.6**	94.1	16.4	49.9	59.0
Provision for taxes	**22.0**	29.1(2)	3.7(2)	16.7(2)	14.3
Net profit	**48.6**	65.0	12.7	33.2	44.7
Basic and diluted net earnings per share (NIS)	0.69	0.92	0.18	0.47	0.63
Other comprehensive income (after tax impact)	**2.1**	12.6(2),(3)	0.9(2)	12.8	1.0
Total comprehensive income	**50.7**	77.6	13.6	46.0	45.7

(1) The comparative figures provided in this report have been reclassified and restated in accordance with a directive issued by the Commissioner of Banks, regarding the adoption of a new reporting framework for the statement of income. It is noted that, in this year, the item for other income included profit from the sale of the building of bank management, in the amount of NIS 25.4 million, and under the item for tax expenses, in the amount of NIS 4.6 million.

(2) Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.D.1. and 1.D.2. to the financial statements.

(3) Restated in order to retrospectively reflect the required correction in the reclassification of held to maturity bonds as available for sale bonds. For details, see Note 1.F. to the financial statements.

Consolidated balance sheet for the last five years

	As of December 31				
	2015	**2014**	**2013**	**2012**	**2011**
Assets					
Cash and deposits in banks	2,071.9	3,278.0	2,833.4	1,360.6	792.3
Securities	1,779.5	902.4(3)	676.6	1,163.0	1,490.7
Credit to the public	10,000.9	9,674.4	9,735.5	9,672.1	9,148.8
Provisions for credit losses	(111.6)	(107.9)	(108.9)	(90.7)	(91.0)
Credit to the public, net	9,889.3	9,566.5	9,626.6	9,581.4	9,057.8
Buildings and equipment	156.9	149.7(2)	139.5(2)	112.8(2)	78.6(2)
Intangible assets and goodwill	1.2	1.6	2.0	-	-
Assets with respect to derivative instruments	195.1	40.4	21.7	20.9	7.2
Other assets	125.6	146.2(1)(2)(3)	160.0(2)	49.0(2)	55.2(2)
Total assets	14,219.5	14,084.8(1)(2)(3)	13,459.8(2)	12,287.7(2)	11,481.8 (2)
Liabilities and capital					
Public deposits	11,019.0	10,977.2	11,071.1	9,813.7	9,064.6
Deposits from banks	39.4	42.5	51.5	63.3	76.2
Government deposits	0.8	5.0	0.7	-	0.8
Securities which were lent or sold within the framework of a repurchasing agreement	387.3	582.7	27.5	-	-
Bonds and deferred liability notes	1,634.8	1,503.1	1,406.0	1,581.0	1,611.9
Liabilities in respect of derivative instruments	195.2	39.0	12.3	16.4	15.0
Other liabilities	159.0	184.9(1)(2)	200.2(2)	123.0	69.5
Total liabilities	13,435.5	13,334.4	12,769.3(2)	11,597.4	10,838.0
Equity	784.0	750.4(1)(2)(3)	690.5(2)	690.3	643.8
Total liabilities and capital	14,219.5	14,084.8(1)(2)(3)	13,459.8(2)	12,287.7	11,481.8

(1) Restated due to the adjustment of the asset value of assets which were acquired by the Bank, and the creation of a margin from an acquisition at an opportune price in the amount of NIS 57.1 million. In accordance with a directive issued by the Banking Supervision Department, this profit was recorded as deferred income which will be amortized over a period of 5 years, using the straight line method (NIS 11.4 million per year) from the acquisition date on December 15, 2013, and is included in the statement of income, under the item for other income.

(2) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2. to the financial statements.

(3) Restated in order to retrospectively reflect the required correction to the reclassification of held to maturity bonds as available for sale bonds. For details, see Note 1.F. to the financial statements.

Presented below are the financial ratios and main performance metrics for the last five years

	December 31				
	2015	2014	2013	2012	2011
Interest income, net, for the total balance sheet	2.3%	2.2%	1.9%	1.7%	1.5%
Interest margin between monetary assets which generated income less costs on liabilities	2.51%	2.44%	1.9%	1.7%	1.3%
Expenses with respect to credit losses for the period out of total credit to the public, net	0.41%	0.19%	0.57%	0.37%	0.17%
Of which: expenses with respect to collective provision out of credit to the public, net	0.08%	0.04%	0.09%	0.11%	0.03%
Expenses with respect to credit losses out of total credit to the public risk	0.30%	0.15%	0.45%	0.31%	0.14%
Total income for the balance sheet total	3.4%	3.3%	2.7%	2.6%	2.6%
Non-interest income for operating and other expenses	39%	42%	36%	44%	55%
Non-interest income out of total income	30%	32%	29%	33%	41%
Total operating and other expenses for the balance sheet total	2.6%	2.5%	2.2%	1.9%	2.0%
Efficiency ratio - operating and other expenses out of total income	77%	76%	80%	75%	75%
Average total cost(1) - ratio of expenses to assets	2.4%	2.4%	2.1%	2.0%	2.0%
Rate of the provision for tax out of profit before tax	31%	31%	23%	33%	24%
Net profit to average total assets	0.35%	0.49%	0.1%	0.3%	0.4%
Net profit to average equity (return on equity)	6.3%	9.0%	1.8%	4.9%	7.2%
Comprehensive income to average equity	6.6%	10.8%	2.0%	4.8%	7.3%
Net profit per share, in NIS, attributed to the Bank's shareholders	0.69	0.92	0.18	0.47	0.63
Credit to the public, net, for the balance sheet	70%	68%	72%	72%	79%
Securities to the balance sheet total	13%	6%	5%	5%	13%
Public deposits to the balance sheet total	77%	78%	82%	82%	79%
Public deposits to total credit to the public, net	111%	115%	115%	115%	100%
Equity for the balance sheet	5.5%	5.3%	5.1%	5.1%	5.6%
Tier 1 capital to risk assets	9.7%	9.6%	9.3%	9.7%	9.1%
Total capital to risk assets	13.4%	14.3%	13.9%	14.4%	13.7%
Leveraging ratio(2)	5.2%	-	-	-	-
Liquidity coverage ratio (LCR)(2)	403%	-	-	-	-

(1) Operating and other expenses out of the average total balance of assets (including non-contingent liabilities without derivatives)
(2) This disclosure requirement applies beginning on April 1, 2015. Disclosure for comparative figures is not required.

1.3. Summary description of the main risks to which the Bank is exposed

Identification of leading and developing risk factors

In accordance with the Bank's various risk management policy documents, and Proper Banking Management Directives issued by the Bank of Israel, the risks to which the Bank is exposed are monitored on an ongoing basis. This monitoring is intended to ensure adequate preparation for risk management, prevention of the realization of risks, and monitoring the Bank's compliance with the restrictions which were determined by the Board of Directors and the Bank of Israel. The Bank also closely monitors development in financial markets, in macro-economic indicators and in regulation and legislation which apply or which may apply to and affect the Bank, and which, together with the current business strategy and mix of activities, may expose the Bank to significant risks. In handling the identified risks, the Bank distinguishes between, inter alia, leading risks and developing risks which are identified in the following manner:

Leading risk - represents a significant risk factor to which the Bank is exposed due to its current activities or agreements to which the Bank is party, the Bank's exposure to which is rated, in accordance with the Bank's policy, as "medium" or higher level of exposure. For details regarding the risks and the rating of the extent of the exposure / impact on the Bank, see below in the chapter regarding risks and risk management methods.

Developing risk - represents a risk regarding which there is uncertainty about whether it will be realized, if at all, and where it is not possible to indicate its possible impact. However, risks of this kind receive special attention from bank management in determining the business strategy and the appropriate framework for risk management.

Presented below is a table summarizing the developing risks in the Bank:

Risk	Risk description
Regulatory risk	The regulatory implications on all matters associated with the imposition of significant restrictions on the Bank's activities and the imposition of additional onerous requirements
Compliance risk	The risk that a corporation will be subject to the imposition of legal or financial sanctions, significant financial loss or harm to reputation, as a result of a failure on its part to comply with consumer directives, taxation laws, and requirements regarding money laundering and terrorism financing.
Cyber risk	Possibility of cyber attacks on the Bank's IT systems and websites
Macro-economic risk and market risk	Risk that the Bank may be affected by a deterioration in the macro-economic data in Israel and other market risks, primarily due to unemployment rates.

In recent years, several regulatory initiatives have been formulated, which deal with, inter alia, the implementation of the provisions of the Basel III Accords, the imposition of restrictions on the provision of housing loans, and requirements with respect to the Bank's leveraging ratio. Additional requirements, or alternatively, hardening of current requirements in these areas, may pose an effective restriction if they are strictly applied to the Bank, and may impose difficulties on the Bank's implementation of its business strategy.

The Bank manages business activities within the framework of adjusted capital planning in accordance with the requirements of the Banking Supervision Department, while maintaining capital targets beyond the minimum requirement. In parallel, the Bank works to implement tools to reduce the risk assets, improve risk management practices and reduce capital requirements. For details regarding the Bank's capital planning, see below in the chapter regarding capital and capital adequacy.

There are also initiatives by the Banking Supervision Department which are intended, inter alia, to increase competition and operational efficiency in the Israeli banking system. There are also several additional regulatory initiatives which are currently in the initiation stages, recommendations of the Strum Committee, opening of competition in the credit provision segment by institutional entities and extra-institutional entities, establishment of a credit database, continued oversight activities with respect to the cancellation of fee charges or limitations, and more. The initiatives and regulatory trends may affect the banking system in general, and the Bank in particular. At this stage, it is too early to estimate and assess the impact they could have on the Bank.

Compliance risk: Continuation of the trend involving the imposition of fines and sanctions on banks in connection with breaches of regulatory directives, including regarding assistance with tax evasion and the prevention of terrorism financing and banks, constitutes a center of focus for bank management on all matters associated with the Bank's ongoing efforts to strengthen practices associated with the management and prevention of these risks. The Bank also dedicates increased attention to the developing risk on all matters associated with bank - customer relationships and practices involving the initiation of contact with customers and the provision of customer service (conduct risk). The Bank has a compliance unit which is responsible for working towards the prevention and management of these risks in accordance with the Bank's corporate governance and in accordance with the directives and guidelines issued by the Banking Supervision Department.

Cyber risk: The Bank is exposed, as are the other banks in the banking system in Israel, to cyber attack and cybernetic incidents. This constitutes one of the material non-financial risks to which the banks are exposed, due to the possibility of a cyber attack on the Bank's IT systems and the Bank's website, which may cause harm to the ability to continue providing service to cause delays in the provision of service, theft of customer data and harm to the Bank's reputation. The damages caused with respect to these events may also involve the Bank's exposure to legal claims and/or harm to the customer base. An example of the realization of the risk occurred in January 2016, when the Bank announced that a hacking breach which had been discovered of a securities information website, which is separate from the Bank's main website. A report regarding the event was sent to the Banking Supervision Department.

The website which was hacked, which included only information regarding the securities segment (with no option to perform transactions), was taken off the internet at the Bank's initiative.

Based on evaluations which were conducted and are being conducted by the Bank, in consultation with experts, and in coordination with national entities which are responsible for cyber enforcement in Israel, it appears that the hacking breach was performed by hostile anti-Israel activists belonging to the hacker organization "Anonymous". The action was performed outside of state borders.

The Bank estimates that the breach involved approximately 38,000 records, of which approximately 6,000 are active accounts of the Bank in the securities segment. The others are historical customers of the stock exchange member company which was acquired in 2013, who received information through that separate website.

Notice was given to the Bank's insurers.

This example demonstrates the tangibility of the threat, and in light of the materiality of this risk, the Bank continues investing in the improvement of its IT systems against cybernetic attacks, and is implementing measures to protect against information leakage and to protect customer data. The Bank also implements data storage and backup sites, which are intended to allow the Bank to ensure business continuity and resumption of functional activities in a short time. The Bank also implements insurance arrangements against possible damages with respect to cybernetic incidents. For additional details regarding operational risk and regarding information system risk, see below in the chapter regarding risks and risk management methods.

Macro-economic and market risk: The Bank's activities primarily depend upon the business and macro-economic environment in Israel. The state of the economy in Israel, the security-political situation in Israel and of the region, and, as a result, the income level of households and the unemployment rate, are the main risk factors affecting the quality of the credit portfolio in banks which operate with retail credit and housing credit. At this stage, the Bank believes that there is no significant risk, in light of positive macro-economic indicators in Israel. However, the Bank's multi-annual strategic plan, and extreme scenario models, take into account, with due caution, the risks which still exist in the Israeli economy, and implements a balance between performance considerations for conservative and cautious capital planning, and return to risk considerations.

1.4. Description of goals and business strategy

The Bank has a strategic plan which is focused on controlled retail growth while increasing the customer base and the mix of products and services offered to households, while diversifying and distributing its retail operating segments, such as checking accounts, consumer credit, deposits and securities trading services (hereinafter, in this report: the "Plan" or the "Strategic Plan").

According to the plan, the growth strategy is accompanied by a differentiated value offer to customers, through the development of the Bank's retail specialization. The strategic plan is based on mitigation of the Bank's systemic risk, through the diversification and reduction of customers and financial income sources, with an emphasis on operations in the household segment, both by raising deposits and by providing credit, including consumer credit.

In order to realize the plan's objectives, as described above, the Bank operates through several avenues which were defined in the strategic plan, as follows:

- Expansion of the Bank's operations, with an emphasis on expanding operations in the checking accounts, consumer credit and securities segments.
- Extensive use of technological means of communication with customers, including multi-channel banking and the option to open deposit accounts and credit provision accounts over the internet, while reducing the dependence on the operations of physical branches.
- Providing better value offers to customers in the savings and deposits segment, as well as in additional customer segments. Increasing consumer awareness of the Bank's image as a competitive and creative bank.
- Expansion of the activity and intensification of the Bank's specialization in securities, while leveraging the professional abilities and the customer base which were acquired by the Bank in the merger which was implemented between the Bank and Clal Finance in 2013.
- Investment in the improvement, upgrade and development of IT systems - in the last 5 years, the Bank invested approximately NIS 211 million in upgrading its IT systems.

The Bank is currently implementing a gradual process which is intended to raise checking accounts among households (private accounts) among both current and new customers in the coming years. For this purpose, the Bank formulated a value offer which includes a broad exemption from checking account fees for individuals who are residents of Israel.

The checking account is considered a foundation product, and therefore, the expansion in the checking account segment is expected to contribute to the mitigation of credit risks by deepening the relationship with customers and diversifying the selection of banking products. Additionally, it is expected to allow the Bank to expand its customer base over time. Increased profitability is expected to be achieved due to the sale of associated products.

The Bank's goal is to serve the customers while maintaining a narrow and optimal cost basis, which led to the development of the video branch concept (hereinafter: "VC branches", which are staffed by one or two shift employees, and relies on technology which allows a video conference between the customer and a specialized banker in the call center.

In the consumer credit segment, the Bank has continued, in accordance with its strategic plan, the process which it commenced in 2010, which involves the provision of consumer credit to the Bank's existing customers, and to new customers from the household sector. This process gradually results in the distribution of the Bank's credit portfolio, which is focused on mortgages. Since 2010, consumer credit has been given to a wide scope of customers. The Board of Directors and management are continuing to monitor the consumer credit underwriting process, including improving the underwriting models and implementing an ongoing lesson-learning process. In the last year, the scope of the portfolio and of borrowers continued to increase, alongside an improvement in the quality of credit underwriting. The Bank regards this segment as a significant growth engine for profitability.

In the end of 2014, in light of the supportive changes which occurred in the regulatory environment, the Bank launched the option to open an account through the internet, for the purpose of obtaining a loan for new customers, with no requirement to physically arrive at the branch. The Bank considers this channel as an important engine of growth and development, with no need to significantly increase the physical distribution of branches.

The change in the definition of the Bank’s core operations, and the expansion of points of contact with customers and of the array of retail services, are accompanied by the Bank's strict evaluation of all changes in the risk profile, which are derived from the new operating characteristics, and by the required capital allocations, at a level which is adequate for the aforementioned risks.

Additionally, intensifying the public discussion in Israel with respect to service quality and the financial value offer of retail customers causes customers to evaluate the alternatives which are available to them, and particularly, to consider transferring from their parent bank to other competitive products. In the deposits and securities segment, Bank of Jerusalem offers high quality services and a significantly strong financial value offer, and additionally, in contrast to the conventional practice in the banking system, the Bank offers these services to small retail customers as well. The expected transfer of customers in the coming years constitutes a significant opportunity to grow the Bank's business. A possible change in the competition map on the market, as a result of the banks' focus on the retail market, as stated above, poses various challenges, including the entry of new "players" into the field.

The Bank is working to implement a selective branch policy in the credit provision and residential real estate segment, in accordance with the closed accompaniment method, with an emphasis on growth potential, and without increasing the current risk level. For this purpose, the Bank is working to create collaborations between the Bank and insurance companies and other institutional entities, in order to provide credit for the accompaniment of projects (the operator model) and issuing collateral in accordance with the Sale Law (Apartments) and other guarantees. This strategy allows the Bank to increase the scope of projects which it is handling, in accordance with the Bank's policy, use of accumulated expertise, engagement in large and complex transactions and distribution of risk, while accordingly increasing return on equity resulting from this activity, and reducing risk.

The capital planning process constitutes a central part of the Bank's management of its business and risk management plan for the future. Adequate capital planning allows adjustment of the Bank's capital to risks which are expected to be created in light of the Bank's strategy and business goals, and to ensure that the required capital adequacy is maintained. The capital planning process includes evaluating the impact of the strategic and business goals on the risk profile and on the corporation's required capital. The Bank also evaluates the optimization of the composition of capital, inter alia, by raising debt instruments which are convertible to capital (CoCo).

The Bank’s estimates and assessments, as described above, constitute forward looking information, and are based on various assumptions and forecasts which were available to the Bank’s Board of Directors. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. Influencing factors include forecasts and estimates concerning economic developments in Israel and around the world, and particularly concerning the state of the economy, including the effect of macro-economic and geo-political conditions and changes in capital markets, as well as various other factors which affect risk exposure, including: preferences of the public, directives issued by supervisory entities and others, considerations associated with the Bank's image, technological developments and human resource issues.

Chapter 2 - Explanation and Analysis of Results and the Business Position

2.1 Trends, situations, developments and material changes

Developments in the economic environment

The Israeli economy grew in 2015 at a rate of 2.4% (estimate of the Central Bureau of Statistics), as compared with average growth of 2.1% in all OECD countries. There was also an improvement in the labor market and data published by the Central Bureau of Statistics, which indicated that the unemployment rate in Israel as of the end of 2015 was 5.2%, as compared with 5.6% at the end of 2014.

In 2015, the consumer price index (index in lieu) decreased by approximately 1.0%, further to a decrease of 0.2% in 2014. The low inflation rate in 2015 was due, to a significant extent, to the sharp decrease in energy prices, and to the 1% reduction of the VAT rate. The NIS weakened relative to the USD by approximately 0.3% in 2015, although strengthened relative to the EUR by 10.1%.

In March 2015, the Bank of Israel decreased the Bank of Israel interest rate by 0.15%, to a rate of 0.1%, and is expected to keep at it a low level until the end of 2016.

In summary, a positive trend was recorded in the capital markets in 2015. The Tel Aviv 25 Index increased by approximately 4.4%; the Tel Aviv 100 Index increased by approximately 1.6%; and the government bond index increased by approximately 2.0%. The average daily trading volume of stocks amounted to approximately NIS 1.4 billion, an increase of approximately 19.4% as compared with the corresponding period last year. From the beginning of the year, approximately NIS 39.3 billion was raised on the stock market, an increase of approximately 163.7% as compared with the corresponding period last year. In parallel to the increase in the capital market activities on the market, there was an increase in securities activities in Bank of Jerusalem. Income from securities fees increased from NIS 47.3 million in 2014, to NIS 55.2 million in 2015, an increase of approximately 17%.

In 2015, 32,370 new apartments were sold, a decrease of approximately 40.3% relative to 2014. Distributed by regions, an increase was recorded in the number of new apartments sold: in the Northern Region approximately 118%, in the Jerusalem Region approximately 31%, in the Central Region approximately 23%, in the Tel Aviv Region approximately 25%, in the Southern Region approximately 63%, and in the Haifa Region approximately 63%.

In parallel with the increase in apartment sales, in 2015, housing loans were extended in the amount of NIS 64.7 billion, as compared with NIS 51.4 billion last year, an increase of 25.8%. Of which, 65% was in the unlinked segment, and 34% in the CPI-linked segment, as compared with 57% and 41% last year, respectively. In 2015, Bank of Jerusalem extended approximately NIS 1.4 billion in housing loans, against repayments of approximately NIS 1.4 billion. The Bank's performance constitutes approximately 1.9% of total performance in the system.

Non-housing household debt already reached a total of NIS 151 billion in 2015, an increase of 6.6% relative to 2014. 82.8% of total household debt is from banks; 9.0% from credit card companies; 5.0% from institutional entities; and 3.2% from the government. The Bank's balance of non-housing household debt amounted to approximately NIS 1 billion in 2015.

In December 2015, the Strum Committee (the committee on increasing competitiveness in common banking and financial services in Israel) published an interim report. The Committee was established by the Minister of Finance and the Governor of the Bank of Israel with the aim of evaluating ways to increase competitiveness in banking services in Israel. Recommendations which were published in the committee's interim report, which addressed, inter alia, the following subjects:

A. Establishment of a credit database, to reduce the information gaps between the banks and the extra-banking credit providers, and give customers bargaining power.

B. Separation of the credit card companies from banks whose share in the retail credit segment exceeds 20%.

C. An oversight hierarchy facilitates matters for entities which do not raise deposits, which would facilitate the ability of new entities to compete with the banks.

D. Deposit insurance is a process which will help the small banks compete over additional customers, and strengthen our ability to handle the next crisis.

At this stage, it is not possible to estimate the impact of the Committee's recommendations if they are applied to the Bank's activities.

The Bank's activity characteristics during the reporting period

The Bank's business activities in 2015 were primarily performed in the retail division, the real estate sector and the financial division.

The retail division serves, through the system of branches, household, private banking and small business customers. It is responsible for the operation of services through the direct channels, and concentrates the mortgage, consumer credit and checking account activities. The division operates by means of traditional branches, video conference branches, call center and collection units, which provide the entire array of banking services.

The real estate sector includes accompaniment for residential construction projects throughout the country, primarily according to the closed accompaniment method, the financing of urban renewal projects (including the various types of National Outline Plan 38) and the financing of purchasing groups. The sector operates in a department located in the Bank's headquarters, which concentrates all activities in the segment.

The financial division is responsible for raising sources for the Bank's activities, managing the Bank's financial exposures which are due to business operations, including management of the public deposits segment, management of transaction rooms, management of the nostro portfolio and maintaining contact with foreign financial institutions. The activity is divided between several departments: the financial management department, transaction room, securities department and securities and derivatives operation department.

Changes in the Group's structure and management approach

The Bank's CEO

On April 30, 2015, Mr. Uriel Paz, the Bank's CEO (at the time) announced his intention to conclude his tenure as the Bank's CEO. He effectively concluded his tenure on October 31, 2015.

On June 30, 2015, the Bank's Board of Directors resolved to appoint Mr. Gill Topaz to the position of the Bank's CEO, subject to the approval of the Commissioner of Banks.

On August 2, 2015, the Bank received a notice from the Commissioner of Banks, stating that the Banking Supervision Department does not object to the appointment of Mr. Gill Topaz as the Bank's CEO, and his tenure commenced on November 1, 2015.

Chairman of the Bank's Board of Directors

On September 8, 2015, the Chairman of the Board, Mr. Zeev Gutman, announced that he was withdrawing his candidacy as a director for an additional period of tenure. Mr. Zeev Gutman discontinued serving as the Chairman of the Board on September 10, 2015, after the annual general meeting.

On September 17, 2015, the Bank's Board of Directors resolved to appoint Mr. Zeev Nahari as a director and as the Chairman of the Bank's Board of Directors, in accordance with section 11c.(a)(3) of the Banking

Ordinance, 1941, and the Bank's bylaws, until the date when the appointment will be presented for approval to the special general meeting which will be convened for this purpose, and subject to the receipt of the required approvals.

On October 11, 2015, the Bank received a notice from the Bank of Israel, stating that it did not object to the appointment of Mr. Nahari as the Chairman of the Bank's Board of Directors. Since that date, Mr. Nahari has effectively served as a director and as the Chairman of the Bank's Board of Directors.

Subsequently, Mr. Nahari was appointed to serve as a director in the Bank in a special general meeting of the Bank, which was held on November 19, 2015.

For additional details regarding corporate officers, see the chapter regarding corporate governance - additional details, and the annexes to the annual report.

Reference in the opinion given by the banking corporation's auditor regarding the financial statements

After approval was received from the Banking Supervision Department, the Bank sold bonds which had been classified as bonds held to maturity. This sale was performed following a preliminary discussion which the Bank held vis-à-vis the Banking Supervision Department, which concluded with the Bank accepting the demand from the Banking Supervision Department, which determined that this sale must be done subject to a restatement of the financial statements as of December 31, 2014, and for the year then ended, in order to retrospectively reflect the correction of an error in the classification of the bonds from the held to maturity portfolio to the available for sale portfolio on the acquisition date. For details, see Note F.1. to the financial statements.

Changes in critical accounting policy and in critical accounting estimates which have a significant impact (or are expected to have a significant impact) on the banking corporation's position and results of operations.

During the period, excluding changes with respect to the letter from the Commissioner of Banks on the subject of the discounting of software costs and the classification of held to maturity bonds as available for sale bonds, as specified below in Notes 1.D.1 and 1.F. to the financial statements, no changes occurred in the accounting policy which had a significant impact on the Bank's position and results of operations.

For details regarding the accounting policy, critical accounting estimates, controls and procedures, see below in chapter 4.1 of this report.

2.2 Material developments in income, expenses and other comprehensive income

Profit and profitability

Net profit during the reporting year amounted to NIS 48.6 million, as compared with NIS 65.0 million last year, representing a decrease of approximately 25%. The decrease was primarily due to the increase in expenses with respect to credit losses, the decrease in non-interest financing income, and the increase in operating and other expenses, while on the other hand, a net increase in interest income was recorded, which partially offset the aforementioned effects.

Net profit returns over average equity amounted to 6.3%, as compared with 9.0% in the corresponding period last year.

Interest income and expenses

Net interest income in the reporting year amounted to NIS 334.1 million, as compared with NIS 317.0 million in 2014 - an increase of approximately 5%. The increase was due to the continued improvement of margins, to the increase in the balance of consumer credit and to the reduction of the cost involved in raising sources.

Developments in income and expense rates

Presented below are the interest margins between monetary assets which generated income less costs on liabilities in the various linkage segments:

	2015	2014
Unlinked	2.74%	2.59%
CPI-linked	2.35%	2.22%
Foreign currency and linked to foreign currency	1.91%	2.17%
Total interest margin	**2.51%**	**2.44%**

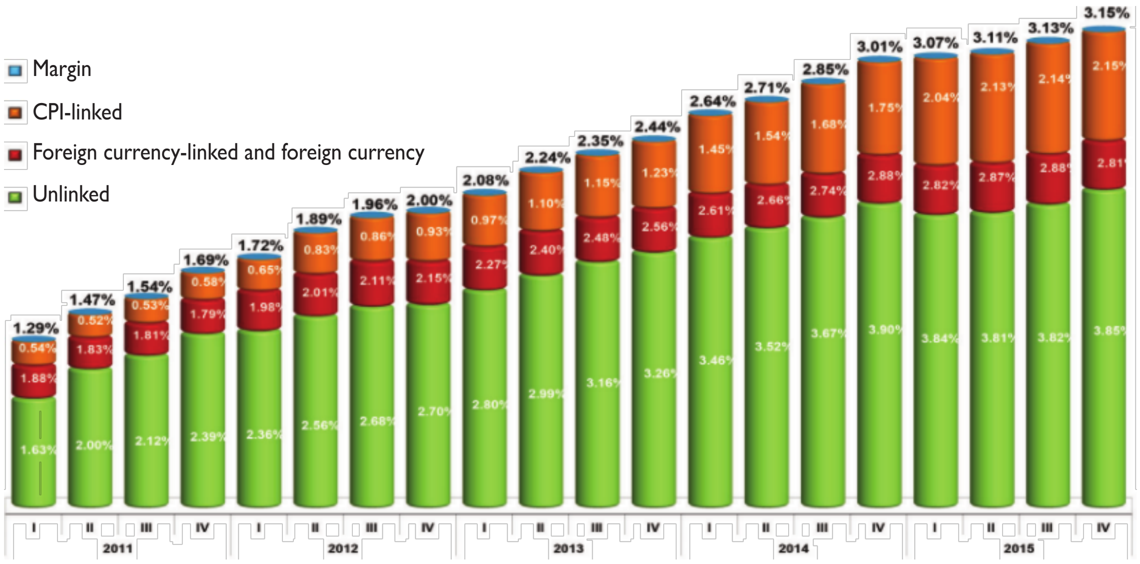
Presented below is the scope of activities and contribution to net interest income of the various linkage segments:

	2015			2014		
	Scope of operations	Contribution to interest income, net		Scope of operations	Contribution to interest income, net	
	In percent	In percent	NIS Millions	In percent	In percent	NIS Millions
Unlinked	60%	65%	217.8	60%	64%	202.7
Linked (1)	28%	24%	81.3	30%	27%	85.7
Foreign currency (2)	12%	11%	35.0	10%	9%	28.6
Total	**100%**	**100%**	**334.1**	**100%**	**100%**	**317.0**

(1) Income in this segment also includes linkage differentials.
(2) Income in the foreign currency segment does not include foreign currency differences on principal and the impact of derivative instruments.

For extensive details, see Annex 1 - Rates of interest income and expenses, in the chapter regarding corporate governance - additional details, and annexes to the annual report.

Presented below are data regarding the credit margin - quarterly average in the years 2011-2015.



Expenses with respect to credit losses

Expenses with respect to credit losses in the reporting year amounted to approximately NIS 40.4 million, as compared with approximately NIS 18.4 million in the corresponding period last year. The change was mostly due to income upon the conclusion of the past debts collection process in the amount of NIS 8.0 million, which was recorded in the corresponding period last year, and to an increase in the provision with respect to retail credit.

Presented below is the ratio of expenses with respect to credit losses for the period to total net credit to the public (including off-balance sheet credit risk), by multi-annual distribution:

	December 31				
	2015	**2014**	**2013**	**2012**	**2011**
Expenses with respect to credit losses for the period out of total credit to the public, net	0.41%	0.19%(1)	0.57%	0.37%	0.17%
Expenses with respect to credit losses out of total credit to the public risk	0.30%	0.15%(2)	0.45%	0.31%	0.14%

(1) After neutralization of the income upon the conclusion of the past debt collection process, the expense ratio with respect to credit losses out of net credit to the public in 2014 amounted to 0.27%.
(2) After neutralization of the income upon the conclusion of the past debt collection process, the expense ratio with respect to credit losses out of net credit to the public in 2014 amounted to 0.22%.

For extensive details, see below in the discussion regarding the development of credit to the public and the discussion regarding credit risk, as included in Chapter C - Risk Review.

Non-interest income

Non-interest income amounted to NIS 142.7 million, as compared with NIS 147.9 million in the corresponding period last year - a decrease of approximately 4%, primarily due to the following reasons:

Non-interest financing income in the reporting year amounted to NIS 0.9 million, as compared with NIS 18.1 million in the corresponding period last year. The decrease was primarily due to the decrease in nostro profits and the revaluation of index derivatives.

Fees in the reporting year amounted to NIS 124.5 million, as compared with NIS 118.3 million in the corresponding period last year. The increase was primarily due to the increase in fees with securities transactions.

Other income in the reporting year amounted to NIS 17.3 million, as compared with NIS 11.5 million in the corresponding period last year. The increase was due to capital gains from the sale of buildings.

Expenses and provision for taxes

Operating and other expenses in the reporting year amounted to NIS 365.8 million, as compared with NIS 352.4 million in the corresponding period last year - an increase of approximately 4%. The increase was primarily due to the increase in depreciation expenses and IT (presented under the item for other expenses), in light of the impact of the implementation of the Bank's strategic plan.

For additional details, see Note 7 to the financial statements.

Payroll expenses in the reporting year amounted to NIS 166.3 million, as compared with NIS 171.2 million in the corresponding period last year. The decrease was primarily due to the decrease in the cost of variable remuneration.

The provision for taxes on operating income amounted in 2015 to a total of NIS 22.0 million. The effective tax rate in 2015 reached approximately 31.16%, as compared with the statutory tax rate in financial institutions of 37.58%, and as compared with the effective tax rate of 30.92% last year. The decrease relative to the statutory tax rate was primarily due to exempt income and low tax rates on income from subsidiaries from.

For additional details regarding the interim periods, see Annex 2 - profit and loss and multi-quarterly balance sheet, in the chapter regarding corporate governance - additional details, and the annexes to the annual report.

Expenses and investments with respect to information technology systems [1], [2]

The scope of the investment in software costs amounted to approximately NIS 47.9 million in 2015.

	2015	[3]2014
Expenses which were recorded in the statement of income		
Expenses with respect to payroll and associated expenses	18.7	20.0
Expenses with respect to depreciation	39.5	31.4
IT (other expenses)	49.2	42.3
Total expenses	**107.4**	**93.7**
Costs recorded as assets		
Discounting with respect to payroll and associated expenses [4]	13.8	7.9
Additional software costs and IT equipment	35.0	34.7
Total	**48.8**	**42.6**
Balance of assets with respect to information technology system		
Depreciated cost (software costs)	104.5	97.1
Depreciated cost (IT equipment)	5.11	7.2
Total	**109.6**	**104.3**

(1) Information technology systems are as defined in Proper Banking Management Directive 357, "Management of information technology".

(2) For details regarding the Bank's information technology systems, see below in the chapter regarding corporate governance - additional details, and annexes to the annual report.

(3) Restated in light of the retrospective adoption due to directives issued by the Banking Supervision Department on the subject of the discounting of software costs. For details, see Note 1.D.2. to the financial statements.
(4) The increase in 2015 was primarily due to the Bank's intake of the employees of an external supplier for the purpose of software self-development.

Developments in other comprehensive income items

Other comprehensive income (after tax impact) during the reporting year amounted to NIS 2.1 million, as compared with income of NIS 12.6 million in 2014, representing a decrease of approximately NIS 10.5 million, which was primarily due to adjustments with respect to the presentation of available for sale securities according to net fair value (after tax impact), which amounted, during the reporting year, to approximately NIS 2.6 million, as compared with NIS 13.1 million in 2014.

For details regarding the negative capital reserve distributed by ranges of time periods and the decrease rate, see Note 12 to the financial statements.

For additional details regarding other comprehensive income, see Note 10 to the financial statements.

2.3. Structure and development of assets, liabilities, capital and capital adequacy

Developments in assets and liabilities items

The net balance of credit to the public amounted as of December 31, 2015 to NIS 14,220 million, as compared with NIS 14,085 million at the end of 2014, representing an increase of approximately 1%.

Cash, deposits in banks and securities

The balance of liquid assets (cash, deposits in banks and securities) as of December 31, 2015, amounted to NIS 3,852 million, as compared with NIS 4,180 million at the end of 2014, a decrease of approximately 8%.

The balance of cash and deposits in banks as of December 31, 2015 amounted to NIS 2,072 million, as compared with NIS 3,278 million at the end of 2014, a decrease of approximately 37%.

The balance of securities as of December 31, 2015 amounted to NIS 1,780 million, as compared with NIS 902 million at the end of 2014, an increase of approximately 97%.

Presented below is the composition of the securities portfolio:

	Balance as of December 31, 2014	Current movements(1)	Revaluation(2)	Balance as of December 31, 2015	Change in balances - %
Available for sale securities	636.4(3)	567.4	7.6	1,211.4	91%
Marketable securities	266.0	303.5	(1.4)	568.1	112%
	902.4	870.9	6.2	1,779.5	97%

(1) Includes purchases, sales, redemptions and interest receipts.
(2) Includes realized and unrealized profits from adjustments to fair value of available for sale securities and marketable securities, interest income, rate differentials and revaluation.
(3) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

Credit to the public

The net balance of credit to the public amounted as of December 31, 2015 to NIS 9,889 million, as compared with NIS 9,567 million at the end of 2014, representing an increase of approximately 3%.

Presented below is the table of credit figures:

	Balance as of December 31, 2014	Performance during the period(1)	Repayments In the period(2)	Balance as of December 31, 2015	Change Balances - %
Housing credit	6,914	1,440	1,390	6,964	1%
Consumer credit	765	766	673	858	12%
Total housing and consumer credit	**7,679**	**2,206**	**2,063**	**7,822**	**2%**
Business credit, excluding commercial assets	1,069	1,022	963	1,128	6%
Credit for the acquisition of commercial assets	387	199	100	486	26%
Other	432	190	169	453	5%
Total credit to the public, net	**9,567**	**3,617**	**3,295**	**9,889**	**3%**
Total credit to the public, gross	**9,674**	**3,617**	**3,290**	**10,001**	**3%**

(1) Includes refinancing
(2) Less accrual of interest, linkage differentials and rate differentials.

For additional details, see below in the discussion regarding the development of credit to the public and in the discussion regarding credit risks, included in Chapter 3.1 of this report, and in the risks report, which is available on the Bank's website.

Public deposits

The balance of public deposits amounted as of December 31, 2015 to NIS 11,019 million, as compared with NIS 10,977 million at the end of 2014.

Presented below is the composition of public deposits, by linkage segment.

	December 31, 2015	December 31, 2014	Change in percent
	NIS Millions		
NIS deposits and checking accounts	6,884	6,662	3%
Savings plans and CPI-linked deposits	2,324	2,453	(5%)
Deposits in foreign currency and linked to foreign currency	1,811	1,862	(3%)
Total public deposits	**11,019**	**10,977**	**0.4%**

For details regarding deposit types and deposits by size range, see Note 19, public deposits.

Off-balance sheet activity in securities held by the public

As of December 31, 2015, the number of customers holding securities portfolios maintained by the Bank amounts to approximately 14 thousand customers, similarly to the end of 2014. The balance of securities portfolios of these customers amounted as of December 31, 2015 to approximately NIS 12.8 billion.

Bonds and deferred liability notes

The balance of bonds and deferred liability notes amounted as of December 31, 2015 to NIS 1,635 million (of which, the balance of deferred liability notes in the amount was NIS 406 million), as compared with NIS 1,503 million at the end of 2014 (of which, the balance of deferred liability notes amounted to NIS 482 million).

On October 12, 2015, Jerusalem Finance & Issuance (2005) Ltd. (a subsidiary wholly owned and controlled by the Bank) issued NIS 296.3 million par value as an extension of a marketable series (Series I), in consideration of NIS 314.9 million according to the shelf offering report dated October 11, 2015.

Assets and liabilities in respect of derivative instruments

The balance of assets with respect to derivative instruments as of December 31, 2015 amounted to NIS 195 million (of which, 191 are with respect to customer activities), as compared with NIS 40 million at the end of 2014. (Of which, approximately NIS 19 million is for customers' activities.)

The balance of liabilities with respect to derivative instruments amounted as of December 31, 2015 to NIS 195 million (of which, approximately 191 are for customers), as compared with NIS 39 million at the end of 2014. (Of which, approximately NIS 17 million is for customers' activities.)

Other assets and liabilities

The balance of lent securities amounted as of December 31, 2015 to approximately NIS 387 million, as compared with approximately NIS 583 million at the end of 2014.

Developments in additional off-balance sheet items

The balance of loans from deposits, by collection rate (loans to entitled individuals out of government funds) amounted as of December 31, 2015 to NIS 1,152 million, as compared with NIS 1,418 million at the end of 2014, a decrease of approximately 19%. The decrease is due to the reduction of the scope of balances of loans to entitled individuals, inter alia, due to the process which was initiated by the Ministry of Housing, in collaboration with the Bank of Israel, which began at the end of 2014, to encourage early repayment, or refinancing, of those loans. Income from collection fees by collection rate amounted in 2015 to NIS 12.3 million, as compared with NIS 15.5 million in 2014.

The Bank of Jerusalem Trust Company Ltd. (a wholly owned and wholly controlled subsidiary of the Bank) is engaged in the holding in trust of accounts and financial assets of foreign residents and other parties.

The balance of assets held in trust by the Company as of December 31, 2015 and December 31, 2014, as well as its income during those years, amounts to immaterial sums.

For details regarding quarterly data, see Annex 2 - profit and loss and multi-quarterly balance sheet, in the chapter regarding corporate governance - additional details, and annexes to the annual report.

Capital and capital adequacy

Presented below is the ratio of capital to risk components:

	December 31	
	2015	2014
	NIS Millions	
A - Capital for the calculation of capital ratio		
Tier 1 capital, after supervisory adjustments and deductions	**778.6**	747.7
Additional Tier 1 capital, after deductions	-	-
Tier 2 capital, after deductions	**292.1**	359.6
Total Total capital	**1,070.7**	1,107.3
B - Weighted balances of risk assets		
Credit risk	**7,201.1**	6,918.9
Market risks	**72.0**	33.2
Operational risk	**740.7**	698.7
Total weighted balances of risk assets	**8,013.8**	7,650.8
	In percent	
C. Ratio of capital to risk components		
Ratio of Tier 1 capital to risk components	**9.7**	9.8
Ratio of total capital to risk components	**13.4**	14.5
Ratio of minimum Tier 1 capital required by the Commissioner of Banks	**9.3**	9.0
Ratio of minimum total capital required by the Commissioner of Banks	**12.8**	12.5

Presented below is the development of capital in 2015:

	Equity	Tier 1 capital	Tier 2 capital	Total capital
Balance as of December 31, 2014 [(1)]	**750.4**	**747.7**	**359.6**	**1,107.3**
Net profit for the period [(2)]	48.6	48.6	-	48.6
Dividend	(17.1)	(17.1)	-	(17.1)
Other comprehensive income, net, after tax impact [(3)]	2.1	2.1	-	2.1
Deductions	-	(2.7)	-	(2.7)
Decrease in the balance of deferred liability notes recognized as Tier 2 capital	-	-	(71.9)	(71.9)
Increase in collective provision recognized as Tier 2 capital	-	-	4.4	4.4
Balance as of December 31, 2015	**784.0**	**778.6**	**292.1**	**1,070.7**

(1) Restated in light of the retrospective adoption of generally accepted accounting principles in the United States on the subject of employee rights, and retrospective adoption due to directives issued by the Banking Supervision Department on the subject of discounting of software costs. For details, see Note 1.D.1. and 1.D.2. to the annual financial statements.
Additionally, on February 11, 2016, due to the significant changes in regulatory requirements in connection with the Tier 1 capital adequacy ratio, and after approval was received from the Banking Supervision Department, the Bank sold bonds which had been classified as bonds held to maturity. This sale was performed following a preliminary discussion which the Bank held vis-à-vis the Banking Supervision Department, which concluded with the Bank accepting the demand from the Banking Supervision Department, which determined that this sale must be done subject to a restatement of the financial statements as of December 31, 2014, and for the year then ended, in order to retrospectively reflect the correction of an error in the classification of the bonds from the held to maturity portfolio to the available for sale portfolio, on the acquisition date.

(2) See above for details regarding profit and profitability, in chapter regarding material developments in income, expenses and other comprehensive income.

(3) See above for details regarding developments in other comprehensive income items, in the chapter regarding material developments in income expenses, and other comprehensive income

For details regarding changes in equity, see the financial statements - statement of changes in equity.

The balance of deferred liability notes which were issued to the public and deferred deposits which were raised from households and institutional customers, which is included under Tier 2 capital for the purpose of calculating the ratio of capital to risk components, amounted as of December 31, 2015 to NIS 201 million, as compared with NIS 273 million at the end of 2014.

On May 30, 2013, the Bank of Israel published updated Proper Banking Management Directives, which adopt the recommendations of Basel II and Basel III, beginning on January 1, 2014, with respect to the banking system in Israel (Proper Banking Management Directives 201 - 211).

The Proper Banking Management Directive specify that banking corporations and credit companies are required:

- To comply with a ratio of minimum Tier 1 capital (core capital) to weighted risk assets of 9%, for the entire banking system, beginning on January 1, 2015, and for a banking corporation whose total balance sheet assets, on a consolidated basis, are equal to or exceed 20% of the total balance sheet assets in the banking system, to comply with a minimum total capital ratio of 10%, beginning on January 1, 2017.
- To maintain a minimum ratio of capital to weighted risk assets of 12.5%, for the entire banking system, beginning on January 1, 2015, and for a banking corporation whose total balance sheet assets, on a consolidated basis, equal or exceed 20% of the total balance sheet assets in the banking system - to maintain a minimum capital ratio of 13.5%, beginning on January 1, 2017.

On September 28, 2014, the Commissioner of Banks published directives on the subject of restrictions regarding the provision of housing loans. According to the directives, the banking system is required to increase the target Tier 1 capital ratio at a rate which reflects 1% of the balance of housing loans. The application date of the requirement to fulfill the minimum capital target rate is January 1, 2017. The banks are required to increase the minimum capital target, by quarterly rates of 0.125% of the balance of housing loans, from April 1, 2015 until January 1, 2017.

As a result of the implementation of the directive, based on the data from the current balance sheet, the Bank is expected to gradually add the demand for additional capital in the amount of NIS 9 million, which constitutes an addition of approximately 0.1% to the minimum capital requirement specified by the Commissioner of Banks for each quarter, until the target date. In accordance with the above, the cumulative calculation as of January 1, 2017 will amount to a total of approximately NIS 70 million, which constitutes an addition of approximately 0.9% to the minimum capital requirements.

It is noted that any change in the balance of the housing loans portfolio will change the required capital addition.

In accordance with the aforementioned directives of the Commissioner, the Bank's minimum Tier I capital as of December 31, 2015 amounts to 9.3%.

The determination of capital targets constitutes an initial and material step in the capital planning process, from which the other stages are derived, since the minimum capital target determined by the Bank of Israel effectively constitutes a planning restriction. The capital target was determined in consideration of the Bank's regulatory, organization and business environment. Further to the above, and within the framework of its discussions, the Board of Directors instructed management to prepare a long term capital ratio plan, based on an outline according to which the Tier I capital ratio amounts to 11% at the end of 2017.

Leveraging ratio

	December 31, 2015
Tier I capital	778.6
Total balance sheet exposures	14,325.6
Other off-balance sheet exposures (after conversion factors to balance sheet exposures)	614.0
Additional amounts with respect to potential future exposure associated with all transactions regarding derivatives	55.3
Amounts with respect to assets which were deducted in the determination of Tier I capital	(5.4)
Total exposures	**14,989.5**
Leveraging ratio	**5.2%**
Minimum leveraging ratio required by the Commissioner of Banks	**5.0%**

On April 28, 2015, the Banking Supervision Department published Proper Banking Management Directive 218, on the subject of the "Leveraging ratio" (hereinafter: the "Directive"). The directive established a simple and transparent leveraging ratio, which is not based on risk, which will serve as a supplementary and reliable measurement of risk-based capital requirements, and which is intended to limit the accumulation of leverage in the banking corporation.

The leveraging ratio is defined as the ratio between the measurement of capital to the measurement of exposure. The capital used for the purpose of measuring the leveraging ratio is Tier I capital, as defined in Proper Banking Management Directive 202, in consideration of the transition arrangements which were determined. The total measurement of exposure is the total sum of balance sheet exposures, exposures to derivatives and to transactions involving the financing of securities and off-balance sheet items. In general, measurement is consistent with accounting values, and risk weights are not taken into account. Additionally, it is not possible to use physical or financial securities, guarantees or other techniques for the mitigation of credit risks, in order to reduce the measurement of the exposures, unless specified otherwise in the directive. Balance sheet assets which were deducted from Tier I capital (in accordance with the provisions of Proper Banking Management Directive 202) are deducted from the measurement of exposures. In accordance with the directive, the exposure with respect to derivatives is calculated in accordance with Proper Banking Management Directive 203, and the exposures with respect to off-balance sheet items are calculated between converting the theoretical total of the exposures of the items, into conversion factors for credit, as determined in Proper Banking Management Directive 203.

In accordance with the directive, a banking corporation is required to fulfill a leveraging ratio which will not fall below 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis constitutes 20% or more of the total balance sheet assets in the banking system must fulfill a leveraging ratio which will not fall below 6%. In accordance with the above, the minimum leveraging ratio which will be required is 5%.

A banking corporation is required to fulfill the minimum leveraging ratio beginning on January 1, 2018. A banking corporation which, on the publication date of the directive, fulfills the minimum leveraging ratio which applies to it, must not fall below the limit determined in the directive.

The Bank fulfills the leveraging ratio specified in the directive.

Dividend distributions

On August 29, 2013, the Bank's Board of Directors resolved to adopt a dividend distribution policy of up to 30% of the Bank's net profit in each year, as specified in the immediate report which was published by the Bank on August 29, 2013 (reference number: 2013-01-132396), which is included herein by way of reference. (Effectively, the dividend distribution was implemented on a quarterly basis, according to 30% of the quarterly net profit.) However, the considerations regarding a dividend and its actual distribution, if any, will be affected by the requirement to meet the updated capital targets, as determined by the Board of Directors (see below in the chapter regarding capital adequacy, chapter on risks and risk management methods) and subject to the directives issued by the Commissioner of Banks, which will be determined from time to time, and in accordance with the provisions of the law.

A dividend distribution will be performed subject to the provisions of the Companies Law, 5759 - 1999, and Proper Banking Management Directive 331, on the subject of dividend distributions in banking corporations. The Commissioner of Banks announced to the banks on June 30, 2010 that in addition to Proper Banking Management Directive 331, a bank which does not fulfill a capital target of 7.5% or where a dividend distribution would cause it not to fulfill the target, is not entitled to distribute dividends unless approval has been received from the Commissioner of Banks.

The above regarding a dividend distribution will not create any undertaking whatsoever towards any third party whatsoever (including with respect to actual dividend distributions / dividend payment dates and/or rates).

The information provided above regarding dividend distributions constitutes forward looking information, which may not be realized, in whole or in part, or which may be realized differently than expected. This information is based on various assessments and forecasts which were available to the Bank's Board of Directors. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. The influencing factors include forecasts and assessments regarding changes in the state of the economy, legislation, directives issued by supervisory and other entities, and changes in the Bank's profitability, in the strategic plan and in the work plan.

In the reporting period, the Bank distributed dividends in the total amount of NIS 17.1 million, as compared with a total of approximately NIS 17.7 million in 2014.

For details regarding dividend distributions, see below in Note 25 to the financial statements.

2.4 Operating segments

The Bank operates and provides a variety of banking services in four main operating segments. Presented below are details regarding the reported operating segments:

- **Households segment** - the customers of this segment are households and small businesses which have similar operational indicators to households.
- **Private banking segment** - the customers of this segment are customers with a medium to high degree of financial wealth, to whom services are given through a branch specializing in private banking, primarily for foreign residents (mostly from North America, England and France).
- **Business segment** - the customers of this segment are construction companies, contractors and real estate companies, business customers, corporations and associations.
- **Financial management segment** - this segment includes the management of the Bank's free financial capital and positions, management of the Bank's nostro portfolio, activity vis-à-vis banks in Israel and abroad, and vis-à-vis the Bank of Israel, as well as the execution of transactions regarding derivative financial instruments.

Presented below are details regarding the average balances of assets and liabilities which were used in operating segments:

	Assets			Liability		
	2015	2014	Change	2015	2014	Change
Segments	NIS Millions		%	NIS Millions		%
Households	7,371.4	7,446.9	(1%)	6,548.3	7,387.4	(11%)
Private banking	1,279.5	1,153.8	11%	934.8	1,043.7	(10%)
Business	1,222.9	1,258.7	(3%)	2,179.0	1,771.5	23%
Financial management	4,105.9	3,502.6	17%	3,544.1	2,437.9	45%
Total	**13,919.7**	**13,362.0**	**5%**	**13,206.2**	**12,640.5**	**4%**

Presented below are details regarding operating income and returns on operating income to capital, by operating segments:

	Net profit (loss)		Return on equity	
	2015	2014	2015	2014
Segments	NIS Millions		Percent	
Households	(0.2)	4.8	-	1.2%
Private banking	4.6	1.1	6.1%	1.5%
Business	22.9	32.5	14.5%	22.9%
Financial management	16.8	26.6	31.7%	60.6%
Unallocated amounts and adjustments	4.5	-	-	-
Total	**48.6**	**65.0**	**6.3%**	**9.0%**

Presented below is the average number of direct positions attributed to the operating segments:

	Number of employees		
	2015	2014	Change
Segments	NIS Millions		%
Households	222	222	-
Private banking	26	28	(7%)
Business	37	38	(2%)
Financial management	3	3	-
Total	**288**	**291**	**(10%)**

Households segment

Summary description of the segment's characteristics

In the household segment, the Bank offers a variety of financial services and products. The main products which are currently available to the Bank's customers within the framework of this operating segment include: loans for residential apartments and commercial properties, general purpose loans to secure residential apartments, consumer loans and credit cards, checking accounts, deposits and savings, checking facilities, loans for the acquisition of vehicles, capital market activities involving securities and investment advice.

Most of the Bank's customers who belong to this operating segment receive banking services from the Bank by means of the Bank's branches and by means of the Bank's call center.

Material changes in the scope of operations and profitability in the segment

Summary results of operations in the household segment for the year ended December 31								
	2015				2014*			
	Mortgages	Banking and finance	Capital market	Total	Mortgages	Banking and finance	Capital market	Total
	In millions of New Israeli Shekels							
Interest income, net								
From externals	125.2	111.3	-	**236.5**	127.5	99.1	-	**226.6**
Inter-segmental	3.7	4.6	-	**8.3**	3.2	4.0	-	**7.2**
Total interest income, net	**128.9**	**115.9**	-	**244.8**	**130.7**	**103.1**	-	**233.8**
Non-interest income - from externals	28.4	8.0	42.6	**79.0**	29.2	9.0	34.9	**73.1**
Total income (before credit losses)	**157.3**	**123.9**	**42.6**	**323.8**	**159.9**	**112.1**	**34.9**	**306.9**
Expenses with respect to credit losses	(0.4)	(40.4)	-	**(40.8)**	0.8	(30.0)	-	**(29.2)**
Operating and other expenses, excluding depreciation and amortization	(64.1)	(129.2)	(55.8)	**(249.1)**	(63.9)	(127.7)	(51.1)	**(242.7)**
Depreciation and amortization	(9.1)	(18.9)	(6.1)	**(34.1)**	(7.5)	(15.3)	(4.9)	**(27.7)**
Profit (loss) before taxes	83.6	(64.6)	(19.3)	**(0.2)**	89.3	(60.9)	(21.1)	**7.3**
Provision for taxes on income	(26.6)	20.5	6.1	-	(27.8)	18.8	6.5	**(2.5)**
Net profit (loss)	57.0	(44.1)	(13.2)	**(0.2)**	61.5	(42.1)	(14.6)	**4.8**
Return on equity (percentage of net profit from average equity)	14.8%	(44.7%)	-	-	16.6%	(45.4%)	-	**1.2%**
Average balance of assets	6,185.3	1,127.9	58.2	**7,371.4**	6,287.3	1,061.3	98.3	**7,446.9**
Average balance of liabilities	-	6,548.3	-	**6,548.3**	-	7,387.4	-	**7,387.4**
Average balance of risk assets (Basel III)	3,910.9	999.7	57.8	**4,968.4**	3,960.6	979.6	36.3	**4,976.5**
Average balance of securities	-	-	6,373.3	**6,373.3**	-	-	5,694.7	**5,694.7**
Average balance of other managed assets	1,246.4	-	-	**1,246.4**	1,525.3	-	-	**1,525.3**
Margin from credit provision activity	108.8	106.5	-	**215.3**	103.2	89.9	-	**193.0**
Margin from deposits receipt activity	-	14.9	-	**14.9**	-	18.3	-	**18.3**
Other	20.1	(5.5)	-	**14.6**	27.5	(5.0)	-	**22.5**
Total interest income, net	**128.9**	**115.9**	-	**244.8**	**130.7**	**103.1**	-	**233.8**

* Restated.

In 2015, loss was recorded in this operating segment in the amount of NIS 0.2 million, as compared with profit of NIS 4.8 million in 2014. The decrease was primarily due to the mortgage activity. The income from this segment constitutes approximately 68% of the Bank's total income. The expenses in this segment constitute approximately 77% of the Bank's total expenses. In the mortgage activity, a decrease in income was recorded primarily due to the decrease in the recognition of early repayment fees in housing loans. In the banking and financial activity, an increase was recorded in net interest income, relative to the previous year, primarily due to the increase in the balances and margins of consumer credit. On the other hand, an increase was recorded in expenses with respect to credit losses relative to the previous year, primarily due to changes in provision rates. In capital market activities, an increase in non-interest income was recorded, primarily due to the increase in brokerage fees.

In 2015, the average number of positions in the segment amounted to approximately 222 direct positions, the same as last year.

In the mortgage segment - 59 positions on average, as compared with 60 in 2014. In the banking and finance segment - 124 positions on average, as compared with 123 positions in 2014, In the capital market segment - 39 positions on average, the same as last year.

The headquarters and management employees were also loaded onto the segment.

For additional details, see the chapter regarding operating segments in the part "corporate governance - additional details" and annexes to the annual report.

Private banking segment

Summary description of the segment's characteristics

The Banking activity in the private banking segment provides services and products which are given to households, and to a population group which primarily includes foreign residents with a medium or higher degree of financial wealth. Services in this segment are given through a branch of the Bank specializing in the provision of these services and products to foreign residents. In this operating segment, greater emphasis is placed on providing personal, high quality service, including offering personally tailored products to customers.

Material changes in the scope of operations and profitability in the segment

Summary results of operations in the private banking segment for the year ended December 31								
	2015				2014*			
	Mortgages	Banking and finance	Capital market	Total	Mortgages	Banking and finance	Capital market	Total
	In millions of New Israeli Shekels							
Interest income, net								
From externals	20.1	1.9	-	**22.0**	16.0	2.9	-	**18.9**
Inter-segmental	0.8	0.6	-	**1.4**	0.6	0.5	-	**1.1**
Total interest income, net	**20.9**	**2.5**	-	**23.4**	**16.6**	**3.4**	-	**20.0**
Non-interest income - from externals	0.7	7.7	3.7	**12.1**	0.4	6.5	3.0	**9.9**
Total income (before credit losses)	**21.6**	**10.2**	**3.7**	**35.5**	**17.0**	**9.9**	**3.0**	**29.9**
Expenses with respect to credit losses	(0.4)	(0.2)	-	**(0.6)**	0.3	-	-	**0.3**
Operating and other expenses, excluding depreciation and amortization	(10.1)	(12.4)	(1.8)	**(24.3)**	(10.1)	(13.9)	(1.4)	**(25.4)**
Depreciation and amortization	(2.0)	(1.7)	(0.2)	**(3.9)**	(1.7)	(1.5)	(0.1)	**(3.3)**
Profit (loss) before taxes	9.1	(4.1)	1.7	**6.7**	5.5	(5.5)	1.5	**1.5**
Provision for taxes on income	(2.9)	1.3	(0.5)	**(2.1)**	(1.6)	1.7	(0.5)	**(0.4)**
Net profit (loss)	6.2	(2.8)	1.2	**4.6**	3.9	(3.8)	1.0	**1.1**
Return on equity (percentage of net profit from average equity)	8.9%	(81.1%)	-	**6.1%**	6.3%	(104.6%)	-	**1.5%**
Average balance of assets	1,262.7	16.8	-	**1,279.5**	1,135.3	18.5	-	**1,153.8**
Average balance of liabilities	-	934.8	-	**934.8**	-	1,043.7	-	**1,043.7**
Average balance of risk assets (Basel III)	708.5	35.6	-	**744.1**	634.0	39.0	-	**673.0**
Average balance of securities	-	-	332.2	**332.2**	-	-	294.2	**294.2**
Margin from credit provision activity	20.9	0.5	-	**21.4**	16.6	0.5	-	**17.1**
Margin from deposits receipt activity	-	2.0	-	**2.0**	-	2.9	-	**2.9**
Other	-	0.0	-	-	-	0.0	-	-
Total interest income, net	**20.9**	**2.5**	-	**23.4**	**16.6**	**3.4**	-	**20.0**

* Restated

Net profit in this operating segment during the reporting period amounted to NIS 4.6 million, as compared with profit of NIS 1.1 million in the corresponding period last year. The increase in profit was primarily due to the increase in the margin of mortgages in foreign currency in this operating segment.

The income from this segment constitutes approximately 7% of the Bank's total income. The expenses in this segment constitutes approximately 8% of the Bank's total expenses.

In 2015, the average number of positions in the segment amounted to 26 direct positions, as compared with 28 positions in 2014.

In the banking and financial segment - 11 positions on average, as compared with 13 positions on average in 2014. In the mortgage segment - 13 positions on average, as compared with 14 positions in 2014.

In the capital market segment - 2 positions on average, as compared with 1 position in 2014. Headquarters and management employees were also included under this segment.

For additional details, see the chapter regarding operating segments, chapter regarding corporate governance - additional details, and the annexes to the annual report.

Business segment

Summary description of the segment's characteristics

The business segment provides banking services to business customers, corporations and associations. These services are provided to the Bank's customers through the real estate sector and through the retail division, by means of the commercial banking unit. The segment includes activities in the real estate sector, including accompaniment of residential construction projects, primarily in accordance with the closed accompaniment method, including, inter alia, the financing of projects in accordance with the various types of National Outline Plan 38, and financing of acquisition groups. The Bank also manages credit which is provided in order to finance projects in the solar energy segment, whether independently or through joint financing with financial entities, as well as commercial loans. According to the Bank's credit policy, the current business credit in the commercial banking unit and the private banking branch has been in an ongoing trend of reduction in recent years, a trend which is expected to continue in the coming year.

Material changes in the scope of operations and profitability in the segment

Summary results of operations in the business segment for the year ended December 31								
	2015				2014*			
	Banking and finance	Construction and real estate	Capital market	Total	Banking and finance	Construction and real estate	Capital market	Total
	In millions of New Israeli Shekels							
Interest income, net								
From externals	7.2	24.8	-	**32.0**	8.7	25.8	-	**34.5**
Inter-segmental	1.8	0.8	-	**2.6**	1.5	0.6	-	**2.1**
Total interest income, net	**9.0**	**25.6**	-	**34.6**	**10.2**	**26.4**	-	**36.6**
Non-interest income - from externals	2.6	23.1	18.9	**44.6**	3.9	22.0	20.9	**46.8**
Total income (before credit losses)	**11.6**	**48.7**	**18.9**	**79.2**	**14.1**	**48.4**	**20.9**	**83.4**
Expenses with respect to credit losses	(0.1)	1.1	-	**1.0**	1.0	9.4	-	**10.4**
Operating and other expenses, excluding depreciation and amortization	(6.8)	(22.6)	(11.4)	**(40.8)**	(9.2)	(19.3)	(13.4)	**(41.9)**
Depreciation and amortization	(1.2)	(3.5)	(1.4)	**(6.1)**	(1.3)	(2.4)	(1.4)	**(5.1)**
Profit before taxes	**3.5**	**23.7**	**6.1**	**33.3**	**4.6**	**36.1**	**6.1**	**46.8**
Provision for taxes on income	(1.1)	(7.4)	(1.9)	**(10.4)**	(1.3)	(11.1)	(1.9)	**(14.3)**
Net profit	**2.4**	**16.3**	**4.2**	**22.9**	**3.3**	**25.0**	**4.2**	**32.5**
Return on equity (percentage of net profit from average equity)	10.3%	12.7%	-	**14.5%**	12.4%	22.6%	-	**22.9%**
Average balance of assets	323.1	874.9	24.9	**1,222.9**	407.7	851.0	-	**1,258.7**
Average balance of liabilities	1,731.9	447.1	-	**2,179.0**	1,323.2	448.3	-	**1,771.5**
Average balance of risk assets (Basel III)	231.3	1,289.7	68.2	**1,589.2**	257.5	1,163.5	65.0	**1,486.0**
Average balance of securities	-	-	4,768.9	**4,768.9**	-	-	5,456.3	**5,456.3**
Margin from credit provision activity	6.1	23.2	-	**29.3**	6.6	23.0	-	**29.6**
Margin from deposits receipt activity	2.1	0.4	-	**2.5**	3.0	1.3	-	**4.3**
Other	0.8	2.0	-	**2.8**	0.6	2.1	-	**2.7**
Total interest income, net	**9.0**	**25.6**	-	**34.6**	**10.2**	**26.4**	-	**36.6**

* Restated

Net profit during the year amounted to NIS 22.9 million, as compared with NIS 32.5 million in the corresponding period last year, a decrease of approximately 30%. The decrease in profit was primarily due to income with respect to credit losses which was recorded in 2014 upon the conclusion of the past debt collection process.

The income in this segment constitutes approximately 17% of the Bank's total income. The expenses in this segment constitute approximately 13% of the Bank's total expenses.

In 2015, the average number of positions in the segment amounted to 37 direct positions, as compared with 38 positions in 2014.

In the capital market segment - 9 positions on average, as compared with 11 positions on average in 2014. In the construction and real estate segment - 22 positions on average, as compared with 19 positions in 2014.

In the banking and finance segment - 6 positions on average, as compared with 8 positions on average in 2014. Additionally, headquarters and management employees were loaded onto this segment.

For additional details, see the chapter regarding operating segments in the part "corporate governance - additional details" and annexes to the annual report.

Financial management segment

Summary description of the segment's characteristics

The activities in this segment include the Bank's financial management, and do not include activities vis-à-vis the Bank's customers. The main operating areas in this segment are:

- Management of the Bank's available financial capital.
- Management of the Bank's nostro portfolio.
- Management of the exposures to market risks, including base, interest and liquidity exposures.
- Activities vis-à-vis banks in Israel and around the world.

Material changes in the scope of operations and profitability in the segment

Summary results of operations in the financial management segment for the year ended December 31		
	2015	2014
	In millions of New Israeli Shekels	
Interest income, net		
From externals	43.6	37.0
Inter-segmental	(12.3)	(10.4)
Total interest income, net	**31.3**	**26.6**
Non-interest income - from externals	0.9	18.1
Total income (before credit losses)	**32.2**	**44.7**
Expenses with respect to credit losses	-	0.1
Operating and other expenses, excluding depreciation and amortization	(7.0)	(6.0)
Depreciation and amortization	(0.5)	(0.3)
Profit before taxes	**24.7**	**38.5**
Provision for taxes on income	(7.9)	(11.9)
Net profit	**16.8**	**26.6**
Return on equity (percentage of net profit from average equity)	31.7%	60.6%
Average balance of assets	4,105.9	3,502.6
Average balance of liabilities	3,544.1	2,437.9
Average balance of risk assets (Basel III)	602.8	463.4
Average balance of mutual funds	-	-
Average balance of securities	-	-
Average balance of other managed assets	-	-
Margin from credit provision activity	26.6	20.6
Margin from deposits receipt activity	-	-
Other	4.7	6.0
Total interest income, net	**31.3**	**26.6**

The profitability of this segment amounted this year to profit of NIS 16.8 million, as compared with profit of NIS 26.6 million in 2014. The decrease in profit was primarily due to the decrease in nostro profits relative to the previous year.

The income from this segment constitutes approximately 7% of the Bank's total income. The expenses in this segment constitutes approximately 2% of the Bank's total expenses.

In 2015, the number of direct positions in the segment was 3, similarly to the number of positions in 2014.

For additional details, see the chapter regarding operating segments in the part "corporate governance - additional details" and annexes to the annual report.

2.5 Main investee companies

For details regarding the main investee companies, see Note 15 to the financial statements.

Chapter 3 - Risk Review

3.1 Credit risk

Review of the risk and management thereof

Credit risk is the risk of harm to the Bank's value due to the possibility that a borrower or counterparty of the Bank will default on its obligations, relative to the terms which were agreed with it, or due to a deterioration in the quality of borrowers and the value of the collateral which was provided by them.

Credit risk is the Bank's main risk. The materiality of this risk corresponds to the Bank's core business operations. This risk is reflected primarily in activities vis-à-vis retail customers, approximately 90% of the activity, but also vis-à-vis business customers and in the nostro activity. In order to manage the credit risk, a credit risk management policy and credit policy are defined in the Bank, which are approved each year by the Board of Directors.

The credit risk management policy describes the entities which create, manage and control this risk, principles for managing risks, tools for mitigating risks, and monitoring tools for risk management. Additionally, it includes a description of the process of establishing authorities, the orderly reporting process and the process regarding the reporting of exceptions.

The credit policy document, which is approved by the Bank's Board of Directors, sets forth the Bank's credit provision policy, and specifies the principles governing the provision of credit, restrictions and collateral. The policy also includes specification of principles and rules for the management and control of the credit portfolio, with the aim of preserving its quality and minimizing its inherent risk. These principles allow controlled management of the risks involved in the provision of credit to borrowers, on the levels of the individual customer, of groups of borrowers, and of market branches and business lines.

Credit to the public is managed in several main segments, which are differentiated from one another by the characteristics of the customers and banking services which they require, and by the organizational unit which is responsible for handling each type of customer:

- The household segment, customers of the international operation and commercial customers are under the responsibility of the retail division.
- Business customers, primarily in the real estate project accompaniment segment, are under the responsibility of the real estate sector, which is subordinate to the Bank's CEO.

The credit provision process includes an evaluation of the transaction data, in accordance with criteria which were determined in the Bank's policies. The credit underwriting and approval process is hierarchical, from the branch level to the senior management level, in accordance with a hierarchy of authorities which was approved by the Board of Directors.

The Bank operates on several levels in order to monitor and reduce credit risk, as much as possible, from the stage involving the underwriting and approval of credit, to the collateral required according to the credit policy, and the relevant policies, to ongoing monitoring and controls which are implemented in the business units which constitute the first line of defense, and in the designated control units. The Bank invests a great deal of efforts in improving the professionalism and expertise of those engaged in the provision and management of credit, and in the development of computerized tools to assist in its effective management.

Measurement and control system - the Bank makes use of several IT systems to monitor and control credit risk. The IT systems provide control tools for the first line of defense, and also for the second and third lines, in order to identity credit risks.

The main systems include the commercial credit system, the mortgage management system, systems to support decision making regarding retail credit, and internal rating systems for the credit portfolio.

The Bank has several internal systems for the rating of borrowers which support the reaching of credit decisions: in the project accompaniment segment, the system incorporates parameters from the projects' rate of progress reports, such as evaluating the rate of progress, the liquidity position, the erosion of profitability, value of inventory, and more. In retail credit, the customer is rated according to a rating model which is based on the customer's characteristics at the time of the request for credit. in 2015, separate statistical models for existing customers and new customers were implemented in the Bank, and these models have been integrated into the consumer credit underwriting system. The Bank has an expert model for the mortgage segment. During 2014, a statistical request model was developed, which was validated and developed from a technological perspective in 2015. The model will enter into use in the first half of 2016, and will be integrated into the mortgage pricing strategy.

Additionally, the Bank has behavioral models in consumer credit and mortgages, which predict the probability of default in the Bank's existing credit portfolio. These models are used to monitor risk in the existing portfolio, and also constituted an infrastructure for the creation of a standard internal rating scale for the balance sheet credit to the public, as required under Proper Banking Directive 314.

Bank management continues to upgrade the measurement, reporting and monitoring tools, with the aim of receiving more comprehensive information to assist in the management of credit risk.

Mitigation of credit risk - in order to mitigate credit risk, the Bank operates in accordance with policies, procedures and work flows regarding the receipt and management of collateral, rates of reliance on collateral, registration of collateral, etc.

Collateral - The main collateral which is given to the Bank is the pledging of real estate. Additional collateral is also received by the Bank, in the form of pledges on vehicles, checks, deposits and securities, third party bank guarantee, personal guarantees of debt guarantors, and more. The Bank's policy sets forth rules regarding reliance on each type of collateral, in accordance with the nature of the collateral, its marketability, speed of realization and the legal status of the collateral. The different types of collateral are adjusted to the circumstances of the loan.

The Bank's policies specify rules for the management of collateral, and for updating their value.

The deposits and savings which could be used to secure credit include deposits which are marked in the Bank's system as pledged, where the depositor is also the entity subject to the exposure, as well as deposits which are registered in the Bank's system, and which were pledged in favor of the Bank, where in addition, the pledge is recorded in the Registrar of Pledges or in the Registrar of Companies, as applicable. The setting off of deposits and savings out of total credit to the public is performed in accordance with the collateral's fulfillment of the aforementioned directives.

Description of the active entities which create, manage and control credit risk:

The Bank adopted a framework regarding the management and control of risks, which is based on a supervision circuit and on three "lines of defense": The supervision circuit includes the Board of Directors and its relevant committees (the Board of Directors Risk Management Committee, Board of Directors Credit Committee and Audit Committee), as well as management. The first line of defense includes the risk takers and risk managers, including the internal Credit Committee, the retail division manager, the real estate sector manager, authorized individuals in the credit department and the collection unit. The second line of defense includes the risk management functions in the risk division, led by the Risk Division Manager, who also serves as the Bank's Chief Risk Officer. The second line also includes the Bank's monetary division. The third line includes internal controls.

For an extensive description of the work involved in managing and controlling credit risk, see the risks report - disclosure in accordance with Pillar 3, and additional information regarding risks.

Concentration

Concentration risk is the risk which arises due to the absence of distribution in the credit portfolio. With the aim of reducing the concentration risk which is due to the absence of distribution in the Bank's credit portfolio, the Bank works to implement distribution in the credit portfolio between many borrowers from different market sectors.

Credit concentration risk in the Bank involves several main aspects:

- **Borrower concentration risk** - a risk which arises from the credit that is given to a borrower or to several borrowers which in the same group of borrowers. Insofar as the distribution of the credit portfolio between the various borrowers is broader, the borrowers concentration risk is lower.

As part of the Bank's preparations for changes in the business environment, and in the interest of reducing the Bank's exposure to large borrowers, the Bank's Board of Directors reduced, beyond the restriction which was determined by the Commissioner of Banks, the restrictions regarding a single borrower and the framework for a group of borrowers.

The Bank conducts ongoing monitoring of the large borrowers and the fulfillment of the restrictions determined by the Board of Directors,

On November 8, 2011, the directives issued by the Commissioner of Banks were published regarding additional disclosure with respect to significant exposures to a group of borrowers. Due to the fact that the Bank does not have any group of borrowers (as defined in Proper Banking Management Directive 313) whose debt exceeds 15% of the Bank's capital, the Bank is not required to provide additional disclosure in accordance with the aforementioned directive.

- **Market sector concentration risk** - a risk arising from the high scope of credit provided to borrowers who belong to a certain economic sector (market branch).

For the purpose of mitigating the credit risk which is due to concentration in the construction branch, with respect to project accompaniment, the Bank collaborates with insurance companies which issue sale policies to apartment buyers in projects and/or collateral to land owners in combination transactions, and divides shared collateral with the Bank, "pari passu".

Additionally, the Bank cooperates with financial entities in the project accompaniment and solar energy segments. These entities provide credit together with the Bank, according to a predetermined ratio.

The Bank complies with the restrictions of the Bank of Israel regarding the exposure to market branches.

- **Geographical concentration risk** - this risk is due to the insolvency of borrowers who are concentrated in a certain geographical area, or collaterals which are concentrated in a certain geographical area.

The Bank's credit policy specifies restrictions with respect to geographical distribution, which are intended to reduce such risk.

- **Segmental concentration risk** - this risk is due to the insolvency of borrowers who belong to the same population group.

The Bank evaluates its exposure to these population groups on an ongoing basis, and performs scenario analyses, which indicate that the Bank is not expected to incur exceptional losses as a result of the Bank's exposure to these segments. The results of the evaluation are submitted to the Bank's Board of Directors within the framework of the quarterly risk report.

The Bank's credit provision process

Most of the Bank's credit portfolio is managed in the retail division. Credit in the project accompaniment and construction financing department is managed in the real estate sector, which is directly subordinate to the CEO. In both units there is a clear division of credit authorities, credit types, customer types and credit amounts. The credit underwriting process is also defined, and each credit request is evaluated and approved according to a hierarchy of authorities and in accordance with the principles which were approved by the Bank's Board of Directors.

In the retail credit segment, an underwriting center operates which submits for approval each mortgage request which is beyond the approval authority of the branch manager, to the hierarchy of authorities regarding credit approval.

The Bank also has a central evaluation unit which evaluates mortgage portfolios before they are implemented. The evaluation process focuses on the review of credit and collateral provision documents, fulfillment of the stipulations specified at the time of approval for the credit, with the aim of fulfilling functions of control over the loan creation process, reducing the exposure to operational risk in mortgage operations, and bringing the entire bank in line with an operating process which conforms with common, controlled standards. The evaluation unit is subordinate to the resources division, thereby implementing managerial separation between the process of approving credit and submitting documents, and the evaluation thereof.

In the real estate sector department, credit requests are prepared by the control and reports staff, and not by the referents (risk creators), and undergo an evaluation by the CRA unit (which is subordinate to the Risk Division Manager) before their submission for approval to the relevant Credit Committees, in accordance with the established hierarchy of authorities.

As part of its evaluation of credit portfolios and collateral, the unit also evaluates the presence of all required documents and collateral, before providing the credit, and gives approval for the credit teams to provide the credit to the customer. As part of its analysis of credit risks, the CRA unit provides an additional, independent opinion regarding the credit request which is submitted for approval to the Bank's institutions, in a separate, independent document (hereinafter: the "CRA Document"). It is emphasized that the credit requests are not submitted for discussion by the Bank's institutions unless the CRA document has been submitted concurrently with the request. The CRA Unit Manager reports to the risk division regarding the CRA documents which were prepared by it.

In the project accompaniment and construction financing department, each project is managed through close accompaniment by the construction supervisor, who submits periodic reports about the rate of progress on the project. Additional credit which is required for the purpose of completing construction is only approved after evaluating the project's updated exposure report, in consideration of its rate of progress, and provided that the borrower meets the determined parameters and milestones. Additionally, throughout the lifetime of the project (usually once per month, upon the receipt of the supervisor's performance report), the project's financial stability is evaluated by the referents in the division.

In the commercial credit segment, credit requests are presented for renewal at least once per year (excluding solar energy credit). The credit portfolio and collateral are evaluated both on the preliminary credit provision date and on the renewal date. In this segment as well, tests are conducted regarding the financial stability of borrowers, and regarding the financial statements. Daily controls over deviations from the credit facility and collateral framework are also implemented.

Identification and handling of troubled credit

As part of the measures implemented by the Bank in its management of credit risks, there is a methodology for the location and identification of troubled debt, which is applied throughout all business lines. The methodology includes a routine, orderly and structured procedure which involves performing a thorough review of the credit portfolio, using criteria central monitoring advance alerts regarding the debt's transformation into troubled debt.

As part of the review, customers with negative indicators are identified, such as debt in arrears, cash flow difficulties, as reflected in difficulty in effecting principal and/or interest payments in loans, deterioration of business operations, etc., and an evaluation is performed regarding the need to issue new recommendations for the classification of customers or changing the classification of customers with existing classifications, or their inclusion in watch lists (customers with negative indicators, in accordance with criteria which were defined in the Bank's policies, and regarding which it was decided that they do not need to be classified). The recommendations are submitted to the troubled debt committees, in accordance with the determined hierarchy of authorities, who discuss them and reach decisions on classification or performance of provisions regarding them. The recommendations are reported to the treasury department of the accounting division.

When the real estate sector department or the commercial banking unit identifies that a borrower has encountered difficulties, or that there is concern that they may encounter difficulties, an immediate discussion is held, including the participation of the main entities who are responsible for handling the customer, and immediate decisions are reached regarding whether the customer should be transfered for handling by the Bank's collection department, through legal handling outside of the Bank, by initiating receivership or liquidation proceedings, or by initiating an arrangement regarding the debt.

Regarding retail credit - when payments on a loan are in arrears, the collection center handles the collection of late payments, up to a arrears level of 3. Loans with an arrears level above 3 are transfered for handling by the collection department. In exceptional cases involving concern of fraud, deceit, concern of borrowers' escape to foreign countries, etc., the process of transferring the portfolio from the branch to the collection department is performed immediately, independently of the amount of the arrears.

The collection department concentrates all of the processes under the collection activities in the Bank, and oversees the work performed by lawyers and subcontractors who are involved in the collection process.

Bank management aims to reach arrangements, vis-à-vis borrowers who are in arrears, regarding their debts to the Bank, and the routine continuation of the monthly payments, provided that the loan portfolio has sufficient collateral.

In cases where the borrowers do not cooperate and/or refrain from paying the debt, receivership proceedings will be initiated which constitute a last resort option to settle the debt.

There is an orderly set of procedures in the Bank, which deals with the identification, classification and handling of troubled debts, and there is a system for arranging shared work connections between the credit managers and the collection department.

Upon the occurrence of significant events which could affect a group of customers or the credit portfolio, the Bank evaluates the effect of the event on the credit portfolio, and responds accordingly. The response could be implemented by means of a change in policy or by means of actions taken vis-à-vis the current borrowers.

The Board of Directors and its committees receive periodic reports regarding the distribution and segmentation of credit, large borrowers and additional parameters to measure the exposure to credit risk.

Provision for credit losses

The Bank determines the provisions for credit losses in pledged loans for residential apartments in accordance with the depth of arrears formula, as determined in Proper Banking Management Directive 314, issued by the Commissioner of Banks. Additionally, in accordance with the instructions which were issued by the Banking Supervision Department, a collective provision for credit losses is calculated with respect to the balance of the housing loans, which will not fall below 0.35% of the balance of the housing loans for which a provision is not maintained, in accordance with the extent of the arrears or specific provision.

Regarding other retail credit, and also regarding business credit, the Bank determines its provisions in accordance with the circular issued by the Commissioner of Banks on the subject of "measurement and disclosure of impaired debt, credit risk and provision for credit losses", which was published on December 31, 2007. The circular is based, inter alia, on accounting standards in the United States and on regulatory directives issued by the Banking Supervision Department and the Securities Exchange Commission in the United States.

According to the circular, the Bank will establish, as a separate liability account, a provision on the appropriate level in order to cover expected credit losses which are associated with off-balance sheet credit instruments, such as engagements for the provision of credits and guarantees.

The provision required to cover the expected credit losses, with reference to the credit portfolio, is estimated through one of two tracks: "individual provision" and "collective provision".

Individual provision for credit losses - the Bank identifies, for the purpose of a specific evaluation, each debt whose contractual balance (without the deduction of accounting write-offs which do not involve an accounting waiver, unrecognized interest, provisions for credit losses and collateral) amounts to NIS 1 million or more. The Bank also identified, for the purpose of a specific evaluation, other debts (excluding housing loans for which the provision was calculated according to the extent of arrears formula), where the provision for impairment with respect to them was not included in the collective provision. The individual provision will be recognized with respect to each debt which has been classified as impaired. Debt is classified as impaired where there are current information and events which indicate that the Bank is expected to be unable to collect the entire amounts owed to it according to the contractual terms of the debt. Debt is classified as impaired when it is in arrears of 90 days or more, except if the debt is well secured and when collection procedures are being performed. Additionally, debt is classified as impaired when restructuring of troubled debt is performed.

The individual provision for credit losses is estimated based on the expected future cash flows, discounted by the debt's effective interest rate, or when the debt is backed by securities, or when the Bank determines that the asset is expected to be seized according to the fair value of the collateral which was pledged to secure that credit, net of selling costs.

The provision for credit losses which is estimated on a collective basis is applied regarding provisions for impairment of large groups of small and homogeneous debts (such as credit card debts, housing loans and consumer debts which are repaid in installments), and also with respect to debts which were individually evaluated and found to be non-impaired. The specific provision for credit losses with respect to debts which are estimated on a collective basis, excluding housing loans regarding which the provision was calculated according to the depth of arrears formula, will be calculated in accordance with the rules which were determined in FAS 5: Accounting for Contingencies (hereinafter: "FAS 5"), based on the current estimate of the rate of past losses with respect to each of the homogeneous groups of debts with similar risk characteristics. The formula is based on the rate of net accounting write-offs which were actually recorded in the last five years in the various market segments, while separating non-troubled credit from troubled credit.

On January 19, 2015, a circular of the Bank of Israel was published on the subject of "Collective provision with respect to credit for private individuals for non-housing purposes", in which the banking corporations were required to take into account both past losses with respect to credit to private individuals, and qualitative adjustments with respect to entities relevant to the collection risks. The rate of qualitative adjustments will not fall below 0.75% of the balance of credit for non-troubled private individuals as of that date, where the above does not include credit risk which is due to receivables with respect to banking credit cards, without charge. Additionally, a banking corporation which recorded, in each of the years within the determined range, a loss rate of less than 0.3%, with respect to credit for private individuals, will be entitled to consider the application of adjustments with respect to the aforementioned environmental factors, at a rate of no less than 0.5%. Additionally, adjustments with respect to environmental factors will not apply to a banking corporation regarding which the Banking Supervision Department has issued specific directives. The Bank is implementing the directives of the Banking Supervision Department on this subject.

The provision required with reference to the off-balance sheet credit instruments is estimated in accordance with the rate of the collective provision with respect to balance sheet credit, multiplied by the expected realization rate of off-balance sheet credit instruments. In impaired classification, the expected realization rate is 100%. The directive also established various definitions and classifications of balance sheet and off-balance sheet credit risk, rules for recognition of impaired debts from impaired debts, and rules for writing off troubled debts. The Bank works, inter alia, to write-off any individually evaluated debt which is considered noncollectable and which has a low value to the extent that keeping it as an asset is unjustified, or a debt with respect to which the banking corporation invests long term collection efforts. Regarding debts which are evaluated on a collective basis, rules for writing off were determined based on their period of arrears (in general, where the arrears is 150 days or more). Regarding restructurings of troubled debts in default - when they are in arrears of 60 days, and their collateral.

Beginning on January 1, 2011, the directive on the subject of "measurement and disclosure of impaired debts, credit risk and provision for credit losses", entered into effect. The directive is based, inter alia, on reporting rules which apply to banking corporations in Israel on this subject, to rules which apply to banks in the United States, and is based, inter alia, on accounting standards in the United States and on regulatory directives issued by the banking supervision institutions and the Securities Exchange Commission in the United States.

This directive has been applied to the financial statements of banking corporations and credit card companies beginning from January 1, 2011 (in the original directive - January 2010). The directive was not applied retrospectively in financial statements for prior periods.

Presented below is a table presenting credit risks and non-operating assets:

	Balance of credit risk(3) per day					
	December 31, 2015			December 31, 2014		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
1. Troubled credit risk (1)						
Impaired credit risk	25.7	2.3	28.0	40.9	6.3	47.2
Subordinated credit risk	17.2	0.9	18.1	32.1	1.3	33.4
Credit risk under special supervision (2)	177.1	-	177.1	204.0	-	204.0
Total troubled credit risk *	**220.0**	**3.2**	**223.2**	**277.0**	**7.6**	**284.6**
* Of which: non-impaired debt, in arrears of 90 days or more (primarily housing)(4)	178.4		178.4	214.8		214.8
2. Non-operating assets:						
Impaired debt which does not accrue interest income(4)	13.5	2.3	15.8	30.2	6.3	36.5
Total non-operating assets	**13.5**	**2.3**	**15.8**	**30.2**	**6.3**	**36.5**

1. Credit risk which is impaired, subordinate or subject to special supervision.
2. Including with respect to housing loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.
3. Balance sheet and off-balance sheet credit risk are presented according to the effect of the provision for credit losses and before the effect of the deductible collaterals for the purpose of the debt of the borrower or group of borrowers.
4. Not including debts regarding which the recognition of income is performed on a cash basis.

The balance of impaired debts amounted as of December 31, 2015 to NIS 25.7 million, as compared with NIS 40.9 million at the end of 2014.

The decrease was primarily influenced by the reduction of debt in the amount of approximately NIS 16 million.

The balance of the provision for credit losses with respect to impaired debts amounted as of December 31, 2015 to NIS 9.4 million, as compared with NIS 5.6 million at the end of 2014. The increase was primarily influenced by the increase in the provision for troubled debts in the segment "private individuals - other".

Additionally, the balance of debts in restructuring of troubled debt as of December 31, 2015 amounted to NIS 23.3 million, as compared with NIS 19.9 million at the end of 2014.

Presented below are details regarding the provision for credit losses (NIS Millions) of housing loans, in accordance with the annex to Proper Banking Management Directive 314

	December 31, 2015							
	Extent of the arrears (NIS Millions)							
		Arrears of 90 days or more					Balances with respect to refinanced loans in arrears(3)	
	In arrears of 30 to 89 days	90 days to 6 months	6 months to 15 months	15 months to 33 months	Over 33 months	Total over 90 days		Total
Amount in arrears	0.7	2.8	2.3	1.7	12.0	18.8	-	19.5
Of which: balance of the provision for interest (1)	-	-	-	0.1	4.3	4.4	-	4.4
Recorded debit balance	32.2	76.1	42.4	25.1	11.2	154.8	9.8	196.8
Balance of the provision for credit losses (2)	-	-	7.9	11.3	9.5	28.7	1.4	30.1
Net debit balance	**32.2**	**76.1**	**34.5**	**13.8**	**1.7**	**126.1**	**8.4**	**166.7**

(1) With respect to interest on amounts in arrears.
(2) Not including the balance of the provision for interest.
(3) Loans in which an arrangement was signed for the repayment of a borrower's amounts in arrears, where a change was implemented to the amortization schedule with respect to the balance of the loan which has not yet come due.

Presented below are details regarding the rates of the provision for credit to the public risk:

	December 31, 2015	December 31, 2014
Rate of the balance of impaired credit to the public which does not accrue interest income, to the balance of credit to the public	**0.13%**	0.31%
Rate of the balance of non-impaired credit to the public in arrears of 90 days or more, to the balance of credit to the public	**1.78%**	2.22%
Rate of the balance of the provision for credit losses with respect to credit to the public, to the balance of credit to the public	**1.12%**	1.12%
Rate of the balance of the provision for credit losses with respect to credit to the public, to the balance of impaired credit to the public which does not accrue interest income (3)	**827%**	357%
Rate of the balance of the provision for credit losses with respect to credit to the public, to the balance of impaired credit to the public which does not accrue interest income, plus the balance of credit to the public which is in arrears of 90 days or more	**58%**	44%
Rate of troubled credit risk with respect to the public out of total credit risk with respect to the public	**1.88%**	2.56%
Rate of expenses with respect to credit losses from the average balance of credit to the public (1),(2)	**0.41%**	0.19%
Rate of net write-offs with respect to credit to the public to the average balance of credit to the public (1),(2)	**0.37%**	0.20%
Rate of net write-offs with respect to credit to the public from the balance of the provision for credit losses with respect to credit to the public (1),(2)	**32.9%**	17.7%

(1) The data as of December 31, 2014 were affected by income upon the conclusion of the collection process regarding past debt, in the amount of NIS 8.0 million.
(2) In effective annual terms.
(3) The ratio is affected by the composition of the Bank's credit portfolio, which is heavy on housing loans, where for the most part, the classification of debt as impaired is irrelevant to housing loans.

Credit risk by market branches

Reported amounts, NIS millions

	December 31, 2015									
	Total credit risk (1)			Debts (2) and off-balance sheet credit risks (excluding derivatives) (3)						
								Credit losses (4)		
					Of which					
	Total	Rating Performance Credit(7)	Troubled(5)	Total	Debts(2)	Troubled(5)	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of the provision for credit losses
Public - commercial										
Agriculture	0.5	0.5	-	0.5	0.1	-	-	-	-	-
Mining and quarrying	2.4	2.4	-	2.4	2.4	-	-	-	-	-
Industry	14.4	14.1	0.3	2.7	2.4	0.3	0.3	-	-	-
Construction and real estate - construction (6)	1,834.1	1,749.7	8.4	1,834.1	1,131.6	8.4	7.6	(0.8)	-	5.6
Construction and real estate - activities in real estate	515.9	508.8	7.1	515.9	488.9	7.1	3.1	0.2	-	2.8
Provision of electricity and water	0.1	0.1	-	0.1	0.1	-	-	-	-	-
Commercial	28.6	27.8	0.8	28.6	27.4	0.8	0.8	0.3	0.6	0.2
Lodging, hosting services and food	3.4	3.4	-	3.4	3.3	-	-	-	-	-
Transportation and storage	18.5	18.2	0.3	18.5	16.8	0.3	0.2	(0.1)	-	0.1
Information and communication	7.6	7.6	-	7.6	6.7	-	-	-	-	-
Financial services	360.3	360.3	-	168.4	165.8	-	-	0.1	0.1	0.3
Business and other services	34.1	34.1	-	34.1	27.0	-	-	(0.1)	-	-
Public and community services	16.1	16.1	-	15.2	13.1	-	-	-	-	0.1
Total commercial	**2,836.0**	**2,743.1**	**16.9**	**2,631.5**	**1,885.6**	**16.9**	**12.0**	**(0.4)**	**0.7**	**9.1**
Private individuals - housing loans	7,537.4	7,255.8	170.1	7,537.4	7,023.9	170.1	-	0.5	4.8	60.2
Private individuals - other	1,530.5	1,469.1	36.2	1,530.5	1,091.4	36.2	16.0	40.3	31.2	45.1
Total public - activities in Israel	**11,903.9**	**11,468.0**	**223.2**	**11,699.4**	**10,000.9**	**223.2**	**28.0**	**40.4**	**36.7**	**114.4**
Banks in Israel	2.5	2.5	-	-	-	-	-	-	-	-
Government of Israel	1,299.4	1,299.4	-	-	-	-	-	-	-	-
Total activities in Israel	**13,205.8**	**12,769.9**	**223.2**	**11,699.4**	**10,000.9**	**223.2**	**28.0**	**40.4**	**36.7**	**114.4**
Foreign banks	1.6	1.6	-	-	-	-	-	-	-	-
Foreign governments	458.1	458.1	-	-	-	-	-	-	-	-
Total	**13,665.5**	**13,229.6**	**223.2**	**11,699.4**	**10,000.9**	**223.2**	**28.0**	**40.4**	**36.7**	**114.4**

(1) Credit risk and off-balance sheet credit risk, including derivative instruments. Includes: debts - NIS 10,000.9 million, bonds - NIS 1,771.0 million, assets with respect to derivative instruments - NIS 195.1 million, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits - NIS 1,698.5 million).

(2) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits, excluding with respect to derivative instruments.

(4) Including with respect to off-balance sheet credit instruments (presented in the balance sheet under the item for other liabilities).

(5) Credit risk which is impaired, subordinate or subject to special supervision, including with respect to housing loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.

(6) Including housing loans which were provided to certain purchasing groups which are currently under construction, in the amount of NIS 76.0 million and facilities which were provided to those groups, in the amount of NIS 145.2 million.

(7) Credit risk whose credit rating on the reporting date corresponds to the credit rating for the provision of new credit, in accordance with the Bank's policy.

Credit risk by market branches (Cont.)

Reported amounts, NIS millions

	December 31, 2014									
	Total credit risk [1]			Debts [2] and off-balance sheet credit risks (excluding derivatives) [3]						
								Credit losses [4]		
					Of which					
	Total	Rating Performance Credit [7]	Troubled[5]	Total	Debts[2]	Troubled[5]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of the provision for credit losses
Public - commercial										
Agriculture	0.6	0.6	-	0.6	0.2	-	-	-	-	-
Mining and quarrying	2.5	2.5	-	2.5	2.5	-	-	-	-	-
Industry	15.6	15.6	-	4.0	1.9	-	-	-	0.1	
Construction and real estate - construction [6]	1,699.9	1,630.1	38.9	1,699.9	1,068.6	38.9	22.7	(10.0)	(9.3)	6.4
Construction and real estate - activities in real estate	415.8	407.8	8.0	415.8	389.9	8.0	1.5	0.5	0.3	2.6
Provision of electricity and water	0.1	0.1	-	0.1	0.1	-	-	-	-	-
Commercial	25.9	22.4	3.5	25.9	25.1	3.5	3.5	0.2	0.2	0.5
Lodging, hosting services and food	7.9	7.9	-	7.9	7.8	-	-	-	-	-
Transportation and storage	20.5	20.2	0.3	20.5	20.1	0.3	0.3	(0.2)	-	0.2
Information and communication	13.9	13.9	-	13.9	13.9	-	-	0.1	0.1	-
Financial services	112.1	112.1	-	92.7	91.1	-	-	0.1	-	0.3
Business and other services	77.0	76.0	1.0	77.0	61.8	0.3	0.1	(0.4)	(0.3)	0.1
Public and community services	25.3	25.3	-	24.2	22.1	-	-	0.1	0.1	0.1
Total commercial	2,417.1	2,334.5	51.7	2,385.0	1,705.1	51.0	28.1	(9.6)	(8.8)	10.2
Private individuals - housing loans	7,415.7	7,014.9	197.9	7,415.7	6,977.2	197.9	0.5	(1.3)	4.1	64.5
Private individuals - other	1,288.3	1,228.3	35.0	1,288.3	992.1	35.0	12.3	29.3	23.8	36.0
Total public - activities in Israel	11,121.1	10,577.7	284.6	11,089.0	9,674.4	283.9	40.9	18.4	19.1	110.7
Banks in Israel	65.3	65.3	-	38.9	38.9	-	-	-	-	-
Government of Israel	853.9	853.9	-	-	-	-	-	-	-	-
Total activities in Israel	12,040.3	11,496.9	284.6	11,127.9	9,713.3	283.9	40.9	18.4	19.1	110.7
Foreign banks	4.7	4.7	-	-	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-	-	-	-	-
Total	12,045.0	11,501.6	284.6	11,127.9	9,713.3	283.9	40.9	18.4	19.1	110.7

(1) Credit risk and off-balance sheet credit risk, including derivative instruments. Including debts - NIS 9,713.3 million, bonds - NIS 876.7 million, assets with respect to derivative instruments - NIS 40.4 million, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's debt restriction - NIS 1,414.6 million.
(2) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits, excluding with respect to derivative instruments.
(4) Including with respect to off-balance sheet credit instruments (presented in the balance sheet under the item for other liabilities).
(6) Including housing loans which were provided to certain purchasing groups which are currently under construction, in the amount of NIS 122.2 million, and facilities which were provided to those groups, in the amount of NIS 151.9 million.
(7) Balances lower than NIS 0.1 million are not presented in this addendum.

Exposure to foreign countries

Part A - Information regarding total exposures to foreign countries, and regarding exposures to countries where the total exposure amount to each of them is over 1% of total consolidated assets, or over 20% of capital, whichever is lower

December 31, 2015													
	Balance sheet exposure(2)									Off-balance sheet exposure (2)(3)			
Country	Balance sheet exposure over the limit			Balance sheet exposure of branches of the banking corporation in a foreign country to local residents			Total balance sheet exposure					Balance sheet exposure above the limit(2)	
	To governments (4)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deducting local liabilities		Troubled balance sheet credit risk	Impaired debts	Total off-balance sheet exposure	Of which: Troubled off-balance sheet credit risk	Repayable - up to one year	elbayapeR revo - raey eno
United States	366.8	0.1	262.8	-	-	-	629.7	-	-	21.1	-	275.6	354.1
Others	91.4	89.9	130.8	-	-	-	312.1	-	-	26.1	-	186.0	126.1
Total exposures to foreign countries	**458.2**	**90.0**	**393.6**	-	-	-	**941.8**	-	-	**47.2**	-	**461.6**	**480.2**
Total exposures to LDC countries	-	-	**5.4**				**5.4**	-	-	-	-	-	**5.4**
Total exposures to GIIPS countries(5)	-	-	**1.0**				**1.0**	-	-	-	-	-	**1.0**

December 31, 2014	
Balance sheet exposure(2)	Off-balance sheet exposure (3),(2)

Country	Balance sheet exposure over the limit			Balance sheet exposure of branches of the banking corporation in a foreign country to local residents			Total balance sheet exposure	**Balance sheet exposure over the limit[2]**					
	To governments[4]	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deducting local liabilities		Troubled balance sheet credit risk	Impaired debts	Total off-balance sheet exposure	Of which: Troubled off-balance sheet credit risk	Repayable - up to one year	Repayable - over one year
United States	-	23.4	306.7				330.1			28.7		25.3	304.8
Others	-	134.9	201.5	-	-	-	336.4	-	-	35.4	-	138.5	197.9
Total exposures to foreign countries	-	**158.3**	**508.2**	-	-	-	**666.5**	-	-	**64.1**	-	**163.8**	**502.7**
Total exposures to LDC countries	-	-	**6.2**	-	-	-	**6.2**	-	-	-	-	-	**6.2**
Total exposures to GIIPS countries[5]	-	-	**7.7**	-	-	-	**7.7**	-	-	-	-	-	**7.7**

(1) Based on final risk, after the impact of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, as well as troubled credit and impaired debts risk, are presented according to the effect of the provision for credit losses and before the effect of the deductible collaterals for the purpose of the debt of the borrower or group of borrowers.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the debt restrictions of a single borrower.

(4) Governments, institutions, officials and central banks.

(5) Exposure to the GIIPS countries, including Portugal, Ireland, Italy, Greece and Spain.

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

As of December 31, 2015

Exposure country: Germany

Total aggregate balance sheet exposure in this part: NIS 116.7 million (of which, NIS 71.6 million to banks).

As of December 31, 2014

Exposure country: Great Britain

Total aggregate balance sheet exposure in this part: NIS 121 million (of which, NIS 80.5 million to banks).

Part C - Information regarding balance sheet exposure to foreign countries with liquidity problems in 2015

A. Movement in the total balance sheet exposure to foreign countries with liquidity problems:

	As of December 31, 2015						
	Venezuela	Argentina	Russia	Spain	Ireland	Portugal	Total
Exposure amount at start of reporting period	4.9	4.1	3.2	1.1	4.2	2.4	19.9
Net changes in the short term exposure amount	(0.4)	(0.4)	(2.4)	(0.1)	(4.2)	(2.4)	(9.9)
Exposure amount at end of reporting period	4.5	3.7	0.8	1.0	0.0	0.0	10.0

	As of December 31, 2014						
	Venezuela	Argentina	Russia	Spain	Ireland	Portugal	Total
Exposure amount at start of reporting period	3.4	3.7	3.7	1.0	4.0	2.4	18.2
Net changes in the short term exposure amount	1.5	0.4	(0.5)	0.1	0.2	-	1.7
Exposure amount at end of reporting period	4.9	4.1	3.2	1.1	4.2	2.4	19.9

Credit exposures[(1)(2)] to foreign financial institutions[(3)] on a consolidated basis, in NIS millions:

	As of December 31	
External credit rating	2015	2014
AAA to AA-	15	32
A+ to A-	10	105
+BBB ot -BBB	100	22
Unrated	63	8
Total exposure	188	167

(1) Regarding deposits and checking account balances in foreign financial institutions, the Bank has no off-balance sheet credit risk. Balances of less than NIS 1 million are not presented.
(2) There are no financial institutions which are classified as debt which is impaired, subordinate or subject to special supervision.
(3) Foreign financial institutions include banks, holding companies of banks, investment banks and brokers.
(4) There is no provision for credit losses.
The balances presented in the above table primarily include institutions operating in the United States, Germany, Belgium and Denmark. The Bank established restrictions on the maximum permitted exposure to foreign financial institutions, and conducts routine monitoring of the stability of such entities, based on the rating of the companies and other market data which indicate their economic situation.

(1) Not including balance sheet balances of derivative financial instruments and the fair value of off-balance sheet financial instruments.
(2) Including Israeli currency linked to foreign currency.
(3) Amounts receivable (payable) with respect to derivative financial instruments and with respect to off-balance sheet financial instruments, discounted by interest rates which were used to calculate fair value.

Exposure to environmental risks

In recent years, awareness regarding the exposure to environmental risks has increased around the world and in Israel, as reflected in the increased regulation. This trend requires the Bank to address its potential financial exposure due to environmental risks. The Bank is obligated towards its customers and shareholders to manage its business operations in a profitable and responsible manner. As part of this obligation, the Bank works to identify, assess and manage the environmental risks which are associated with its activities, and the activities of its customers. The Bank's risk appetite in this area is low, and therefore, the Bank operates in accordance with conservative principles for the management of environmental risks in financial activities.

The Bank's current activities focus on borrowers from the retail segment, which have a low exposure to environmental risks. As a result, the Bank's exposure to this risk is insignificant. The Bank's credit provision activities in the real estate, construction and commercial segments for corporations and individuals does not expose the Bank to any significant environmental risk, inter alia, in light of the Bank's avoidance of the provision of credit in segments which are prone to environmental pollution.

Risks in the housing loans portfolio

As part of its management of credit risks, the Bank implements various measures to mitigate risks which are due to the provision of housing credit. The Bank established, within the framework of the credit policy, various restrictions on the housing credit segment, in consideration of the main risk factors. The main parameters in the definition of the risk appetite in the housing loans segment include: the financing (LTV) rate, location of the property, payment to income (PTI) ratio, loan purpose, and loan period. The Bank monitors, on an routine basis, the risk profile of the mortgage portfolio, in light of the determined risk appetite.

Characteristics of the Bank's housing credit portfolio

The Bank's activities in the housing loans segment generally involve population groups in the middle and higher deciles, and properties which are located in municipalities which have branches of the Bank, or in nearby municipalities.

In general, the Bank prefers customers with a gross family income which is no less than the average income in the economy, and properties in municipalities with a high degree of property liquidity, or for properties located in a city where there is a branch of Bank of Jerusalem.

Beginning from 2011, the financing rate for housing loans given by the Bank decreased significantly, and in 2015, approximately 87% of loans were given at a financing rate which does not exceed 60% of the value of the property.

The Bank's average financing rate, which reflects the balance of the loan divided by the revalued value of the assets, as evaluated relative to the Bank's existing credit portfolio, is low, and amounts to approximately 29% (the revalued value of assets is calculated from the date of the last assessment, according to the housing prices index, as published by the Central Bureau of Statistics, distributed by geographical regions and by number of rooms).

(1) Not including balance sheet balances of derivative financial instruments and the fair value of off-balance sheet financial instruments.
(2) Including Israeli currency linked to foreign currency.
(3) Amounts receivable (payable) with respect to derivative financial instruments and with respect to off-balance sheet financial instruments, discounted by interest rates which were used to calculate fair value.

Development of housing credit performance and main performance metrics

Development of performance in housing credit and main performance metrics					
	December 31				
	2015	2014	2013	2012	2011
Performance in Israeli currency	**1,053**	1,064	1,206	1,224	1,246
Performance in foreign currency	**190**	105	158	252	243
Total performance[(1),(2)]	**1,243**	1,169	1,364	1,476	1,489
Percent of increase relative to last year	**6%**	14%))	(8%)	(1%)	(25%)
Variable interest, at a frequency of less than 5 years	**356**	330	360	328	731
Average loan period in months	**215**	208	215	221	226
Average income per capita (NIS)	**4,460**	4,708	4,450	4,136	3,740
Distribution of performance amount by LTV ratio[(1),(2)]					
0%60%-	**87%**	87%	85%	92%	87%
61%75%-	**13%**	12%	14%	7%	12%
Over 75%	**[(3)]-**	1%	1%	1%	1%
Distribution of performance amounts by the payment to income (PTI) ratio in housing loans[(1),(2)]					
0%40%-	**93%**	90%	70%	72%	75%
Over 40%	**7%**	10%	30%	28%	25%
Percentage of performance with financing rates over 60% and rates of return over 40%	**1%**	4%	8%	4%	3%
Distribution of number of agreements in Israeli currency, according to performance amount (NIS Thousands):					
0-500	**64%**	68%	70%	74%	72%
500-1,000	**24%**	21%	21%	18%	19%
Over 1,000 [(4)]	**12%**	10%	9%	8%	9%
Average loan amount	**450**	426	450	510	458

(1) New loans only.
(2) The data are in accordance with Report 876 of the Banking Supervision Department.
(3) Less than 1%.
(4) In 2015, 48 loans were given for amounts exceeding NIS 2 million per loan, and in a total amount of NIS 138 million.

Presented below are details regarding various risk characteristics in the housing loans portfolio (NIS Millions):

		Balance as of December 31, 2015						
		Loan age (time passed since the loan provision date)						
Finance rate	Rate of repayment from fixed income	Up to 3 months	3 months to 1 year	1-2 years	2-5 years	5-10 years	10 years or more	Total
Up to 60%	Up to 40%	254.2	768.4	682.8	1,424.7	702.8	365.8	4,198.7
	40%-50%	20.2	68.1	101.8	271.5	125.8	54.1	641.5
	50%-80%	8.7	30.4	66.7	296.1	162.3	52.5	616.7
	Over 80%	0.7	0.9	3.8	115.1	74.4	9.5	204.4
	Total	283.8	867.8	855.1	2,107.4	1,065.3	481.9	5,661.3
60%-75%	Up to 40%	47.6	105.8	95.9	165.1	430.7	47.1	892.2
	40%-50%	3.3	5.2	11.1	28.8	58.8	9.3	116.5
	50%-80%	0.2	7.2	3.6	38.6	68.1	12.3	130.0
	Over 80%	-	-	-	14.7	21.5	1.6	37.8
	Total	51.1	118.2	110.6	247.2	579.1	70.3	1,176.5
Over 75%	Up to 40%	8.2	11.0	17.2	38.6	42.1	30.8	147.9
	40%-50%	-	1.6	1.8	5.9	9.0	6.7	25.0
	50%-80%	-	0.2	0.9	11.1	18.1	3.9	34.2
	Over 80%	-	-	-	11.0	8.2	0.7	19.9
	Total	8.2	12.8	19.9	66.6	77.4	42.1	227.0
Other pledges	Up to 40%	0.1	5.2	3.7	6.0	3.0	6.5	24.5
	40%-50%	-	-	0.5	1.0	0.5	-	2.0
	50%-80%	-	-	-	4.2	0.5	0.1	4.8
	Over 80%	0.1	0.4	0.9	2.1	0.3	-	3.8
	Total	0.2	5.6	5.1	13.3	4.3	6.6	35.1
Total		**343.3**	**1,004.4**	**990.7**	**2,434.5**	**1,726.1**	**600.9**	**7,099.9**

Customer quality:

The mortgage taker population includes, on average, customers in their 40's, in the 5th to 10th deciles. Additionally, the average return on income ratio is within the limits defined in the Bank's credit policy.

Rate of repayment from fixed income:

The rate of repayment from income in a housing loan serves as an indicator of the customer's ability to repay the loan which they have taken. On August 29, 2013, the Commissioner of Banks published directives which restricted, with reference to housing loan, the repayment to income rate, the part of the loan which is given at variable interest, and the final period for repayment of the loan. In September 2014, the Bank of Israel published summary guidelines regarding restrictions on housing loans.

The Bank ensures that the monthly rate of return of the requested loan complies with the rules specified in the directives of the Bank of Israel, and accordingly, in the performance of housing loans for 2015, the average return on income ratio amounted to approximately 23%, as compared with 28% in the corresponding period last year. Approximately 5% of the housing credit portfolio is given to customers who have a repayment to income ratio higher than 40%, and whose financing ratio is higher than 60%.

Distribution of the portfolio by financing rate:

In its credit policy for recent years, the Bank decided to reduce the exposure to credit risks by limiting the maximum financing rate up to 75% of the value of the pledged asset, further to the directives which were published by the Commissioner of Banks.

According to the credit policy, the Bank does not provide loans which include an element of postponing principal payment payments for long periods.

The balance of the loans secured by secondary pledges, or where the Bank's security rights are not guaranteed, is immaterial. The Bank has no housing loans regarding which the information is incomplete.

In accordance with the directives issued by the Bank of Israel, the Bank does not provide loans for periods exceeding 30 years.

in 2015, approximately 13.5% of total housing credit performance (NIS 192 million) was given for a period exceeding 25 years, as compared with approximately 12% (NIS 148 million) in the corresponding period last year.

The period of the original loan for 86.5% of the housing credit portfolio is lower than 25 years.

Distribution of the portfolio by geographical areas:

The Bank's housing credit portfolio is distributed between many borrowers, most of whom acquired properties and are concentrated in Central Israel. 51% of the portfolio was given for assets in the Gush Dan and Jerusalem regions.

Housing credit provision process:

The mortgage activity primarily includes the provision of housing loans against the pledging of residential apartments for residents of Israel, through various linkage bases and according to several different interest tracks, and for foreign residents, in primary currencies (mostly the USD, GBP and EUR).

The loans are divided into two types: loans from the Bank's funds, and loans from government funds, for which the government is responsible, towards entitled individuals from the Ministry of Construction & Housing (hereinafter: "Budget Loans"). The Bank has no credit risk with respect to budget loans.

The process of preparing and approving credit regarding the pledging of residential apartments is a standard, structured process. Approval for the loan is given in the branch and/or is submitted to a more senior approving authority, in accordance with the hierarchy of authorities determined by the Bank's Board of Directors.

The process requires the separation of roles (the credit officer is not entitled to approve the requests which he evaluates - this option is blocked by the IT system) such that even requests under the branch's authority cannot be performed by a single senior position holder.

Requests which are beyond the authority of the branch manager are submitted to the underwriting center for approval. The underwriting center is responsible for re-evaluating the request, and for approving or rejecting it. If the credit request requires an authority higher than the underwriting center, the underwriting center formulates a recommendation and submits it for approval to a more senior figure (Division Manager, CEO or Credit Committees), in accordance with the relevant authority.

As part of the loan creation process, credit portfolios under mortgage activities are also evaluated by a central evaluation unit which evaluates the completeness of the portfolio after all required documents and securities have been received. This unit is subject to the back end operation unit in the resources division, thereby implementing managerial separation between the credit approval process and the submission of documents, and the evaluation thereof, prior to the implementation.

The retail credit activities are closely supported through legal accompaniment by attorneys from the Bank's legal department, who evaluate, inter alia, the legal adequacy of agreements and types of collateral.

For detailed qualitative and quantitative information regarding credit risks, which is given in accordance with the disclosure requirements of Pillar 3, and for additional information regarding risks, see the risks report on the Bank's website.

Clearing risks and counterparty risks

Clearing risk is the risk that a counterparty to an agreement will not fulfill its part, and will not transfer to the Bank, on the specified date, the required amount at the time of the clearing of the transaction, despite the fact that the Bank has fulfilled its part in the transaction, and has transferred the payment to the counterparty. This risk exists only when the considerations in a transaction are not transferred simultaneously. The exposure to clearing risk is in the short term, and is generally intra-daily.

Counterparty risk is the risk that the counterparty to a transaction will default before the final settlement of the flows in the transaction. The market value of the transaction, which may be positive or negative, for each of the parties, is effectively dependent on fluctuations in market factors. Only if the transaction has a positive fair value for the Bank, and the counterparty defaults, is it possible that the Bank could incur economic loss at the time of the default. The exposure to counterparty risk may materialize throughout the entire lifetime of the transaction.

Until September 2007, the banking system used relay-based clearing, primarily through the Masav clearing system, in addition to the check clearing system. Additionally, beginning in September 2007, the banking system has operated the RTGS system, which is real time system for the clearing of monetary transactions in real time. The amount of a transaction which requires transfer through RTGS is determined by the Bank of Israel as NIS 1 million. These systems significantly reduce the risk associated with ordinary transfers.

The main source for the Bank's exposure to settlement risks is the clearing of derivative transactions (OTC). The Bank does not operate vis-à-vis its customers with OTC derivatives, but rather with derivative instruments which are traded on various stock exchanges, including minimum settlement risk. The Bank is exposed to settlement risks in its activities on its own behalf, although the scope of these activities is immaterial. Additionally, the Bank is exposed to settlement risks due to the trading of foreign securities, which is performed vis-à-vis brokers by means of non-DVP settlement processes. The scope of non-cleared DVP transactions is relatively small.

Most of the Bank's exposures to counterparty risk materialize vis-à-vis banks in Israel and abroad, and vis-à-vis recognized foreign financial institutions, with respect to the settlement of derivative transactions (OTC), and vis-à-vis brokers and providers of custodian service for securities, with respect to the settling of transactions with foreign securities. The framework for activities with these institutions is approved at least once per year by the Bank's Board of Directors, as part of the credit facilities of those institutions. In the first nine months of this year, no settlement risks or counterparty risks materialized for the Bank.

Risk mitigation - the Bank signed ISDA agreements and CSA annexes vis-à-vis most of the banks with which activities with derivatives are performed. This allows offsetting of the transactions, in a manner whereby the amount transferred between the parties to the transaction amounts to the net exposure amount, which results in reduced exposure for each of the parties. The CSA annexes regulate monetary transfers between the parties to the transaction, insofar as the exposure amounts to a certain predetermined scope, thereby reducing the exposure to the counterparty.

3.2 Market risk

Review of market risks and methods for the management thereof

This risk group includes several specific types of risks, which are specified below and are managed by the Bank in a similar fashion, based on frameworks, policies and restrictions as determined by the Board of Directors.

The Bank adopted a framework regarding the management and control of risks, which is based on a supervision circuit and on three "lines of defense": The supervision circuit includes the Board of Directors and its relevant committees (the Board of Directors Risk Management Committee and the Audit Committee), as well as senior management. The first line of defense includes the risk takers and risk managers, including the assets and liabilities committee, the investment committee and the Financial Division Manager. The second line of defense includes the risk management functions in the risk division, led by the Risk Division Manager, who also serves as the Bank's Chief Risk Officer. The second line also includes the Bank's monetary division. The third line includes internal controls.

For an extensive description of the work system regarding the management and control of market risks, see the risks report - disclosure in accordance with Pillar 3, and additional information regarding risks.

Method and scope of the reporting systems

The Bank manages its risks, inter alia, by using the ALM system, a system which oversees the Bank's cash flows from its various financial activities. This system allows Asset and Liability Management (ALM), including, inter alia, allowing the quantification of market risks in accordance with the Value at Risk (VaR) methodology. The system also allow the monitoring of additional risk indicators, such as interest exposures and stress testing. In 2012, the ALM system underwent a validation process in accordance with the directives issued by the Bank of Israel, on the subject of model validation.

The VaR estimates the maximum loss which the Bank is expected to incur in case of the realization of market risks during a given time period, and according to a predetermined statistical confidence level, according to previously observed market conditions. The calculation is performed in the Bank once per month, for a holding period of 10 days, and with a significance level of 99%. The Bank measures its overall risk using the VaR of the total banking portfolio, and the risk exposure of its trading portfolio, using this system. In addition to management and control using the VaR model, the Bank also uses other models for the quantification of risks.

The Bank's business results, the fair value of assets and liabilities, equity, cash flows and value are exposed to market risks which are due to the fluctuation of interest rates, exchange rates, the consumer price index, the prices of Israeli and foreign securities, and other economic indicators.

The Bank determined restrictions on value at risk (economic VaR): total VaR of NIS 2 million. On December 31, 2015, the historical VaR value for a holding period of 10 days, with a sample period of 2,000 days, amounted to NIS 10.1 million, as compared with NIS 11.3 million as of December 31, 2014. The maximum economic VaR value (end of month) during the reporting period was NIS 12.0 million, as compared with a maximum value of 13.8 in 2014.

Risk hedging and/or mitigation policy

The Bank's financial risk management policy is based on the management of its exposures to market and liquidity risks, by determining quantitative restrictions which correspond to the Bank's risk appetite. The measures which are used to comply with the restrictions include, inter alia, buying and selling marketable securities (primarily bonds of the Government of Israel), raising non-marketable deposits (from private and institutional customers), raising marketable deposits and activities with derivative financial instruments.

Interest rate risk

Review of the risk and management thereof

Interest rate risk is due to the difference between the sensitivity of assets to changes in interest rates and the same sensitivity of the liabilities which is due to the difference between repayment dates and the interest change dates of the assets and liabilities in each segment. These changes may harm profitability and/or may result in erosion of the Bank's profitability. The Bank's activities as a financial intermediary creates exposure to this risk, and the Bank strives to reduce it. The Bank's main exposure is in the unlinked NIS segment, due to the increase in the scope of activities in the credit segment, due to directives issued by the Bank of Israel which restrict the scope of housing loans at variable interest and in the nostro portfolio. There is also exposure in the CPI-linked segment, since in this segment, the majority of assets and liabilities are at long term fixed interest.

The Bank monitors conventional metrics for the measurement of interest rate risk of loans against deposits, with the aim of adjusting the effect of a possible change in interest rates on the value of its net financial cash flow to the Bank's risk appetite. These tools include the measurement of differences in average lifetime, quantification by means of the VaR model, and estimation of exposure in various scenarios. The Bank also monitors the scope of early repayments on loans, which have a significant impact on the effective average lifetime.

In July 2014, Proper Banking Management Directive 333 entered into effect, which is intended to formalize the interest rate risk management method in banks. The directive places an emphasis on the management of interest risk in the banking portfolio, and establishes tools and methods which are to be used in the quantification of interest rate risk, as well as rules for the management of interest rate risk on the level of the corporation. Bank of Jerusalem employed similar tools to those required in the directive even before its entry into effect, and in advance of the application date of the directive, the Bank adjusted and expanded the indicators which are used by it, in accordance with the directive.

The Bank's policy in its management of interest rate risk is determined in consideration of expectations regarding developments in various interest rates, while evaluating costs to reduce the exposure to this risk, in consideration of the estimated early repayment rate of the loans, and their influencing factors. The estimated early repayment rate is prepared based on historical data and on the Bank's assumptions regarding several factors which affect this rate, primarily the interest rate. The assumption regarding the early repayment of the loans is used in the CPI-linked segment to calculate the gaps in average lifetime and the exposure to interest rate risk.

According to the Bank's estimate, in consideration of the scope of early repayments in recent years, and of the exposures in all linkage segments, the exposure to risk as a result of an unexpected change of 1 percentage point in the interest rates is low relative to the Bank's discounted net cash flow. This estimate of the Bank constitutes forward looking information, which may be realized differently from the forecast, in light of the fact that it is based on the scope of early repayments in past years, and the exposures in all of the linkage segments, and it is possible that the actual scope of repayments in the future will be different.

Presented below is information regarding the effects of hypothetical changes in interest rates on the fair value of the financial instruments of the Bank and its consolidated companies (NIS Millions):

A. Fair value of the financial instruments of the Bank and its consolidated companies, excluding non-monetary items (before hypothetical changes in interest rates):

	As of December 31, 2015				
	Israeli currency		Foreign currency (2)		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets (1)	8,582.5	3,528.8	1,485.5	289.1	13,885.9
Amounts receivable with respect to derivative financial instruments (3)	158.7	198.2	223.6	43.5	624.0
Financial liabilities	7,733.4	3,711.8	1,532.3	298.2	13,275.7
Amounts payable with respect to derivative financial instruments (3)	411.6	-	177.9	34.6	624.1
Fair value, net	596.2	15.2	(1.1)	(0.2)	610.1

	As of December 31, 2014				
	Israeli currency		Foreign currency (2)		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets (1)	8,787.4	3,657.5	1,237.4	195.0	13,877.3
Amounts receivable with respect to derivative financial instruments (3)	238.2	-	863.2	136.1	1,237.5
Financial liabilities	7,849.9	3,584.8	1,629.9	256.9	13,321.5
Amounts payable with respect to derivative financial instruments (3)	723.4	-	442.9	69.8	1,236.1
Fair value, net	452.3	72.7	27.8	4.4	557.2

B. Impact of hypothetical changes in the interest rates on the fair value of the financial instruments of the Bank and its consolidated companies, excluding non-monetary items:

	As of December 31, 2015					
	Net fair value of financial instruments, after impact of changes in interest rates (NIS Millions)				Change in fair value	
	Israeli currency		Foreign currency (2)		NIS millions	In percent
Change in interest rates	**Unlinked**	**CPI-linked**	**USD**	**Other**	**Total**	**Total**
Corresponding immediate increase of one percentage point	580.1	30.4	(0.8)	(1.4)	(1.80)	(0.30%)
Corresponding immediate increase of 0.1 percent	594.5	16.8	(1.1)	(0.3)	(0.20)	(0.03%)
Corresponding immediate decrease of one percentage point	615.1	(0.8)	(1.7)	1.1	3.65	0.60%

	As of December 31, 2014					
	Net fair value of financial instruments, after impact of changes in interest rates (NIS Millions)				Change in fair value	
	Israeli currency		Foreign currency (2)		NIS Millions	In percent
Change in interest rates	**Unlinked**	**CPI-linked**	**USD**	**Other**	**Total**	**Total**
Corresponding immediate increase of one percent	425.2	88.2	31.9	4.1	(7.8)	(1.40%)
Corresponding immediate increase of 0.1 percent	448.8	73.3	27.8	4.7	(2.6)	(0.47%)
Corresponding immediate decrease of one percent	483.8	56.2	23.6	4.5	10.9	1.95%

Exposure of the Bank and its consolidated companies to changes in interest rates

Reported amounts	December 31, 2015				
	On demand Up to one month	Over one month Up to 3 months	Over 3 months Up to one year	Over one year Up to 3 Years	Over 3 Years Up to 5 Years
	NIS Millions				
Unlinked Israeli currency					
Financial assets	5,686.4	299.8	1,253.1	598.7	223.2
Derivative financial instruments (excluding options)	32.5	0.0	126.2	-	-
Total fair value	5,718.9	299.8	1,379.3	598.7	223.2
Financial liabilities	(6,070.4)	(66.4)	(653.4)	(441.1)	(497.2)
Derivative financial instruments (excluding options)	(211.5)	(200.1)	-	-	-
Total fair value	(6,281.9)	(266.5)	(653.4)	(441.1)	(497.2)
Financial instruments, net					
Exposure to interest rate changes in the segment	(563.0)	33.3	725.9	157.6	(274.0)
Cumulative exposure in the segment	**(563.0)**	**(529.7)**	**196.2**	**353.8**	**79.8**
CPI-linked Israeli currency					
Financial assets	129.9	135.9	675.9	1,347.8	658.2
Derivative financial instruments (excluding options)	-	198.2	-	-	-
Total fair value	129.9	334.1	675.9	1,347.8	658.2
Financial liabilities	(247.7)	(465.2)	(725.4)	(1,048.5)	(562.5)
Derivative financial instruments (excluding options)	-	-	-	-	-
Total fair value	(247.7)	(465.2)	(725.4)	(1,048.5)	(562.5)
Financial instruments, net					
Exposure to interest rate changes in the segment	(117.8)	(131.1)	(49.5)	299.3	95.7
Cumulative exposure in the segment	**(117.8)**	**(248.9)**	**(298.4)**	**0.9**	**96.6**
Foreign currency (2)					
Financial assets	883.8	135.9	268.6	267.7	117.9
Derivative financial instruments (excluding options)	256.6	9.1	-	-	-
Total fair value	1,140.4	145.0	268.6	267.7	117.9
Financial liabilities	(1,154.5)	(241.3)	(356.1)	(77.9)	-
Derivative financial instruments (excluding options)	(77.1)	(8.9)	(126.5)	-	-
Total fair value	(1,231.6)	(250.2)	(482.6)	(77.9)	-
Financial instruments, net					
Exposure to interest rate changes in the segment	(91.2)	(105.2)	(214.0)	189.8	117.9
Cumulative exposure in the segment	**(91.2)**	**(196.4)**	**(410.4)**	**(220.6)**	**(102.7)**
Total exposure to changes in interest rates					
Total assets	6,700.1	571.6	2,197.6	2,214.2	999.3
Derivative financial instruments (excluding options)	289.1	207.3	126.2	-	-
Total fair value	6,989.2	778.9	2,323.8	2,214.2	999.3
Total liabilities	(7,472.6)	(772.9)	(1,734.9)	(1,567.5)	(1,059.7)
Derivative financial instruments (excluding options)	(288.6)	(209.0)	(126.5)	-	-
Total fair value	(7,761.2)	(981.9)	(1,861.4)	(1,567.5)	(1,059.7)
Financial instruments, net					
Exposure to interest rate changes in the segment	(772.0)	(203.0)	462.4	646.7	(60.4)
Cumulative exposure in the segment	**(772.0)**	**(975.0)**	**(512.6)**	**134.1**	**73.7**

(1) Balance-sheet balances are presented under the column "no repayment period".
(2) Local operations, including Israeli currency linked to foreign currency.

Notes

A. Additional details regarding the exposure to changes in interest rates in each segment, by the various balance sheet items, will be submitted upon request.

Exposure of the Bank and its consolidated companies to changes in interest rates

December 31, 2015							December 31, 2014		
Over 5 years Up to 10 years	Over 10 years Up to 20 years	Over 20 years	No repayment period(1)	Total	Internal rate of return	Average lifetime	Total	Internal rate of return	Average lifetime
NIS Millions					%	Years		%	Years
401.9	81.9	30.1	7.4	8,582.5	3.31	0.91	8,787.4	3.29	0.72
-	-	-	-	158.7		0.48	238.2		0.42
401.9	81.9	30.1	7.4	8,741.2	3.31	0.90	9,025.6	3.29	0.71
(3.5)	(1.4)	-	-	(7,733.4)	0.42	0.37	(7,849.5)	0.83	0.50
-	-	-	-	(411.6)	-	0.09	(723.4)		0.11
(3.5)	(1.4)	-	-	(8,145.0)	0.42	0.35	(8,572.9)	0.83	0.47
398.4	80.5	30.1	7.4	596.2	2.89	0.55	452.7	2.46	0.24
478.2	**558.7**	**588.8**	**596.2**	**596.2**			**452.7**		
323.4	232.5	25.2	-	3,528.8	3.86	3.23	3,657.5	3.45	3.06
-	-	-	-	198.2		0.11	-		-
323.4	232.5	25.2	-	3,727.0	3.86	3.07	3,657.5	3.45	3.06
(657.6)	(4.9)	-	-	(3,711.8)	1.15	2.34	(3,584.8)	1.05	2.72
-	-	-	-	-		-	-		0.13
(657.6)	(4.9)	-	-	(3,711.8)	1.15	2.34	(3,584.8)	1.05	2.72
(334.2)	227.6	25.2	-	15.2	2.71	0.89	72.7	2.40	0.34
(237.6)	**(10.0)**	**15.2**	**15.2**	**15.2**			**72.7**		
56.1	9.4	35.2	-	1,774.6	2.67	1.44	1,432.4	3.09	0.70
-	-	1.4	-	267.1	-	0.09	999.3		0.13
56.1	9.4	36.6	-	2,041.7	2.67	1.26	2,431.7	3.09	0.70
(0.6)	(0.1)	-	-	(1,830.5)	0.37	0.20	(1,886.8)	0.26	0.15
-	-	-	-	(212.5)	-	0.38	(512.7)		0.33
(0.6)	(0.1)	-	-	(2,043.0)	0.37	0.22	(2,399.5)	0.26	0.19
55.5	9.3	36.6	-	(1.3)	2.30	1.04	32.2	2.83	0.51
(47.2)	**(37.9)**	**(1.3)**	**(1.3)**	**(1.3)**			**32.2**		
781.4	323.8	90.5	7.4	13,885.9	3.37	1.57	13,877.3	3.31	1.34
-	-	1.4	-	624.0		0.19	1,237.5		0.19
781.4	323.8	91.9	7.4	14,509.9	3.37	1.51	15,114.8	3.31	1.24
(661.7)	(6.4)	-	-	(13,275.7)	0.62	0.90	(13,321.1)	0.81	1.05
-	-	-	-	(624.1)		0.19	(1,236.1)		0.20
(661.7)	(6.4)	-	-	(13,899.8)	0.62	0.86	(14,557.2)	0.81	0.98
119.7	317.4	91.9	7.4	610.1	2.75	0.64	557.6	2.50	0.26
193.4	**510.8**	**602.7**	**610.1**	**610.1**			**557.6**		

B. In this table, the periodic data demonstrate the present value of future flows of each financial instrument, discounted by interest rates which reduce them to the fair value included with respect to the financial instrument in Note 21 to the financial statements, in a manner which is consistent with the assumptions which were used to calculate the fair value of the financial instrument.

C. The internal rate of return is the interest rate which deducts the expected cash flows from the financial instrument to the fair value which is included for it in Note 21 to the financial statements.

D. The effective average lifetime of a group of financial instruments constitutes an approximation of a change in percent in the fair value which will be caused as a result of a small change in the internal rate of return of each of the financial instruments.

Presented below is the summary of exposures to unexpected changes in interest (NIS Millions):

	Potential change in economic value - Profit (loss)				Potential change in annual profit - profit (loss)	
	As of December 31					
	2015		2014		2015	2014
Impact of corresponding immediate change in yield curve	Increase of 1%	Decrease of 1%	Increase of 1%	Decrease of 1%	Increase of 1%	Increase of 1%
Segment						
Unlinked	(16.1)	18.9	(27.2)	31.5	17.2	5.8
Linked	15.2	(16.0)	15.5	(16.5)	(2.2)	(2.4)
Foreign currency	(0.9)	0.8	3.9	(4.1)	7.3	14.0
Total	**(1.8)**	**3.7**	**(7.8)**	**10.9**	**22.3**	**17.4**
Restriction	(60.0)	(60.0)	(60.0)	(60.0)	(20.0)	(20.0)
Maximum during the period	0.2	15.2	(3.7)	29.3	23.4	23.4
Minimum during the period	(12.3)	1.0	(25.9)	3.8	15.2	1.9

A reference will be included to the detailed qualitative and quantitative information regarding credit risks, which is given in accordance with the disclosure requirements of Pillar 3, as well as additional information regarding risks, on the website of the banking corporation.

Exchange rate risk and inflation risk

As part of the management of market risks, the Bank manages, on an ongoing basis, its positions in the various linkage segments, through the variety of financial instruments which are available to it, in consideration of changes which occur in relevant economic figures, and routine monitoring of the risks which are due to this exposure. The restrictions were determined while retaining the Bank's flexibility and its ability to change the various positions in a short period, in accordance with economic forecasts. In order to restrict the exposure to this risk, the Bank's Board of Directors determined the maximum rates of exposure in each linkage segment.

Presented below are the restrictions on the exposure rates of each linkage segment, as determined by the Board of Directors (which is not necessarily the exposure that affects profit and loss). Restrictions are on the surplus (deficit) amounts of the assets on the liabilities in each segment:

	As of December 31, 2015			
	Approved restriction (1) as percentage of financial capital (2)		Approved restriction NIS millions	
	Maximum	Minimum	Maximum	Minimum
Linkage to index	50%	(25%)	301	(151)
In foreign currency and linked to foreign currency	6.5%	(6.5%)	39	(39)
Unlinked	125%	50%	753	301

(1) Maximum limits according to the approval of the Bank's Board of Directors. The restrictions were updated by the Board of Directors in December 2015.

(2) Financial capital is equity less consolidated non-monetary assets.

The Bank measures its positions in the various linkage bases every day by means of its information system. This information is reported to the units which are responsible for management of the position and adjusting it to the applicable restrictions. The information regarding the reported amount of the positions is routinely reported in the meetings of the assets and liabilities management committee, and in the meetings of other forums which are engaged in risk management.

Presented below is the actual economic exposure (which is not necessarily exposure which affects the profit and loss account) in each linkage segment (NIS Millions):

	Exposure as of December 31, 2015	Exposure during the reporting period (1)		
	NIS millions			
		Maximum	Minimum	Average
Linkage to index	(6)	290	(41)	131
In foreign currency and linked to foreign currency	5.2	5.2	(5.8)	0.3

(1) The exposure in the CPI-linked segment is presented on the 15th of each month.

Presented below are details regarding the sensitivity of the Bank's capital to the consumer price index (the theoretical change in economic value, including the impact of the change on the economic value of the nostro portfolio, which was not included in the calculation of the position as a result of the scenario, in NIS millions):

Scenario	As of December 31, 2015	Maximum for 2015	Minimum for 2015
CPI increase of 5%	0.1	12.7	(5.5)

Presented below are details regarding the sensitivity of the Bank's capital to changes in currency rates, in millions of NIS (the theoretical change in economic value as a result of the scenario, where the scenario involving an increase means an increase of the relevant currency relative to the NIS):

	As of December 31, 2015		Maximum for 2015		Minimum for 2015	
Scenario	USD	Other	USD	Other	USD	Other
Increase of 10%	0.4	1.7	1.2	2.3	(0.4)	0.1
Increase of 5%	0.2	0.8	0.6	1.1	(0.2)	0.0
Decrease of 10%	(0.4)	(1.7)	0.4	(0.1)	(1.2)	(2.3)
Decrease of 5%	(0.2)	(0.8)	0.2	-	(0.6)	(1.1)

As part of the Bank's overall strategy regarding the management of exposure to market risks, the Bank executes, inter alia, transactions with derivative financial instruments, in order to reduce its exposure to these risks. The Bank's activities in derivative financial instruments are performed as an intermediary, trader, or end user. The Bank has derivative financial instruments such as future foreign currency swap transactions and forward foreign currency contracts.

Transactions with derivative financial instruments are recorded at fair value, and changes in fair value are routinely recorded in the statement of income. Additionally, the Bank engages in independent contracts which do in themselves constitute derivative instruments, but which do contain embedded derivatives. The Bank's policy is to avoid, as much as possible, exposure to exchange rate risks between the various foreign currencies. Inter-currency exposure is managed under a limited framework, and subject to the restrictions which were approved by the Bank's Board of Directors.

Reference to the note in the financial statements regarding assets and liabilities by linkage bases.

The Bank manages the position in foreign currency on an ongoing basis. The Bank's Board of Directors established restrictions on the surplus (deficit) amounts of assets on liabilities. The Bank only operates with the major currencies, and in scopes which are proportional to financial capital. Calculation of the surplus (deficit) includes the impact of derivatives.

Stock price risk

Review of the risk and management thereof

As part of the policy regarding financial risks (market risks), the Bank's Board of Directors determined a limited framework for basket certificates on stocks in the trading portfolio and in the available for sale portfolio (there is no framework for the acquisition of stocks in the banking portfolio). The balance of stocks as of December 31 (in the trading portfolio and in the available portfolio) amounted to NIS 8.5 million, as compared with NIS 3.7 million as of December 31, 2014.

3.3 Liquidity and financial risk

Liquidity risk

Review of the risk and management thereof.

"Liquidity" is defined as a corporation's ability to finance an increase in assets, and its ability to service its liabilities. Liquidity risk is the risk of harm to capital and to the stability thereof, due to the inability to meet liquidity requirements, as a result of uncertainty regarding the availability of sources and the ability to raise them, and regarding the ability to realize assets at a certain time and at a reasonable price. The exposure is due to the provision of long-term loans (even if these were given at variable interest) which are financed by short-term deposits.

The Bank is exposed to liquidity risk and to the concern of a deterioration in the ability to raise marketable or institutional debt due to changes on the market, legislative changes and/or changes in the preferences of depositors. In order to deal with this risk, the Bank has implemented, for several years, a policy of expanding the depositor base and reducing its reliance on large depositors, while particularly focusing on raising deposits from households. Additionally, an emphasis is placed on maintaining a high level of liquidity, as reflected in the scope of available liquid assets, and in small flow gaps between the repayment of assets to the liabilities. The characteristics of the credit and the depositors, early repayment rates in the various linkage segments and the cycles of short term deposits, have a significant impact on the estimated exposure to this risk.

Minimum liquidity ratio

The Bank evaluates its liquidity position on a daily basis, using the minimum liquidity ratio model, which is, as stated above, the ratio between the liquidity cushion and the potential net outgoing flow in an extreme scenario. For the purpose of implementing the model, the Bank has collected, and continues to collect, data regarding the rate of early repayments, regarding the timing thereof, and regarding the turnover rate of deposits and savings. The minimum liquidity ratio is evaluated according to four scenarios: an ordinary business scenario, a specific "stress" scenario for the Bank, a systemic "stress" scenario and a combined scenario including both stress specific to the Bank and systemic stress. The various scenarios are differentiated from one another primarily by the refinancing rate of deposits, and by the ability to realize liquid assets. The results of the minimum liquidity ratio differ from the results of the liquidity coverage ratio, primarily due to assumptions regarding the sum of deposits from private customer which are significantly more conservative than the assumptions which are required under Proper Banking Management Directive 221, regarding the liquidity coverage ratio. The minimum liquidity ratio, according to the aforementioned scenarios, was 120% as of December 31, 2015.

Net stable funding ratio (NSFR)

The Bank also monitors its long term liquidity using the (net) stable funding ratio (NSFR) model , as specified in Basel III, and in accordance with Proper Banking Management Directive 342. The net stable funding ratio as of December 31, 2015 was 120%.

Liquidity coverage ratio (LCR)

On September 28, 2014, as part of its preparations for the implementation of Basel III, the Banking Supervision Department published Proper Banking Management Directive 221, on the subject of the liquidity coverage ratio (LCR).

The directive is intended to ensure that the banking corporation will hold an adequate inventory of high quality, unpledged liquid assets, comprised of cash or of assets convertible into cash, in private markets, without loss or value, or with minimal loss of value, in order to meet the liquidity needs of the banking corporation in an extreme liquidity scenario over a period of 30 days. At a minimum, the inventory of high quality, unpledged liquid assets must allow the banking corporation to survive until the 30th day of the extreme scenario, and during that period of time, it is assumed that management and the supervisors will be able to take appropriate corrective actions, or that it will be possible to liquidate the banking corporation in an orderly manner. Additionally, this period provides the central bank with additional time to implement the required measures in the event that these are considered necessary.

The liquidity coverage ratio includes two components:

- Value of high quality liquid assets (HQLA) in extreme circumstances (numerator)
- Total net outgoing cash flows during the coming 30 calendar days (denominator)

According to the directive, except in case of financial stress, the ratio's value will not fall below 100%. In other words, the inventory of high quality liquid assets must equal, at a minimum, the total net outgoing cash flows on a routine basis.

A banking corporation is required to fulfill the aforementioned ratio beginning on January 1, 2017; however, banking corporations which fulfill the requirement regarding the aforementioned ratio as of the application date of the directive, April 1, 2015, may not fall below the threshold which was determined in the directive.

The Bank fulfills the liquidity ratio specified in the directive.

Liquidity coverage ratio

	For the three months ended December 31
	2015
	In percent
Liquidity coverage ratio	403
Minimum liquidity coverage ratio required by the Commissioner of Banks	100%

In the Bank's assessment, in consideration of the deposit refinancing rates in recent years, the exposure to the aforementioned risk is not high, inter alia, because the Bank diversifies its financing sources, ensures to expand the depositor base and to reduce its reliance on large depositors, and to maintain a sufficient liquidity cushion, as reflected in a situation whereby the liquid assets ratio is higher than the required ratio. As of the reporting date, the balance of total public deposits of the three largest depositor groups amounts to approximately NIS 543 million.

A reference will be included to the disclosure regarding liquidity risk, which was included in the disclosure requirements of Pillar 3 (Chapter 651), and the note to the annual financial statements regarding assets and liabilities by linkage bases and by repayment periods.

Financial risk

The Bank has established for itself a long term policy of expanding the raising of sources, while increasing the weight of the sources from households out of total public deposits, and maintaining the ability to raise sources from institutional customers. The raising of long term deposits was performed with reference to the scope of performance of long term new credit. Additionally, the Bank, through the subsidiary Jerusalem Finance & Issuance Ltd., raises deposits according to the Bank's raising needs and deferred liability notes, in accordance with its capital needs.

Bank management determines specific targets for branches and headquarters units in all operating segments, and routinely monitors their fulfillment of goals.

The Bank strives to achieve the targets through variety in the mix of products and adjusting it to the needs of customers and to the changing market conditions. The Bank also conducts sales campaigns for depositing customers, through advertising in various media and direct mailing to existing and potential customers. The Bank also offers banking services in a closed system which allows the raising of funds from customers of all banks, as specified below.

Beyond the above, the Bank considers it important to maintain contact and collaboration with institutional customers, as part of the management of sources and liquidity on an ongoing basis.

The Bank conducts delineation of all financing sources which are available to it (including potential financing sources). These sources are specified in the following table. The Bank ensures to keep the financing sources active, and to use them from time to time, even if there is no real need in terms of liquidity.

The Bank is able to receive a loan overnight from the Bank of Israel in case of emergency, without a limit. The Bank also has the option, through swap transactions, to convert liquidity from foreign currency to Israeli Shekels, and vice versa.

The Bank routinely evaluates its ability to rely on each active source, and acts in accordance with such evaluations. An in-depth evaluation of the availability of financing sources is conducted once per year, within the framework of the preparation for the discussion regarding the risk management policy.

According to the Bank's assessment, in case of the realization of one of the extreme scenarios, the main financing sources which will be available to the Bank will primarily include cash in hand and the securities portfolio. Incoming flows are also expected from routine and early repayment of loans. For each scenario, the Bank evaluates whether it will be possible to increase the financing sources which are expected to stay with the Bank.

The financing sources of the banking system in NIS and foreign currency are primarily comprised of deposits from households, companies, institutional entities, banks in Israel and abroad, and the raising of marketable debt on the capital market.

The sources include, inter alia, deposits in all of the linkage segments, which bear fixed or variable interest, and which are deposited for various periods, from one day to eighteen years.

Presented below are details regarding pledges on cash and securities:

	December 31, 2015		
	Book value	Pledged as collateral	Non-pledged
	In millions of NIS		
Cash and deposits in banks	2,071.9	30.2	2,041.7
Securities	1,779.5	406.6	1,372.9

	December 31, 2014		
	Book value	Pledged as collateral	Non-pledged
	In millions of NIS		
Cash and deposits in banks	3,278.0	16.3	3,261.7
Securities	902.4	261.4	641.0

A reference will be included to the disclosure regarding the financing risk which was included in the disclosure requirements of Pillar 3, as well as additional information regarding risks (Chapter 651)

3.4 Operational risk

Description of the risk, quantitative indicators regarding exposure to the risk, and a review of methods used to manage the risk.

Operational risk is defined as the risk of loss due to the inadequacy or failure of internal processes, people, systems, or external events, The definition of operational risk includes legal risks, but does not include strategic risks or reputation risks. The operational risks are embodied in all of the various banking activities, and are inherent in all of the Bank's work processes.The Bank is engaged in a variety of financial activities, and is exposed to operational risks, including, inter alia, embezzlement and fraud risks, information technology risks, business continuity risks, and information security risks. There may also be implications on other risks, such as credit risks and market risks.

In December 2015, the Bank approved an updated policy for the management of operational risks, which includes a framework definition for the management of operational risks in the Bank, the Bank's risk tolerance, and the organizational framework through which the Bank's units will implement the control and monitoring processes intended to mitigate risks.

The responsibility for the management of operational risks applies to the unit managers and to the first line of defense, which also includes the information technology, information security and business continuity management functions. The operational risk management unit, compliance officer and legal advisor constitute the second line of defense.The third line of defense is internal auditing, which performs independent reviews of the controls, and challenges the processes and systems used to manage operational risk in the Bank.

The management of operational risks is based on an ongoing process involving the estimation, measurement, monitoring, reporting and control / mitigation of risks using a methodology prepared by the operational risks unit in the risks division.

For an extensive description of the system regarding the management and control of operational risk, see the risks report - disclosure in accordance with Pillar 3, and additional information regarding risks.

Operational risk factors:

The material operational risks faced by the Bank are risks faced by any financial entity. In recent years, external risks have increased, primarily in terms of cyber risks, and the Bank is investing a great deal of resources in protecting the Bank's resources from hostile entities, and is operating in accordance with the guidelines of the Bank of Israel, while enlisting the assistance of external consultants. Presented below are the main risk factors:

- Cyber and information security risks
- Business continuity and disaster recovery
- Systems failure
- Embezzlement and fraud

Mitigation of operational risk:

The Bank maintains a comprehensive framework of processes and methods intended to reduce the exposure to losses which are due to operational risks.These preparations include, inter alia, the following measures:

- All actions performed in the branches and by management are set forth in policies which are based on the instructions of the Bank of Israel, the Bank's cumulative experience, and with the assistance of external consultants / experts. This is intended to improve and to increase the effectiveness of work methods and internal control methods, and to prevent human errors.
- Reducing the operational exposure, through the implementation of ongoing control measures and a demand for the implementation of double controls over every process which involves significant operational risk.

- Implementation of system-wide controls over various operating segments, in accordance with the risk associated with the process, with an emphasis on processes regarding which there is no double control over the process.
- Performance of operational risk surveys and embezzlement and fraud surveys, and formulation of plans to mitigate the risks which were identified in the survey.
- Implementation of an organizational culture regarding the management of operational risks, and increasing awareness of such risk among employees.
- Implementation of an approval process prior to the activation of each new product / operation / process - which requires the performance of a comprehensive risk survey, the creation of an amortization program which is adjusted to the risk level, and approval of each significant new product in the risk management forum managed by the CEO and in the meetings Board's Risk Management Committee,
- Collection of information regarding loss or near loss events, and learning of lessons - the Bank collects data regarding operational failure events which occurred and which caused actual operational damage, or which could have caused operational damage. In significant or company-wide events, an investigation and lesson learning process is implemented by all involved entities. The Bank's bank management and Board of Directors receive reports regarding operational events in which loss was incurred, and regarding events which involve potential loss.
- The map of operational risks, risk mitigation plans and reporting regarding loss and near loss events are managed in a designated system for the management of operational risks.
- The appointment of division-based referents for the management of operational risks - with the aim of improving and implementing the management of operational risks in all of the Bank's units.

Once per quarter, the management and the Board of Directors receive a risk report regarding operational risks, which includes a report regarding the failure events which occurred during the reporting period, the existing risk areas, including IT, cyber, information security and business continuity risks, and the status of progress on the implementation of the risk mitigation plan.

In order to reduce the operational risks to which the Bank is exposed, the Bank acquires, each year, professional liability insurance and property insurance. Beginning in 2015, the Bank also acquires cyber insurance, which provides extended insurance coverage for damages caused due to computer crimes, and for IT failures.

IT risks, cyber protection and information security:

The Bank expanded the cyber protection and information security unit, and is continuously improving the area of information security, include preparing for the application of Proper Banking Management Directive 361 of the Bank of Israel regarding cyber protection. The information security staff members are separate from the infrastructure staff members. The Bank works continuously to mitigate cyber risks, and invests a great deal of resources in the cyber protection and information security field, from the implementation of information security products, the application of controls, the performance of risk surveys, security and penetration surveys, and more. Each new product or change to a process / activity / existing product undergoes comprehensive information security tests.

Nearly all of the Bank's systems underwent a massive upgrade in the last four years, such that, as of the end of 2015, the Bank's IT system is based on new systems and systems which underwent massive upgrades. The banks methodically manages information technology risks. There is in place a set of policies and work methodologies which constitute a good infrastructure for the monitoring and control of information technology risks. The Bank maintains a map of information technology risks and a multi-annual work plan involving refreshment of the surveys for the identification and assessment of IT risks. In all main projects under development, an orderly process of risk management is implemented in accordance with a standard methodology. Project risk meetings are held for each project once per month, in collaboration with information systems staff, business entities and the operational risks administration. Orderly monitoring is implemented regarding all information technology risks which have been identified. The Bank maintains a secondary IT site on a routine basis, which serves as a backup site, in case of a failure in the Bank's main IT site.

Monitoring and control - monitoring and control over the systems' availability constitutes an important component of the identification of malfunctions before they occur, and the performance of actions to prevent the failure. The Bank has a monitoring and control system which allows the rapid location and identification of a malfunction before or upon its occurrence, and the ability to perform rapid diagnostics in order to understand the nature of the malfunction and the correction thereof, in a short time.

Metrics regarding the exposure to operational risk:

The Bank has defined the risk appetite (tolerance) for operational risks. The definition includes a restriction on a rate of risk which is higher than total risks (in other words, the number of high risks which the Bank is able to contain), a restriction on annual financial loss with respect to operational risks, a restriction on damages with respect to an extreme operational risks scenario. On the specific level, a restriction was defined with respect to public complaints, as well as a restriction on the availability of systems which impact customer service.

Compliance with these restrictions is monitored on a continuous basis, and the Bank complies with them.

Reference to the disclosure regarding operational risk which was included in the disclosure requirements of Pillar 3, and additional information regarding risks (Chapter 651).

3.5 Other risks

Business continuity

In order to maintain resiliency and business continuity of the Bank's activities following a disaster or malfunction event, and in accordance with Directive 355 issued by the Bank of Israel, on the subject of the management of business continuity, the Bank prepares itself for emergency situations. The Bank's IT system is based on two IT sites - the main site, located in the Bank's headquarters in Airport City, and a backup site in Jerusalem. The Bank's activities to enable preparedness for recovery in an emergency situation include the following:

1. Technological infrastructure used to backup information systems.
2. Action plans and procedures - the Bank has created and maintains a comprehensive set of policies for taking action and dealing with different emergency situations, including manual work alternatives and options to transfer critical activities. The Bank has prepared a shelf plan for dealing with extreme scenarios, such as war, epidemic or earthquake.
3. Performance of drills - the Bank participates in national drills, and also conducts internal drills to test the backup sites and activities in emergency situations, in accordance with business continuity policies.

Information technology risks

Information technology constitutes a central component in the Bank's proper operation and management. Information technology risks are due to the current operations of the Bank's information systems, company-wide information technology processes and the development of new activities (projects and systems). Information technology risks also include cyber and information security risks and banking risks associated with communication, which could affect business and/or operational processes in the Bank. The Resources Division Manager is responsible for managing information technology risks in the Bank.

The Bank is continuously working to develop and improve its information systems. The existing projects are managed in accordance with an orderly methodology for the assessment and management of project risks. An orderly risk mitigation plan is being created for the management of project risks, and the implementation of the risk mitigation plan is monitored continuously.

Additionally, the IT division is continuing its operations, including risk assessment of the performed activities. At the end of each quarter, the risk assessment plan is updated in accordance with the risk mitigation activities which were performed during the quarter and changes in business emphases, and a risk assessment is prepared regarding new systems / technologies under production.

Information security

In accordance with Proper Banking Management Directive 357, a Information Security Manager was appointed in the Bank, who is subordinate to the Resources Division Manager. The Information Security Manager is responsible for recommending an information security policy and presenting it to the Bank's institutions for approval, for developing an information security plan, for monitoring its implementation and for handling exceptional events related to information security.

The management of information security risks supports the implementation of responses to threats and risks, and the preservation of the Bank's information assets and information technology systems.

In the last two years, the Bank's information security preparedness has been significantly expanded, in light of the increase of threats and cybernetic attacks around the world. The Bank has acquired automated tools to monitor information security, and has increased the number of employees employed in the information security unit.

Each new system or new product / process which is relevant to IT undergoes evaluation by the IT Manager, including penetration surveys, and the product is not launched before approval is received from the Information Security Manager.

Proper Banking Management Directive 361, on the subject of cyber protection management - for details, see below in the chapter regarding legislative updates and directives issued by the Bank of Israel. The Bank is preparing for the implementation of the directive.

Legal risks

Legal risk is defined as any risk which is due to the potential for loss as a result of a breach of laws, regulations, or regulatory directives, or due to the Bank's rights or obligations which have not been established, as required; this risk also applies in cases of contracts which cannot be enforced, legal claims, or erroneous judgment, which may impose difficulties on exercising the Bank's rights, or may injure such rights.

Legal risk may arise due to a defective or incorrect legal basis, which the Bank has relied upon in providing service to customers, receiving service from suppliers and/or receiving collateral from customers or third parties, such as engagements which are backed by adequate agreements, collateral which cannot be realized due to a defect in its creation or registration, or because the collateral has been stolen or has lost its value, etc.

Additionally, legal risk may be created for the Bank as a result of external factors which are not dependent upon the Bank, such as changes in the provisions of the law or various regulatory directives (directives issued by the Commissioner of Banks, directives issued by the Israel Securities Authority, the Israel Prohibition of Money Laundering and Financing of Terrorism Authority, etc.), or new rulings by the courts which determine that the Bank is required to act, with respect to a certain subject, different from the way in which it effectively acted before the issuance of that ruling.

Legal risks comprise a part of the entire array of operational risks to which the Bank is exposed. Sarit

Weistuch, Adv., VP and Legal Advisor, is responsible for the management of the Bank's legal risks, and for this purpose, enlists the assistance of the employees of the Bank's legal department. Legal and regulatory risk is managed in the Bank in an orderly and structured manner, as set forth in written policies and procedures, with the aim of reducing to the lowest possible minimum the realization of such risks, and reducing the damages which are caused to the Bank in the event that such risks do indeed materialize.

According to the Bank's policies and procedures, any legal issue which arises within the framework of the management of the Bank's business operations is transferred to the legal department for handling (each in accordance with its own area of responsibility). Any claims, legal proceedings or threats to file lawsuits which are received by any of the Bank's employees are transferred to the legal department for handling; any legal question referred by a customer to an employee of the Bank is referred to the legal department for response or for assistance.

Reputation risk

Reputation risk is the risk of loss due to harm to the Bank's reputation or harm to an external assessment of its banking capabilities or financial stability. This risk may be caused as a result of factors within the Bank, such as operational failure of the Bank's systems, failures to prevent events associated with money laundering, embezzlement and fraud of employees, etc., or as a result of factors which are systems to the Bank, such as a national or global economic crisis, defaults in other banks, class action claims, etc.

Reputation risk is characterized by two main risk factors: first priority risk and second priority risk. First priority risk is pure reputation risk, due to the realization of a risk which is managed in the Bank, and which reduces the Bank's profits. For example, credit risk, which is a first priority risk, may cause losses, due to the actual realization of a scenario in which certain borrowers do not repay their debts to the Bank. Second priority risk is risk due to the realization of other risks. For example, the realization of an operational risk involving a large scale theft may result in harm to the Bank's reputation (regardless of the loss from the theft itself), which is reflected in loss of the Bank's profits.

Risk factors also include several additional risks, including operational risk, compliance risk and strategic risk.

Management of reputation risk is divided into two parts: prevention of the risk, and management of the risk after the event has occurred, or in case of indications that an event is about to occur.

On the level of risk prevention, reputation risk occupies a central place in the Bank's activities. The risk appetite, policies, restrictions and operating segments are clearly directed towards reducing the exposure to reputation risk. The Bank monitors reputation risk by tracking central issues which reflect its reputation, such as publications in written and electronic media, public complaints, customer claims, and others.

The Board of Directors bears ultimate responsibility for the management and supervision of reputation risk, and for the creation of an adequate risk environment. Senior management is the entity generally responsible for the mitigation and management of reputation risk. The Retail Division Manager is defined in as the manager of this risk. Various units of the Bank are also involved in the management of this risk. The marketing and public relations unit is also responsible, by default, for handling any materializing or potential event, for concentrating the handling of the event and for reporting it to the Retail Division Manager. Additional units which are involved in the management of this risk include: the public complaints unit, the legal department, the compliance officer, the supervisor regarding the implementation of the Prohibition on Money Laundering Law, the Chief Risk Officer, entities involved in risk management and human resources. The Bank's policy risk management policy defines three types of events which may constitute risk events:

1. Expected events which can be prepared for in advance.
2. "Ongoing" events which develop gradually, and may develop into a reputation risk event.
3. Unexpected events which occur suddenly.

The handling of each risk event is managed and concentrated by the Bank's spokesperson office, in collaboration with the Retail Division Manager where, with respect to each of the aforementioned event types, methods of operation, and the identity of the additional relevant entities who will work with them, were defined.

Compliance risks

Compliance risk is the risk that a corporation will be subject to the imposition of legal or regulatory sanctions, significant financial loss or harm to reputation, as a result of a failure on its part to comply with consumer directives.

Consumer directives include the laws, regulations and directives which regulate banking activity in Israel on all matters pertaining to the relationship between the Bank and its customers, including within the framework of the obligations which apply to the Bank towards its customer public.

On June 3, 2015, an amendment was published to Proper Banking Management Directive 308, "Compliance officer". The amendment expands compliance risk management beyond consumer directives, such that it will include the entire set of legislative and regulatory provisions applicable to the Bank, and does not restrict it only to the limited level of the Bank vis-à-vis its customers.

The amendment to the directive entered into effect on January 1, 2016, and significantly expanded the scope of responsibility applicable to the compliance officer, beyond the bank-customer area, in a manner whereby it includes all provisions of the law and regulation which apply to the Bank as a corporation. This directive poses a significant challenge, from the level of management and Board of Directors, to the product managers and business entities.

This amendment is expected to significantly change the compliance risk management approach in the Bank, and creates complex challenges in terms of management, monitoring and control, while imposing an obligation of monitoring and control on management and the Board of Directors. In recent years, banks around the world have suffered significant sanctions with respect to non-compliance with various regulatory directives, and management of compliance risk has become a more complex issue than in the past. The Bank is preparing itself to comply with the directive in a timely manner.

FATCA risk is manged within the framework of internal enforcement.

In accordance with the FATCA regulations, the Bank is required to appoint an RO (responsible officer) who will be responsible for the implementation of the regulations in the Bank, for serving as the contact person vis-à-vis the tax authorities, and for issuing various declarations on behalf of the Bank. The Bank's Board of Directors has determined that the Bank's CRO will also serve as the RO for the purpose of FATCA.

The Bank concluded its preparations for the first report, which was due on June 30, 2015; however, due to the absence of local legislation on the matter, the report has not yet been submitted to the Tax Authority, although it is ready for submission at any given moment upon demand.

In March 2015, the Commissioner of Banks issued a circular on the subject of "management of risks due to cross border activities of customers". This circular includes obligations imposed on the banking corporation on all matters pertaining to the tax liability of its customers. The responsibility for the management of cross border risks applies to the Chief Risk Officer, through the compliance officer. As part of the implementation of the directive, a cross border risk management forum has been created in the Bank, led by the Chief Risk Officer; a cross border risk management policy has been established; rules for the identification of high risk customers have been established; and a work plan has been created.

Following the publication of the Efficiency of Enforcement Procedures in the Israel Securities Authority Law (Legislative Amendments), 5771 - 2011, an administrative enforcement mechanism was adopted in the Bank of Jerusalem, and the Risk Division Manager was appointed as the supervisor of internal enforcement in the Bank and in its subsidiaries. The administrative enforcement mechanism is based on securities laws, and was also adopted in other areas, including the capital market (insurance), labor laws, antitrust, protection of privacy, environmental risks and employees' use of social networks.

In accordance with the principles outlined by the Israel Securities Authority, the Bank formulated a comprehensive internal enforcement program, which is intended to limit the Bank's exposure to the risk that the Bank will be subject to financial or other sanctions, due to non-compliance by the Bank and/or by its employees to the provisions of laws which apply to it. The internal enforcement program includes, inter alia, mechanisms for the implementation of the Bank's policies and compliance values by conducting a comprehensive enforcement survey to evaluate the work processes in the Bank and current policies, the identification and mapping out of gaps and methods for closing them, the creation of appropriate controls to verify compliance with the policies, the development of a training system for the Bank's employees and the creation of a system for receiving and handling reports by employees regarding failures in the implementation of the policies and/or breaches, including the performance of investigations, appropriate learning of lessons, and correction of work process and policies, as needed.

Risks involving money laundering and terrorism financing

General

Risk associated with the prohibition on money laundering and terrorism financing (hereinafter: "Money Laundering") involves the risk of the imposition of significant financial sanctions on the Bank, due to its non-fulfillment of the provisions of the law regarding the prohibition on money laundering and the prohibition on the terrorism financing, as well as the risk that criminal responsibility will materialize for the Bank and its employees. Additionally, the occurrence of a breach of provisions of the laws regarding the prohibition on money laundering and terrorism financing may result in the realization of reputation risk. Within the framework of its activities, the Bank is exposed to risks involving money laundering and terrorism financing. This exposure is focused both on the account opening stage and on the account management stage. The Bank may be exposed to entities who intend to "abuse" it in order to launder funds originating from crimes defined as "source crimes" in the Prohibition on Money Laundering Law, and in order to finance terrorism using such funds.

The Bank is subject to various directives as part of the prevention against money laundering and terrorism financing, including, inter alia, the Prohibition on Money Laundering Law, The Prohibition on terrorism financing Law, the Prohibition on terrorism financing Regulations, Proper Banking Management Directive 411, various circulars, and others.

Management of money laundering and terrorism financing risks

Risk associated with the prohibition on money laundering and terrorism financing (hereinafter: "Money Laundering") involves the risk of the imposition of significant financial sanctions on the Bank, due to its non-fulfillment of the provisions of the law regarding the prohibition on money laundering and the prohibition on the terrorism financing, as well as the risk that criminal responsibility will materialize for the Bank and its employees. Additionally, the occurrence of a breach of provisions of the laws regarding the prohibition on money laundering and terrorism financing may result in the realization of reputation risk. Within the framework of its activities, the Bank is exposed to risks involving money laundering and terrorism financing. This exposure is focused both on the account opening stage and on the account management stage.

The Bank is subject to various directives as part of the prevention against money laundering and terrorism financing, including, inter alia, the Prohibition on Money Laundering Law, The Prohibition on terrorism financing Law, the Prohibition on terrorism financing Regulations, Proper Banking Management Directive 411, various circulars, and others.

Management of money laundering and terrorism financing risks

Therefore, the handling of management of this risk in the Bank, is performed by the compliance officer, who is directly subordinate to the CRO, who is a member of bank management. The Bank's Board of Directors and management have established policies and procedures on the subject of the prohibition on money laundering and terrorism financing. The directives issued by the compliance officer are in accordance with and subject to the provisions of the law. His responsibilities include, inter alia, strict monitoring of banking activities in accounts, in order to identify activities which appear to be irregular, and reporting such activities to the Prohibition on Money Laundering Authority, implementing of controls over reports, in accordance with the type and size of the activity, and reporting them to the Prohibition on Money Laundering and terrorism financing Authority, submitting reports regarding irregular activities to the Prohibition on Money Laundering and terrorism financing Authority, implementing various controls over activities in different accounts, in accordance with their profile, updating the policies and procedures in accordance with legislative updates and provisions of the law, provision of ongoing advice to branches in this area, and performance of training sessions adapted to the responsibilities of the various employees in the Bank, in accordance with their positions. The training sessions are intended to increase awareness among bankers of irregular activities by customers, and accordingly, regarding the regular issuance of reports about them.

For the purpose of implementing the law and strictly complying with its provisions, the Bank has appointed compliance supervisors who also serve as supervisors regarding the prohibition on money laundering in its branches and in headquarters (hereinafter: the "Supervisors"). The supervisor serves as a professional entity in the location where transactions are performed, provides training sessions for employees in his unit, and provides an immediate response to questions which arise in the branches. He is responsible for assisting in the identification of problems or difficulties in the implementation of provisions with respect to the prohibition on money laundering, as much as possible, in real time, and for serving as the first professional contact person for employees in their branch or unit, on the subject of the prevention of money laundering and terrorism financing.

The trustee receives increased training sessions and one-day seminars in order to increase his understanding of the subject, and constitute the link between the compliance officer and the individual branches.

The compliance officer conducts one-day seminars for all supervisors regarding compliance and the prohibition on money laundering, and provides training at branch manager conferences, as well as routine training at branches, continuing education and training sessions for all employees, as part of courses which are provided in the Bank.

Impact of risk factors on the business operations of the banking corporation

The Bank is required, as are all banking corporations, to include a table of risk factors in each of the following categories, and to estimate the impact of each risk factor on its business operations. As part of these preparations, it is necessary to estimate both the potential exposure or damage as a result of the occurrence of a certain event, and the probability that the aforementioned event will indeed occur. Additionally, the adequacy of control regarding the risk environment, as well as the other actions which the Bank performs for the purpose of manging the risk, have an impact on the level of exposure to the risk. Therefore, the risk assessment specified in the following table constitutes a subjective assessment by the Bank regarding the impact of the residual risk on its business operations.

Impact of risk factors on the business operations of the banking corporation

	Risk factor	Risk impact
1	**Total impact of credit risks** Risk due to the possibility that the borrower will not fulfill its contractual liabilities to the Bank. Deterioration in the stability of various borrowers and/or in their ability to repay the credit may have an adverse effect on the value of the Bank's assets and its profitability. The exposure to this risk is managed, inter alia, in accordance with the Bank's credit policy and the exposure restrictions with respect to different types of borrowers in the various operating segments.	**Medium**
1.1	**Risk with respect to the quality of borrowers and securities** Risk due to a deterioration in the quality of borrowers and/or in the value of securities provided as collateral for the credit to the Bank, which may have an adverse effect on the chances of collecting the credit, and therefore also on the value of the Bank's assets and profitability. The exposure to this risk is managed, inter alia, by implementing a clear definition of the credit policy, ensuring strict implementation of the underwriting process, and restricting activities to specific types of borrowers in the various operating segments and products.	**Medium**
1.2	**Risk with respect to branch concentration** Risk due to the high scope of credit given to borrowers who belong to a certain branch of the economy, with respect to the credit portfolio. Deterioration in the results of the business activities in that sector in the economy could result in harm to the repayment ability and/or to the value of the securities which were given by some of the borrowers in this sector, and as a result, could have an adverse effect on the value of the Bank's assets and profitability. This exposure to this risk is managed, inter alia, in accordance with restrictions determined by the Bank of Israel on this matter, and in accordance with restrictions determined by the Board of Directors, regarding the maximum scope of the exposure to the different sectors of the economy. The Bank does not deviate from the aforementioned restrictions.	**Medium**

	Risk factor	Risk impact
1.3	**Risk due to concentration of borrowers / group of borrowers** Risk due to a deterioration in the condition of a large borrower or large group of borrowers (relative to the credit portfolio) which may result in an adverse effect on the chances of collecting the credit, and on the value of the Bank's assets and its profitability. The exposure to this risk is managed, inter alia, in accordance with the restrictions of the Bank of Israel and of the Board of Directors on the maximum scope of exposure to a borrower and to a group of borrowers. Compliance with these restrictions is also continuously monitored. The Bank does not deviate from the aforementioned restrictions.	**Low**
2	**Total impact of market risks** Risk due to changes of prices or rates in financial markets or of other economic parameters, which affect the value of the Bank's assets or liabilities, and which could result in erosion of its capital, or could reduce its profitability. The exposure to this risk is managed separately with respect to each risk, as specified below, and in concentrated form, using the VaR model.	**Low**
2.1	**Interest rate risk** Risk due to the difference between the sensitivity of the assets' value to unexpected changes in interest rates, and the same sensitivity of liabilities - changes which may result in the erosion of the Bank's capital. Due to the exposure to interest in the various linkage bases, a future decline in financing income may occur (throughout the lifetime of the assets or liabilities). The management of the exposure to this risk is implemented, inter alia, in accordance with the estimates regarding market variables, and subject to the restrictions on sensitivity from the Bank's net discounted financial cash flow to a scenario involving a change in the NIS interest curves and the CPI-linked interest rate. The exposure restrictions are monitored on a routine basis.	**Low**
2.2	**Inflation risk** Risk due to changes in the inflation rate, which may result in loss in the amount of the economic difference between the assets and the liabilities (active financial capital) in the CPI-linked segment. The exposure to this risk is managed, inter alia, subject to restrictions on the amount of active financial capital, in consideration of the changes which apply to relevant economic figures, in accordance with market conditions. The exposure restrictions are monitored on a routine basis.	**Low**

	Risk factor	Risk impact
2.3	**Exchange rate risk** Risk which is due to changes in the inflation rate may result in loss in the amount of the economic difference between the assets and the liabilities (active financial capital) in the foreign currency segments and the foreign currency linked segments. The exposure to this risk is managed, inter alia, subject to restrictions on the amount of active financial capital, in consideration of the changes which apply to relevant economic figures, in accordance with market conditions. The Bank's policy is to avoid, as much as possible, exposure to exchange rate risks between the various foreign currencies. The exposure restrictions are monitored on a routine basis.	**Low**
2.4	**Stock and bonds price risk** Risk due to the loss of value of stocks and bonds held by the Bank. The Bank has a securities portfolio which is mostly comprised of government bonds, and to a lesser degree, of corporate bonds. The Bank's policy does not allow significant activity in stocks (whether for trading purposes or for investment purposes). The Bank's rate of holding (including indirect holding) in stocks and stock indices is negligible. Management of the exposure to this risk is implemented, inter alia, through restrictions on the amounts, features, marketability, and average lifetimes of the investments, as well as the amount of loss expected from the investments. The restrictions are maintained using both the VaR model and using extreme scenarios.	**Low**
3	**Liquidity risk** Risk which is due to the uncertainty regarding the availability of sources and the ability to raise them (without having an exceptional impact on prices) and regarding the ability to realize assets within a defined period of time, and at a reasonable price. In situations involving irregular supply and demand in financial markets, unplanned dependency may be created on the raising of sources, which could affect financing income. The exposure to this risk is managed, inter alia, through the expansion of the base of depositors, and the reduction of reliance on large depositors, extension of the average lifetime of the sources and maintaining high level of liquidity. The Bank has a control system which is based on an internal model that includes the evaluation of several scenarios. The Bank also evaluates, over time, the behavior of its customers, which could have an effect on the exposure to this risk.	**Low**

Impact of risk factors on the business operations of the banking corporation (Cont.)

	Risk factor	Risk impact
4	**Operational risk** Risk of loss due to inadequacy or failure of internal processes, people, systems, or external events. The exposure to this risk is managed, inter alia, through a survey of operational risks, creation of policies, application of controls and implementation of systems regarding issues which have an impact on risk exposure, such as human resources, information security, processes, etc. The Bank has an orderly approval process prior to the launching of any new product / activity / process, which includes an evaluation of the risks and the application of appropriate controls. The Bank monitors operational loss and near loss events, for the purpose of learning lessons and improving control.	**Medium**
5	**Information technology risks** Risk which is due to failure in the routine operation of the Bank's information systems, which is comprised of work processes that are performed in the various IT units, or the routine operations of a system, and/or hardware or software infrastructure component, including information security risks and banking communication risks, which could impact business and/or operational processes in the Bank. Almost all of the Bank's systems have undergone a massive upgrade in the last four years. The Bank applies shelf products or develops systems in accordance with its business and operational needs. All projects are managed in accordance with an orderly risk management methodology, and risk surveys are performed in accordance with the regulatory directives.	**Medium**
6	**Information security and cyber risks** Risk of harm to information in the organization, primarily through harm to the technological assets and the physical environment of IT systems. The Bank invests a great deal of resources in the field of cyber protection and information security. Management of cyber and information security risks in the Bank supports the response to threats and risks, and protection of the Bank's information assets and IT systems, and is performed in accordance with the conventional practice in Israel and around the world.	**Medium**

Impact of risk factors on the business operations of the banking corporation (Cont.)

	Risk factor	Risk impact
7	**Legal risk** Risks which are due to unexpected events, such as legal claims, including class actions, inability to enforce contracts, or judgments issued by judicial instances against the Bank, which may result in harm to the Bank's profitability. The exposure to this risk is managed, inter alia, through legal controls and an internal and external legal counsel system. Past experience indicates that such events have not exposed the Bank to significant losses.	**Low**
8	**Regulatory risk** Regulatory risk is a current or future risk applicable to the Bank's income and capital, which could be created due to changes in regulation or legislation, and which could have a significant impact on the Bank's activities and duties. The Bank, as a banking corporation and public company which is subject to many regulatory provisions, as reflected in legislation, secondary legislation, and policies and execution procedures issued by various authorities and supervisory entities. The management of the exposure to this risk is implemented, inter alia, by conducting routine monitoring of draft legislation and legislative memoranda, provisions of the law, and drafts and directives issued by the various regulators (the Banking Supervision Department, the Israel Securities Authority, the Prohibition of Money Laundering and Financing of Terrorism Authority, the Information and Technology Authority at the Ministry of Justice, etc.). Additionally, monitoring is performed regarding new rulings issued by the various judicial instances in Israel. In order to ensure the completeness of the provisions with respect to which monitoring is performed, the legal department is responsible for reviewing the current professional publications issued by several leading law firms in Israel, on subjects pertaining to banking, capital markets, real estate, labor laws, etc.	**Medium**
9	**Reputation risk** Risk which is due to harm to the Bank's reputation as a stable and reliable financial institution due to publications, whether true or false, from the perspective of its customers, investors, and various regulatory authorities. Harm to reputation may result in deviation of customers' activities to other providers of financial services, causing a deterioration in the Bank's operations and profitability. Management of this exposure is divided into two parts: prevention of the risk, and management of the risk after an event has occurred, or in case of indications regarding the occurrence of an event.	**Medium**

Impact of risk factors on the business operations of the banking corporation (Cont.)

	Risk factor	Risk impact
10	**Strategy risk** Strategy risk is due to wrong business decisions, inadequate implementation of decisions, or lack of response to sectoral, economic or technological changes. The risk is also due to, inter alia, entry into new segments, expansion of existing services and increasing investments in infrastructure with the aim of realizing the business strategy. This risk is a function of the correspondence between the Bank's strategic goals, the business plans which were developed to achieve such goals, the resources which were allocated towards the fulfillment of its goals, and the quality of implementation. The exposure to this risk is managed, inter alia, by creating an orderly strategic process, receiving external advice from experts in the field, and additional actions intended to mitigate the risk.	**Medium**
11	**Compliance risk** Compliance risk is due to the Bank's failure to comply with consumer directives, provisions of the law, directives issued by the Commissioner of Banks, and other relevant regulatory directives. The consumer duties which apply to the Bank include cross-organizational duties which pertain to a wide variety of activities, processes and products. Proper Banking Management Directive 308 requires banks to work to fulfill the consumer provisions which apply to the Bank's relationships with its customers. The exposure to this risk is managed on all levels of the organization, from the compliance officer, through the compliance supervisors in the branches and in headquarters, to the product management departments, and is implemented in accordance with a structured process according to which any change in consumer provisions which affects the Bank will be implemented in the Bank's policies, work processes, forms and training.	**Medium**

Impact of risk factors on the business operations of the banking corporation (Cont.)

	Risk factor	Risk impact
12	**Risk associated with the prohibition on money laundering and terrorism financing** Risk associated with the prohibition on money laundering and terrorism financing involves the risk of the imposition of significant financial sanctions on the Bank, due to its non-fulfillment of the provisions of the law regarding the prohibition on money laundering and the prohibition on the terrorism financing, as well as the risk that criminal responsibility will materialize for the Bank and its employees. Additionally, the realization of an offense in breach of the provisions of the law regarding the prohibition on money laundering and terrorism financing may cause the realization of reputation risk. With the aim of reducing the exposure to this risk, an officer was appointed regarding the prohibition on money laundering, who is responsible for the compliance with and implementation of the provisions of the law on the subject, including conducting training sessions on the subject for all of the Bank's employees. Additionally, compliance supervisors have been appointed, who also serve as supervisors with respect to the prohibition on money laundering in the branches and in headquarters.	**Low**
13	**Administrative enforcement risk** Administrative enforcement risk is the risk of the imposition of significant financial sanctions and/or sanctions which restrict engagement on any of the Bank's employees due to non-compliance with securities laws. The Bank is working to mitigate the risk by appointing the Risk Division Manager as the supervisor of internal enforcement in the Bank and in its subsidiaries, creating an internal enforcement department in the risk division, formulating an internal enforcement program in accordance with the principles which were determined by the Israel Securities Authority, conducting a survey intended to identify gaps in the area, and closing such gaps, performing training and implementation activities, and routinely handling events which could be considered breaches, including appropriate learning of lessons.	**Low**

For details regarding the detailed qualitative and quantitative information with respect to credit risk, which is provided in accordance with the disclosure requirements of Pillar 3, and for additional information regarding risks, see the risks report on the Bank's website.

Chapter 4 - Accounting Policy and Critical Accounting Estimates, Controls and Procedures

4.1 Accounting policy regarding critical issues

The Bank's financial statements are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP), and in accordance with directives issued by the Commissioner of Banks, regarding the preparation of a bank's financial statements.The summary of significant accounting policies is provided in Note 1 to the financial statements.The application of accounting principles by bank management in its preparation of the financial statements involved making various assumptions, estimates and approximations, which affect the reported amounts of assets and liabilities (including contingent liabilities) and the Bank's reported results.The use of estimates involves a great deal of uncertainty, and changes therein may significantly affect the fiscal results which are presented in the financial statements. Some of the estimates and assessments are critical to the financial position and results of operations which are reflected in the financial statements, due to the significance of the issue, the complexity of calculations, or the degree of feasibility of the realization of events regarding which there is uncertainty.These estimates and considered and called "critical issues". It is possible that the future manner of realization of estimates and approximations will be different than the estimate provided in the financial statements.

Presented below are details on the accounting policy regarding critical issues:

Provision for credit losses

The Bank determines the provisions for credit losses in pledged loans for residential apartments in accordance with the depth of arrears formula, as determined in Proper Banking Management Directive 314, issued by the Commissioner of Banks. Additionally, in accordance with the instructions which were issued by the Banking Supervision Department, a collective provision for credit losses is calculated with respect to the balance of the housing loans, which will not fall below 0.35% of the balance of the housing loans for which a provision is not maintained, in accordance with the extent of the arrears or specific provision.

Regarding other retail credit, and also regarding business credit, the Bank determines its provisions in accordance with the circular issued by the Commissioner of Banks on the subject of "measurement and disclosure of impaired debt, credit risk and provision for credit losses", which was published on December 31, 2007. The circular is based, inter alia, on accounting standards in the United States and on regulatory directives issued by the Banking Supervision Department and the Securities Exchange Commission in the United States. This provision has been applied in the financial statements of banking corporations and credit card companies beginning from January 1, 2011 (in the original provision - January 2010). The directive was not applied retrospectively in financial statements for prior periods. The effect of this circular on the Bank is reflected in the following issues:

Specific evaluation - the Bank identifies, for the purpose of specific evaluations, each borrower (excluding housing loans) whose contractual balance amounts to NIS 1 million or more, as well as other debts which are identified by the Bank (such as cases of fraud and bankruptcy). Regarding each specifically evaluated borrower for whom there are signs indicating a possible problem in the repayment of the credit given to them, the Bank evaluates the amount collectible from that borrower, in accordance with the forecasted cash flows from its business operations, the value of realizing its assets, the value of realizing third party guarantees, and the realization date. Due to the fact that these data are based on estimates and approximations, there is no certainty that the amounts which are actually received will be identical to the estimate. Regarding cases of fraud and bankruptcy - these debts are written off immediately and in full. Regarding other specifically evaluated debts - with respect to impairment, the debt is written off no later than two years after the date of the performance of the specific provision.

Classification of debt - four main classifications have been determined, which create an outline for the severity of the problem regarding the debt, and regarding the determination of the provisions in respect thereof: ordinary debt, debt under special supervision, subordinate debt, impaired debt.

Provision for credit losses - a distinction was made between a provision on an individual basis and debts which were evaluated specifically and identified as impaired, and a collective provision for all debts which are not classified as impaired. The rates of the collective provision for balance sheet and off-balance sheet credit losses are based on the average rate of net accounting write-offs which were recorded in the various market branches in the last five years, segmented by troubled credit and non-troubled credit, in accordance with the transitional provisions issued by the Commissioner of Banks. These provision rates are validated an updated on a quarterly basis.

Accounting write-off - with respect to debts which were evaluated on a specific basis and identified as noncollectable debts. The Bank's policy is to write-off all specific provisions which have a duration of over two years. Additionally, debts regarding which a collective provision was made, and which are in arrears of over 150 days, are written off from an accounting perspective. In cases where the aforementioned debt has been restructured and is in default, accounting write-offs are performed no later than the date when the debt is in arrears of 60 days or more. Additionally, the Bank's policy is to write-off housing loans which are provided to loss in cases where, as a result of collection processes, there is no balance of collateral to realize the debt.

The collective provision for credit losses with respect to credit risks which are not impaired cancels the additional general provision with respect to troubled debts and with respect to risk characteristics which were defined in the directives issued by the Commissioner of Banks. The risk characteristics include: the classification of debts, credit to persons associated with the Bank, absence of financial information regarding the borrower, credit to the borrower or to a group of borrowers who deviate from the debt restrictions applicable to a "single borrower". In accordance with the directives issued by the Commissioner of Banks, the Bank continued calculating the additional provision gross of tax for the purpose of a comparison to the collective provision for credit losses, where the higher of the two provisions was recorded in the books.

Expenses with respect to credit losses in the reporting year amounted to approximately NIS 40.4 million, as compared with approximately NIS 18.4 million in the corresponding period last year. The change was mostly due to income upon the conclusion of the past debts collection process in the amount of NIS 8.0 million, which was recorded in the corresponding period last year, and to an increase in the provision with respect to retail credit.

For additional details and for details regarding the quantitative impact, see Note 13 and Note 30 to the financial statements and the chapter regarding survey of risks - credit risk, in the Report of the Board of Directors and Management.

Deferred taxes

Deferred taxes are calculated with respect to the temporary differences between the value of assets and liabilities in the financial statements and the amounts which will be taken into account for tax purposes. The calculation of deferred taxes was performed according to the tax rates which are expected to apply when these taxes are charged to profit and loss, as known proximate to the approval date of the financial statements. Deferred taxes are calculated according to the tax rates which are expected to apply upon usage of the reserve or realization of the tax benefit, based on the tax laws which ere in effect on the balance sheet date.

Upon the recording of deferred taxes receivable, the Bank performs estimates and assessments regarding the possibility of their future realization.

For details regarding the quantitative impact - see Note 8 to the financial statements.

Derivative instruments

In accordance with the directives issued by the Commissioner of Banks, the derivative instruments in the Bank are presented in the balance sheet at fair value. The fair value of derivatives was determined based on quoted market prices in active markets, or on the estimated fair value which was determined according to the prices of similar assets, or similar liabilities (the mark to model method). The estimation methods include use of various parameters, including interest curves, currency rates and standard deviations. The estimation includes taking into account assumptions regarding various factors, such as the credit risks and liquidity of the counterparty to the transaction. There are no cases regarding which the revaluation of the derivatives and fair value was not determined based on a model, but rather based on price quotes which are received from third parties.

For additional details and for details regarding the quantitative impact, see Note 28 to the financial statements.

Fair value measurement of financial instruments

On December 31, 2009, the Commissioner of Banks published a circular which applies to the banking system FAS 157 (ASC 820-10), On the subject of fair value measurement. As part of the application of the standard, the Bank makes use of valuation techniques which maximize the use of relevant observable inputs, and minimizes the use of unobservable inputs. Observable inputs are inputs which reflect the assumptions which market participants would use in pricing the asset or liability, which were developed based on market inputs which were obtained from sources which are independent of the Bank. Unobservable inputs are inputs which reflect the assumptions of the Bank itself regarding the assumptions which market participant would use to price the asset or liability, which were developed based on the best inputs available under the circumstances.

Fair value measurement is based on the assumption that the transaction is performed in the principal market of the asset or liability, or in the absence of a principal market, in the most effective market.

The Bank classifies fair value measurements using the fair value hierarchy, which reflects the significance of the data which were used to perform the measurements. The fair value hierarchy is comprised of the following levels:

Level 1 - measurement which is based on quoted prices (not adjusted) in active markets for identical assets or liabilities. Quoted prices on an active market constitute the most reliable evidence of fair value, and are used in fair value measurement whenever they are available.

Level 2 - measurement which is based on observable inputs for the asset or liability, directly or indirectly, which are not quoted prices, including: quoted prices for similar assets and liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets; Inputs which are primarily derived from observable market inputs, or supported by observable market inputs, by way of an adjustment, or by other means.

Level 3 - measurement which is based on inputs regarding assets or liabilities which are not based on observable market inputs, and which are significant to the measurement of fair value in its entirety.

This hierarchy requires the Bank to use observable market inputs when available. Where possible, the Bank considers relevant and observable market data in its evaluation. The scope and frequency of transactions, and the required margin and correspondence when comparing to similar transactions, are factors which are taken into account in the determination of the relevance of observable prices in those markets.

The determination of fair value of financial instruments which belong to level 2 and level 3 is based on estimates and assessments which rely, inter alia, on subjective judgment.

The Bank worked to implement ASC 820-10 in 2011, in accordance with the directives issued by the Bank of Israel. However, no significant change has occurred in the method used to measure fair value and in the estimates on which it was based before the application of this standard.

For additional details regarding the quantitative effect of the implementation of fair value measurement - see Note 33 to the financial statements and Addendum D to the Report of the Board of Directors and Management.

Other than temporary impairment of securities

The Bank periodically evaluates whether the impairment which has occurred in the fair value of securities which are classified under the available for sale portfolio or under the held to maturity portfolio below cost (amortized cost) is other than temporary. For this purpose, the following indicators are evaluated, inter alia:

- The banking corporation's intent and ability to hold the securities for a sufficient period, which will allow restoring the security to its original cost.
- The scope of the value of collateral which backs up the security.
- The period of time during which the value of the security was low relative to its cost.
- Rate of impairment from total cost.
- An evaluation of the terms which reflect the financial position of the issuing entity, including whether the impairment is due to specific reasons in the issuer, or due to the existence of macro-economic conditions.
- Additionally, in the event of one of the following situations, the Bank recognizes other than temporary impairment:
- A security which was sold by the publication date of the report for this period.
- A security which, proximate to the publication date of the report for this period, the banking corporation intends to sell within a short time frame.
- A bond regarding which significant impairment has occurred in the bond rating on the date of its acquisition by the banking corporation, and the bond rating on the publication date of the report for this period.
- A bond which, after its acquisition, was classified by the banking corporation as troubled.
- A bond regarding which there was a payment failure after its acquisition.
- A security whose fair value, in general, as of the end of the reporting period, and also proximate to the publication date of the financial statements, is significantly lower than the cost (amortized cost), unless it has been proven, with a high degree of likelihood and based on objective evidence, that the impairment is of a temporary nature only.
- Additionally, in case of the cumulative fulfillment of the following two situations, the Bank recognizes other than temporary impairment:
- Decrease of 40% in the value of the security relative to amortized cost.
- Decrease for a continuous period of nine months.

If the decrease in fair value is considered as being of a other than temporary nature, the cost (amortized cost) of the security is amortized to fair value, in a manner whereby the loss amounts which were accumulated to equity in the item for other comprehensive income will be classified on the date of the impairment to the statement of income. This value will be used as the basis for new cost, and will not be amended even if an increase in fair value has been recorded in reporting periods subsequent to the impairment date.

On subsequent dates to the recognition of impairment, interest income from investments in securities which constitute debt instruments will generally be recognized on an accrual basis, in accordance with the difference between the expected cash flows of the debt instrument to the instrument's fair value on the date of the impairment (new cost basis). Regarding beneficiary rights which were acquired, or beneficiary rights which continue to be held by the banking corporation, through the securitization of financial assets, and which are accounted by the prospective interested method, it is possible that in rare cases, if there is no available reasonable estimate regarding amounts and regarding the timing of the cash flows which are expected for collection, the Bank will recognize income in accordance with the cost repayment method, or in accordance with recognition on a cash basis.

In 2015 and 2014, a provision for impairment was not performed in the Bank.

Contingent liabilities

The Bank is party to legal proceedings which were initiated against it by the Bank's customers, former customers and various third parties which consider themselves harmed or injured by the Bank's activities. For the purpose of risk assessment in legal proceedings, bank management relies on the opinion of the Bank's internal lawyers, or on the opinion of external legal advisors, which are evaluated by the Bank's internal lawyers. These assessments are based on the legal advisors' best judgment, in consideration of the stage of the proceedings, and on the legal experience which they have accumulated on various issues in Israel.

Risk assessment in class actions involves more difficulty, due to the limited accumulated legal experience regarding the results of such claims in Israel. Additionally, there are class actions whose chances cannot be estimated, due to their current stage.

It should be taken into account that the results of proceedings may differ from the assessment which was determined regarding a claim, due to the fact that, in the legal sector, it is not possible reach assessments with certainty.

For additional details regarding contingent liabilities, see Note 26 to the financial statements.

Reserves to cover employee rights

In accordance with the directives issued by the Commissioner of Banks, the calculation of the discount rate to cover employee rights will be based on the market returns of government bonds in Israel, and in accordance with the directives, the banking corporation has determined a policy and procedures which specify the method by which government bonds should be chosen, which will be used to calculate the discount rate.

For additional details regarding employee rights, see Notes 1 and 23 to the financial statements.

4.2 Critical accounting estimates

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and in accordance with directives issued by the Commissioner of Banks, requires management to use estimates and assessments which affect the reported amounts of assets, liabilities, income and expenses. The actual results of these estimates may differ from the estimates and/or approximations. Estimates and approximations are generally based on economic forecasts, estimates regarding the various markets, and past experience, and involve the application of judgment, which management believes is reasonable at the time of the signing of the financial statements.

4.3 Controls and policies

Controls and policies regarding disclosure in the financial statements

Bank management, in collaboration with the CEO and the chief accountant of the banking corporation, evaluated, as of the end of the period covered in this report, the effectiveness of controls and policies regarding disclosure in the banking corporation. Based on this evaluation, the Bank's CEO and chief accountant concluded that, as of the end of this period, the controls and policies regarding disclosure in the Bank are effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the annual report, in accordance with the public reporting directives issued by the Commissioner of Banks, and on the date specified in those directives.

Internal Control over Financial Reporting

On December 5, 2005, the Commissioner of Banks published a circular specifying provisions for the implementation of the requirements of section 404 of the SOX Act. In Section 404, the SEC and the Public Company Accounting Oversight Board (PCAOB) specified provisions regarding the responsibility of management for internal control over financial reporting.

The Commissioner's directives in the circular determined the following:

- Banking corporations must apply the requirements of section 404, and the directives which were published by virtue thereof by the SEC.
- Adequate internal control requires the maintenance of a monitoring system in accordance with a defined and recognized framework, and the COSO 1992 model meets the requirements, and is fit to serve for the purpose of the assessment of internal control.
- The application of the requirements specified in the Directive requires upgrading and/or creating an infrastructure system of internal controls in the Bank, and the process of developing such systems requires the Bank to prepare and to establish stages and interim goals, until they have been fully implemented.

As part of the application of the directive, the Bank identified, in collaboration with an external accounting firm, accounts and business processes which are associated with financial reporting and due disclosure. These processes included documentation and assessment of risks and controls, while mapping out the risks and internal controls which exist on the level of processes and transactions.

The Bank also concluded an evaluation of the effectiveness of controls, including documentation of the tests regarding the effectiveness of controls and an analysis of existing gaps vs. the internal control model. The Bank is implementing the directive on a routine basis.

During the year, processes were applied with respect to the retrospective adoption of generally accepted accounting principles in the United States, on the subject of employee rights, and of rules with respect to the discounting of software costs, as described in Note 1.D.1. and 1.D.2. The Bank has mapped out and included in the relevant processes the controls which are required in order to ensure the adequacy of implementation.

Bank management, under the supervision of the Board of Directors, evaluated the effectiveness of the Bank's internal control over financial reporting as of December 31, 2015, based on criteria which were determined in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). Based on this evaluation, management believes that as of December 31, 2015, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2015 was audited by the Bank's auditors, Kost Forer Gabbay & Kasierer, as noted in their report, on page 155 of the annual report, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2015.

Chapter 5 - Additional Information Which, in the Opinion of the Board of Directors and Management, is Appropriate for Inclusion in the Report of the Board of Directors and Management

Ethical code of conduct

The Bank has an ethical code of conduct which was approved by management in 2009, and which is intended to reflect the Bank's policy regarding the professional ethics of its employees, and to establish the ethical guidelines according to which its employees are expected to act.

The Bank ensures to comply with the law and the directives issued by the various authorities, and these are set forth in its policies. The Bank's ethical code of conduct is intended to add a value infrastructure to its policies, in order to ensure a value-based and high-quality working environment for its employees.

The ethical code of conduct is founded upon several principles, including personal honesty, integrity, professionalism, responsibility, and loyalty to the Bank and its customers.

Contributions and social activity

- The Bank has contributed to social causes for many years, within the framework of the Bank's pre-approved budget, and in accordance with the decisions of the donations committee of bank management, and the committee's work policy.
- The Bank's donations primarily focus on associations which work to provide assistance, support and help to weak population groups which require economic and physical assistance. These associations include associations which work to assist at-risk children and youth, persons requiring economic assistance, persons with disabilities, and more. Some of these associations, in addition to the direct assistance which they give to those population groups, also work to assist those people in leaving their cycles of distress.
- In recent years, the employees of the Bank's branches took part in various voluntary activities in the city of their branch. The Bank encourages these activities through assistance and donations.
- The Bank also purchases gifts from businesses or associations which employ persons with disabilities or persons in need, and grants them as gifts to the Bank's employees, managers and customers, or donates them to population groups in need.

The Bank's Board of Directors would like to thank the Bank's employees and managers for their dedicated work, and for their contribution towards the advancement of the Bank's business affairs.

Zeev Nahari	**Gill Topaz**
Chairman of the Board of Directors	**CEO**

February 23, 2016

Certification

I, Gill Topaz, hereby certify that:

1. I have reviewed the annual report of Bank of Jerusalem Ltd. (hereinafter: the "Bank") for 2015 (hereinafter: the "Report").
2. Based on my knowledge, the report does not include any misrepresentation of any significant fact, and does not lack any presentation of any significant fact, which is required in order for the presentations included therein, in light of the circumstances under which those presentations were included, not to be misleading with reference to the period covered in the report.
3. Based on my knowledge, the financial statements and other financial information adequately reflect, in all material respects, the Bank's financial position, results of operations, changes in equity and cash flows, as of the dates and for the periods specified in the report.
4. I, along with others in the Bank who are providing this certification, am responsible for the Bank's establishment and fulfillment of controls and policies with respect to disclosure and internal control over financial reporting. And:
   A. We have established certain controls and policies, or have caused the establishment of certain controls and policies, which are intended to ensure that significant information which is attributed to the Bank, including its consolidated corporations, is brought to our attention by other parties in the Bank and in those corporations, particularly during the period involving the preparation of the report;
   B. We have established internal control over financial reporting, or have caused the establishment, under our supervision, of internal control over financial reporting, in a manner which is intended to provide a reasonable measure of confidence regarding the reliability of the financial reporting, and that the financial statements for external purposes have been prepared in accordance with generally accepted accounting principles, and in accordance with the directives and guidelines issued by the Commissioner of Banks;
   C. We have assessed the effectiveness of the controls and policies regarding the Bank's disclosure, and have presented, in the report, our conclusions regarding the effectiveness of controls and policies regarding the disclosure, as of the end of the period covered in the report, based on our assessment; And
   D. We have disclosed in the report any change to the Bank's internal control over financial reporting, which occurred in the fourth quarter, and which significantly affected, or which is likely to significantly affect, the Bank's internal control over financial reporting; And
5. I and others in the Bank hereby provide this certification, and have disclosed to the auditor, to the Board of Directors and to the Board of Directors' Audit Committees, based on our most current assessment regarding internal control over financial reporting:
   A. All material deficiencies and material weaknesses in the establishment or application of internal control over financial reporting, which may be expected to harm the Bank's ability to record, process, summarize and report financial information; And
   B. Any fraud, whether material or immaterial, in which are involved management or other employees who have a significant position in the Bank's internal control over financial reporting.

The above shall not derogate from my responsibility, or from the responsibility of any other person, as prescribed by law.

February 23, 2016

Gill Topaz
CEO

Certification

I, Alexander Zaltsman, hereby certify the following statements:

1. I have reviewed the annual report of Bank of Jerusalem Ltd. (hereinafter: the "Bank") for 2015 (hereinafter: the "Report").
2. Based on my knowledge, the report does not include any misrepresentation of any significant fact, and does not lack any presentation of any significant fact, which is required in order for the presentations included therein, in light of the circumstances under which those presentations were included, not to be misleading with reference to the period covered in the report.
3. Based on my knowledge, the financial statements and other financial information adequately reflect, in all material respects, the Bank's financial position, results of operations, changes in equity and cash flows, as of the dates and for the periods specified in the report.
4. I, along with others in the Bank who are providing this certification, am responsible for the Bank's establishment and fulfillment of controls and policies with respect to disclosure and internal control over financial reporting. And:
   - A. We have established certain controls and policies, or have caused the establishment of certain controls and policies, which are intended to ensure that significant information which is attributed to the Bank, including its consolidated corporations, is brought to our attention by other parties in the Bank and in those corporations, particularly during the period involving the preparation of the report;
   - B. We have established internal control over financial reporting, or have caused the establishment, under our supervision, of internal control over financial reporting, in a manner which is intended to provide a reasonable measure of confidence regarding the reliability of the financial reporting, and that the financial statements for external purposes have been prepared in accordance with generally accepted accounting principles, and in accordance with the directives and guidelines issued by the Commissioner of Banks;
   - C. We have assessed the effectiveness of the controls and policies regarding the Bank's disclosure, and have presented, in the report, our conclusions regarding the effectiveness of controls and policies regarding the disclosure, as of the end of the period covered in the report, based on our assessment; And
   - D. We have disclosed in the report any change to the Bank's internal control over financial reporting, which occurred in the fourth quarter, and which significantly affected, or which is likely to significantly affect, the Bank's internal control over financial reporting; And
5. I and others in the Bank hereby provide this certification, and have disclosed to the auditor, to the Board of Directors and to the Board of Directors' Audit Committees, based on our most current assessment regarding internal control over financial reporting:

A. All material deficiencies and material weaknesses in the establishment or application of internal control over financial reporting, which may be expected to harm the Bank's ability to record, process, summarize and report financial information; And

B. Any fraud, whether material or immaterial, which involves management or other employees who have a significant position in the Bank's internal control over financial reporting.

The above shall not derogate from my responsibility, or from the responsibility of any other person, as prescribed by law.

Alexander Zaltsman

VP, Monetary Division Manager
and Chief Accountant

February 23, 2016

Financial Statements

Report for 2015

Bank of Jerusalem Ltd. and its Consolidated Companies

Financial Statements - Table of Contents

Report of the Board of Directors and Management Regarding Internal Control over Financial Reporting

The Board of Directors and Management of Bank of Jerusalem Ltd. (hereinafter: the "Bank") are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in the public reporting regulations, with respect to the "Board of Directors' report"). The Bank's system of internal controls was planned with the aim of providing a reasonable measure of assurance, to the Bank's Board of Directors and management, regarding the appropriate preparation and presentation of the financial statements which are published in accordance with generally accepted accounting principles and in accordance with directives and guidelines issued by the Commissioner of Banks. Independently of the quality of their planning, all internal control systems are bound by inherent restrictions. Therefore, even if it has been determined that these systems are effective, they can only provide a reasonable measure of assurance regarding the preparation and presentation of financial reports.

Management, under the supervision of the Board of Directors, implements a comprehensive system of controls, which is intended to ensure that transactions are performed in accordance with the permissions given by management, that the assets are protected, and that the accounting records are reliable. Additionally, management, under the supervision of the Board of Directors, implements measures in order to ensure that the channels of data and communication are effective, and monitor their implementation, including the implementation of internal control procedures.

Bank management, under the supervision of the Board of Directors, evaluated the effectiveness of the Bank's internal control over financial reporting as of December 31, 2015, based on criteria which were determined in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 1992. Based on this evaluation, management believes that as of December 31, 2015, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2015 was audited by the Bank's auditors, Kost Forer Gabbay & Kasierer, as noted in their report, on page 103, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2015.

Zeev Nahari	Gill Topaz	Alexander Zaltsman
Chairman of the Board of Directors	CEO	VP, Monetary Division Manager and Chief Accountant

Kost Forer Gabbay & Kasierer
3 Aminadav St.,
Tel Aviv 6706703

Tel: +972-3-623-2525
Fax: +972-3-562-2555
ey.com

Auditor's Report to the Shareholders of Bank of Jerusalem Ltd. - Annual Financial Statements

We have audited the attached balance sheets of Bank of Jerusalem Ltd. (hereinafter: the "Bank") as of December 31, 2015, and 2014, as well as the consolidated balance sheets as of those dates, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows – for the bank and in consolidation terms - for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Bank's Board of Directors and management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in Israel, including standards set forth in the Auditors' Regulations (Auditor's Mode of Performance), 5733-1973, and certain auditing standards, the application of which to audits of banking corporations was determined in accordance with the directives and instructions issued by the Commissioner of Banks. According to these standards, we are required to plan and perform the audit in order to obtain a reasonable measure of assurance about whether the financial statements are free of any material misrepresentation. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and information presented in the financial statements. An audit also includes performing an evaluation of the accounting principles used and of the significant estimates made by the Bank's Board of Directors and management, as well as an evaluation of the overall adequacy of presentation in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above adequately present, in all material respects, the financial position of the Bank and in consolidated terms as of December 31, 2015 and 2014, and the results of operations, changes in equity and cash flows – of the Bank and in consolidated terms - for each of the three years in the period ended December 31, 2015, in accordance with generally accepted accounting principles in Israel (Israeli GAAP). Additionally , in our opinion, the aforementioned financial statements were prepared in accordance with the directives and instructions issued by the Commissioner of Banks.

Without qualifying our aforementioned opinion, we hereby call the reader's attention to that stated in note F.1. to the consolidated financial statements, regarding the restatement of the annual financial statements as of December 31, 2014, and for the year then ended, in order to retrospectively reflect therein the correction of an error in classification as of the acquisition date of bonds held to maturity, due to their sale, in accordance with the instructions which were issued by the Bank of Israel.

With have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States, regarding the audit of internal control of financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank's internal control over financial reporting as of December 31, 2015, based on criteria which were determined in the combined framework for internal control, as published by the Committee of Sponsoring Organizations of the Treadway Commission 1992 (COSO), and our report dated February 23, 2016, includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting.

Tel Aviv,
February 23, 2016

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Kost Forer Gabay & Kasirer
3 Aminadav St.
6706703 Tel Aviv

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

Auditors' report to the shareholders of Jerusalem Bank Ltd – according to the reporting directives of to the public of the commissioner of banks regarding the internal control over financial reporting.

We have audited the internal control over financial reporting of Jerusalem Bank Ltd. and its subsidiaries (collectively, "the Bank") as of December 31, 2015 based on the criteria that were determined in the combined framework of the internal control that was published by the Committee of Sponsoring Organizations of the Treadway Commission 1992 (COSO). The Bank's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

We conducted our audit in accordance with Public Company Accounting Oversight Board (PCAOB) standards in the United States regarding the audit of internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether an effective internal control over financial reporting has been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists regarding and testing and evaluating the design and operating effectiveness of the internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion within the context described above.

Internal control over financial reporting of a bank is a process designated to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles in Israel (Israeli GAAP) and the directives of the Commissioner of Banks and its guidelines. Audit of internal control over financial reporting of a bank includes the same policies and procedures that: 1. Relate to management of records which, in a reasonable detail, reflect accurately and properly the transactions and transfers of the Bank's assets (including taking them out of its possession); 2. Provide reasonable assurance that transactions are recorded as required so as to allow the preparation of financial statements accordance with Generally Accepted Accounting Principles in Israel (Israeli GAAP) and the directives of the Commissioner of Banks and its guidelines and that the receipt of funds and withdrawing funds are performed in accordance with the authorizations of the Bank's Board of Directors and management; 3. Provide reasonable assurance regarding the prevention or detecting upon purchase, unauthorized use or transfer (including taking out from the possession) of the Bank's assets which may have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank effectively maintained, in all material respects, internal control over financial reporting as of December 31, 2015 based on criteria determined in the combined framework of the internal control that was published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel and certain auditing standards the implementation of which in the audit of banking corporations was determined according to the directives of the Commissioner of Banks and its guidelines, the balance sheets of the Bank and consolidated as of December 31, 2015 and 2014 and the statement of profit or loss, the statements of comprehensive income, the statements of changes in equity and cash flows – of the Bank and consolidated for each of the three years ended December 31, 2015 and our report dated February 23, 2016 expressed an unqualified opinion on those financial statements and drawing an attention to note 1f.

Tel Aviv
February 23, 2016

Kost Forer Gabay & Kasirer
Auditors

Statement of Income

Reported amounts in millions of NIS

	Note	Consolidated			The Bank		
		For the year ended December 31					
		2015	2014	2013	2015	2014	2013
Interest income	2	**406.3**	458.4	543.2	**407.2**	459.4	546.4
Interest expenses	2	**72.2**	141.4	286.0	**74.1**	145.7	293.1
Interest income, net	2	**334.1**	**317.0**	**257.2**	**333.1**	**313.7**	**253.3**
Expenses with respect to credit losses	13, 30	**40.4**	18.4	54.7	**40.4**	18.4	54.7
Interest income, net, after expenses with respect to credit losses		**293.7**	298.6	202.5	**292.7**	295.3	198.6
Non-interest income							
Non-interest financing income	3	**0.9**	18.1	14.2	**0.9**	18.1	13.7
Fees	4	**124.5**	118.3	91.4	**118.6**	111.6	82.3
Other income	5	**17.3**	11.5	0.9	**16.5**	11.5	-
Total non-interest income		**142.7**	147.9	106.5	**136.0**	141.2	96.0
Operating and other expenses							
Payroll and associated expenses	6	**166.3**	171.2*	152.9*	**147.7**	149.8*	131.4*
Maintenance and depreciation of buildings and equipment	16	**81.8**	71.2*	57.6*	**42.5**	40.0	35.7
Other expenses	7	**117.7**	110.0	82.1	**174.1**	160.1	119.1
Total operating and other expenses		**365.8**	352.4*	292.6*	**364.3**	349.9*	286.2*
Profit before taxes		**70.6**	94.1*	16.4*	**64.4**	86.6*	8.4*
Provision for taxes on income	8	**22.0**	29.1*	3.7*	**21.2**	27.8*	2.7*
Profit after taxes		**48.6**	65.0*	12.7*	**43.2**	58.8*	5.7*
The Bank's share in the profits of investee companies after tax impact		-	-	-	**5.4**	6.2*	7.0*
Net profit		**48.6**	65.0*	12.7*	**48.6**	65.0*	12.7*
Basic and diluted net earnings per share attributed to the Bank's shareholders (NIS)	9	**0.69**	0.92*	0.18*	**0.69**	0.92*	0.18*

Zeev Nahari
Chairman of the Board of Directors

Gill Topaz
CEO

Alexander Zaltsman
VP, Monetary Division Manager and Chief Accountant

Approval date of the financial statements:
February 23, 2016

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.D.1. and 1.D.2.

The notes to the financial statements constitute an inseparable part thereof.

Statement of Comprehensive Income

Reported amounts in millions of NIS

		For the year ended December 31		
	Note	2015	2014	2013
Net profit		**48.6**	65.0[1]	12.7[1]
Other comprehensive income (loss)				
Adjustments with respect to the presentation of available for sale securities at fair value, net		**3.9**	21.0[2]	(1.2)
Impact of the initial adoption of generally accepted accounting principles in the United States on the subject of employee rights		-	-	2.9[1]
Adjustments of liabilities with respect to employee benefits [2]		**(0.9)**	(0.7)[1]	(0.2)[1]
Other comprehensive income before taxes:		**3.0**	20.3	1.5
Attributable tax impact		**(0.9)**	(7.7)[2][1]	(0.6)[1]
Other comprehensive income after taxes		**2.1**	12.6[2][1]	0.9[1]
Total comprehensive income	10	**50.7**	77.6[2][1]	13.6[1]

(1) Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.D.1. and 1.D.2.
(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.
The notes to the financial statements constitute an inseparable part thereof.

Balance Sheet

Reported amounts in millions of NIS

		Consolidated		The Bank	
		December 31			
	Note	2015	2014	2015	2014
Assets					
Cash and deposits in banks	11	**2,071.9**	3,278.0	**2,071.9**	3,278.0
Securities (1)	12	**1,779.5**	902.4(4)	**1,797.3**	886.5(4)
Credit to the public	13,30	**10,000.9**	9,674.4	**10,000.9**	9,674.4
Provision for credit losses		**(111.6)**	(107.9)	**(111.6)**	(107.9)
Credit to the public, net	30	**9,889.3**	9,566.5	**9,889.3**	9,566.5
Investments in investee companies	15	-	-	**385.6**	381.3(3)
Buildings and equipment	16	**156.9**	149.7(3)	**12.8**	16.1
Intangible assets	17	**1.2**	1.6	**1.2**	1.6
Assets with respect to derivative instruments	28	**195.1**	40.4	**195.1**	40.4
Other assets	18	**125.6**	146.2(4)(3)	**111.4**	152.9(4)(3)
Total assets		**14,219.5**	14,084.8(4)(3)	**14,464.6**	14,323.3 (4)(3)
Liabilities and capital					
Public deposits	19	**11,019.0**	10,977.2	**12,501.4**	12,248.0
Deposits from banks	20	**39.4**	42.5	**39.4**	42.5
Government deposits		**0.8**	5.0	**0.8**	5.0
Lent securities		**387.3**	582.7	**387.3**	582.7
Bonds and deferred liability notes	21	**1,634.8**	1,503.1	**408.2**	485.2
Liabilities in respect of derivative instruments	28	**195.2**	39.0	**195.2**	39.0
Other liabilities (2)	22	**159.0**	184.9(3)	**148.3**	170.5(3)
Total liabilities		**13,435.5**	13,334.4(3)	**13,680.6**	13,572.9(3)
Equity	25A	**784.0**	750.4(4)(3)	**784.0**	750.4(4)(3)
Total liabilities and capital		**14,219.5**	14,084.8(4)(3)	**14,464.6**	14,323.3(4)(3)

(1) Of which, a total of NIS 406.6 million and NIS 261.4 million were pledged to lenders of the Bank, and in consolidated terms, as of December 31, 2015 and December 31, 2014, respectively. For details regarding securities which are measured at fair value, see the note regarding securities.

(2) Of which, a provision for credit losses with respect to off-balance sheet credit instruments in the Bank, and in consolidated form, as of December 31, 2015 in the amount of NIS 2.8 million, similarly to December 31, 2014.

(3) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

(4) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F. to the financial statements.

The notes to the financial statements constitute an inseparable part thereof.

Statement of Changes in Equity

Reported amounts in millions of NIS

		Capital reserves					
				Total			
	Paid up share capital	From premiums	From benefit due to shared-based payment transactions	Paid up share capital and capital reserves	Profit (loss) Total other Accumulated	Accumulated surplus	Total Equity
Balance as of January 1, 2013 (Audited)	**127.3**	**95.3**	**3.8**	**226.4**	**1.1**[1]	**462.9**[1]	**690.4**[1]
Impact of the initial adoption of generally accepted accounting principles in the United States on the subject of employee rights	-	-	-	-	1.8	(0.2)	1.6
Balance as of January 1, 2013 (Audited) After the implementation of the new rules	127.3	95.3	3.8	226.4	2.9	462.7	692.0
Net profit	-	-	-	-	-	12.7[1]	12.7[1]
Dividend	-	-	-	-	-	(13.7)	(13.7)
Adjustments and resulting changes:							
Benefit with respect to share-based payment transactions	-	-	0.4	0.4	-	-	0.4
Other comprehensive income, net, after tax impact	-	-	-	-	(0.9) [1]	-	(0.9) [1]
Balance as of December 31, 2013	**127.3**	**95.3**	**4.2**	**226.8**	**2.0**	**461.7**	**690.5**
Balance as of January 1, 2014	127.3	95.3	4.2	226.8	2.0	461.7	690.5
Net profit	-	-	-	-	-	65.0[1]	65.0[1]
Dividend	-	-	-	-	-	**(17.7)**	**(17.7)**
Adjustments and resulting changes:							
Benefit with respect to share-based payment transactions	-	-	-[3]	-[3]	-	-	-[3]
Other comprehensive income, net, after tax impact	-	-	-	-	**12.6** [1][2]	-	**12.6**[1][2]
Balance as of December 31, 2014	**127.3**	**95.3**	**4.2**	**226.8**	**14.6**	**509.0**	**750.4**
Balance as of January 1, 2015	127.3	95.3	4.2	226.8	14.6	509.0	750.4
Net profit	-	-	-	-	-	48.6	48.6
Dividend	-	-	-	-	-	(17.1)	(17.1)
Adjustments and resulting changes:							
Other comprehensive income, net, after tax impact	-	-	-	-	2.1	-	2.1
Balance as of December 31, 2015	**127.3**	**95.3**	**4.2**	**226.8**	**16.7**	**540.5**	**784.0**

(1) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

(3) Amount lower than NIS 0.1 million.

The notes to the financial statements constitute an inseparable part thereof.

Statement of cash flows

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
Cash flows from operating activities						
Net profit for the year	**48.6**	65.0(1)	12.7(1)	**48.6**	65.0	12.7(1)
Adjustments:						
The banking corporation's share in undistributed profits of investee companies	-	-	-	**(4.3)**	(7.5)	(6.8)
Depreciation of buildings and equipment	**44.6**	36.8(1)	26.2(1)	**1.9**	2.5	2.1
Expenses with respect to credit losses	**40.4**	18.4	54.7	**40.4**	18.4	54.7
Profit from the sale of available for sale securities	**(4.5)**	(10.3)	(8.2)	**(4.5)**	(8.9)	(4.7)
Realized and unrealized profit from adjustments to the fair value of marketable securities	**1.4**	(19.2)	(9.2)	**1.4**	(19.1)	(9.4)
Profit from the realization of buildings and equipment	**(5.8)**	-	-	**(5.0)**	-	-
Expenses due to share-based payment transactions	-	-	0.4	-	-	0.4
Deferred taxes, net	**9.4**	3.6(1)	(9.0)(1)	**9.6**	1.0	(12.1)
Retirement pay - increase in the excess of reserves over funds (increase in the excess of funds over reserves)	**1.3**	(2.3)	0.5	**1.2**	(2.3)	1.0
Accrual differences which were included under investing and financing activities	**(3.9)**	(12.2)	(10.8)	**(3.6)**	(11.6)	(10.8)
Net change in current assets:						
Credit to the public	**(363.2)**	41.7	(90.3)	**(363.2)**	41.7	(90.3)
Assets with respect to derivative instruments	**(154.7)**	(18.7)	(0.8)	**(154.7)**	(71.3)	205.1
Marketable securities	**(303.5)**	(63.5)	199.2	**(303.5)**	(18.7)	(0.8)
Other assets	**10.7**	4.5(1)	(21.4)(1)	**31.4**	(11.4)	(16.8)
Net change in current liabilities:						
Deposits from banks	**(3.1)**	(9.0)	(11.8)	**(3.1)**	(9.0)	(11.8)
Public deposits	**41.8**	(93.9)	1,249.8	**253.4**	51.2	1,000.0
Government deposits	**(4.2)**	4.3	0.7	**(4.2)**	4.3	0.7
Lent securities	**(195.4)**	555.2	13.4	**(195.4)**	555.2	13.4
Liabilities in respect of derivative instruments	**156.2**	26.7	(4.1)	**156.2**	26.7	(4.1)
Other liabilities	**(2.3)**	9.0(1)	57.2(1)	**(13.3)**	(8.4)	11.1
Net cash from operating activities	**(686.2)**	536.1(1)	1,449.2(1)	**(510.7)**	597.8	1,133.6

(1) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

The notes to the financial statements constitute an inseparable part thereof.

Statement of Cash Flows (Cont.)

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
Cash flows from investing activities						
Acquisition of available for sale securities	**(3,242.9)**	(2,756.2)(2)	(2,417.5)	**(3,242.9)**	(1,955.7)(2)	(2,023.5)
Consideration from the sale of available for sale securities	**2,652.4**	2,600.7	2,408.2	**2,618.4**	1,807.8	2,003.2
Consideration from the redemption of available for sale securities	**27.8**	55.9	337.4	**27.8**	73.8	357.0
Acquisition of the Clal Batucha operation (Annex A)	-	-	(12.4)	-	-	(12.4)
Acquisition of buildings and equipment	**(56.0)**	(36.1)(1)	(38.0)(1)	**(0.3)**	-	-
Profit from the realization of buildings and equipment	**8.2**	-	-	**6.7**	-	-
Net cash from investing activities	**(610.5)**	(135.7)(1)	277.7(1)	**(590.3)**	(74.1)	324.3
Cash flows from financing activities						
Issuance of bonds and deferred liability notes	**465.3**	317.4	60.6	-	-	60.6
Redemption of bonds and deferred liability notes	**(357.6)**	(255.5)	(301.0)	(88)	(61.4)	(31.3)
Dividend paid to shareholders	**(17.1)**	(17.7)	(13.7)	(17.1)	(17.7)	(13.7)
Net cash from financing activities	**90.6**	44.2	(254.1)	(105.1)	(79.1)	15.6
Impact of movements in exchange rate on cash balances	**(19.2)**	21.7	5.3	**(19.2)**	21.7	5.3
Increase in cash and deposits in banks	**(1,186.9)**	422.9	1,467.5	**(1,186.9)**	422.9	1,468.2
Balance of cash and deposits in banks at start of year	**3,278.0**	2,833.4	1,360.6	**3,278.0**	2,833.4	1,359.9
Balance of cash and deposits in banks at end of year	**2,071.9**	3,278.0	2,833.4	**2,071.9**	3,278.0	2,833.4
Interest and taxes paid and/or received:						
Interest received	**733.5**	690.0	784.5	**733.5**	690.0	784.5
Interest paid	**191.2**	302.2	441.0	**191.2**	302.2	441.0
Taxes on income paid	**16.4**	43.8	14.8	**14.0**	40.8	10.9
Taxes on income received	**29.4**	8.7	10.2	**15.7**	7.4	9.0

(1) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

The notes to the financial statements constitute an inseparable part thereof.

Statement of Cash Flows (Cont.)

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
Annex A - Acquisition of Subsidiaries which were Consolidated for the First Time						
Assets and liabilities and cash flows for the acquisition of the Clal Batucha operation as of the acquisition date:						
Cash acquired	-	-	(244.5)	-	-	(244.5)
Assets (excluding cash and cash equivalents)	-	-	(156.7)*	-	-	(156.7)*
Liabilities			87.2	-	-	87.2
Identifiable assets and liabilities	-	-	(314.0)	-	-	(314.0)
Profit from acquisition at an opportune price			57.1*	-	-	57.1*
Total acquisition cost	-	-	(256.9)	-	-	(256.9)
Consideration paid in cash	-	-	(256.9)	-	-	(256.9)
Less - acquired cash	-	-	244.5	-	-	244.5
Cash flows for the acquisition of the activity	-	-	(12.4)	-	-	(12.4)
Annex B - Non-Cash Investing Activities During the Reporting Period						
Acquisition of fixed assets on credit	**8.6**	10.3	14.4	-	-	-

* Restated due to adjustment of the value of the assets which were acquired by the Bank.

Notes to the Financial Statements

Report for 2015

Bank of Jerusalem Ltd. and its Consolidated Companies

Notes to the Financial Statements as of December 31, 2015 - Table of Contents

Notes to the Financial Statements as of December 31, 2015 - Table of Contents

Note 1 - Accounting Policy

Bank of Jerusalem Ltd. (hereinafter: the "Bank") is a commercial bank which is engaged in the provision of housing credit and other retail credit, in business financing for residential construction, and in the raising of deposits for limited periods, activities in the capital market, management of checking accounts and provision of private banking services to foreign residents.

The Bank is a subsidiary of Export Investment Co. Ltd. (hereinafter: "Export"), and its shares are listed for trading on the Tel Aviv Stock Exchange.

The Bank's financial statements are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP), and in accordance with the public reporting regulations and directives issued by the Commissioner of Banks.

Regarding most issues, these directives are based on generally accepted accounting principles for banks the United States. Regarding other, less material issues, the directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).

When International Financial Reporting Standards (IFRS) allow several alternatives, or do not include specific reference to a particular situation, these directives include specific guidelines for application, which are primarily based on generally accepted accounting principles for banks in the United States.

Presented below is a summary of the significant accounting principles which were consistently applied in the preparation of the financial statements, and which comply with the directives and guidelines issued by the Commissioner of Banks:

A. Framework for preparation of the financial statements

1. Measurement basis of the financial statements

The Bank prepared the financial statements according to historical cost adjusted to the consumer price index. The aforementioned adjusted amounts which were included in the financial statements as of December 31, 2003 served as a starting point for nominal financial reporting beginning on January 1, 2004. Additions which were performed following the date of the transition were included at nominal values. In accordance with accounting standard 12, regarding the "Discontinuation of the adjustment of financial statements", the adjustment of the financial statements for inflation was discontinued on December 31, 2003, and from that date onwards, the Bank began reporting according to reported amounts. The amounts of non-monetary assets do not necessarily represent disposal value of current economic value, but rather only the reported amounts of those assets.

In the financial statements, "cost" means cost according to reported amounts.

The summary of the Bank's data in historical nominal values for tax purposes is provided in Note 36.

2. General consolidation

The Bank's consolidated financial statements include the reports of companies over which the Bank holds control. Mutual balances and transactions between the Bank and the subsidiaries were canceled in the consolidated financial statements. In the Bank's separate reports, investments in investee companies are presented according to the equity method.

3. Functional currency and presentation currency

The functional currency and presentation currency of the Bank and its subsidiaries is the New Israeli Shekel. The New Israeli Shekel is the currency which represents the Group's main economic operating environment.

Note 1 - Accounting Policy (Cont.)

4. Foreign currency and linkage

Assets and liabilities in foreign currency or linked thereto, and those linked to the consumer price index, are included in the financial statements as follows:

A. Those linked to the consumer price index are presented according to the known index on the balance sheet date.

B. Those denominated in foreign currency, or linked thereto, are presented according to the representative exchange rates which were published by the Bank of Israel on the balance sheet date, except where the terms of the agreement specify otherwise.

Presented below are details regarding the consumer price index and the representative USD exchange rate, and their rates of increase (decrease):

	As of December 31			Rate of increase (decrease) in		
	2015	2014	2013	2015	2014	2013
					In percent	
USD rate	3.902	3.889	3.471	0.3	12.0	-7.0
Consumer price index - 1993 base (points):						
November (known index)	221.4	223.4	223.6	-0.9	-0.1	1.9
December (index in lieu)	221.1	223.4	223.8	-1.0	-0.2	1.8

Transactions in currencies other than the functional currency were handled as follows:

A. A transaction denominated in foreign currency is recorded, at the time of initial recognition, in the functional currency, while using the immediate exchange rate between the functional currency and the foreign currency on the date of the transaction for each balance sheet date. Monetary items in foreign currency balance sheet date according to the immediate exchange rate on the balance sheet date.

B. On each balance sheet date, non-monetary items in foreign currency which are measured at historical cost are translated according to the exchange rate as of the date of the transaction.

C. On each balance sheet date, non-monetary items in foreign currency which are measured at fair value are translated according to the exchange rate on the date of the determination of fair value.

D. Foreign currency differences due to the settlement of monetary items, or due to the translation of monetary items according to different exchange rates than whose which were used for translation at the time of initial recognition during the period, or than those which were used for translation in previous financial statements, are recognized in the statement of income for the period in which they materialized.

5. Basis for preparation of the financial statements

Accounting Standard 29 - "Adoption of International Financial Reporting Standards ("IFRS")".

In June 2009, the Banking Supervision Department published a circular on the subject of "Reporting by banking corporations and credit card companies in Israel in accordance with International Financial Reporting Standards (IFRS)", which determined the expected manner of adoption of International Financial Reporting Standards (IFRS) by banking corporations and credit card companies.

In accordance with the circular, the target date for reporting by the banking corporations and credit card companies in accordance with IFRS are as follows:

5.1 Regarding subjects which are not in the core of the Banking business - accounting treatment will be as determined in IFRS, as set forth in directives and guidelines issued by the Commissioner of Banks, and in accordance with Israeli GAAP.

Additionally, the banking corporation applies international standards in the following manner:

If a specific accounting treatment has not been determined for a certain issue in IFRS, including regarding situations where there are several alternatives for accounting treatment in accordance with IFRS, the banking corporation will apply the generally accepted accounting principles for banks in the United States which specifically apply to the issue at hand, if such principles exist. In the absence of such principles, the management of the banking corporation will apply its judgment in the development and application of an accounting policy, the implementation of which will result in information which is relevant and reliable for the purpose of reaching economic decisions by users.

In cases where, regarding a certain subject, the public reporting regulations do not specify a requirement to apply IFRS, and no other provisions have been established, the banking corporation will apply the generally accepted accounting principles for banks in the United States (US GAAP) which specifically apply to this issue.

- See sections E1, E3, E4 and E5 below regarding directives issued by the Banking Supervision Department regarding the adoption of accounting principles in the United States, and see section D2 regarding directives issued by the Banking Supervision Department regarding the adoption of accounting principles in the United States with respect to employee rights.

5.2 Subjects which are at the core of the Bank's business - the banking corporation applies directives and guidelines issued by the Commissioner of Banks, and generally accepted accounting principles for banks in the United States, which were adopted as part of the public reporting regulations issued by the Commissioner of Banks.

6. Use of estimates in the preparation of the financial statements

The preparation of the financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines issued by the Commissioner of Banks requires management to use estimates, approximations and judgment which affect the reported amounts of assets and liabilities, the disclosure regarding contingent assets and contingent liabilities, and the amounts of income and expenses during the reporting period. It is hereby clarified that actual results may differ from these estimates.

At the time of formulation of accounting estimates which are used in the preparation of the Bank's financial statements, bank management is required to make assumptions regarding circumstances and events which involve significant uncertainty. In its judgment regarding the determination of estimates, bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period when the estimates were amended, and in each affected future period.

Note 1 - Accounting Policy (Cont.)

B. Accounting policy which was applied in the preparation of the financial statements

1. Business combinations:

A business combination occurs when a banking corporation obtains control, for the first time, of a subsidiary or of a separate operation. The Bank accounts for business combinations according to the acquisition method. According to this method, the Bank identifies the buyer, determines the acquisition date and recognizes the recognizable assets which were acquired and the liabilities which were accepted, According to fair value, excluding exceptional cases. All components of non-controlling interests in the acquired entity are measured on the acquisition date at fair value as of the acquisition date, unless another measurement basis is required according to International Financial Reporting Standards.

The Bank recognizes goodwill as of the acquisition date as surplus of the total consideration transferred and the amount of non-controlling interests over the net amount, as of the acquisition date, of the identifiable assets which were acquired, and of the liabilities which were accepted. In subsequent periods, goodwill is measured at cost less accumulated impairment loss. In cases where it is necessary to recognize profit from the acquisition at an opportune price, in accordance with the difference between the net amount on the acquisition date of identifiable assets which were acquired and of liabilities which were accepted (excluding exceptions) and the total consideration which was transferred and the amount of non-controlling interests, the Bank is required to request advance instruction from the Banking Supervision Department.

The Bank measures the consideration which was transferred in accordance with the fair value of the assets which were transferred, the liabilities which were accepted (excluding exceptions) and the capital instruments which were issued. Any costs which are attributable to the business combination are recognized as an expense in the period when they materialized, excluding costs required to issue capital instruments or a debt of the Bank.

On March 12, 2014, a tax decision was received from the Israel Tax Authority, regarding the implementation of a structural change, according to which approval was given, as of December 31, 2013, for the plan involving the merger of Clal Finance Batucha Investment Management Ltd. into Bank of Jerusalem. For additional details, see Note 32 to the financial statements as of December 31, 2014.

As a result of the presentation of the deferred tax asset with respect to the transferred losses, retained earnings were created from an acquisition at an opportune price.

In accordance with a directive issued by the Banking Supervision Department, this profit is recorded as deferred income, which will be amortized over a period of 5 years, in a straight line from the acquisition date, and is included in the statement of income under the item for other income.

It is noted that for the purpose of measuring capital adequacy, in accordance with the arrangement with the Banking Supervision Department, with the aim of implementing the provisions of Basel III, the balance of the aforementioned deferred income will be set off from the balance of deferred taxes which was created as a result of the aforementioned acquisition, at the end of each reporting period.

For details regarding directives issued by the Commissioner of Banks on the subject of "reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States with respect to business combinations, consolidation of financial statements and investments in investee companies", see section E3 below.

Note 1 - Accounting Policy (Cont.)

2. Basis for recognition under income and expenses

Income and expenses are recognized in the statement of income on an accrual basis, excluding:

1. For details regarding the recognition of income with respect to impaired debts, see Note 1(B)(6) below.
2. Fees from financing transactions which deal with fees with respect to receipts, guarantees and certificate credit are recognized on a proportionate basis for the transaction periods.
3. For details regarding the recognition of income and expenses with respect to securities and with respect to derivative financial instruments, see Note 1(B)(4) and Note 1(B)(14) below, respectively.
4. Direct fees involved in the creation of the loan are deferred and recognized as an adjustment of returns over the lifetime of the loan. These fees include, inter alia, fees which were received from the borrower as prepaid interest, or which are intended to reduce the nominal interest rate on the loan, fees which constitute a reimbursement of expenses to the Bank with respect to the creation of the loan, fees which represent compensation to the Bank with respect to its consent to provide a loan under complex terms, or within a short timeframe, as well as fees which the borrower was charged in connection with the process of creating the loan, such as management fees, placement fees, organization fees, underwriting fees, and other fees associated with loan provision transactions.
5. Fees which are received as a result of a restructuring (which is not the refinancing of troubled debt) are treated in the following manner:

   The Bank evaluates the changes which were implemented, and determines whether, as a result, the terms of the new loan are at least as preferable for the Bank as the terms of comparable loans to other customers with similar collection risks, or whether the changes are only minor.

   A minor change is considered a change in the terms of the loan where, as a result of the change, the present value of the cash flows from the loan after the change is less than 10% different than the present value of the remaining cash flows, in accordance with the terms of the original debt instrument. In the above case, all net commissions which were not amortized with respect to the original loan are included in the existing loan amount as an adjustment of returns, as part of the interest income over the remainder of the loan period. However, if it was determined that the change in the loan terms is not minor, the loan which was refinanced is treated as a new loan, and accordingly, the fees which have not yet been amortized are immediately charged as interest income in the statement of income (including early repayment fees, if any).
6. Early repayment fees which were created from transactions before January 1, 2014 are recognized under interest income, and are distributed in the statement of income at equal rates, according to the remainder of the credit repayment period, or within three years from the repayment date - according to the shorter period of the two. Early repayment fees which were created after January 1, 2014 are immediately recognized or treated in accordance with the other fees which have not yet been amortized.

For details regarding directives issued by the Commissioner of Banks on the subject of "Revenue from contracts with customers", see section E2 below.

3. Setting off of financial assets and liabilities

The Bank applies the rules which were specified in the circular issued by the Commissioner of Banks on December 12, 2012, which updates the public reporting regulations of the Commissioner of Banks regarding the setting off of assets and liabilities. The amendments specified in the circular are intended to adjust the directives on this issue to generally accepted accounting principles in the United States.

In accordance with the directives, the Bank sets off assets and liabilities which are due to an identical counterparty, which are presented in the balance sheet according to the net amount, upon the fulfillment of the following cumulative conditions:

- with respect to those liabilities, there is a legally enforceable right to set off the liabilities from the assets;
- there is an intent to repay the liabilities and to realize the assets on a net basis and/or simultaneously.
- The Bank and the counterparty owe determinable amounts to one another.

Assets and liabilities with two counterparties are presented in the balance sheet according to the net amount, upon the fulfillment of the cumulative conditions specified above, and provided that there is an agreement between the three parties which clearly establishes the Bank's right to those liabilities for setting off.

In certain cases, a bank is entitled to set off fair value amounts which were recognized with respect to derivative instruments and fair value amounts which were recognized with respect to the right to demand repayment of a collateral in cash (receivables) or the obligation to repay a collateral in cash (payables), which are due to derivative instruments which were performed with the same counterparty, in accordance with a master netting arrangement. The Bank does not set off between amounts with respect to derivative instruments against liabilities with respect to derivative instruments, unless all of the aforementioned cumulative conditions are fulfilled.

The Bank evaluates the existence of legal restrictions in order to determine that the right is legally enforceable. In order for a legally enforceable right to exist, the Bank evaluates whether the right to offset will also be valid in case of bankruptcy or other receivership proceedings.

Deposits whose repayment to the depositor is contingent upon the collection rate from the credit were offset from the credit which was given from those deposits, when the Bank has no risk of loss from the credit. The margin in the aforementioned activity is included under the item for "Fees".

4. Securities

1. Held to maturity bonds - bonds regarding which the Bank has the intent and ability to hold them until the maturity date, excluding bonds which are repayable through an early repayment, or which may be settled by other means, in a manner whereby the Bank does not cover substantially all of its recorded investment. Bonds held to maturity are presented according at amortized cost as of the reporting date.
2. Available for sale securities - securities which were not classified as bonds held to maturity or as marketable securities. Available for sale securities are presented in the balance sheet according to their fair value on the reporting date. The fair value is based on quoted prices for securities which have quoted prices, or based on revaluation data which are received from external sources, regarding bonds which have no price. The profit or loss with respect to them, less the appropriate reserve for tax, is presented in a separate item under equity: "Adjustments with respect to the presentation of available for sale securities at fair value ".
3. Marketable securities - securities which were acquired and which are held with the aim of selling them in the near term, or securities which the Bank has chosen to measure at fair value through profit and loss according to the fair value alternative, excluding shares for which there is no available fair value. Marketable securities are presented according to their fair value on the reporting date. Profit or loss from adjustments to fair value are charged to the statement of income, under the item for non-interest financing income.

Note 1 - Accounting Policy (Cont.)

4. Classification of income (expenses) in the statement of income:
   - Interest income based on accrual on bonds which are held to maturity, available for sale, and held for trading are recognized under the item for "interest income".
   - Realized and unrealized profit (loss) from adjustments to fair value of bonds held for trading is presented under the item for "Non-interest financing income with respect to activities for trading purposes".
   - Profit (loss) from the sale of bonds held to maturity and available for sale (including impairment loss) is presented in the item for "Non-interest financing income with respect to activities for non-trading purposes".
5. The Bank periodically evaluates whether the impairment which has occurred in the fair value of securities which are classified under the available for sale portfolio or under the held to maturity portfolio below cost (amortized cost) is other than temporary. For this purpose, the following indicators are evaluated, inter alia:
   - The banking corporation's intent and ability to hold the securities for a sufficient period, which will allow restoring the security to its original cost.
   - The scope of the value of collateral which backs up the security.
   - The period of time during which the value of the security was low relative to its cost.
   - Rate of impairment from total cost.
   - An evaluation of the terms which reflect the financial position of the issuing entity, including whether the impairment is due to specific reasons in the issuer, or due to the existence of macro-economic conditions.

Additionally, in the event of one of the following situations, the Bank recognizes other than temporary impairment:

- A security which was sold by the publication date of the report for this period.
- A security which, proximate to the publication date of the report for this period, the banking corporation intends to sell within a short time frame.
- A bond regarding which significant impairment has occurred in the bond rating on the date of its acquisition by the banking corporation, and the bond rating on the publication date of the report for this period.
- A bond which, after its acquisition, was classified by the banking corporation as troubled.
- A bond regarding which there was a payment failure after its acquisition.
- A security whose fair value, in general, at the end of the reporting period, and also proximate to the publication date of the financial statements, is significantly lower than the cost (amortized cost), unless it has been proven, with a high degree of likelihood and based on objective evidence, that the impairment is of a temporary nature only.

If the decrease in fair value is considered as being of a other than temporary nature, the cost (amortized cost) of the security is amortized to fair value, in a manner whereby the loss amounts which were accumulated to equity in the item for other comprehensive income will be classified on the date of the impairment to the statement of income. This value will be used as the basis for new cost, and will not be amended even if an increase in fair value has been recorded in reporting periods subsequent to the impairment date.

On subsequent dates to the recognition of impairment, interest income from investments in securities which constitute debt instruments will generally be recognized on an accrual basis, in accordance with the difference between the expected cash flows of the debt instrument to the instrument's fair value on the date of the impairment (new cost basis). Regarding beneficiary rights which were acquired, or beneficiary rights which continue to be held by the banking corporation, through the securitization of financial assets, and which are accounted by the prospective interested method, it is possible that in rare cases, if there is no available reasonable estimate regarding amounts and regarding the timing of the cash flows which are expected for collection, the Bank will recognize income in accordance with the cost repayment method, or in accordance with recognition on a cash basis.

5. Transfers and servicing of financial assets and extinguishments of liabilities

The Bank applies the measurement and disclosure rules which were specified in ASC 860-10 (FAS 140), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as amended by ASC 860-10, Transfers and Servicing of Financial Assets (FAS 166), for the purpose of handling transfers of financial assets and extinguishments of liabilities. In accordance with these rules, the transfer of a financial asset will be accounted for as a sale, if and only if all of the following conditions are fulfilled: (1) The transferred financial asset has been isolated from the transferring entity, also in case of bankruptcy or other receivership proceedings; (2) Any recipient (or, if the recipient is an entity which whose entire purpose is to deal in securitization or in asset-backed financing activities, and where that entity is prevented from pledging or replacing the financial assets which it has received, any third party which holds beneficiary rights) may pledge or replace the assets (or the beneficiary rights) which it has received, if no condition exists which also restricts the recipient (or a third party who holds the beneficiary rights) from exercising its right to pledge or to replace, and also provides the transferor with a benefit greater than a trivial benefit; (3) The transferor, or consolidated companies which were included in its financial statements, or its agents, do not maintain effective control of the financial assets or if the beneficiary rights which are attributed to these transferred assets.

Additionally, in order for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory rights. Participatory rights must meet the following criteria: the right must represent proportional rights relative to the entire financial asset; All cash flows which are received from the assets must be divided between the participatory rights in a proportional rate to their share in ownership; The rights must not be subordinated to other rights; There must be no right of recourse to the transferor or to other holders of participatory rights (excluding in case of breach of representations or liabilities, current contractual liabilities to service a financial asset in its entirety and management of the transfer agreement, and contractual undertakings to divide the offsetting of any benefits which were received by any holder of the participatory rights); And the transferor and the holder of participatory rights must not have the right to pledge or exchange the financial asset in its entirety, excluding if all holders of participatory rights agree to pledge or to exchange the financial asset in its entirety.

If the transaction fulfills the conditions for treatment as a sale transaction, the transfered financial assets are written off from the Bank's balance sheet. If the terms of the sale are not fulfilled, the transfer is considered a secured debt. The sale of part of a financial asset which is not a participatory right is treated as a secured debt, i.e., the transferred assets continue to be recorded in the Bank's balance sheet, and the consideration from the sale is recognized as a liability of the Bank.

The securities which were sold were not written off from the balance sheet, and are presented in the item for securities, and against them, the deposit for which those securities were pledged to secure its repayment, is presented under the item for "Securities which were lent or sold within the framework of repurchasing agreements". Securities which were acquired are recorded according to their value on the date of performance of the transaction, under the item for "Securities which were borrowed or acquired within the framework of repurchasing agreements".

The Bank monitors the fair value of securities which were borrowed and lent, and of securities which were transferred under repurchasing and resale agreements, on a daily basis, and collateral is required in appropriate cases. Interest which was received or paid with respect to such securities is reported as financing income or expenses, respectively.

In accordance with the directives issued by the Commissioner, transactions involving the lending of securities, which are performed as "ordinary" credit transactions, in which the Bank lends securities against the collateral portfolio and the borrower does not transfer to the banking corporation a security margin which specifically refers to a securities lending transaction, are presented as credit to the public according to market value, and are added to the borrower's debt. Changes in the value of the aforementioned securities on an accrual basis are charged to the statement of income, under the item for "Income from credit to the public", and the adjustment to market value is charged to adjustments with respect to available for sale securities at fair value.

Borrowing or lending transactions of securities which are performed against the general credit quality and collaterals of the borrower, or where the borrower does not transfer to the lender liquid instruments which specifically refer to the securities lending transaction, which the employer is entitled to sell or to pledge, are accounted for in accordance with the public reporting regulations, and are not accounted for in accordance with ASC 860 - Transfer and Servicing (FAS166).

Short sales of borrowed securities - When a banking corporation short sells securities which were borrowed by it, cash against deposit is recognized. The deposit is only revalued if the value of the security increased during the relevant period, and is recognized under the item for "non-interest financing income".

The Bank writes off a liability only if the liability has been extinguished, in other words, if one of the following conditions has been fulfilled: (a) the Bank paid to the lender and was released from its obligation due to the liability, or (b) the Bank was legally released, through legal proceedings, or with the consent of the lender, from its status as primary debtor with respect to the liability.

6. Measurement and disclosure of impaired debt, credit risk and provision for credit losses

In accordance with the directive issued by the Commissioner of Banks on the subject of the measurement and disclosure of impaired debts, credit risk and the provision for credit losses, the Bank applies, as of January 1, 2011, the American accounting principles on the subject (ASC 310), and positions of banking supervision authorities in the United States, and of the Securities Exchange Commission in the United States, as adopted in the public reporting regulations. Additionally, beginning on January 1, 2012, the Bank has applied the directives issued by the Banking Supervision Department on the subject of updating the disclosure of credit quality of debts, and of the provision for credit losses.

The directive is applied to all debit balances, including deposits in banks, bonds, securities which were borrowed or acquired within the framework of resale agreements, credit to the public, credit to the government, etc. Credit to the public and other debit balances regarding which no specific rules were established in the public reporting regulations on the subject of the measurement of the provision for credit losses (such as credit to the government, deposits in banks, etc.) are reported in the Bank's books according to the recorded debit balance. The recorded debit balance is defined as the debit balance, after the deduction of accounting write-offs, but before the deduction of the provision for credit losses with respect to that debt. The recorded debit balance does not include accrued interest which is unrecognized, or which was previously recognized and subsequently canceled. It is hereby clarified that before January 1, 2011, the Bank applied different principles, according to which the debit balance in the Bank's books included the accrued interest component, before the debt was classified as non-income generating troubled debt. In light of the above, the credit balances which were presented in periods before the initial application period of the directive are not comparable to the reported credit balances after the commencement of application. Regarding other debit balances, for which specific rules on the subject of measurement and recognition of the provision for impairment (such as bonds), the Bank continues applying the same measurement rules.

The Bank established policies for the identification of troubled credit and for the classification of debts as impaired. In accordance with the policies, the Bank classifies all of its troubled debts and off-balance sheet credit items under the classifications of: special supervision, subordinated or impaired, as follows:

- Credit under special supervision - credit under special balance sheet supervision is credit regarding which potential weaknesses exist which are worthy of special attention from the corporation's management. Off-balance sheet credit is classified as credit under special supervision if the realization of contingent liabilities with respect to the item is defined as "possible", and if the debts which may be recognized as a result of the contingent realization would be appropriately classified under this category.
- Subordinated credit - is defined as credit which is insufficiently hedged by the present established value and the debtor's repayment ability, or the pledged collateral, if any. Balance sheet credit risk which has been classified as above has a well defined weakness or weaknesses, which endanger the realization of the debt. Credit regarding which a provision for credit losses is recognized, on a collective basis, will be classified as subordinated when it becomes debt in arrears of 90 days or more. Interest income may not be recorded with respect to impaired debt. Regarding debts which are evaluated and provided on a collective basis, which are in arrears of 90 days or more, the Bank continues to accrue interest income. Upon the collection of impaired debt on a cash basis, if there is a doubt regarding the collection of the remaining recorded balance of the debt, the receipt will be used to reduce the recorded balance, to the degree required to remove such doubt. If there is no doubt regarding the collection of the remaining recorded balance of the debt, the receipt will be recognized as interest income on a cash basis.
- Impaired debt - credit regarding which the banking corporation expects that it will not be able to collect all of the amounts with respect to it, according to the contractual terms of the debt agreement, and the provision for credit losses with respect to it, is measured according to the individual provision track. The aforementioned classification should also be applied to credit in arrears of over 90 days, except if it is well secured, and is under collection proceedings, and to troubled debt which was restructured, where as part of the restructuring, the Bank provided a concession to the debtor which, under different conditions, it would not have considered providing. Debt which has been classified as impaired will be assessed on an individual basis, for the purpose of implementing a provision for credit losses, or for writing it off. In light of the fact that the debt regarding which the troubled debt was restructured will not be repaid in accordance with its original contractual terms, the debt continues to be classified as impaired debt, also after the debt has been returned to the repayment track, under the new terms. Notwithstanding the above, troubled debts in

a restructuring will resume accruing interest once the debt has been paid according to the terms of the arrangement, for a continuous period of at least 6 months, and where the expectation regarding the repayment of the credit is supported by a well-established credit assessment. Classification of troubled debt as "impaired" will be canceled if the following cumulative conditions are fulfilled: (a) the debt must be well secured and under collection proceedings. (b) there must be no "arrear components" with respect to the debt (including write-offs), and in the Bank's assessment, the original debit balance is expected to be repaid in full.

- Troubled debt in restructuring - in April 2011, the FASB published an accounting standard update ASU 2011-02, on the subject of a decision available to a credit provider, regarding whether a debt restructuring constitutes a troubled debt restructuring. In accordance with American standards on the subject (ASC 310), a debt which has been restructured as troubled debt is a debt which has undergone formal restructuring, as part of which - due to economic or legal reasons which are associated with a debtor's financial difficulties - the Bank has granted a concession to the borrower. For the purpose of determining whether a debt arrangement which was performed by the Bank constitutes a restructuring of troubled debt, the Bank performs a qualitative test of the entire set of circumstances of the arrangement, and of the circumstances in which it was performed, with the aim of determining whether: (1) The debtor is experiencing financial difficulties; and (2) the Bank has granted a concession to the debtor under the arrangement. For the purpose of determining whether the debtor is experiencing financial difficulties, the Bank evaluates whether there are indicators that the borrower is experiencing difficulties on the date of the arrangement, or regarding the existence of a reasonable possibility that the borrower will run into financial difficulties if the arrangement is not implemented. The Bank evaluates, inter alia, the existence of one or more of the circumstances specified below:

- As of the date of the debt arrangement, the borrower is in default, including when another debt of the borrower is in default;
- Regarding debts which, as of the arrangement date, are not in arrears, the Bank evaluates whether, according to the current repayment ability, it is probable that, in the foreseeable future, the borrower will enter a state of default, and will not fulfill the original contractual terms of the debt;
- The debtor has been declared bankrupt, is undergoing receivership proceedings, or there are significant doubts as to the borrower's continued existence as a going concern; And
- Without changing the terms of the debt, the debtor will be incapable of raising debt from other sources according to the conventional market interest rate for debtors who are not in default.

Additionally, according to the current standards, an insignificant postponement of payments will not constitute a concession. The ASU provides a list of indicators which indicate that the delay is immaterial, such as: the amount of the restructured payments is immaterial relative to the unpaid balance of the debt, or relative to the value of the collateral, and the postponement is immaterial relative to the frequency of payments (monthly, quarterly, etc.), the original repayment date and the original expected lifetime of the debt. In accordance with the ASU, the credit provider must take into account the cumulative effect of a debt restructuring which was performed in the past at the time of performance of an evaluation regarding whether the postponement is immaterial.

Debts whose terms were changed in a troubled debt restructuring, including those which were evaluated, prior to the restructuring, on a collective basis, will be classified as impaired debt, and will be evaluated on an individual basis, regarding the need to perform a provision for credit losses or accounting write-off. In light of the fact that the debt regarding which the troubled debt was restructured will not be repaid in accordance with its original contractual terms, the debt continues to be classified as impaired debt, also after the debt has been returned to the repayment track, under the new terms.

For details regarding accounting write-offs of debts whose provision is estimated on a collective basis, and which were restructured and are in default, see section D7 below regarding "implementation of public reporting regulations on the subject of impaired debts, credit risk and the provision for credit losses".

In case a troubled debt restructuring has been implemented, in which the Bank accepted assets as full or partial repayment of the debt, such as rights to equity, third party receivables or other assets which will subsequently be sold, such assets will be recognized according to the fair value of the assets on the date when possession is seized. If the assets which were received constitute full repayment of the debt, and on the date of receipt of possession, the recorded debit balance exceeds the fair value of the assets, the Bank recognizes the loss and a provision for credit losses. In any case, if the assets which were received were sold slightly after possession thereof was received (mostly up to 90 days) so long as no significant change has occurred in the fair value estimate, the Bank replaces the fair value estimate with the price which was received in the sale, net of selling costs, and adjusts the provision for credit losses.

- **Provision for credit losses -** A banking corporation is required to maintain a provision for credit losses at an appropriate level in order to cover expected credit losses with reference to its credit portfolio, including with respect to off-balance sheet credit risk. The provisions for credit losses will include:

- Individual provision for credit losses - the individual provision for credit losses is performed based on a measurement of the debt's impairment, based on the present value of the expected future cash flows, discounted by the debt's effective interest rate, or when the debt is dependent on collaterals, or when possession of the asset is expected to be received according to the fair value of the collateral which was pledged to secure that credit (less selling costs). The need for a specific provision is evaluated with respect to any debt whose contractual balance (without deducting accounting write-offs which are not associated with legal concessions), unrecognized interest, provisions for credit losses and collaterals) is NIS 1 million or more, and any other debt which was identified for the purpose of a specific evaluation by the banking corporation.

- The collective provision for credit losses is applied for large groups of relatively small and homogeneous debts, and with respect to debts which were specifically evaluated and found to be non-impaired. The measurement of credit losses is based on the rules which were determined in ASC 450 (FAC 5) - Accounting treatment of contingencies, and on transitional provisions, as specified below. With respect to the years 2011-2012, a transitional provision was issued regarding the calculation of credit losses on a collective basis. According to the transitional provision, the rates of the collective provision for credit losses on a collective basis will be determined during the period transition period, based on the range of historical provision rates for doubtful debts in the years 2008 - 2010, segmented by market branches, and on the net rate of accounting write-offs which were actually recorded beginning on January 1, 2011.

  Additionally, the Bank evaluates, on each reporting date, whether the balance of the collective provision is not lower than the balance of the general, additional and special provision for doubtful debts as of that date, which is calculated in accordance with Proper Banking Management Directive 315, regarding "provision for doubtful debts", gross of tax.

  The provision which is evaluated on a collective basis for off-balance sheet credit instruments is based on the provision rates which were determined for balance sheet credit, in consideration of the expected rate of credit realization of off-balance sheet credit risk. The rate of credit realization is calculated by the Bank based the credit conversion factors specified in Proper Banking Management Directive 203, measurement and capital adequacy - credit risk - the standard approach, with certain adjustments in cases where the Bank has past experience which indicates the credit realization rates.

- **Collective provision with respect to credit to private individuals -** On January 19, 2015, a circular was published on the subject of the collective provision with respect to credit to private individuals. The circular prescribes that the determination of an adequate provision for credit losses of banking corporations and credit card companies should take into account both past losses due to credit to private individuals, and adjustments with respect to factors which are relevant to the collection chances of credit to private individuals (hereinafter: the "Qualitative Adjustments"). Banks are required to verify, beginning with the public reports for 2014, that the rate of qualitative adjustments to the collective provision for credit losses with respect to non-troubled credit to private individuals does not fall below 0.75% of the balance of non-troubled credit to private individuals as of that date. The above does not include credit risk due to receivables with respect to bank credit cards which do not charge interest, and individual treatment was established for banking corporations whose annual loss rates are particularly low. Additionally, adjustments with respect to environmental factors will not apply to a banking corporation regarding which the Banking Supervision Department has issued specific directives.
- Circular issued by the Commissioner of Banks on the subject of an additional provision for doubtful debts

  On May 30, 2013, the Commissioner of Banks published a circular on the subject of an additional provision for doubtful debts. The circular updates Proper Banking Management Directive 315, on the subject of "Additional provision for doubtful debts", following an update to Proper Banking Management Directive 313, on the subject of restrictions to the liability of a borrower or group of borrowers, which was also updated in a circular published on May 30, 2013.

  According to the circular, a banking corporation is required, beginning on May 30, 2013, to update the restriction rate regarding the liability of a group of borrowers to 25%, instead of 30%. The banking corporation is also required to update the restriction rate for the total liability of the large borrowers to 120% for all large borrowers, instead of 135% for the six largest borrowers.
- **Provision for credit losses with respect to housing loans**

  Beginning on January 1, 2006, the Bank has applied the directives issued by the Commissioner of Banks regarding the application of the Proper Banking Management Directive on the subject of "provisions for doubtful debts with respect to housing loans" (hereinafter: the "Directives Issued by the Commissioner"). The Commissioner's directives referred to a number of main issues on all matters associated with the method used to calculate the provisions for doubtful debts with respect to a housing loan, including standard calculation rules to determine the minimum provision with respect to housing loans, whose extent of arrears exceeds six months. The provision is calculated at rates of 8% to 80% of the balance of the debt in arrears, in accordance with the extent of the arrears.

  The Bank's policy is to write-off housing loans which are provided to losses but where, as a result of collection processes, there is no balance of collateral to realize the debt.
- **Update to guidelines on the subject of residential real estate (hereinafter: the "Guidelines")**

  In accordance with the Commissioner's circular dated March 21, 2013, beginning on June 30, 2013, the balance of the collective provision for credit losses with respect to housing loans supervisor 0.35% of the balance of the aforementioned loans as of the reporting date. The above does not apply to housing loans with respect to which a provision is held according to the extent of the arrears, or a specific provision.

Note 1 - Accounting Policy (Cont.)

- **Restrictions on the provision of housing loans**

  On July 15, 2014, the Commissioner of Banks distributed a circular on the subject of restrictions on the provision of housing loans. The directive which is attached to the circular incorporates the directives and restrictions on the provision of housing loans, as determined by the Banking Supervision Department in recent years. In addition to the previous directives, it was determined in the directive that loans in an amount exceeding NIS 5 million will be weighted for the purpose of capital adequacy according to a risk weight of 100%, and additionally, the directive redefined the term "return on income rate". These amendments were applied beginning on October 1, 2014.

  On September 28, 2014, the Commissioner of Banks distributed a circular on the subject of restrictions on the provision of housing loans, including amendments to the directive:

  A. Increasing target capital in accordance with the size of the housing loan portfolio - the banking system is required to increase the target Tier 1 capital at a rate which reflects 1% of the balance of the housing loans. The date of the requirement to fulfill the minimum capital target is January 1, 2017. The banks are required to increase the minimum capital target, by quarterly rates of 0.125% of the balance of housing loans, from April 1, 2015 to January 1, 2017.

     As a result of the implementation of the directive, based on the data from the current balance sheet, the Bank is expected to gradually add the demand for additional capital in the amount of NIS 9 million, which constitutes an addition of approximately 0.1% to the minimum capital target specified by the Commissioner of Banks for each quarter, until the target date. In accordance with the above, the cumulative calculation as of January 1, 2017 will amount to a total of approximately NIS 70 million, which constitutes an addition of approximately 0.9% to the minimum capital requirements.

  B. Increased risk weight for leveraged loans at variable interest - beginning on January 1, 2015, banking corporations will be entitled to reduce the risk weight for leveraged loans at variable interest, as defined in the directive, from 100% to 75%.

- **Accounting write-off**

  The Bank performs accounting write-offs in the following cases:

  - Any debt, or any part thereof, which is evaluated on an individual basis, and which is considered noncollectable, or any debt with respect to which the Bank has performed long term collection efforts.
  - Any debt with respect to which the Bank conducts collection efforts, and for which specific provisions for credit losses have been made. Generally, in a period which does not exceed two years.
  - In case of debt whose collection is conditional on securities, any part of the surplus debt over the value of the collaterals which is identified as noncollectable debt will be immediately written off, against the provision for credit losses.
  - Troubled debts where the provision with respect to them is measured based on a collective provision for credit losses, where the period of the arrears exceeds 150 days.
  - For details regarding accounting write-offs of debts whose provision is estimated on a collective basis, and which were restructured and are in default, see section D7 below regarding "implementation of public reporting regulations on the subject of impaired debts, credit risk and the provision for credit losses".

  It is clarified that accounting write-offs do not involve a legal concession, and reduce the reported balance of the loan for accounting purposes only, while creating a new cost basis for the debt in the Bank's books.

- **Recognition of income**

  On the date when the debt is classified as impaired, the Bank defines the debt as non-interest income accruing debt, and discontinues accruing interest income with respect to it, excluding the following regarding certain debts which have been restructured. Additionally, on the date when the debt is classified as impaired, the Bank cancels all the interest income which has accumulated and recognized as income under profit and loss, but which has not yet been collected. The debt continues being classified as non-interest accruing debt, so long as the classification as impaired debt has not been canceled for it. Debt which has been formally restructured as troubled debt, and where following the restructuring, there is a reasonable measure of confidence that the debt will be repaid and executed according to its new terms, will be accounted for as impaired debt which accrues interest income.

  Regarding debts which are evaluated and provided for on a collective basis, which are in arrears of 90 days or more, the Bank does not stop the accrual of interest income. These debts are subject to methods for the evaluation of the provision for credit losses, which ensure that the Bank's profits are not biased upwards. Fees with respect to late payments on such debts are included as income on the date when the right to receive them from the customer materialized for the Bank, provided that the collection is reasonably assured.

7. Fixed assets

Recognition and measurement

Buildings and equipment are presented at cost, less accumulated depreciation and impairment loss. The cost includes costs which are directly attributable to fixed assets and to bringing it to the location and condition needed for its operation. When significant parts of fixed assets have a different lifetime, they are accounted for as separate items of the fixed assets. Buildings up for sale are presented according to their cost or disposal value, whichever is lower.

Subsequent costs

The cost of replacing a part of a fixed asset item is recognized as part of the book value of that item if it is expected that the future economic benefits embodied in the replaced part will flow to the Bank if its cost is reliably measurable. The book value of the replaced part is written off. Current maintenance costs of fixed asset items are charged to the statement of income upon their materialization.

Software costs

Purchased software programs are measured a cost less accumulated depreciation and impairment loss.

Costs associated with the development of computer programs or the adjustment thereof for self use are discounted only if the development costs are reliably measurable, if the software is feasible from the technical and commercial perspective, if a future economic benefit is expected, and if the Bank has the intent and sufficient resources in order to complete the development and to use or sell the software. Discounted costs include direct costs required to prepare the software for its intended use. These costs are measured at cost less accumulated depreciation and impairment loss. Other costs are charged to the statement of income upon their materialization.

Subsequent costs with respect to software are recognized as fixed assets only when they increase the future economic benefit embodied in the asset for which they were spent. All other costs are charged to the statement of income upon their materialization.

For details regarding the directives issued by the Banking Supervision Department regarding the discounting of software costs, see section D1 below.

Note 1 - Accounting Policy (Cont.)

Depreciation

Depreciation is calculated from cost and charged to the statement of income (unless it was included in the book value of another asset), according to the estimated period of use, using the straight line method, beginning on the date when the asset is ready for use relative to its original cost. Leasehold improvements are amortized over the lease period, including an option which is likely to be realized, or their useful lifetime, whichever period is shorter. Estimates regarding useful lifetime and residual value are re-evaluated from time to time. Amortization is calculated according to equal annual rates, as follows:

	In percent	
Offices for rent	4	
Furniture and office equipment	7-10	(mostly 7%)
Computers and associated equipment	20-33	
Leasehold improvements - see below	10	

The amortization of intangible assets, including software assets, is charged to the statement of income according to the straight line method over the estimated useful lifetime of intangible assets, beginning from the date when the assets became available for use.

Intangible assets which are created in the Bank (such as software under development) are not systematically amortized so long as they are not available for use, in accordance with management's decision. Therefore, impairment with respect to these intangible assets is evaluated at least once per year, until the date when they become available for use, in accordance with management's decision.

Write-offs

The book value of fixed assets is written off upon disposal or when future economic benefits are no longer expected to flow from its use or disposal. The difference between the net consideration from the disposal, if any, and the book value of the asset which was written off, is charged to the statement of income, under the item for "Other income".

For a detailed reference to the subject, see Note 16 below.

8. Intangible assets and goodwill

The section includes intangible assets which have been purchased separately or within the framework of a business combination, intangible assets which were developed in the banking corporation excluding software development costs for self use which are included under the item for "buildings and equipment", service assets and goodwill.

Intangible assets are assets which are non-monetary, identifiable and have no physical form. The criterion of identifiability in the definition of an intangible asset is fulfilled if the asset is separable, or if the asset is due to contractual rights or other legal rights, without taking into account whether such rights are transferable or separable from the Bank or from other rights or obligations.

Intangible assets are recognized for the first time at cost, including costs which are directly attributable to the acquisition of the intangible asset. The cost of an intangible asset is an amount equal to the cash price on the recognition date. Expenses with respect to an intangible item which was initially recognized as an expense will not be recognized as part of the cost of an intangible asset at a later date.

Intangible assets which were purchased in a business combination are recognized for the first time at fair value on the acquisition date.

Goodwill which was created internally in the Bank is not recognized as an intangible asset. For details regarding goodwill due to the acquisition of an investee company, see Note 1(B)(1) above.

For details regarding software development costs for self use, and the amortization thereof, see Note 1(B)(7) above.

In periods following initial recognition, intangible assets are presented according to cost less accumulated amortization and less accumulated impairment losses.

The Bank evaluates, regarding each of the intangible assets, whether its useful lifetime is defined or undefined.

The amortizable amount of an intangible asset with a defined useful lifetime is allocated systematically throughout its useful lifetime. The Bank performs the amortization according to the straight line method. Amortization expenses for each period are recognized in the statement of income.

The Bank reviews the useful lifetime and the amortization method which was used at least at the end of each fiscal year. Changes are accounted for as changes in accounting estimates.

For details regarding the impairment of intangible assets, see Note 1(B)(7) above.

For details regarding directives issued by the Commissioner of Banks on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect to intangible assets", see section E4 above.

9. Impairment of non-financial assets

The Bank evaluates, for each reporting date, the need to record a provision for impairment of non-monetary assets (such as buildings and equipment and intangible assets, including goodwill) when there are indicators, due to events or changes in circumstances, which indicate that its assets in the balance sheet are presented at an amount exceeding their recoverable value.

The recoverable value of an asset or cash generating unit is the higher of either the net selling price or the value in use. Value in use is the present value of the estimated future cash flows, discounted by the interest rate before tax, which are expected to arise from the use and disposal of the asset. For the purpose of the impairment test, assets which cannot be individually tested are joined together into the smallest group of income-generating assets from continuous use, which are mostly independent of other assets and groups (“Cash Generating Unit”). When the book value of the asset exceeds its recoverable value, the Bank recognizes impairment loss in the amount of the difference between the asset’s book value and its recoverable value. Loss which has been recognized as stated above will be canceled only if changes have occurred in the estimates which were used in the determination of the asset’s recoverable value from the date of recognition of the last impairment loss, excluding loss from impairment of goodwill which has not been canceled.

According to the amendment to IAS 36, Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets, beginning on January 1, 2014, disclosure is required regarding situations in which impairment is recognized, and the recoverable amount was determined as fair value less selling costs. Additionally, the amendment cancels the requirement to provide disclosure regarding the recoverable value of significant cash generating units, even if no impairment has been recognized for them.

10. Segmental reporting

An operating segment is a business line in a banking corporation which is engaged in activities from which it may generate income and bear expenses. Its results of operations are evaluated in an orderly manner by management and the Board of Directors, for the purpose of reaching decisions regarding the allocation of resources and the evaluation of its performance, and also in order to maintain separate financial information for it. The framework for reporting on the Bank's operating segments was determined in the public reporting regulations of the Commissioner of Banks.

For details regarding the Commissioner's circular regarding segmental reporting, see section D8 below.

For a detailed reference to the subject, see Note 29 below.

11. Issuance expenses

Bond issuance expenses and transaction costs which are directly attributable, liability certificates and deferred liability notes, are amortized relative to the outstanding balances of principal, according to the effective interest method.

12. Deferred expenses

Bond issuance and distribution expenses and deposit raising expenses are presented at cost, and are amortized over the repayment periods of the liabilities, in accordance with the effective interest method.

13. Taxes on income

Taxes on income presented in the statement of income include current and deferred taxes. Current and deferred taxes are charged to the statement of income unless the tax is due to a transaction or event which is recognized directly under equity. In these cases, the tax on income expenses are charged to equity. Current tax is the tax amount expected to be paid (or received) on taxable income during the year, calculated according to the tax rates which apply according to the law which was enacted, or effectively enacted, on the balance sheet date, and which includes changes in tax payments which are attributed to previous years.

The provision for taxes on income of the Bank and its consolidated companies which are financial institutions for value added tax purposes includes capital gains tax which is imposed on the income in accordance with the Value Added Tax Law. Value added tax which is applied to the salary in financial institutions is included in the statement of income under the item for "Payroll and associated expenses".

Deferred taxes are calculated with respect to differences in the timing of the inclusion of income and expenses between financial reporting and their recognition for income tax purposes, and due to the adjustment of non-monetary assets with respect to the difference between their adjusted value and the value which is deductible for income tax purposes. Deferred taxes are calculated according to the tax rates which are expected to apply upon usage of the reserve or realization of the tax benefit, based on the tax laws which were in effect on the balance sheet date.

Deferred taxes with respect to transferred losses are recognized at the time of the business combination, in accordance with the provisions of IFRS 3, and particularly, if it is expected that taxable income will arise against which the losses can be used for unused tax purposes.

The calculation of deferred taxes does not take into account taxes which would have applied in case of the realization of investments in investee companies, so long as there is the assumption of ongoing holding of such investments. The dividend distribution policy in investee companies is implemented in a way which will not cause the charging of additional tax in the Bank.

The Bank reviews, in each reporting period, the deferred tax assets. If it is not expected that taxable income will be received in sufficient amounts to enable the usage of the deferred tax assets, an amortization is performed regarding the book value of those deferred tax assets.

In accordance with the directives issued by the Commissioner of Banks, the Bank applies the accounting treatment which was determined in FIN 48 - "Accounting for Uncertainty in Income Taxes" (ASC 740-10 - Income Taxes), on the subject of uncertain tax positions vis-à-vis the tax authorities.

These positions affect deferred or current tax assets by ways of an amortization of a tax asset, deferral of recognition of tax income, or any change in the manner of realization of a deferred tax asset. In accordance with the interpretation, in the above case, the Bank applies a dual-stage approach: in the first stage, recognition in the books only of tax positions which are more likely than not to be accepted, based on their technical facts only (in accordance with the tax laws, regulatory guidelines and the conventional practice, if any). If the Bank fulfills the terms of the first stage, a deferred tax asset will be recognized cumulative amount the largest cumulative amount which is more likely than not to be recognized.

For details regarding directives issued by the Commissioner of Banks on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect taxes on income", see section 15 below.

For additional details regarding this subject, see Note 8 below.

14. Derivative financial instruments

In accordance with the directives issued by the Commissioner of Banks, a banking corporation is required to recognize all derivative instruments, including certain derivative instruments which are embedded in other contracts, as assets or liabilities in the balance sheet, and to measure them at fair value. The change in the fair value of a derivative instrument will be reported in the statement of income, in accordance with the designation of the derivative instrument. The change in the fair value of derivatives which hedge exposure to changes in the fair value of an asset, liability or stable engagement, will be recognized routinely in the statement of income, as will the change in fair value of the hedged item, which is attributable to that hedged risk.

Accounting for changes in the fair value of derivatives which hedge the exposure to changes in the cash flows from an asset, liability or expected transaction is dependent upon the effectiveness of the hedge relationship.

The effective part of the change in fair value of a derivative which is intended to hedge cash flows is initially reported under equity, and later, when the expected transaction has an impact on the statement of income, it is reclassified to the statement of income. The non-effective part of the change in fair value of the aforementioned designated derivative is immediately recognized in the statement of income.

The Bank engages in contracts which do not entirely meet the definition of a derivative instrument. Such contracts may include embedded derivative instruments. An embedded derivative instrument will be separated from the host contract and accounted for as a derivative instrument, upon the cumulative fulfillment of the following three conditions: the economic characteristics of the embedded derivative must not be clearly and closely associated with those of the host contract; the hybrid instrument must not be re-measured according to its fair value, in accordance with GAAP, while reporting the changes in the fair value under the statement of income at the time of their creation, and where a separate instrument with the same terms as those of the embedded instrument would have met the definition of a derivative instrument. Once an embedded derivative has been identified, it is separated from the host contract and treated as an independent derivative. An embedded derivative which has been separated is presented in the balance sheet together with the host contract. The separated embedded derivatives in the Bank are due to the provision of foreign currency-linked credit which includes a minimum limit for the linkage basis, and the raising of savings plans with identical characteristics.

Profit or loss from a derivative which was not designated as a hedging instrument is recognized under the statement of income on an ongoing basis. Transactions with derivative instruments constitute a part of the Bank's assets and liabilities management unit. The fair value of derivative instruments is presented in the balance sheet as assets with respect to derivative instruments or as other liabilities with respect to derivative instruments, as applicable, and the results from transactions with derivative instruments which are due to their recording on a fair value basis are included in the statement of income under the item for non-interest financing income.

15. Fair value measurement and fair value alternative

On April 28, 2011, a circular was published by the Commissioner of Banks on the subject of fair value measurements and fair value alternatives. The circular adopts the following standards, inter alia:

Fair value measurement: ASC 820-10 (FAS 157) (hereinafter: "ASC 820-10").

ASC 820-10 defines fair value and determines a consistent framework for fair value measurement by defining fair value measurement techniques regarding assets and liabilities and determining a fair value hierarchy and detailed instructions for implementation.

The circular distinguishes between two types of data which are used in the determination of fair value:

Observable inputs represent data which are observable on the market and which are received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation. These input types create a fair value hierarchy, as specified below:

- Level 1 inputs: quoted prices (not adjusted) in active markets for identical assets or liabilities.
- Level 2 inputs: quoted prices for similar assets or liabilities in active markets; Quoted prices for identical assets or liabilities in inactive markets; Prices which are derived from valuation models, in which all significant inputs are observable or supported by observable market inputs.
- Level 3 inputs: unobservable inputs for the asset or liability which are due to valuation models where one or more of their significant inputs are unobservable.

Additionally, ASC 820-10 expands the disclosure requirements regarding fair value measurement. The implementation of the principles specified in ASC 820-10 requires discontinuation of the use of the blockage factor in the calculation of fair value, and replaces the guidelines which prohibit the recognition of day one profits and which require a determination of the fair value of derivative instruments which are not traded on an active market according to the transaction price. Additionally, ASC820-10 requires the banking corporation to reflect the credit risk and the Bank's other risks in the measurement of the debt's fair value, including derivatives, which were issued by it and which are measured at fair value.

The banking corporation is required to re-evaluate the valuation methods which are applied by it to fair value measurement, in consideration of the circumstances which are relevant to the various transactions, including the prices of the last transactions on the market, indicative prices of valuation services and back-testing results of similar transaction types.

16. Employee rights

With respect to all of the liabilities for employer - employee relationships, there are appropriate provisions in accordance with the law, agreements, conventional practice and the expectations of management.

The calculation of liabilities with respect to employee rights is performed according to an actuarial calculation which is based on the market yields of government bonds, by maturity periods, plus the average margin of corporate bonds with a rating of AA (international) in the United States, and the yield to maturity rates for those repayment periods on US government bonds and higher on the reporting date.

Guidelines and clarifications regarding increasing the internal control over financial reporting on the subject of employee rights

On March 27, 2011, guidelines were published by the Banking Supervision Department, regarding increasing internal control over financial reporting on the subject of employee rights. The guidelines establish several clarifications regarding the evaluation of a liability with respect to employee rights, and guidelines regarding the internal control over the financial reporting process on the subject of employee rights, including a demand to involve an authorized actuary, to identify and classify liabilities with respect to employee rights, the existence of internal controls for the purpose of relying on and validating the actuary's evaluation, as well as certain disclosure requirements.

The guideline determines, inter alia, that a banking corporation which expects to pay to its employees, upon their departure, benefits beyond the contractual terms, will take into account the number of employees who are expected to resign, and the benefits which the Bank expects to be required to pay for the benefits beyond the contractual terms, upon early retirement of employees.

For details regarding directives issued by the Banking Supervision Department on the subject of the adoption of US GAAP on the subject of employee rights, see section D2 below.

For a detailed reference to the subject, see Note 23 below.

17. Contingent liabilities

In accordance with directives issued by the Commissioner of Banks, the provisions of ASC 450 were adopted, as were its accompanying directives, regarding the accounting treatment of pending legal claims, excluding in certain rare cases, such as class actions regarding which the Bank and its legal counsel have no possibility to estimate their results. The estimate of bank management, which is based on the opinion of its legal counsel, regarding the probability of the realization of the exposure to risk in claims, is determined based on the following three areas of probability:

1. **Probable risk** - where the probability of the realization of the exposure to risks is above 70%. With respect to claims included in this risk group, appropriate provisions were included in the financial statements.
2. **Possible risk** - where the probability of the realization of the exposure to risks is between 20% and 70%. with respect to claims included in this risk group, no provisions were included in the financial statements; **only disclosure was provided.**
3. **Low risk** - where the probability of the realization of the exposure to risks is less than or equal to 20%. With respect to claims included in this risk group, no provisions were included in the financial statements, and no disclosure was provided.

In case of a probable exposure, the provision is included in the financial statements in the amount of the entire exposure, as estimated by bank management. In case of a possible exposure, a provision is not included in the financial statements, but rather, only disclosure is provided for the amount of the exposure. In case of improbable exposure, there is no need to perform provisions and/or disclosure. With respect to claims to which the exposure is low, although the maximum liability or possible loss could place in doubt the Bank's continued operation, disclosure is provided.

For a detailed reference to the subject, see Note 26 below.

18. Share based payment transactions

The Bank recognizes shared-based payment transactions in accordance with the provisions of IFRS 2, as adopted by the Commissioner of Banks. Benefits with respect to shared-based payment transactions which are settled using capital instruments, are measured on the provision date of the benefit (the allocation date), based on the conventional options pricing model. The value of the benefit is charged on an ongoing basis to expenses against capital reserves, over the vesting period.

Transaction costs settled in cash are measured at fair value on the date of the allocation, using the acceptable options pricing model. For additional details, see Note 24. Fair value is recognized as an expense over the vesting period and, in parallel, a liability is recognized. The liability is remeasured for each reporting period, in accordance with its fair value until its settlement, where changes in the fair value are charged to the statement of income.

When the company implements changes to the terms of an allocation which is settled with capital instruments, an additional expense is recognized, in addition to the original expense which was calculated with respect to each change that increases the total fair value of the remuneration which is provided or which benefits the employee / other service provider, according to the fair value on the date of the change.

When changes are implemented to a shared-based payment plan, the banking corporation recognizes the effects of changes which increase the plan's total fair value during the remaining vesting period, and additionally, the effects of changes which modify the characteristics of the plan from liability-based to capital-based, or vice versa.

19. Earnings per share

Potential ordinary shares (convertible securities, such as convertible bonds, warrants and options to employees) are only included in the calculation of diluted earnings per share if their impact dilutes earnings per share in a manner whereby their conversion reduces earnings per share or increases loss per share from continuing operations. Additionally, potential ordinary shares which were converted during the period are included under diluted earnings per share only until the conversion date, and from that date onwards, are included under basic earnings per share.

C. Statement of cash flows

The report was prepared in accordance with directives issued by the Commissioner of Banks and International Accounting Standard (IAS) 7 regarding the statement of cash flows. Cash flows from activities involving assets and liabilities are presented net, excluding operations involving housing credit, movement in non-monetary items, non-marketable securities, and bonds and deferred liability notes.

Cash also includes deposits in banks whose original period from their deposit date was up to three months.

D. Initial application of accounting standards, updates to accounting standards and directives issued by the Banking Supervision Department:

Beginning with reporting periods commencing on January 1, 2015, the Bank initially applies accounting standards and directives issued by the Banking Supervision Department in the manner specified below:

1. Directives issued by the Banking Supervision Department regarding the discounting of software costs;
2. Directives issued by the Banking Supervision Department on the subject of the adoption of US GAAP regarding employee rights;
3. Directives issued by the Banking Supervision Department on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with US GAAP, regarding the distinction between liabilities and capital";
4. Directives issued by the Commissioner of Banks on the subject of "Disclosure regarding leveraging ratio";
5. Directives issued by the Commissioner of Banks on the subject of "Liquidity coverage ratio";
6. Directives issued by the Commissioner of Banks on the subject of "Disclosure regarding interested parties and related parties";
7. Directives issued by the Commissioner of Banks on the subject of "Public reporting regulations regarding impaired debts, credit risk and provision for credit losses";
8. Directives issued by the Commissioner of Banks on the subject of "Reporting regarding operating segments";
9. Directives issued by the Commissioner of Banks on the subject of "Update to the structure of public reports of banking corporations and credit card companies ";
10. Directives issued by the Commissioner of Banks on the subject of "Credit risk by market branches".

Presented below is a description of the changes which were implemented to the accounting policy, in these condensed consolidated annual financial statements, and the impact of their initial application:

1. Directives issued by the Banking Supervision Department on the subject of the discounting of software costs;

The Bank applies International Accounting Standard (IAS) 38, Intangible Assets, and the guidelines which were determined in SOP98 - "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use". In light of the accounting complexity associated with the software costs discounting process, and in light of the materiality of the amount of software costs which were discounted, the Commissioner of Banks established guidelines regarding the discounting of software costs. According to the guidelines, the Bank is required to establish a materiality threshold with respect to which software development costs are discounted, which will not fall below NIS 300 thousand. Any software development project whose total costs are bank the determined materiality threshold will be charged as an expense in the statement of income. It was also determined that the amortization period for software development costs will not exceed 5 years. It was further determined, with respect to software development projects for which the total discountable costs are not lower than the materiality threshold which was determined:

- The Bank will determine a discounting factor for work hours of less than 1, in order to take into account the potential lack of economic efficiency and acceptable deviations in software development projects.
- The rank of employees whose costs are discounted to assets will be limited to the manager rank, where it can be demonstrated that most of their time is focused on actual development, and that they are responsible for a limited number of employees.
- The recording of costs with respect to software development of all development employees will be done by individual reporting of hours, and not by way of proportional allocation of costs.

A change in the accounting policy, in accordance with the aforementioned guidelines, was applied beginning with the financial statements as of June 30, 2015, by way of retrospective adoption. The comparative figures were restated.

For details regarding the impact of the guidelines, see section D2 below.

2. Directives issued by the Banking Supervision Department on the subject of the adoption of American accounting principles regarding employee rights

On April 9, 2014, the Commissioner of Banks published a circular which included amendments to the public reporting requirements, which were intended to update the requirements regarding the recognition, measurement and disclosure of employee benefits, in accordance with generally accepted accounting principles in the USA.

Additionally, on January 11, 2015, a circular was published which amended the public reporting regulations on the subject of employee rights, including disclosure requirements and transitional provisions. In the circular, it was stated that the Bank of Israel has reached the conclusion that a deep market for high quality corporate bonds does not exist in Israel. Accordingly, the discount rates with respect to employee benefits will be calculated based on the yields of government bonds in Israel, plus the average margin on corporate bonds with a rating of AA (international) or higher as of the reporting date. Due to practical considerations, it was determined that the margin will be established according to the difference between the yield to maturity rates, by repayment periods, on corporate bonds with a rating of AA or higher in the United States, and yield to maturity rates for those repayment periods, on US government bonds, as of the reporting date.

The main changes which are expect to be implemented to the accounting policy applied by the banking corporation include, inter alia:

A. Until the date of the change, the liabilities which were calculated on an actuarial basis were calculated by evaluating the accumulated benefits, and in consideration of probabilities based on past experience. The discount rate of the reserves is 4%, in accordance with the directives issued by the Commissioner of Banks.

   After the date of the change, the discount rate used to calculate liabilities with respect to employee rights will be based on the market yields of government bonds, by repayment periods, plus the average margin of corporate bonds with a rating of AA (international) in the United States, and the yield to maturity rates for those repayment periods on US government bonds and higher on the reporting date.

Note 1 - Accounting Policy (Cont.)

B. The net benefit cost for the period which was charged to the statement of income includes the following components: cost of service, cost of interest, projected returns on plan assets, amortization or credit of a previous service, amortization of net actuarial profit or loss, and amortization of any net asset or liability with respect to the transition, if the appropriate conditions are fulfilled.

Actuarial profit or loss which constitutes the change of a liability with respect to an expected benefit or of the plan assets, due to the fact that actual experience is different from the estimate, or due to a change in the actuarial assumption (hereinafter: "Actuarial Profit or Loss"), is initially recognized under accumulated other comprehensive income. These profits or losses are subsequently recognized as a component of the net cost of the benefit for the period, according to the straight line method, over the remaining average service period of the employees who are expected to receive benefits throughout the plan (in accordance with transitional provisions specified below).

Regarding the accounting treatment of actuarial profit and loss, the following was determined:

- Actuarial loss as of January 1, 2013, which is due to the difference between the discount rate used to calculate reserves to cover employee rights which are linked to the consumer price index, which was determined according to the transitional provision in the public reporting regulations (4%) and the discount rates as of that date of CPI-linked liabilities to employees, which were determined in accordance with the new principles, as stated above (hereinafter: the "Loss") will be included under accumulated other comprehensive income.
- Actuarial profits which are recorded beginning on January 1, 2013 and thereafter, as a result of current changes in discount rates during the reporting year, will be recorded under accumulated other comprehensive income, and will reduce the aforementioned recorded loss balance, until the balance has been entirely set off.
- Actuarial losses which are due to current changes in discount rates during a reporting year, and actuarial profits which are due to current changes in discount rates during the reporting year, after reducing to zero the aforementioned recorded balance of loss, will be amortized according to the straight line method over the average remaining service period of employees who are expected to receive benefits according to the plan.
- Other actuarial profit or loss (which is not due to a change in the discount rate) as of January 1, 2013, and in the subsequent periods, will be included under accumulated other comprehensive income, and will be amortized using the straight line method throughout the average remaining service period of the employees who are expected to receive benefits according to the plan.
- The impact of the initial application on other employee benefits, where all such changes are charged on a routine basis to profit and loss (such as jubilee bonuses), will be charged to retained earnings.

Presented below is the accounting treatment regarding main issues:

A. Post-retirement benefits - severance pay - defined benefit plans:

- The Bank recognizes amounts pertaining to pension plans and other post-retirement plans based on calculations which include actuarial assumptions and other assumptions, including: discount rates, mortality rates, projected long term rates of return on plan assets, increase in remuneration and turnover.
- The Bank evaluates its assumptions on an annual basis, and updates theses assumptions as needed.

Note 1 - Accounting Policy (Cont.)

It should be noted that, once per quarter, the Bank evaluates the need for changes to the actuarial assumptions which were determined within the framework of the last annual report, and, if necessary, updates the assumptions.

- Changes in assumptions are recognized generally, and subject to the aforementioned provisions, initially under accumulated other comprehensive income, and are amortized to profit and loss in subsequent periods.
- The liability is accumulated over the relevant period which was determined in accordance with rules specified in subject 715 of the codification.

B. Post-retirement benefits - defined deposit plans:

- Defined deposit plans are plans in which the Bank pays fixed payments to a separate entity, without having a legal or implicit obligation to pay additional payments. The Bank's obligations to deposit in defined deposit plans are charged to profit and loss as an expense in periods during which the employees provided related services.

C. Other long term benefits to active employees - jubilee bonuses:

- The liability is accumulated over the period granting eligibility for the bonus.
- For the purpose of calculating the liability, discount rates and actuarial assumptions are taken into account.
- All components of the benefit cost for the period, including actuarial profit and loss, are immediately charged to the statement of income.

D. Absences conferring entitlement to compensation - vacation:

- The liability with respect to vacation days is measured on an actuarial basis, including taking into account discount rates and actuarial assumptions.

E. Share based payment transactions:

- The Bank, in general, recognizes an expense with respect to the share-based payments which it grants to its employees.
- Capital bonuses are measured on a fair value basis on the allocation date.
- Liability bonuses (including bonuses settled in cash) are measured based on fair value on the allocation date, and the liability is remeasured until the settlement date.

The adoption date of the directive was set as January 1, 2015, and included a retrospective amendment to the comparative figures for periods beginning on January 1, 2013 and thereafter.

Note 1 - Accounting Policy (Cont.)

Presented below is the impact of the retrospective adoption of the discounting of software costs and employee rights:

Impact of the retrospective adoption on the balance sheet items:

	As of December 31, 2014			
	In accordance with the previous reporting provisions	Impact of the retrospective adoption with respect to employee rights	Impact of the retrospective adoption with respect to the discounting of software costs	After the retrospective adoption *
	Reported amounts, NIS millions			
Buildings and equipment	160.8	-	(11.1)	149.7
Other assets	149.6	2.0	2.9	154.5
Other liabilities (liabilities with respect to employees and deferred credit balances)	182.6	2.3	-	184.9
Surplus	518.7	(1.5)	(8.2)	509.0
Accumulated other comprehensive income	(0.3)	1.2	-	0.9
Total capital	**745.2**	**(0.3)**	**(8.2)**	**736.7**
Ratio of total capital to risk components	14.4%	-	(0.1%)	14.3%
Ratio of Tier 1 capital to risk components	9.7%	-	(0.1%)	9.6%

* Data after the retrospective adoption do not include the restatement which reflects an error in the classification of bonds from the held to maturity portfolio to the available for sale portfolio as of the acquisition date, as specified below in Note 1.F.

	As of December 31, 2013			
Buildings and equipment	150.4	-	(10.9)	139.5
Other assets	158.0	(0.8)	2.9	160.1
Other liabilities (liabilities with respect to employees and deferred credit balances)	202.4	(2.2)	-	200.2
Surplus	470.1	(0.4)	(8.0)	461.7
Accumulated other comprehensive income	0.3	1.7	-	2.0
Total capital	**697.2**	**1.3**	**(8.0)**	**690.5**
Ratio of total capital to risk components*	13.9%	-	(0.2%)	13.7%
Ratio of Tier 1 capital to risk components *	9.2%	-	(0.2%)	9.0%

* The data are as of January 1, 2014, in accordance with the provisions of Basel III.

Note 1 - Accounting Policy (Cont.)

Impact of the retrospective adoption on the statement of income:

	For the year ended December 31, 2014			
	In accordance with the previous reporting provisions	Impact of the retrospective adoption with respect to employee rights	Impact of the retrospective adoption with respect to the discounting of software costs	After the retrospective adoption
	Reported amounts, NIS millions			
Profit and loss:				
Payroll and associated expenses	(167.7)	(1.7)	(1.8)	(171.2)
Maintenance and depreciation of buildings and equipment	(72.7)	-	1.5	(71.2)
Profit before taxes	96.1	(1.7)	(0.3)	94.1
Provision for taxes on income	(29.8)	0.6	0.1	(29.1)
Net profit after taxes	66.3	(1.1)	(0.2)	65.0
Basic earnings per share (in NIS)	0.94	(0.02)	-	0.92
Diluted earnings per share (in NIS)	0.94	(0.02)	-	0.92

	For the year ended December 31, 2013			
Profit and loss:				
Payroll and associated expenses	(146.1)	(0.4)	(6.4)	(152.9)
Maintenance and depreciation of buildings and equipment	(58.2)	-	0.6	(57.6)
Profit before taxes	22.6	(0.4)	(5.8)	16.4
Provision for taxes on income	(5.4)	0.2	1.5	(3.7)
Net profit after taxes	17.2	(0.2)	(4.3)	12.7
Basic earnings per share (in NIS)	0.24	(0.00)	(0.06)	0.18
Diluted earnings per share (in NIS)	0.24	(0.00)	(0.06)	0.18

Note 1 - Accounting Policy (Cont.)

Impact of the retrospective adoption on the statement of other comprehensive income:

	For the year ended December 31, 2014			
	In accordance with the previous reporting provisions	Impact of the retrospective adoption with respect to employee rights	Impact of the retrospective adoption with respect to the discounting of software costs	After the retrospective adoption *
	Reported amounts, NIS millions			
Net profit after taxes	66.3	(1.1)	(0.2)	65.0
Adjustments of liabilities with respect to employee benefits	-	(0.7)	-	(0.7)
Attributable tax impact	0.4	0.2	-	0.6*
Total comprehensive income	**65.7**	**(1.6)**	**(0.2)**	**63.9***

* Data after the retrospective adoption do not include the restatement which reflects an error in the classification of bonds from the held to maturity portfolio to the available for sale portfolio as of the acquisition date, as specified below in Note 1.F.

	For the year ended December 31, 2013			
Net profit after taxes	17.2	(0.2)	(4.3)	12.7
Adjustments of liabilities with respect to employee benefits	-	2.7	-	2.7
Attributable tax impact	0.4	(1.0)	-	(0.6)
Total comprehensive income	**16.4**	**1.5**	**(4.3)**	**13.6**

Impact of the retrospective adoption on the statement of cash flows:

	For the year ended December 31, 2014			
	In accordance with the previous reporting provisions	Impact of the retrospective adoption with respect to employee rights	Impact of the retrospective adoption with respect to the discounting of software costs	After the retrospective adoption
	Reported amounts, NIS millions			
Net cash from (for) operating activities	537.9	-	(1.8)	536.1
Net cash from (for) investing activities	(137.5)	-	1.8	(135.7)

	For the year ended December 31, 2013			
Net cash from (for) operating activities	1,455.6	-	(6.4)	1,449.2
Net cash from (for) investing activities	271.3	-	6.4	277.7

Note 1 - Accounting Policy (Cont.)

3. Directives issued by the Banking Supervision Department on the subject of "reporting by banking corporations and credit card companies in Israel, in accordance with US GAAP, regarding the distinction between liabilities and capital"

On September 30, 2014, the Commissioner of Banks published a circular including amendments to the public reporting regulations on the subject of reporting by banking corporations and credit card companies in Israel in accordance with US GAAP, regarding the distinction between liabilities and capital.

In accordance with the circular, a banking corporation and credit card company (hereinafter: "Banking Corporation") are required to adopt US GAAP with respect to the classification as capital or as a liability of financial instruments, including hybrid instruments. A banking corporation will apply the generally accepted accounting principles for banks in the US regarding this subject, including, inter alia, the rules for presentation, measurement and disclosure which were set forth in the provisions of subject 480 of the codification, regarding the "distinction between liabilities and capital", the provisions of subject 470-20 in the codification, regarding "debt with conversion and other options", and the provisions of subject 505-30, regarding "treasury shares". Additionally, upon implementation of the distinction between liability and capital, the public reporting regulations regarding embedded instruments, as determined by the Commissioner of Banks, should also be taken account.

The adoption date of the directive was set as January 1, 2015 and thereafter, and will include a retrospective amendment of the comparative figures, if required.

The implementation of the circular had no significant impact on the Bank.

4. Directives issued by the Commissioner of Banks on the subject of "Disclosure regarding the leveraging ratio"

On April 28, 2015, the Commissioner of Banks published a circular on the subject of "Disclosure regarding the leveraging ratio". The circular establishes provisions regarding the measurement of leveraging ratios, and updates the disclosure requirements in public reporting regulations.

Banking corporations are required to fulfill the minimum leveraging ratio beginning on January 2018. It was further determined that a banking corporation which, on the publication date of the directive, fulfilled the minimum leveraging ratio which applies to it, did not decrease below the threshold which was determined until the application date of the directive.

The leveraging ratio is defined as the ratio between the measurement of tier 1 capital, as defined in Proper Banking Management Directive 202, in consideration of the determined transitional arrangements (numerator) and the measurement of the exposure (denominator). The measurement of the exposure is comprised of the balance sheet exposures, exposures to derivatives, securities financing transactions and off-balance sheet items. z

In general, a banking corporation must fulfill the leveraging ratio which will not fall below 5%, on a consolidated basis (excluding a large banking corporation, as defined in the directive).

The circular updates the public reporting regulations as follows:

- The leveraging ratio will be calculated according to Proper Banking Management Directive 218, on the subject of the "Leveraging ratio".
- The banking corporation will provide disclosure in its financial statements for the following details, at a minimum:

- Description of the Commissioner of Banks' requirements regarding the leveraging ratio.
- The possible effects (or actual effects) of non-fulfillment of these requirements.
- Whether the banking corporation fulfills the requirements set forth by the Commissioner of Banks, including reference to the following factors:
  - The data specified in the note "Capital Adequacy, Liquidity and Leveraging in Accordance with the Directives issued by the Commissioner of Banks".
  - Factors which may have a material impact on the leveraging ratio.

The disclosure regarding the leveraging ratio applies beginning on April 1, 2015 and thereafter. Banking corporations are not required to provide disclosure for comparative figures which are required for the first time as a result of the adoption of the directive.

The Bank fulfills the ratio specified in the directive.

5. Directives issued by the Commissioner of Banks on the subject of the "Liquidity coverage ratio"

On September 28, 2014, the Commissioner of Banks published a circular on the subject of the liquidity coverage ratio. The circular adopts the recommendations of Basel III regarding the liquidity coverage ratio (LCR). This ratio is intended to improve the resilience of the liquidity risk profile of banking corporations in the short term. In order to comply with the requirements of the directive, banking corporations must hold an adequate inventory of high quality liquid assets (HQLA), unpledged and easily and quickly convertible into cash in private markets, in order to meet the liquidity needs in extreme scenarios, for a period defined as 30 calendar days. The standard defines a specific framework for the calculation of the liquidity coverage ratio, in order to create standardization on an international level.

The banking corporations applied the directive on both a solo basis and a consolidated basis.

The liquidity coverage ratio will be implemented beginning on April 1, 2015.

In accordance with transitional provisions, the requirement regarding the minimum liquidity coverage ratio will be 60% on April 1, 2015, and will increase to 80% on January 1, 2016, and to 100% on January 1, 2017.

Further to the above, on September 28, 2014, a circular was published on the subject of a transitional provision - implementation of the disclosure requirements before Basel Pillar 3 - disclosure regarding the liquidity ratio. The circular includes amendments to public reporting regulations, with the aim of combining the disclosure requirements regarding the liquidity coverage ratio.

Accordingly, it was determined that disclosure requirements will be added regarding the liquidity coverage ratio under the note regarding "Capital adequacy and liquidity according to the directives issued by the Commissioner of Banks", beginning on April 1, 2015.

The Bank fulfills the ratio specified in the directive.

6. Directives issued by the Commissioner of Banks on the subject of "Disclosure regarding interested parties and related parties";

On June 10, 2015, the Commissioner of Banks published a circular on the subject of disclosure regarding interested parties and related parties. The circular updates the public reporting regulations with respect to disclosure regarding interested parties and related parties, and adjust them to the Proper Banking Management Directives which were determined in generally accepted accounting principles for banks in the United States, under subject 850 of the codification, regarding "related party disclosures".

Following the amendment, disclosure in public reports will be given for any interested party, in accordance with the Securities Regulations, related party in accordance with Directive 312, or other related party in accordance with generally accepted accounting principles for banks in the United States.

The adoption date of the directive was set as January 1, 2015, i.e., beginning with the annual financial statements for 2015.

In accordance with the circular, there is no need to retrospectively present comparative figures, if the information is not held by the banking corporation.

The Bank is implementing this directive. There is no significant impact on the Bank's financial statements and results due to the adoption of these disclosure requirements, excluding a change in presentation.

7. Directives issued by the Commissioner of Banks on the subject of "Public reporting regulations regarding impaired debts, credit risk and provision for credit losses"

On September 10, 2015, the Commissioner of Banks published a circular including an update to the collection of questions and answers on the subject of "implementation of public reporting regulations regarding impaired debts, credit risk and provision for credit losses ".

In accordance with the public reporting regulations on the subject of impaired debts, credit risk and provision for credit losses, it is necessary to write-off certain debts for which the provision is estimated on a collective basis, when they become debts in arrears of 150 days or more. In cases where the aforementioned debt has been restructured and defaulted, an additional evaluation should be performed regarding the need to immediately write-off the debt. In any case, the debt should be written off no later than the date when the debt became a debt in arrears of 60 days or more.

The adoption date of the update is July 1, 2015.

The Bank applied the update, as required.

The impact of the initial application of the directive which was determined in the updated collection of questions and answers is an increase of approximately NIS 1.2 million in net write-offs, and a decrease of approximately NIS 0.7 million in the balance of the provision for credit losses.

8. Directives issued by the Commissioner of Banks on the subject of "Segmental reporting"

On November 3, 2014, the Commissioner of Banks published a circular specifying amendments to the public reporting regulations, on the subject of segmental reporting. The amendments are intended to allow the banking corporation to report regarding operating segments in accordance with a uniform and comparable framework, as determined by the Banking Supervision Department, and to report regarding operating segments in accordance with the approach of the management of the banking corporation, if those segments are significantly different from the segments which have been defined by the Banking Supervision Department. The main changes to the public reporting regulations are as follows:

A. A requirement was added for disclosure regarding "supervised operating segments" in accordance with the definitions of the Banking Supervision Department. The framework for disclosure of supervised operating segments includes the following segments: private banking, households, micro and small businesses, medium sized businesses, large businesses, institutional entities and financial management.

B. Definitions were added which clarify which customers will be included in each segment in accordance with, inter alia, the branch, operating volume, etc.

C. A requirement was added for separate disclosure regarding the "financial management" segment, as well as the activities which will be associated with that segment.

D. A clarification specifying that a banking corporation whose operating segments, in accordance with its management approach, are significantly different from the supervised operating segments, will provide additional disclosure regarding operating segments, in accordance with management's approach.

In the public report for 2015, a banking corporation will provide disclosure for balance sheet data which are required for the first time under this directive. The banking corporation is entitled not to provide disclosure for comparative figures regarding the balance sheet data of the supervised operating segments. The banking corporation will provide disclosure regarding operating segments in accordance with the provisions of the public reporting regulations, as these were in effect prior to the application of the circular.

The Bank is implementing this directive. There is no significant impact on the Bank's financial statements and results due to the adoption of these disclosure requirements, excluding a change in presentation.

9. Directives issued by the Commissioner of Banks on the subject of "Update to the structure of public reports of banking corporations and credit card companies"

On April 28, 2015, the Commissioner of Banks published a circular on the subject of an update to the structure of public reports of banking corporations and credit card companies. The circular updates the structure of public reports of banking corporations in the public reporting regulations. The changes in the public reporting regulations are intended to improve the quality of public reporting, by making the information presented in public reports more useful and accessible to the reader, by increasing the uniformity in the banking system in terms of the presentation of financial statements, and by formulating a framework for the annual report to the public, which will be based on the presentation practices of leading banks in Europe and in the United States.

The main changes to the public reporting regulations are as follows:

A. Establishment of a uniform structure regarding the order of issues presented in the annual report.

B. Cancellation of the management review, and integration thereof into the Board of Directors' report and in other parts of the annual report. Change to the name of the Board of Directors' report to "Report of the Board of Directors and Management".

C. Addition of remarks by the Chairman of the Board before the Report of the Board of Directors and Management, including a summary reference to the main events and trends during the reporting year, to the targets and strategy, and to other issues which the Chairman of the Board is interested in emphasizing.

D. Publication of a risk report on the website of the banking corporation, including detailed quantitative information and qualitative information regarding the risk review and the risk management method, in accordance with the disclosure requirements of Basel, FSB and other sources. In general, this information will constitute an extension of the information which will be given in the Report of the Board of Directors and Management, regarding exposures to risks and in management thereof. Additionally, the Basel disclosure requirements, on the level of the instrument, with respect to the characteristics of specific capital instruments, will be included in a separate report - additional supervisory information - which will be included on the website of the banking corporation.

E. Significant reduction of the disclosure requirements in the chapter regarding the description of the banking corporation's business. Transfer of information regarding corporate governance and the description of the corporation's business to a separate chapter, after the financial statements.

F. Adoption of the disclosure requirements which were included in the recommendations to improve disclosure of risks in banking corporation, which were published by the enhanced disclosure task force (EDTF), primarily on the internet, as part of a separate report which will include disclosure requirements of Pillar 3, and additional information regarding risks.

G. Change in the order of presentation of the financial statements: presentation of the statement of income before the balance sheet. Presentation of notes regarding results before notes regarding the balance sheets. Separation of the note regarding "Credit risk, credit to the public and provision for credit losses" to a more condensed note, and to a separate, more extensive note.

H. The following requirements were added: the signature of the Chief Risk Officer on the separate report regarding the disclosure requirements of Pillar 3, and additional information regarding risks, as specified in section D above.

I. Public reporting regulations on the subject of quarterly reports of banking corporations and public reporting regulations regarding annual and quarterly reports of credit card companies were updated in accordance with the above.

The provisions of this circular were applied to the annual and quarterly statements, beginning with the public report for 2015 and thereafter.

The Bank is implementing this directive.

10. Directives issued by the Commissioner of Banks on the subject of "Credit risk by market branches"

On April 9, 2014, the Commissioner of Banks published a circular on the subject of "Credit risk by market branches". The circular adopts the standard classification of market branches - 2011, which was published by the Central Bureau of Statistics. In accordance with the circular, the Bank adjusted the disclosure regarding credit exposure by market branches, with the aim of adjusting to the classification method and to the new definitions with respect to the various branches.

The implementation of the circular had no significant impact on the Bank.

Note 1 - Accounting Policy (Cont.)

E. New accounting standards and directives issued by the Commissioner of Banks, in the period prior to their application:

1. Directives issued by the Banking Supervision Department on the subject of reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States

On January 27, 2014, the Commissioner of Banks distributed a draft on the subject of reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States.

From the date of the transition to adoption of full reporting in accordance with generally accepted accounting principles in the United States, the banking corporation will be required to update the accounting treatment on these subjects on an ongoing basis, in accordance with the transitional provisions regarding new updates to generally accepted accounting principles in the United States, which will be published on these subjects, and in accordance with the clarifications which will be issued by the Banking Supervision Department.

A binding directive has not yet been published, and therefore, a target date has not yet been determined for the transition to full reporting. However, in this regard, it is important to note the publication of the circular issued by the Commissioner of Banks on the subject of "Business combinations, consolidation of financial statements and investments in investee companies", dated June 10, 2015, which applies generally accepted accounting principles in the United States on the matter (for details, see section E3 below) and circulars published by the Commissioner of Banks on the subject of "taxes on income" and "intangible assets", dated October 22, 2015, which adopt generally accepted accounting principles in the United States on those subjects (for additional details, see sections E4 and E5 below).

The Bank is evaluating the expected impact of the adoption of the rules on the financial reports, but at this stage, it is not possible to estimate the impact.

2. Directives issued by the Commissioner of Banks on the subject of “Revenue from contracts with customers “

On January 11, 2015, the Commissioner of Banks published a circular which included amendments to the public reporting regulations on the subject of the adoption of an update to the accounting principles on the subject of “Revenue from contracts with customers”. The amendments were intended to adjust the public reporting regulations to US GAAP on the subject of “revenue from contracts with customers”.

The standard determines that income is to be recognized through the implementation of a five stage model, which includes, inter alia, rules for the identification of contracts with customers and for the determination of the transaction price, rules defining the manner by which the contract should be separated into its various components, and the manner in which the total transaction price should be separately attributed to each identified component.

Additionally, in accordance with the standard's provisions, income is to be recognized separately with respect to each identified component, in accordance with the rules provided in the standard regarding the timing of the asset's recognition - on a specific date, or over time.

In accordance with transitional provisions specified in the circular, upon initial application, it is possible to choose between the option of retrospective adoption by restatement of comparative figures, or the option of retrospective adoption by recording of the cumulative effect of the standard's initial application, while charging the cumulative effect which will be recognized on the date of initial adoption to equity.

The new standard does not apply, inter alia, to financial instruments and contractual rights or obligations which fall under the application of Chapter 310 of the codification. Specifically, the standard's provisions do not apply to the accounting treatment of interest income and expenses and non-interest financing income.

On February 10, 2016, the Commissioner of Banks published a circular in which it was determined that the amendments to the public reporting regulations will be applied for the first time beginning on January 1, 2018.

The Bank is evaluating the expected impact of the adoption of the rules on the financial reports, but at this stage, it is not possible to estimate the impact.

3. Directives issued by the Banking Supervision Department on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States with respect to business combinations, consolidation of financial statements and investments in investee companies"

On June 10, 2015, the Commissioner of Banks published a circular which determined that the accounting treatment with respect to business combinations, consolidation of financial statements and investments in investee companies will be treated according to generally accepted accounting principles for banks in the United States.

Following the change in provisions, the following was determined:

1. A banking corporation is required to apply generally accepted accounting principles for banks in the United States on the subject of business combinations and the consolidation of financial statements, including, inter alia, the principles regarding presentation, measurement and disclosure which were determined in the provisions of subject 805 regarding "Business combinations", and in the provisions of subject 810 in the codification regarding "Consolidation". Additionally, banking corporations must apply the provisions of issue 350-20, on the subject of "Intangible assets - goodwill and other assets", regarding the accounting treatment of the impairment of goodwill which was purchased in a business combination.
2. A banking corporation is required to adopt generally accepted accounting principles for banks in the United States on the subject of investments in investee companies, including, inter alia, the principles regarding presentation, measurement and disclosure which were determined in the provisions of subject 323 in the codification regarding "Investments - equity method and joint ventures".
3. A transitional provision was canceled which allowed non-performance of adjustments to the accounting policy, which pertains to issues at the core of the banking business, which was applied by a real associate company, which are required in order to ensure that the accounting policy applied by the associate company on these subjects corresponds to that applied by the banking corporation. In its place, a transitional provision was added which allows the banking corporation not to perform adjustments to the associate company which is applied by a real associate company which prepares its financial statements in accordance with IFRS.

It was further clarified that the treatment which was determined with respect to non-current assets which are held for sale, in accordance with IFRS 5, will not apply to investments in associate companies.

The instructions of this circular will apply beginning on January 1, 2016 and thereafter.

At the time of initial application, a banking corporation will act in accordance with the transitional provisions which were determined on those matters in generally accepted accounting principles in the United States, mutatis mutandis. The above includes a retrospective correction of comparative figures, if required with respect to these subjects.

The Bank is preparing for the implementation of the directive, and no significant impact on the Bank is expected due to the implementation of the circular.

4. Directives issued by the Banking Supervision Department on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect to intangible assets"

On October 22, 2015, the Commissioner of Banks published a circular which determined that the accounting treatment on the subject of intangible assets will be treated in accordance with generally accepted accounting principles for banks in the United States on this subject, including, inter alia, the principles regarding presentation, measurement and disclosure which were determined in the provisions of subject 350 in the codification, regarding "Intangible assets - goodwill and others ".

In this regard, the accounting treatment of goodwill, including impairment tests thereof, was updated in accordance with the circular dated February 8, 2015, on the subject of "Reporting by banking corporations and credit card companies in Israel in accordance with generally accepted accounting principles in the United States on the subject of business combinations and consolidation of financial statements".

The instructions of this circular will apply beginning on January 1, 2016 and thereafter.

At the time of initial application, banking corporations will act in accordance with transitional provisions which were determined on those matters, mutatis mutandis. The above includes a retrospective correction of comparative figures, if required with respect to these subjects.

The Bank is preparing for the implementation of the directive, and no significant impact on the Bank is expected due to the implementation of the circular.

5. Directives issued by the Banking Supervision Department on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect to taxes on income"

On October 22, 2015, the Commissioner of Banks published a circular which determined that the accounting treatment on the subject of taxes on income will be treated in accordance with generally accepted accounting principles for banks in the United States on this subject, including, inter alia, the principles regarding the presentation, measurement and disclosure which were determined in the provisions of subject 740 in the codification, regarding "Taxes on income", and in subject 830-740 in the codification, regarding "Foreign currency issues - taxes on income ".

The instructions of this circular will apply beginning on January 1, 2017 and thereafter.

At the time of initial application, banking corporations will act in accordance with transitional provisions which were determined on those matters, mutatis mutandis. The above includes a retrospective correction of comparative figures, if required with respect to these subjects.

A banking corporation is not required to include, in its reports for 2017, disclosure regarding unrecognized tax benefits, as required in accordance with section 740-10-50-15D and 740-10-50-15A of the codification.

The Bank is preparing for the implementation of directive, and at this stage, it is not possible to estimate the effects due to the implementation of the circular.

6. Directives issued by the Commissioner of Banks on the subject of "Capital requirements with respect to exposures to principal counterparties"

On October 22, 2015, the Commissioner of Banks published a circular which updated Proper Banking Management Directives 203 and 204, in connection with capital requirements with respect to exposures of banks to principal counterparties. The above included the establishment, in Directives 203 and 204, of a limit on the loan total, in the amount of NIS 5 million, which allows reduced risk weight in accordance with section 72 of Proper Banking Management Directive 203, on the subject of debts when securing a residential property.

The principal components of the amendments to the directives are as follows:

A. Annex C to Directive 203 - treatment of counterparty credit risk - the annex was updated, and now includes a detailed framework regarding capital requirements with respect to exposures of banking corporations to principal counterparties. The directives distinguish between a main unqualified counterparty and a qualified principal counterparty. Reduced capital requirements were recently established.

B. Various relevant terms were added to the directives, including principal counterparty, qualified principal counterparty, clearing house member, customer, primary security, variable security, trading exposure and transfer to risk reserve.

C. The new directives will apply to exposures to principal counterparties which are caused due to OTC derivatives, marketable derivative transactions on the stock exchange, and securities financing transactions.

D. Sections were added which regulate the method used to calculate risk assets and capital requirements with respect to exposures to qualified principal counterparties. The sections, inter alia, regulate the following types of exposure:

1. Exposures of a banking corporation which is a clearing house member to principal counterparties. In general, a risk weight of 2% should be attributed to these exposures (as compared with an exposure value of zero prior to the amendment).
2. Exposures of a banking corporation to customers who are active on the stock exchange. According to the amendment, the capital requirements with respect to these exposures should be calculated as if it were a two-party transaction, including allocation of capital with respect to CVA risk. The calculation method which was applied until now - calculation according to stock exchange rules - will be canceled.
3. Exposures of a banking corporation to customers who operate through a clearing house member.
4. Transfer by a banking corporation which is a clearing house member to the risk reserve.
5. Securities deposited by a banking corporation with a clearing house member or principal counterparty.
5. Sections were added which regulate the method used to calculate risk assets and capital

requirements with respect to exposures to non-qualified principal counterparties. These sections determine that exposures to non-qualified principal counterparties will be weighted according to the weight of the relevant risk to the counterparty, while transfers to the risk reserve will be weighted at 1,250%.

The provisions of this circular will be implemented beginning on July 1, 2016.

Until June 30, 2017, the Tel Aviv Stock Exchange can be considered a qualified principal counterparty.

The Bank is preparing for the implementation of directive, and at this stage, it is not possible to estimate the effects due to the implementation of the circular.

F. Restatement

On February 11, 2016, due to the significant changes in regulatory requirements in connection with the capital adequacy ratio, and after the receipt of approval from the Banking Supervision Department, the Bank sold bonds which had been classified as bonds held to maturity. This sale was performed following a preliminary discussion which the Bank held vis-à-vis the Banking Supervision Department, which concluded with the Bank accepting the demand from the Banking Supervision Department, which determined that this sale must be done subject to a restatement of the financial statements as of December 31, 2014, and for the year then ended, in order to retrospectively reflect the correction of an error in the classification of the bonds from the held to maturity portfolio to the available for sale portfolio, on the acquisition date. As a result of this sale, the Bank will record profit after tax in the amount of approximately NIS 21 million in the first quarter of 2016. The impact of the restatement on the annual financial statements as of December 31, 2014 and for the year then ended, which were published in the past, is presented below:

	As of December 31, 2014		
	Reported amounts, in millions of NIS		
	Before impact of the amendment *	Impact of the amendment	After the impact of the amendment
Balance sheet items			
Bonds held to maturity	207.4	(207.4)	-
Available for sale securities	407.0	229.4	636.4
Item for securities	880.4	22.0	902.4
Other assets (taxes)	154.5	(8.3)	146.2
Equity	736.7	13.7	750.4
Tier 1 capital adequacy ratio	9.6%	0.2%	9.8%
Total capital adequacy ratio	14.3%	0.1%	14.4%

	For the year ended December 31, 2014		
Other comprehensive income items			
Adjustments with respect to the presentation of available for sale securities at fair value	(1.0)	22.0	21.0
Attributable tax impact	0.6	(8.3)	(7.7)
Total comprehensive income	63.9	13.7	77.6
Statement of Changes in Equity			
Other comprehensive income, net, after tax impact	(1.1)	13.7	12.6
Cash flows from investing activities			
Acquisition of bonds held to maturity	(200.6)	200.6	-
Acquisition of available for sale securities	(2,555.6)	(200.6)	(2,756.2)

* The data before the effect of the amendment include the restatement with respect to the retrospective adoption of generally accepted accounting principles in the United States on the subject of employee rights, and due to the retrospective adoption of directives issued by the Banking Supervision Department on the subject of the discounting of software costs, as specified above in Note 1.D.1 and 1.D.2.

Note 2 - Interest Income and Expenses

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
A.Interest income						
From credit to the public	**393.6**	433.4	509.4	**393.6**	433.4	509.4
From deposits in the Bank of Israel and from cash	**1.9**	10.3	16.8	**1.9**	10.3	16.8
From deposits in banks	**0.2**	0.2	0.6	**0.2**	0.2	0.6
From bonds	**10.1**	13.9	16.4	**11.1**	15.1	19.6
From other assets	**0.5**	0.6	-	**0.4**	0.4	-
Total interest income	**406.3**	458.4	543.2	**407.2**	459.4	546.4
B.Interest expenses						
On public deposits	**48.3**	104.3	204.4	**63.7**	127.4	266.7
On deposits from banks	**1.6**	2.2	3.4	**1.6**	2.2	3.4
On lent securities	**0.4**	1.1	-	**0.4**	1.1	
On liability certificates and deferred liability notes	**21.9**	33.8	78.2	**8.4**	15.0	23.0
Total interest expenses	**72.2**	141.4	286.0	**74.1**	145.7	293.1
Total interest income, net	**334.1**	317.0	257.2	**333.1**	313.7	253.3
C.Details of interest income on an accrual basis from bonds						
Available for sale	**9.1**	12.1*	11.6	**10.1**	13.3*	14.8
Marketable	**1.0**	1.8	4.8	**1.0**	1.8	4.8
Total included under interest income	**10.1**	13.9	16.4	**11.1**	15.1	19.6

* Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

Note 3 - Non-Interest Financing Income

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
A. Non-interest financing income with respect to activities which were not for the purpose of trading						
1. From activities with derivative instruments						
Net income (expenses) with respect to derivative instruments ALM	**4.9**	36.1	(2.7)	**4.9**	36.1	(2.7)
2. Net rate differentials (without the impact of derivatives)	**(7.8)**	(36.2)	1.2	**(7.8)**	(36.2)	1.2
3. From investment in bonds -						
Profit from the sale of available for sale bonds (2)	**5.3**	10.5	9.5	**5.3**	9.1	9.0
Loss from the sale of available for sale bonds (2)	**(0.7)**	(0.2)	(1.3)	**(0.7)**	(0.2)	(1.3)
Total from investment in bonds	**4.6**	10.3	8.2	**4.6**	8.9	7.7
4. Losses from investment in stocks						
Provision for impairment with respect to available for sale stocks (2)	-	-	(0.3)	-	-	(0.3)
Total from investment in stocks	-	-	(0.3)	-	-	(0.3)
Total non-interest financing income with respect to activities which were not for trading purposes	**1.7**	10.2	6.4	**1.7**	8.8	5.9
B. Non-interest financing income with respect to activities for trading purposes						
Income (expenses), net, with respect to other derivative instruments	**(1.6)**	(7.9)	1.1	**(1.6)**	(7.9)	1.1
Realized and unrealized profits from adjustments to the fair value of bonds for trading, net(3)	**0.9**	15.5	6.7	**0.9**	16.9	6.7
Realized profits from adjustments to the fair value of marketable stocks, net	**(0.1)**	0.3	-	**(0.1)**	0.3	-
Total with respect to activities for trading purposes	**(0.8)**	7.9	7.8	**(0.8)**	9.3	7.8
Non-interest financing income	**0.9**	18.1	14.2	**0.9**	18.1	13.7

(1) Derivatives which constitute a part of the Bank's assets and liabilities management unit, which were not designated to hedge relationships.
(2) Reclassified under accumulated other comprehensive income
(3) Of which, the part of the profit (loss) associated with the bonds held for trading which are still held as of the balance sheet date, in the Bank and in consolidated terms, as of December 31, 2015, December 31, 2014 and December 31, 2013, in the amount of NIS (3.1), (2.2) and 1.1 million, respectively.

Note 4 - Fees

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
Activities with securities	**47.8**	39.8	9.8	**47.8**	39.8	8.0
Project accompaniment fees	**18.7**	18.6	17.9	**18.7**	18.6	17.9
Net income from credit portfolio services	**12.3**	13.6	15.5	**12.3**	13.6	15.5
Handling of credit	**9.2**	11.7	18.2	**9.2**	11.7	18.2
Conversion differences	**13.2**	10.5	9.6	**13.2**	10.5	9.6
Fees from life insurance	**8.3**	9.0	9.8	**4.1**	4.8	5.6
Fees from financing activities	**7.0**	6.3	3.4	**7.0**	6.3	3.4
Fees from property insurance	**1.8**	2.5	3.1	-	-	-
Financial product distribution fees	**3.5**	3.7	2.0	**3.5**	3.7	2.0
Account management	**0.2**	0.2	0.3	**0.2**	0.2	0.3
Other fees	**2.5**	2.4	1.8	**2.6**	2.4	1.8
Total operating fees	124.5	118.3	91.4	118.6	111.6	82.3

Note 5 - Other Income

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
Capital gains from the sale of buildings and equipment (1)	**5.8**	-	-	**5.0**	-	-
Profit from amortization of deferred income with respect to the acquisition of Clal Batucha at an opportune price	**11.5**	11.5	-	**11.5**	11.5	-
Others	-	-	0.9	-	-	-
Total other income	**17.3**	11.5	0.9	**16.5**	11.5	-

(1) On October 28, 2015, the Bank sold a real estate property in Jerusalem where a branch of the Bank was located. The profit from the sale of the property, in the amount of approximately NIS 5.0 million, was recorded under other income.

Note 6 - Payroll and Associated Expenses

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
Payroll	**120.4**	124.1(1)	109.5(1)	**105.2**	108.9(1)	91.6(1)
National Insurance and payroll tax	**27.4**	25.3	23.4	**26.2**	24.3	22.5
Other associated expenses, including study fund, vacation pay and sick pay	**14.4**	13.9(1)	15.4(1)	**13.1**	12.3(1)	14.0(1)
Expenses with respect to defined benefit (severance pay)	**3.1**	5.0(1)	3.3(1)	**1.9**	3.9(1)	2.5(1)
Expenses due to share-based payment transactions (2)	-	-	0.4	-	-	0.4
Other associated expenses	**1.0**	2.9	0.9	**1.3**	0.4	0.4
Total salary and associated expenses	**166.3**	171.2(1)	152.9(1)	**147.7**	149.8(1)	131.4(1)

(1) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

(2) In 2015, no expenses were recorded due to transactions which are accounted for as shared-based payment transactions that are settled using capital instruments. (2014 - amount lower than NIS 0.1 million; 2013 - NIS 0.4 million).

Note 7 - Other Expenses

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
IT	**49.2**	42.3	27.6	**106.9**	94.0	66.4
Professional services	**14.4**	11.6	9.7	**13.9**	11.0	8.6
Marketing and advertising	**14.2**	15.2	14.0	**14.2**	15.2	14.0
Vehicle maintenance	**4.7**	4.8	4.4	**4.2**	4.2	4.3
Call center	**7.8**	7.8	8.2	**7.8**	7.8	8.2
Training and continuing education	**2.9**	3.6	2.7	**2.8**	3.5	2.6
Communications (mail, telephone, deliveries, etc.)	**3.5**	3.3	3.0	**3.5**	3.2	3.0
Fees	**9.2**	7.4	2.2	**9.0**	7.3	1.8
Salary of directors who are not employed in the Bank	**1.8**	2.1	1.9	**1.8**	2.1	1.8
Office expenses	**2.5**	2.6	2.8	**2.5**	2.7	2.9
Insurance	**1.3**	1.3	1.4	**1.3**	1.3	1.3
Amortization of intangible assets	**0.4**	0.4	-	**0.4**	0.4	-
Payment of fines to the Bank of Israel	-	0.8	-	-	0.8	-
Others	**5.8**	6.8	4.2	**5.8**	6.6	4.2
Total other expenses	**117.7**	110.0	82.1	**174.1**	160.1	119.1

Note 8 - Provision for Taxes on Income

Reported amounts, NIS millions

A - Composition of the provision for taxes on income

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
Current taxes:						
With respect to the accounting year	**27.9**	35.1	18.7	**26.3**	33.1	15.6
With respect to previous years	-	-	(1.1)	-	-	(1.1)
Total current taxes	**27.9**	35.1	17.6	**26.3**	33.1	14.5
Deferred taxes	(5.9)	(6.0)*	(13.9)*	(5.1)	(5.3)*	(11.8)*
Provision for taxes on income	**22.0**	29.1	3.7	**21.2**	27.8	2.7

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.D.1. and 1.D.2.

B - Adjustment between the theoretical tax amount which would have applied had the profit been taxable according to the statutory tax rate which applied in Israel to the Bank, and the provision for taxes on income, as charged to the statement of income:

	Consolidated			The Bank		
	For the year ended December 31					
	2015	2014	2013	2015	2014	2013
Profit before tax	**70.6**	94.1	16.4	**64.5**	86.6	8.4
Statutory tax rate which applies to the Bank in Israel	**37.58%**	37.71%	36.22%	**37.58%**	37.71%	36.22%
Tax amount based on the statutory tax rate	**26.5**	35.5	5.9	**24.2**	32.7	3.0
Tax (tax savings) with respect to:						
Other unrecognized expenses	**1.2**	1.3	1.1	**1.2**	1.3	1.1
Tax exempt and tax restricted income	**(5.2)**	(4.6)	(0.1)	**(4.9)**	(4.3)	-
Taxes with respect to previous years	-	-	1.1	-	-	1.1
Change in the balance of deferred taxes due to change in the tax rate	**0.7**	-	(2.1)	**0.7**	-	(2.1)
Depreciation adjustment differences	-	(1.2)	-	-	(1.2)	-
Income of subsidiaries in Israel	**(0.6)**	(0.8)	(1.4)	-	-	-
Other differences	**(0.6)**	(1.1)	(0.8)	-	(0.7)	(0.4)
Provision for taxes on income	**22.0**	29.1	3.7	**21.2**	27.8	2.7

C - Tax assessments

Final assessments have been issued for the Bank up to and including 2007. Final assessments have been issued for two subsidiaries up to and including the 2005 tax year. The tax assessments up to and including 2011 are considered final.

Note 8 - Provision for Taxes on Income (Cont.)

Reported amounts, NIS millions

D - Balances of deferred taxes receivable and provision for deferred taxes [2]

	Consolidated				The Bank			
	For the year ended December 31							
	2015	2014	2015	2014	2015	2014	2015	2014
			Average tax rate				Average tax rate	
Deferred taxes receivable:								
Tax asset with respect to losses	**48.3**	51.1	26.5%	26.5%	**44.1**	51.1	26.5%	26.5%
With respect to timing differences:								
Provision for vacation, jubilee bonus and severance pay	**0.6**	[1]2.1	35.8%	36.6%	**0.4**	[1]1.9	37.2%	37.7%
Securities	**0.1**	10.0	37.2%	37.7%	**0.1**	10.1	37.2%	37.7%
Deferred liability notes	**0.7**	0.1	37.2%	37.7%	**0.7**	-	37.2%	-
From provision for credit losses	**45.8**	38.6	37.2%	37.7%	**45.8**	38.6	37.2%	37.7%
From interest which was not charged to income this year	**0.2**	0.3	37.2%	37.7%	**0.2**	0.3	37.2%	37.7%
With respect to the adjustment of non-monetary assets and others	-	3.9	37.2%	31.8%	**0.9**	2.5	37.2%	30.8%
Total deferred taxes receivable	**95.7**	106.1[1]	31.8%	32.0%	**92.8**	104.5[1]	32.0%	32.1%

Current taxes and deferred taxes were calculated in accordance with the new tax rates which were in effect on the reporting date.

(1) Retrospective adoption - for details regarding the retrospective adoption of directives issued by the Banking Supervision Department on the subject of the discounting of software costs, see Note 1.D.1.

(2) Realization of net deferred taxes receivable, based on a forecast according to which the Bank will have taxable income in the future, in appropriate amounts.

E - Tax rates which apply to the Bank and its subsidiaries

A. The Bank is defined as a "financial institution" for the purpose of the Value Added Tax Law, 5735-1975, and as such, its activities are subject to payroll tax and capital gains tax, in accordance with the rate set forth in the Value Added Tax Law.

B. In November 2015, the Value Added Tax Ordinance (Tax Rate for NPO's and Financial Institutions) (Amendment), 5775-2015 was published, which determined that the payroll tax rate which applies to financial institutions will amount to 17% of the salary which was paid for work performed in October or later, and that the capital gains tax rate published 17% of the produced profits. The provision regarding capital gains tax in the 2015 tax year will apply regarding the proportional part of the profit for that year.

C. Presented below are the statutory tax rates which apply to financial institutions, including the Bank, following the aforementioned changes:

Year	Tax rate Companies	Tax rate Profit	Tax rate Total
		%	
2013	25.00	17.58[1]	36.22
2014	26.50	18.00	37.71
2015	26.50	17.75[1]	37.58[2]
2016 and thereafter	26.50	17.00	37.18

(1) Weighted rate.

(2) As compared with a tax rate of 37.71%, prior to the publication of the amendment.

Note 8 - Provision for Taxes on Income (Cont.)

D. On January 4, 2016, the Law for Amendment of the Income Tax Ordinance (Reduction of Corporate Tax Rate), 5776-2015, passed the second and third readings in the Knesset, which established, inter alia, a reduction of the corporate tax rate from 26.5% to 25%, effective beginning on January 1, 2016. In accordance with the aforementioned amendment, the overall tax rate which will apply to financial institutions, including the Company, beginning on January 1, 2016 and thereafter, will amount to 35.9%.

The balances of deferred taxes which were included in the financial statements as of December 31, 2015 were calculated according to the new tax rates which are in effect as of the balance sheet date, and which do not take into account the impacts which may result of the amendment of the law.

According to the Bank's estimate, had the change to the law been completed by December 31, 2015, it would have resulted in a reduction of the deferred tax balances in an additional amount of an approximately NIS 4.4 million, against the reduction of tax expenses in the amount of approximately NIS 4.1 million and in the amount of approximately NIS 0.3 million, against the amortization of other comprehensive income. The change would not have materially affected the investment in associate companies and equity gains. The aforementioned effects will be included in the financial statements which will be published beginning from the date when the enactment of the law has been effectively completed, in other words, in the first quarter of 2016.

Note 9 - Earnings per Share Attributed to the Bank's Shareholders

Reported amounts in millions of NIS

	Consolidated		
	For the year ended December 31		
	2015	2014	2013
Basic earnings			
Total net earnings attributed to the holders of the Bank's ordinary shares	**48.6**	65.0*	12.7*
Diluted earnings			
Total net earnings attributed to the holders of the Bank's ordinary shares	**48.6**	65.0*	12.7*
Weighted average of number of shares			
Weighted average of number of ordinary shares which was used in the calculation of basic earnings	**70.5**	70.5	70.5
Weighted average of the number of ordinary shares which was used in the calculation of diluted earnings	**70.5**	70.5	70.5
Earnings per share (in NIS)			
Basic earnings	**0.69**	0.92*	0.18*
Diluted earnings	**0.69**	0.92*	0.18*

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.D.1. and 1.D.2.

Note 10 - accumulated other comprehensive Income

Reported amounts in millions of NIS

A. Changes in accumulated other comprehensive income (loss) after tax impact

	Adjustments with respect to the presentation of available for sale securities at fair value	Adjustments with respect to employee benefits	Total
Balance as of January 1, 2013	1.1	-	**1.1**
Net change during the period	(0.8)	1.7	0.9
Balance as of January 1, 2014	**0.3**	**1.7**	**2.0**
Net change during the period	13.1*	(0.5)	12.6*
Balance as of December 31, 2014	**13.4**	**1.2**	**14.6**
Net change during the period	2.6	(0.5)	2.1
Balance as of December 31, 2015	**16.0**	**0.7**	**16.7**

B. Changes in components of accumulated other comprehensive income (loss), before tax impact and after tax impact

	For the year ended								
	December 31, 2015			December 31, 2014			December 31, 2013		
	Before tax	Tax impact	After tax	Before tax	Tax impact	After tax	Before tax	Tax impact	After tax
Adjustments with respect to the presentation of available for sale securities at fair value									
Unrealized net profit (loss) from adjustments to fair value *	8.5	(3.0)	5.5	31.3*	(11.5)*	19.8*	6.7	(2.4)	4.3
Profit (loss) with respect to available for sale securities which were reclassified to the statement of income	(4.6)	1.7	(2.9)	(10.3)	3.6	(6.7)	(7.9)	2.8	(5.1)
Total net change during the period	**3.9**	**(1.3)**	**2.6**	**21.0***	**(7.9)***	**13.1***	**(1.2)**	**0.4**	**(0.8)**
Employee benefits									
Actuarial profit (loss) for the period	**(0.7)**	**0.3**	**(0.4)**	(0.2)	0.1	(0.1)	3.2	(1.2)	2.0
Net (profit) loss which was reclassified to the statement of income	**(0.2)**	**0.1**	**(0.1)**	(0.5)	0.1	(0.4)	(0.5)	0.2	(0.3)
Total net change during the period	**(0.9)**	**0.4**	**(0.5)**	(0.7)	0.2	(0.5)	2.7	(1.0)	1.7
Total net change during the period	**3.0**	**(0.9)**	**2.1**	**20.3**	**(7.7)**	**12.6**	**1.5**	**0.6**	**0.9**

* Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

Note 11 - Cash and Deposits in Banks

Reported amounts in millions of NIS

	Consolidated		The Bank	
	December 31			
	2015	2014	2015	2014
Cash and deposits in central banks	**1,910.4**	3,015.2	**1,910.4**	3,015.2
Cash and deposits in commercial banks	**161.5**	262.8	**161.5**	262.8
Total cash and deposits in banks	**2,071.9**	3,278.0	**2,071.9**	3,278.0
Of which: cash, deposits in banks and deposits at the Bank of Israel, for an original period of up to 3 months	**2,071.9**	3,278.0	**2,071.9**	3,278.0

Note 12 - Securities - Consolidated

Reported amounts in millions of NIS

	December 31, 2015				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[1]
A.Available for sale securities -					
Bonds and basket certificates					
Of the Government of Israel	787.9	761.7	27.5	1.3	787.9
Of foreign governments	402.3	403.1	-	0.8	402.3
Of financial institutions in Israel	0.9	0.9	-	-	0.9
Of others in Israel	12.6	12.5	0.1	-	12.6
Basket certificates	1.8	1.9	-	0.1	1.8
Total bonds and basket certificates	**1,205.5**	**1,180.1**	**27.6**[2]	**2.2**[2]	**1,205.5**
Stocks and funds	5.9	5.9	-	-	5.9
Total available for sale securities	**1,211.4**	**1,186.0**	**27.6**[2]	**2.2**[2]	**1,211.4**

	December 31, 2015				
	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
B.Marketable securities					
Bonds and basket certificates					
Of the Government of Israel	511.5	511.4	2.4	2.3	511.5
Of foreign governments	55.8	59.0	-	3.2	55.8
Basket certificates	0.8	0.8	-	-	0.8
Total bonds and basket certificates	**568.1**	**571.2**	**2.4**[3]	**5.5**[3]	**568.1**
Total marketable securities	**568.1**	**571.2**	**2.4**[3]	**5.5**[3]	**568.1**
Total securities	**1,779.5**	**1,757.2**	**30.0**	**7.7**	**1,779.5**

(1) Fair value inputs are generally based on market prices, which do not necessarily reflect the price which would be received from the sale of securities in large scopes.
(2) Included under equity, in the item for "Included adjustments with respect to the presentation of available for sale securities at fair value".
(3) Charged to the statement of income.
For details regarding the results of bond investment activities, see the notes regarding interest income and expenses, and non-interest financing income.

Note 12 - Securities - Consolidated

Reported amounts in millions of NIS

	December 31, 2014				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[1]
A.Available for sale securities -					
Bonds					
Of the Government of Israel [5]	609.9	588.5	22.3	0.9	609.9
Of financial institutions in Israel	10.1	10.0	0.1	-	10.1
Of others in Israel	12.7	12.7	0.1	0.1	12.7
Total bonds	**632.7**	**611.2**	**22.5**	**1.0**	**632.7**
Shares	3.7	3.7	-	-	3.7[2]
Total available for sale securities	**636.4**	**614.9**	**22.5**[3]	**1.0**[3]	**636.4**[2]

	December 31, 2014				
	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
B.Marketable securities					
Bonds					
Of the Government of Israel	266.0	268.2	0.7	2.9	266.0
Total marketable securities	**266.0**	**268.2**	**0.7**[4]	**2.9**[4]	**266.0**
Total securities	**902.4**	**883.1**	**23.2**	**3.9**	**902.4**

(1) Fair value inputs are generally based on market prices, which do not necessarily reflect the price which would be received from the sale of securities in large scopes.
(2) Includes shares for which available fair value does not exist, which are presented at cost, in the amount of NIS 3.7 million.
(3) Included under equity, in the item for "Included adjustments with respect to the presentation of available for sale securities at fair value".
(4) Charged to the statement of income.
(5) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

For details regarding the results of bond investment activities, see the notes regarding interest income and expenses, and non-interest financing income.

Note 12 - Securities - Consolidated (Cont.)

Reported amounts, NIS millions

Fair value and unrealized losses, by time period and rate of impairment, of available for sale securities which are held in unrealized losing positions

	December 31, 2015							
	Less than 12 months[1]				12 months or more[2]			
	Value	Unrealized losses[5]			Value	Unrealized losses[5]		
	Fair	0-20%[3]	20-40%[4]	Total	Fair	0-20%[3]	20-40%[4]	Total
Bonds								
Of the Government of Israel	186.8	1.3	-	1.3	0.2	-[6]	-	-
Of foreign governments	342.7	0.8	-	0.8	-	-	-	-
Of financial institutions in Israel	0.9	-	-	-	-	-	-	-
Of others in Israel	-	-	-	-	11.7	-[6]	-	-
Basket certificates	1.8	0.1	-	0.1	-	-	-	-
Total available for sale securities	**532.2**	**2.2**	-	**2.2**	**11.9**	-	-	-

	December 31, 2014							
	Less than 12 months[1]				12 months or more[2]			
	Value	Unrealized losses[5]			Value	Unrealized losses[5]		
	Fair	0-20%[3]	20-40%[4]	Total	Fair	0-20%[3]	20-40%[4]	Total
Bonds								
Of the Government of Israel	56.7	0.9	-	0.9	-	-	-	-
Other Israel	11.9	0.1	-	0.1	-	-	-	-
Total available for sale securities	**68.6**	**1.0**	-	**1.0**	-	-	-	-

(1) Investments which were held in losing positions, which have not yet been realized, for periods of less than 12 months.
(2) Investments which were held in losing positions, which have not yet been realized, for periods of more than 12 months.
(3) Investments with respect to which the unrealized loss constitutes up to 20% of their amortized cost
(4) Investments with respect to which the unrealized loss constitutes 20% to 40% of their amortized cost.
(5) In the Bank's estimate, the impairments are of a temporary nature, and therefore, there is no need to record impairment.
(6) Represents an amount lower than NIS 0.1 million.

Note 12 - Securities - The Bank (Cont.)

Reported amounts in millions of NIS

	December 31, 2015				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[1]
A.Available for sale securities -					
Bonds and basket certificates					
Of the Government of Israel	787.9	761.7	27.5	1.3	787.9
Of foreign governments	402.3	403.0	0.1	0.8	402.3
Of financial institutions in Israel [4]	18.7	18.7	-	-	18.7
Of others in Israel	12.6	12.5	0.1	-	12.6
Basket certificates	1.8	1.9	-	0.1	1.8
Total bonds and basket certificates	**1,223.3**	**1,197.8**	**27.7**	**2.2**	**1,223.3**
Stocks and funds	5.9	5.9	-	-	5.9
Total available for sale securities	**1,229.2**	**1,203.7**	**27.7[2]**	**2.2[2]**	**1,229.2**

	As of December 31, 2015				
	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
Bonds and basket certificates					
Of the Government of Israel	511.5	511.4	2.4	2.3	511.5
Of foreign governments	55.8	59.0	-	3.2	55.8
Basket certificates	0.8	0.8	-	-	0.8
Total marketable bonds and basket certificates	**568.1**	**571.2**	**2.4[3]**	**5.5[3]**	**568.1**
Total securities	**1,797.3**	**1,774.9**	**30.1**	**7.7**	**1,797.3**

(1) Fair value inputs are generally based on market prices, which do not necessarily reflect the price which would be received from the sale of securities in large scopes.
(2) Included under equity, in the item for "Included adjustments with respect to the presentation of available for sale securities at fair value".
(3) Charged to the statement of income.
(4) Of which, the balance sheet value amounted to NIS 17.8 million with respect to the bonds of consolidated companies.
For details regarding the results of bond investment activities, see the notes regarding interest income and expenses, and non-interest financing income.

Note 12 - Securities - The Bank (Cont.)

Reported amounts in millions of NIS

	December 31, 2014				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[1]
A.Available for sale securities -					
Bonds					
of the Government of Israel [6]	408.6	387.2	22.3	0.9	408.6
Of financial institutions in Israel [5]	195.5	195.4	0.1	-	195.5
Of others in Israel	12.7	12.7	0.1	0.1	12.7
Total bonds	**616.8**	**595.3**	**22.5**	**1.0**	**616.8**
Shares	3.7	3.7	-	-	3.7[2]
Total available for sale securities	**620.5**	**599.0**	**22.5**	**1.0**	**620.5**[2]

	As of December 31, 2014				
	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
Bonds					
Of the Government of Israel	266.0	268.2	0.7	2.9	266.0
Total bonds for trading	**266.0**	**268.2**	**0.7**[4]	**2.9**[4]	**266.0**
Total securities	**886.5**	**867.2**	**23.2**	**3.9**	**886.5**

(1) Fair value inputs are generally based on market prices, which do not necessarily reflect the price which would be received from the sale of securities in large scopes.
(2) Includes shares for which available fair value does not exist, which are presented at cost, in the amount of NIS 3.7 million.
(3) Included under equity, in the item for "Included adjustments with respect to the presentation of available for sale securities at fair value".
(4) Charged to the statement of income.
(5) Of which, the book value amounted to NIS 185.4 million with respect to the bonds of consolidated companies.
(6) Restated in order to retrospectively reflect the required correction to the reclassification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

For details regarding the results of bond investment activities, see the notes regarding interest income and expenses, and non-interest financing income.

Note 13 - Credit Risk, Credit to the Public and Provision for Credit Losses

Reported amounts in millions of NIS

A. Debts [(1)] and off-balance sheet credit instruments

	December 31, 2015					
	Commercial	Residential	Other private	Total public	Banks and governments	Total
Recorded debit balance [(1)]						
Debts evaluated on an individual basis	1,533.7	-	4.3	1,538.0	-	1,538.0
Evaluated on a collective basis (*)	351.9	7,023.9	1,087.1	8,462.9	-	8,462.9
(*) Of which: by extent of arrears	76.0	6,759.5	-	6,835.5	-	6,835.5
Total debts (**)	**1,885.6**	**7,023.9**	**1,091.4**	**10,000.9**	-	**10,000.9**
(**) Of which:						
C. Debts under restructuring	7.4	-	15.9	23.3	-	23.3
Other impaired debts	2.4	-	-	2.4	-	2.4
Total impaired debts	**9.8**	-	**15.9**	**25.7**	-	**25.7**
Debts in arrears of 90 days or more	3.1	164.6	10.7	178.4	-	178.4
Other troubled debts	1.0	5.5	9.4	15.9	-	15.9
Total troubled debts	**13.9**	**170.1**	**36.0**	**220.0**	-	**220.0**
Provision for credit losses with respect to debts						
With respect to debts which were evaluated on an individual basis	5.5	-	-	5.5	-	5.5
Evaluated on a collective basis (*)	1.8	59.8[(2)]	44.5	106.1	-	106.1
(*) Of which: by extent of arrears	0.3	59.8	-	60.1	-	60.1
Total (**)	**7.3**	**59.8**	**44.5**	**111.6**	-	**111.6**
(**) Of which: with respect to impaired debts	0.5	-	9.0	9.5	-	9.5

Note 13 - Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

	December 31, 2014					
Recorded debit balance						
Debts evaluated on an individual basis	1,382.3	0.5	6.2	1,389.0	-	1,389.0
Evaluated on a collective basis (*)	322.8	6,976.7	985.9	8,285.4	38.9	8,324.3
(*) Of which: by extent of arrears	122.2	6,771.8	-	6,894.0	-	6,894.0
Total debts (**)	**1,705.1**	**6,977.2**	**992.1**	**9,674.4**	**38.9**	**9,713.3**
(**) Of which:						
C. Debts under restructuring	7.6	-	12.3	19.9	-	19.9
Other impaired debts	20.5	0.5	-	21.0	-	21.0
Total impaired debts	**28.1**	**0.5**	**12.3**	**40.9**	**-**	**40.9**
Debts in arrears of 90 days or more	6.0	197.4	11.4	214.8	-	214.8
Other troubled debts	10.3	-	11.0	21.3	-	21.3
Total troubled debts	**44.4**	**197.9**	**34.7**	**277.0**	**-**	**277.0**
Provision for credit losses with respect to debts						
With respect to debts which were evaluated on an individual basis	7.0	-	-	7.0	-	7.0
Evaluated on a collective basis (*)	1.7	63.6(2)	35.6	100.9	-	100.9
(*) Of which: by extent of arrears	0.4	63.6	-	64.0	-	64.0
Total (**)	**8.7**	**63.6**	**35.6**	**107.9**	**-**	**107.9**
(**) Of which: with respect to impaired debts	1.8	-	3.9	5.7	-	5.7

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.

(2) Includes provision balances beyond what is required according to the extent of arrears method, which was calculated on an individual basis, in the amount of NIS 5.5 million, and which was calculated on a collective basis in the amount of NIS 24.2 million. (As of December 31, 2014: NIS 0.3 million and NIS 24.5 million, respectively.)

Note 13 - Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Movement in the balance of the provision for credit losses

	Commercial	Residential	Other private	Total public	Banks and governments	Total
Balance of the provision for credit losses as of December 31, 2012	9.6	60.5	22.5	92.6	-	92.6
Expenses with respect to credit losses	2.1	21.1	31.5	54.7	-	54.7
Accounting write-offs	(4.0)	(11.8)	(31.6)	(47.4)	-	(47.4)
Collection of debts which were written off in previous years	3.3	0.1	7.8	11.2	-	11.2
Net accounting write-offs	(0.7)	(11.7)	(23.8)	(36.2)	-	(36.2)
Other	-	-	0.3	0.3	-	0.3
Balance of the provision for credit losses as of December 31, 2013 *	**11.0**	**69.9**	**30.5**	**111.4**	-	**111.4**
Expenses with respect to credit losses	(9.6)	(1.3)	29.3	18.4	-	18.4
Accounting write-offs	(0.2)	(6.8)	(30.5)	(37.5)	-	(37.5)
Collection of debts which were written off in previous years	9.0	2.7	6.7	18.4	-	18.4
Net accounting write-offs	8.8	(4.1)	(23.8)	(19.1)	-	(19.1)
Balance of the provision for credit losses as of December 31, 2014 *	**10.2**	**64.5**	**36.0**	**110.7**	-	**110.7**
Expenses with respect to credit losses	(0.4)	0.5	40.3	40.4	-	40.4
Accounting write-offs	(1.1)	(4.9)	(37.1)	(43.1)	-	(43.1)
Collection of debts which were written off in previous years	0.4	0.1	5.9	6.4	-	6.4
Net accounting write-offs	(0.7)	(4.8)	(31.2)	(36.7)	-	(36.7)
Balance of the provision for credit losses as of December 31, 2015 *	**9.1**	**60.2**	**45.1**	**114.4**	-	**114.4**
(*) Of which: with respect to off-balance sheet credit instruments						
As of December 31, 2013	1.4	0.7	0.4	2.5	-	2.5
As of December 31, 2014	1.5	0.9	0.4	2.8	-	2.8
As of December 31, 2015	1.8	0.4	0.6	2.8	-	2.8

Note 14 - Credit to the Government

Reported amounts in millions of NIS

	Consolidated		The Bank	
	December 31			
	2015	2014	2015	2014
Credit within the framework of arrangements for the supplementation of interest to entitled individuals of the Ministry of Construction & Housing(1)	**0.4**	0.7	**0.4**	0.7
Less - supplementation of interest in advance from the government	**(0.4)**	(0.7)	**(0.4)**	(0.7)
Total credit to the government	-	-	-	-

(1) In accordance with an agreement between the Government of Israel and the Bank, the government undertook to supplement to the Bank, with respect to certain housing loans which were given to individuals who are entitled to assistance in accordance with the instructions of the Ministry of Construction & Housing, the interest margin between the average low interest rate which was practiced in mortgage banks, according to an agreed upon formula, and the actual interest rate on the aforementioned loans. The supplementation of interest, as stated above, with respect to each loan period in advance, discounted by an interest rate of 2% per year, was provided as a deposit in favor of the Bank at the Accountant General, which bears interest at an identical rate.

Note 15 - Investment in Investee Companies

Reported amounts in millions of NIS

A - Composition of the investment

	Consolidated		The Bank	
	December 31			
	2015	2014	2015	2014
Consolidated companies				
Investment in shares	-	-	385.6	381.3(1)
Of which: Profit which accumulated from the acquisition date	-	-	290.4	286.1(1)

B - The Bank's share in the profit or loss of investee companies

	Consolidated			The Bank		
	2015	2014	2013	2015	2014	2013
	NIS Millions					
The Bank's share in the profits of investee companies	-	-	-	7.0	7.6	8.2
Provision for taxes						
Current taxes	-	-	-	1.6	2.0	2.2
Deferred taxes	-	-	-	-	(0.6)	(1.0)
Total provision for taxes	-	-	-	1.6	1.4	1.2
The Bank's share in the profits of investee companies, after tax impact	-	-	-	5.4	6.2	7.0

(1) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

Note 15 - Investment in Investee Companies (Cont.)

Reported amounts in millions of NIS

C - Details of main investee companies

Name of company	Details regarding the company	Share in capital which confers the right to receive profits and voting rights	Investment in shares According to book value As of December 31		Contribution to net profit from operating activities December 31	
			2015	2014	2015	2014
		%	NIS Millions			
Tomer Jerusalem Ltd.	(1)	100	**151.1**	150.9[9]	**0.2**	(1.0)[9]
Ir Shalem International Insurance Agency (1996) Ltd.	(2)	100	**165.7**	161.6	**4.1**	6.1
Jerusalem Investment Portfolio Management Ltd.	(3)	100	**35.2**	35.2	**0.1**	0.2
Jerusalem Capital Markets Fund Management (1980) Ltd.	(4)	100	**1.6**	1.6	-	-
Jerusalem Underwriting and Issuances Ltd.	(5)	100	**6.5**	6.5	-	-
Bank of Jerusalem Trust Company Ltd.	(6)	100	**0.5**	0.5	-	-
Jerusalem Finance & Issuance (2005) Ltd.	(7)	100	**25.0**	25.0	**1.0**	0.9

Amounts lower than NIS 0.1 million are not presented in this note.

(1) The majority of the activities of Tomer Jerusalem Ltd. (hereinafter: "Tomer") involve serving as the Bank's asset company, and providing IT services to the Bank. See the note regarding buildings and equipment, in connection with the sale of the management building

(2) Ir Shalem International Insurance Agency (1996) Ltd. operates as an insurance agency which provides services related to insurance for the assets and life insurance policies of loan recipients in the Bank.

(3) Jerusalem Investment Portfolio Management Ltd. was engaged in the provision of consulting services and investment portfolio management services. In 2014 - inactive.

(4) Jerusalem Capital Markets Fund Management (1980) Ltd. was engaged in mutual fund management. In 2006, the mutual fund operation was sold - inactive.

(5) Jerusalem Underwriting and Issuances Ltd. was engaged in the underwriting of issuances. The company decided to terminate its operations as an underwriter, and changed its status in the Registrar of Underwriters to "inactive".

(6) The Bank of Jerusalem Trust Company Ltd. is engaged in the holding in trust of accounts and financial assets of foreign residents and other parties.

(7) Jerusalem Finance & Issuance (2005) Ltd. (a subsidiary wholly controlled and owned by the Bank) works to raise sources through the issuance of bonds and deferred liability notes to the public, on behalf of the Bank. In 2015, Finance & Issuance (2005) raised approximately NIS 296 million par value through an issuance of liability certificates, and in 2014, approximately NIS 293 million par value. For details, see the note regarding bonds and deferred liability notes.

(8) During 2014, the following companies were voluntarily liquidated, which were held by the Bank or its subsidiaries, as applicable (100%): Unitrust Future Financial Instruments Ltd.; Jerusalem Financial Operation (2005) Ltd.; Mabat Currency Trade (2007) Ltd.; Mabat Currency Ltd.; Ilanot Batucha Capital Ltd. Magen Tel Aviv 25 Trading Ltd.; Magen Financial Products Ltd.; Tsuot Mutual Funds Management (1993) Ltd.; Moment Investment Products Ltd.; Batucha Mutual Funds Management Ltd.; Ilanot Batucha Capital Ltd.; Moment Investment & Trading Ltd. Klil Investment Products Ltd.; Magen Dollar Trading Ltd. Most of the liquidated companies are inactive companies which were transferred to the Bank's control due to the acquisition of Clal Batucha in 2013.

(9) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

(10) Amounts lower than NIS 1 million are not presented in this note.

D - Acquisition of liability certificates which were issued by a subsidiary

The Bank holds, as of the balance sheet date, liability certificates of the subsidiary Jerusalem Finance & Issuance (2005) Ltd. with a total par value of NIS 17.8 million (Series G). The Bank is not entitled to receive interest with respect to this series.

Note 16 - Buildings and Equipment

Reported amounts in millions of NIS

	Consolidated				The Bank			
	Buildings and real estate[1][5]	Equipment, furniture and vehicles	Software costs[3][4]	Total	Buildings and real estate[1][5]	Equipment, furniture and vehicles	Software costs	Total
Cost of assets[2][3]								
Balance as of December 31, 2013	**68.9**	**47.8**	**165.4**[6]	**282.1**[6]	**45.6**	**29.7**	**0.8**	**76.1**
Additions	2.1	6.4	38.0[6]	46.5[6]	-	-	-	-
Balance as of December 31, 2014	**71.0**	**54.2**	**203.4**[6]	**328.6**[6]	**45.6**	**29.7**	**0.8**	**76.1**
Additions	2.8	3.9	47.9	54.6	-	0.3	-	0.3
Write-offs [6]	7.1	0.3	-	7.4	5.5	0.3	-	5.8
Balance as of December 31, 2015	**66.7**	**57.8**	**251.3**	**375.8**	**40.1**	**29.7**	**0.8**	**70.6**
Depreciation								
Balance as of December 31, 2013	**36.9**	**35.6**	**70.1**[6]	**142.6**[6]	**31.8**	**26.1**	**-**	**57.9**
Depreciation for the year	2.7	5.5	28.1[6]	36.3[6]	1.1	0.8	0.2	2.1
Balance as of December 31, 2014	**39.6**	**41.1**	**98.2**[6]	**178.9**[6]	**32.9**	**26.9**	**0.2**	**60.0**
Depreciation for the year	3.9	4.3	36.8	45.0	1.1	0.6	0.2	1.9
Write-offs [6]	4.7	0.3	-	5.0	3.8	0.3	-	4.1
Balance as of December 31, 2015	**38.8**	**45.1**	**135.0**	**218.9**	**30.2**	**27.2**	**0.4**	**57.8**
Balance for amortization (book value)								
As of December 31, 2015	**27.9**	**12.7**	**116.3**[6]	**156.9**[6]	**9.9**	**2.5**	**0.4**	**12.8**
As of December 31, 2014	**31.4**	**13.1**	**105.2**[6]	**149.7**[6]	**12.7**	**2.8**	**0.6**	**16.1**
As of December 31, 2013	32.0	12.2	95.3[6]	139.5[6]	13.8	3.6	0.8	18.2
Average weighted depreciation rate in percent as of December 31, 2015	10.13	15.74	23.40		6.00	8.77	25.00	
Average weighted depreciation rate in percent as of December 31, 2014	7.73	15.96	22.87		5.87	10.36	25.00	

(1) Including leasehold improvements.
(2) The Bank and the subsidiaries own property, the cost of which amounts to NIS 108.3 million (consolidated) and NIS 40.2 million (in the Bank) (in 2014 - NIS 81.6 million and NIS 26.6 million, respectively), which was fully amortized, and is still in use.
(3) Includes discounted expenses with respect to work salary and outsourcing, in the amount of NIS 13.8 million (as of December 31, 2014 - NIS 7.9 million) (6).
(4) Includes costs for the consumption of materials and services which are associated with software development.
(5) The Bank has no rights which have not yet been recorded in the Land Registry.
(6) Restated in light of the retrospective adoption due to directives issued by the Banking Supervision Department on the subject of the discounting of software costs. For details, see Note 1.D.1.

Note 17 - Intangible Assets

Reported amounts in millions of NIS

	Customer relations[1]
Cost	
Balance as of December 31, 2013	2.0
Balance as of December 31, 2014	2.0
Balance as of December 31, 2015	**2.0**
Amortization	
Balance as of December 31, 2013	-
Depreciation for the year	(0.4)
Balance as of December 31, 2014	(0.4)
Depreciation for the year	(0.4)
Balance as of December 31, 2015	**(0.8)**
Book value	
As of December 31, 2013	2.0
As of December 31, 2014	1.6
As of December 31, 2015	**1.2**

(1) The fair value of the customer relations which were purchased in the transaction involving the acquisition of Clal Finance Ltd.'s entire stake in Clal Batucha, on December 15, 2013, was calculated by discounting the cash flows, net of tax, which are expected to be generated from the customer relations of the acquired company, net of theoretical expenses with respect to the use of the business's assets. The customer relations are amortized equally over a period of 5 years.

Note 18 - Other Assets

Reported amounts in millions of NIS

	Consolidated		The Bank	
	December 31			
	2015	2014	2015	2014
Deferred taxes receivable, net (see Note 8)	**95.7**	106.1(2)	**92.8**	104.5(2)
Surplus of advance payments paid	**6.5**	7.2(3)	**3.8**	4.2(3)
Payroll tax receivable	-	7.3	-	7.3
Prepaid expenses	**5.7**	6.4	**5.1**	5.1
Bond issuance expenses (1)	**6.6**	5.3	-	-
Indemnification asset	**3.8**	5.0	**3.8**	5.0
Income receivable	**1.7**	2.6	**0.7**	1.7
Surplus of the fund for severance pay over the reserve (see Note 23)	**0.9**	2.2(2)	**1.0**	2.2(2)
Receivables with respect to subsidiaries	-	-	-	19.0
Other receivables and debit balances	**4.7**	4.1	**4.2**	3.9
Total other assets	**125.6**	**146.2**(3)(2)	**111.4**	**152.9**(3)(2)

(1) Bond issuance expenses are amortized according to the effective interest method.

(2) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

(3) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

Note 19 - Public Deposits

Reported amounts in millions of NIS

A. Deposit types by depositor types

	Consolidated		The Bank	
	December 31			
	2015	2014	2015	2014
In Israel				
On demand				
Non-interest bearing	**1,340.2**	1,321.0	**1,560.3**	1,370.7
Interest bearing	**897.9**	638.6	**897.9**	638.6
Total on demand	**2,238.1**	1,959.6	**2,458.2**	2,009.3
For fixed periods	**8,780.9**	9,017.6	**10,043.2**	10,238.7
Total public deposits	**11,019.0**	10,977.2	**12,501.4**	12,248.0
*** Of which:**				
Deposits of private individuals	**8,423.2**	8,715.7	**8,423.2**	8,715.7
Deposits of institutional entities	**1,366.9**	989.7	**1,366.9**	989.7
Deposits of corporations and others	**1,228.9**	1,271.8	**2,711.3**	2,542.6

B. Public deposits by size, on a consolidated basis

Maximum deposit in millions of NIS	December 31	
	2015	2014
Up to 1	**6,147.8**	6,672.1
1 to 5	**2,615.6**	2,592.2
5 to 10	**288.8**	518.6
10 to 50	**977.2**	799.1
50 to 100	**239.4**	98.6
More than 100	**750.2**	296.6
Total	**11,019.0**	10,977.2

Note 20 - Deposits from Banks

Reported amounts in millions of NIS

	The Bank and consolidated	
	December 31	
	2015	2014
Deposits for defined periods from commercial banks	**39.4**	42.5

Note 21 - Bonds and Deferred Liability Notes

Reported amounts in millions of NIS

A - Composition

	Average lifetime[1]	Internal rate of return[2]	Consolidated		Bank	
			December 31			
			2015	2014	2015	2014
	Years	%				
Bonds and deferred liability notes which are not convertible to shares:						
In unlinked Israeli currency	2.22	1.58%	**391.8**	499.3	**16.5**	117.6
In CPI-linked Israeli currency	3.26	2.12%	**1,242.6**	1,003.5	**391.3**	367.3
In USD-linked Israeli currency	1.37	5.04%	**0.4**	0.3	**0.4**	0.3
Total bonds and deferred liability notes			**1,634.8**	**1,503.1**	**408.2**	**485.2**
Of which: deferred liability notes			**406.2**	482.0	**406.2**	483.0

(1) Average lifetime is the average of weighted payment periods in the discounted flow, according to the internal rate of return.
(2) The internal rate of return is the interest rate which deducts the expected flow of payments to the balance sheet balance included in the financial statements.

B - Additional details

(1) A. On August 28, 2013, Jerusalem Finance & Issuance (2005) Ltd. (a wholly owned subsidiary of the Bank) published a shelf prospectus for the issuance of bonds and deferred liability notes.

B. On December 4, 2014, Jerusalem Finance & Issuance (2005) Ltd. issued, in a private issuance to classified investors, deferred liability notes (Series I), from the series which is traded on the stock exchange, with a par value of NIS 292,526 thousand, at a price of NIS 1,085 to NIS 1,000 par value. The terms of the liability notes will be identical to the terms of the liability notes as described in the shelf offering report which was published by the company on December 24, 2012.

C. On October 28, 2015, Jerusalem Finance & Issuance (2005) Ltd. issued, in a private issuance to classified investors, an additional extension of deferred liability notes (Series I, second extension), from a series traded on the stock exchange, at a par value of NIS 296,300 thousand, at a price of NIS 1,063 to NIS 1,000 par value. The terms of the liability notes will be identical to the terms of the liability notes as described in the shelf offering report which was published by the company on December 24, 2012.

D. Jerusalem Finance & Issuance (2005) Ltd. has an agreement with the Bank, in which it was determined that the issuance consideration of the certificates of deposit according to the prospectus will be deposited in the Bank, through an interest bearing deposit, interest bearing deposit, which will have identical repayment terms as the terms of the certificates of deposit, and at interest terms which will be identical or preferable thereto, as will be agreed upon, from time to time, with the Bank. The deposit will be available to the Bank to use in its judgment, and with a repayment rating equal to the other deposits in the Bank.

On August 6, 2015, the rating company Standard & Poor's Maalot announced that it was leaving the Bank's rating as ilA+, and left the rating outlook as "stable".

(2) For details regarding the Bank's acquisitions of liability certificates which were issued by

Jerusalem Finance & Issuance (2005) Ltd., see Note 15.

(3) Within the framework of issuances to the public of liability certificates by Finance & Issuance, the Bank undertook towards Finance & Issuance and the trustee for those issuances, to uphold all of the terms of the liability certificates which were issued by it and which will be held by the public.

(4) On May 17, 2015, the Bank sold to the public all of its holdings in the bonds (Series H) of Jerusalem Finance & Issuance Ltd. (a company wholly owned by the Bank), in a total par value of NIS 151,060 thousand.

Note 22 - Other Liabilities

Reported amounts in millions of NIS

	Consolidated		The Bank	
	December 31			
	2015	2014	2015	2014
Deferred income	**34.2**	45.7	**34.2**	45.7
Accrued income	**20.5**	26.6	**20.5**	26.6
Payables with respect to credit card activities	**36.3**	35.6	**36.3**	35.6
Payables with respect to fixed assets	**8.6**	10.3	-	-
Payroll and associated payables	**11.7**	19.5*	**10.9**	18.7*
Contingent liabilities	**4.6**	4.6	**4.6**	4.6
Provision for credit losses with respect to off-balance sheet items (see Note 30D)	**2.8**	2.8	**2.8**	2.8
Other payables and credit balances	**40.3**	39.8	**39.0**	36.5
Total other liabilities	**159.0**	184.9*	**148.3**	170.5*

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.D.1. and 1.D.2.

Note 23 - Employee Rights

Reported amounts in millions of NIS

Presented below are details regarding the main rights and benefits owed to employees:

A - Retirement pay

The retirement pay reserve included in the balance sheet, together with payments with respect to insurance policies, cover the liability to pay retirement pay to employees. Amounts which were deposited by the Bank and its subsidiaries in insurance companies within the framework of personal managers insurance plans are not included in the balance sheet, due to the fact that they are not under the Bank's control. The withdrawal of fund amounts is conditional upon the fulfillment of the provisions of the Severance Pay Law.

The balance of the excess of severance pay funds over the reserve was included under the item for other assets. In consolidated terms - NIS 0.9 million (2014 - NIS 2.2 million); in the Bank - NIS 1.0 million (2014 - NIS 2.2 million).

For additional details, see below in this note.

B - Reserve for jubilee bonuses

The employees of the Bank and its subsidiaries are entitled, upon reaching a certain level of seniority, to receive a special bonus ("jubilee bonus"). The financial statements included provisions for jubilee bonuses, the balance of which is: consolidated - NIS 2.1 million (2014 - NIS 2.1 million), in the Bank - NIS 1.7 million (2014 - NIS 1.8 million), under the item for "payroll and associated payables", within the framework of "other liabilities".

C - Vacation

The employees of the Bank and its subsidiaries are entitled by law, and in accordance with employment agreements, to receive annual vacation days. The balance of the provision for vacation days as of the balance sheet date amounts to NIS 2.2 million, consolidated and in the Bank, in the amount of NIS 2.0 million (2014 - NIS 2.8 million consolidated, and NIS 2.6 million in the Bank), and is included in the financial statements under the item for "payroll and associated payables", within the framework of "other liabilities".

D - Remuneration policy

- **Officer Remuneration Policy**

  On July 20, 2014, the general shareholders' meeting of the Bank approved the remuneration policy for the Bank's corporate officers, in accordance with section 267A of the Companies Law, 5759-1999 (hereinafter: the "Companies Law"), and in accordance with Proper Banking Management Directive 301A, regarding the remuneration policy of a banking corporation (hereinafter: "Directive 301A").

  On August 20, 2015, the general meeting approved an update to the aforementioned remuneration policy.

  On August 13, 2015, the Commissioner of Banks published an update to Directive 301A, which primarily determined the following: (a) provisions regarding the reimbursement of variable remuneration which was paid to key employees; (b) A provision stipulating that the remuneration for the Chairman of the Board and the other Board members will be fixed remuneration only. This update applies to the aforementioned corporate officer remuneration policy, in accordance with transitional provisions specified therein (hereinafter: the "Amendment to Directive 301A"), and the Bank is preparing to update the corporate officer remuneration policy in accordance with the amendment to Directive 301A.

Note 23 - Employee Rights (Cont.)

The remuneration policy for corporate officers applies to corporate officers, as this term is defined in the Companies Law, and includes the directors, including the Chairman of the Board, the CEO, management members and corporate officers who are not management members. For the sake of order, it is hereby clarified that the term "corporate officer" below will not include members of the Bank’s Board of Directors, except for the Chairman of the Board, who will be considered a corporate officer for the purpose of the corporate officer remuneration policy. It is further noted, for the sake of order, and regarding the terms of tenure and employment of the outgoing Chairman of the Board, that the terms which apply to him are those which were set forth in an existing agreement signed with him, which is paid through a corporation under his full control, which were approved by the Bank's competent organs, prior to the entry into effect of Amendment 20 to the Companies Law, and therefore, they continued to apply to the outgoing Chairman of the Board until the end of the agreement with him on September 10, 2015.

The remuneration policy for corporate officers refers to the remuneration terms of corporate officers, including fixed remuneration (including the salary component and associated benefits), variable remuneration, retirement terms, insurance and indemnification. The policy applies beginning January 1, 2014, for a period of three years (2014-2016).

However, the Bank’s Board of Directors will evaluate, from time to time, inter alia, through the Remuneration Committee, the remuneration policy and the need to adjust it in accordance with the provisions of Amendment 20 and Directive 301A, and will verify that the existing remuneration agreements and the remuneration mechanism are appropriately applied in accordance with the policy and procedures. As part of the above, the Board of Directors will verify that the remuneration incentives which were determined in the remuneration policy do not encourage any deviation from the Bank's risk appetite restrictions, or from the Bank's capital policy. Additionally, the Remuneration Committee will ensure that an evaluation is performed, once per year, of the remuneration mechanism and its operation, including an evaluation of, inter alia, the degree to which the remuneration mechanism complies with the policy established by the Board of Directors.

- **Remuneration policy for employees and key employees who are not corporate officers**

  On July 1, 2014, the Bank’s Board of Directors approved, following the recommendation of the Remuneration Committee, principles regarding the remuneration policy for employees and key employees who are not corporate officers, in accordance with Directive 301A. A detailed policy document, based on the aforementioned principles, was approved by the Bank’s Board of Directors on November 11, 2014, following the recommendation of the Remuneration Committee. On July 31, 2015, the Bank’s Board of Directors approved, following the recommendation of the Remuneration Committee, an update to the aforementioned Remuneration Committee (hereinafter: "Remuneration Policy for Employees and Key Employees who are not Corporate Officers".

  The remuneration policy for employees and key employees who are not corporate officers also applies to key employees, as this term is defined in Directive 301A, who are not corporate officers (hereinafter: "Key Employees Who are not Corporate Officers"). The policy refers to the remuneration terms of the Bank's employees and key employees who are not corporate officers, including fixed remuneration (including the salary component and fringe benefits), variable remuneration, and retirement terms. The policy applies beginning January 1, 2014, for a period of three years (2014-2016).

  However, the Bank’s Board of Directors will evaluate, from time to time, inter alia, through the Remuneration Committee, the remuneration policy and the need to adjust it in accordance with the provisions of amendment 20 and Directive 301A, and will verify that the existing remuneration agreements and the remuneration mechanism are applied appropriately, in accordance with the policy and procedures. As part of the above, the Board of Directors will verify that the remuneration incentives which were determined in the remuneration policy do not encourage any deviation from the Bank's risk appetite restrictions, or from the Bank's capital policy. Additionally, the Remuneration Committee will ensure that an evaluation is performed, once per year, regarding the remuneration mechanism and its operation, including an evaluation of, inter alia, the degree to which the remuneration mechanism complies with the policy set forth by the Board of Directors.

It is noted that the aforementioned amendment to Directive 301A applies to the reimbursement of variable remuneration which was paid to a key employee in accordance with and subject to the transitional provisions which were determined therein. The Bank is preparing to update accordingly the remuneration policy document for employees and key employees who are not corporate officers.

The remuneration policy for corporate officers and the remuneration policy for employees and key employees who are not corporate officers shall hereinafter jointly be referred to as the "Remuneration Policy Documents".

Entities responsible for overseeing remuneration in the Bank:

- The Board of Directors' Remuneration Committee is the main entity responsible for supervising the subject of remuneration in the Bank, and its responsibilities on the matter are as defined and specified in the Companies Law, in Directive 301A and in the remuneration policy documents. The composition of the Remuneration Committee as of the approval date of the financial statements includes Y. Orbach (Chairman) (outside director), S. Eshel (outside director) and R. Harmelch (director); The Remuneration Committee, in its extended composition (according to Proper Banking Management Directive 301 regarding policy and remuneration agreements of all employees, excluding key employees) includes, in addition to the aforementioned members, also the Chairman of the Board, Mr. Z. Nahari.

  The Bank's Remuneration Committee and Board of Directors hired the consulting services of PwC Consulting Ltd., in order to receive consulting and accompaniment regarding the preparation and formulation of the remuneration policy for corporate officers, in accordance with the Companies Law and Directive 301A; and the legal consulting services of Yehuda Raveh & Co. Law Offices and of Ronit Yafeh, Adv., who assisted in reviewing the relevant directives among the directives issued by the Banking Supervision Department, Amendment 20 to the Companies Law and formulation of the remuneration policy.

  The remuneration policy for corporate officers also applies to the directors in the Bank (as of the reporting date, nine directors serve in the Bank, including the Chairman of the Board) and other corporate officers who are not directors (as of the present date, ten corporate officers who are not directors serve in the Bank, including the CEO).

- The remuneration policy for employees and key employees who are not corporate officers applies, as of the date of this report, also to two key employees who are not corporate officers, as specified below. The corporate officers in the Bank, as this term is defined in Directive 301A, include the senior position holders listed under this definition in the aforementioned directive; As of the approval date of the financial statements, all of the senior position holders who are listed under this definition are also corporate officers in accordance with the Companies Law, and therefore, are subject to the remuneration policy for corporate officers, excluding the following senior position holders, who are corporate officers, as this term is defined in Directive 301A: (a) the prevention of money laundering supervisor and the compliance officer; (B) The Human Resources Department Manager.

Excluding the corporate officers, as this term is defined in Directive 301A, as stated above, no additional employees were classified in the Bank as other key employees; In accordance with the easement which was published by the Bank of Israel within the framework of the collection of questions and answers regarding the implementation of Directive 301A, on October 29, 2014, according to which, in banks which employ less than 1,000 employees, managers in banks who were considered key employees prior to the publication of the easement only due to the fact that they are managers who report directly to a manager who reports directly to the CEO, and whose cost of salary is higher than NIS 500 thousand, but lower than NIS 1.5 million, insofar as they do not meet the other conditions required under the definition of a key employee, will not be considered key employees. Additionally, and in accordance with the decision of the Bank's Board of Directors, following the recommendation of the Remuneration Committee, and following an evaluation of the activities of various senior position holders in the Bank, no senior position holders were found whose activities could have a significant impact on the Bank's risk profile or groups of employees who are subject to those remuneration arrangements which may cumulatively expose the Bank to significant risk, even if each of the employees separately does not expose the Bank to significant risk. in 2015, and in accordance with the Board of Directors' resolution, the issue was again discussed by the Risk Management Committee, and after the committee evaluated the activities of the Bank's various senior position holders, the committee re-approved the Board of Directors' aforementioned resolution from 2014, which determined that senior position holders had not been identified whose activities may have a material impact on the Bank's risk profile.

Planning and structure of the remuneration processes:

- **Characteristics and goals of the remuneration policy documents:**

(a) The goal of the remuneration policy documents is, inter alia, to establish rules for the manner by which remuneration is provided to corporate officers and key employees who are not corporate officers in the Bank, as adjusted to the Bank's strategic plans, the Bank's work plan, the fulfillment of the Bank's ultimate financial goals, the Bank's profitability and the market conditions, in the long term perspective, through appropriate consideration and balancing of the desire to create appropriate incentives for achieving the Bank's short and long term goals, and increasing the sense of identification with the Bank and its activities.

The remuneration policy documents were prepared in view of organization-wide considerations, such as the entire remuneration costs and the desired remuneration margins between the various ranks in the Bank, improving the efficiency ratios in the Bank, while emphasizing the moderation of the Bank's fixed costs, the Bank's size and scope of operations, against the desire to ensure fulfillment of the Bank's risk management policy.

(b) The remuneration components specified in the remuneration policy documents include:

- **Fixed remuneration** - this component is intended to remunerate the corporate officers and key employees for the time which they have invested in the performance of their positions, and to maintain them as employees in the Bank, in light of their skills, know-how and expertise, which are appropriate for the Bank's needs, and also to allow the recruitment of a high-quality workforce for the Bank; The salary level will be determined by the competent organs in the Bank, in consideration of their education, skills, expertise, professional experience, achievements, position, areas of responsibility and previous salary agreements which were signed, and the ratio between their terms of tenure and the terms of tenure and employment of the Bank's other employees.

The fixed remuneration components include: parameters for the determination of the corporate officers' monthly salaries, and the determination of the maximum limit of the monthly salary (in accordance with the scope of the position) for the Chairman, the CEO and the other corporate officers; Details regarding fringe benefits; Fixed annual payment to the CEO and to members of management, in accordance with the decision reached by the Remuneration Committee and the Board of Directors, who will be entitled to provide a payment up to a total of one monthly salary, after a tenure period of at least 4 work years as the CEO and/or as a member of management in the Bank; A signing bonus, in special cases which justify such a bonus, to a new corporate officer in the Bank, restricted to the first year of their work, up to a total of two monthly salaries.

- **Variable remuneration** - variable remuneration is intended, inter alia, to encourage and increase the motivation of corporate officers and key employees who are not corporate officers, to work towards achieving the Bank's goals and objectives, over the long term, while merging their interests with those of the Bank and its shareholders, and while complying with the Bank's risk management policy. The variable remuneration is comprised of a variable annual bonus and the provision of special bonuses. In general, the variable annual bonus will be based on a mix of indicators which is comprised of return targets, personal targets (KPI's) and qualitative targets.

  The remuneration policy for corporate officers includes the determination of the maximum limit for the variable annual bonus: for the Chairman; for the CEO[1]; and for members of management. The maximum limit of the variable annual bonus for corporate officers who are not members of management was determined within the framework of the remuneration policy for employees and key employees who are not corporate officers.

- **Payments with respect to termination of employment** - in case of dismissal of corporate officers and key employees who are not corporate officers, they will be entitled to receive 100% severance pay, unless the employment agreement of that corporate officer includes a provision specifying that section 14 of the Severance Pay Law, 5723-1963, applies, in which case the above provision will apply. Advance notice period - in accordance with the remuneration policy for corporate officers: Chairman - up to 3 months; CEO - up to 6 months; other corporate officer - up to 3 months; Adjustment bonus according to the terms set forth in the policy: Chairman - up to 3 monthly salaries; CEO - up to 6 monthly salaries; other corporate officer - up to 3 monthly salaries.

- In accordance with Directive 301, compensation with respect to the termination of employment, beyond that stated in the employment terms, will include taking into account actual performance over time, and the reason for the termination of employment, and the reason for the termination of employment, and will be classified accordingly as variable remuneration, and will be subject to payment postponement arrangements beyond the date of departure, over a minimum period of no less than 3 years.

- The remuneration policy includes the possibility, in case of special considerations, to reduce the variable remuneration in the discretion of the Board of Directors, after the receipt of a recommendation from the Remuneration Committee.

1 In accordance with the amendment to Directive 301A, the Chairman of the Board is entitled to fixed remuneration only, and the policy document will therefore be updated accordingly.

- The remuneration policy includes a stipulation specifying that the corporate officer will repay to the Bank, under the conditions specified in the policy, amounts which were paid to him as part of the terms of tenure and employment, if these were paid to him based on data which were found to be erroneous, and which were restated in the Bank's financial statements. Additionally, and in accordance with the amendment to Directive 301A, provisions were established regarding the reimbursement of a variable bonus, upon the fulfillment of criteria for repayment. The criteria will include, as a minimum, the cases specified in the directive which refer to particularly extraordinary circumstances. Within the framework of the amendment to the Directive 301A, the Bank will also be required to determine the appropriate amount or rate of repayment, in accordance with the different types of circumstances. With respect to key employees, the repayment period will be set as 5 years from the date of provision of the variable bonus. Regarding key employees who are corporate officers, as defined in the Companies Law, the repayment period will be extended by an additional two years, subject to the fulfillment of the conditions specified in the directive, unless the total variable remuneration amount which was provided to the key employee with respect to the calendar year does not exceed one sixth of the fixed remuneration in that year, and there is no obligation to activate the repayment mechanism.

• In 2014, remuneration policy documents were approved for the first time, in accordance with the requirements set forth in section 267A of the Companies Law and Directive 301A; In 2015, the aforementioned remuneration documents were updated, where the changes which were implemented to the remuneration policy for corporate officers include the addition of specific reference to the fixed remuneration of an appointed corporate officer, insofar as they will also be appointed as Acting CEO, where the maximum monthly salary will be NIS 81,000, for a 100% position.

• The Bank ensures that employees who are engaged in the risk department and in compliance are compensated independently of the business which they oversee, in the following manner:

  (a) With respect to corporate officers and key employees who are not corporate officers, who are responsible for control and monitoring in the Bank, which include, inter alia, employees who are responsible for risk and compliance functions, it was determined that the ratio between the variable remuneration and the fixed remuneration will tend more towards fixed remuneration, relative to this ratio for employees who are not responsible for control and monitoring functions.

  (b) Additionally, the remuneration policy documents include the option to provide an additional variable annual bonus to corporate officers and to key employees who are not corporate officers, who are responsible for the monitoring and reporting function, insofar as they are eligible to receive variable remuneration according to the policy.

Description of the methods by which current and future risks are taken into account in the remuneration process:

• The main risks which the Bank takes into account in its implementation of remuneration measures are those specified in the Bank's "risk appetite" documents, which include: credit risks, financial risks, operational risks, compliance and money laundering risks.

• In order to create a balanced structure of incentives, and to prevent the taking or risks beyond the risk appetite, several methods were established in the remuneration policy documents by which current and future risks are taken into account in the remuneration process, as specified below:

(a) A maximum limit was established, on a personal basis, for the budget of the annual bonus for each one of the corporate officers and key employees who are not corporate officers; Additionally, a maximum limit was determined for all members of management.

(b) In accordance with Directive 301A, ratios were established between the variable remuneration and the fixed remuneration, in a manner whereby, in any case, the variable remuneration given to a corporate officer and to a key employee who is not a corporate officer will not exceed 100% of the cost of salary for each corporate officer, except in extraordinary cases, as specified in the remuneration policy, with respect to the CEO only.

(c) In accordance with the remuneration policy for corporate officers, in its calculation of the maximum limit for the variable annual bonus which can be provided to the Chairman[2] and the CEO, with respect to the Bank's target reported returns with respect to each year, the Board of Directors will be required, after receiving the recommendation of the Remuneration Committee, to evaluate the fulfillment of the risk indicators which were determined for them, and in accordance with their fulfillment of the risk indicators, the Board of Directors will be required to reduce up to 20% of the maximum limit for the variable annual bonus which was calculated with respect to this target.

(d) Additionally, and in accordance with the remuneration policy documents, the KPI's of the corporate officers and key employees who are not corporate officers will include, inter alia, compliance with the Bank's risk appetite, the Bank's risk indicators, including the compliance risk indicator, the money laundering risk indicator, and operational risks.

- Additionally, the Bank’s Board of Directors will evaluate, from time to time, inter alia, through the Remuneration Committee, the remuneration policy documents, and the need to adjust them to the provisions of the Companies Law regarding corporate officers, and to Directive 301A, and will ensure that the existing remuneration agreements and the remuneration mechanism are appropriately applied in accordance with the policy documents and procedures. The Board of Directors will also verify that the actual remuneration in accordance with the policy documents, the risk indicators, and the results of the risk indicators, are consistent with the planned mechanism, and will implement adjustments to them as needed.As part of the above, the Board of Directors will verify that the remuneration incentives which were determined in the remuneration policy do not encourage any deviation from the Bank's risk appetite restrictions, or from the Bank's capital policy.
- Methods by which the risks are taken into account in the determination of variable remunerations are by virtue of the determination of the various maximum limits, for the maximum remuneration amount; Additionally, the risks are taken into account by reducing the remuneration in cases of non-fulfillment of the risk indicators.
- During the reporting year, no changes were implemented to the nature and type of these indicators.

The connection between performance during the performance measurement period and remuneration levels

- The Bank's main performance metrics and personal KPI’s are as follows:

(a) Payment of the variable annual bonus is contingent upon the fulfillment of two cumulative preconditions:

2 In accordance with the amendment to Directive 301A, the Chairman of the Board is entitled to fixed remuneration only, and the policy document will therefore be updated accordingly. It is noted that the terms of tenure of the incoming Chairman include the application of the amendment to Directive 301A.

Note 23 - Employee Rights (Cont.)

- Fulfillment of the reported rate of return which will be determined by the Board of Directors after receiving the recommendation of the Remuneration Committee for each calendar year with respect to each bonus year, which will be in the range of 8%-8.5% with respect to each year;
- Fulfillment of the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks during the bonus year.

"Reported rate of return" means the average between the (net) annual returns on equity, as reported in the Bank's audited annual financial statements, and the rate of increase of the Bank's equity, as reported in the Bank's audited annual financial statements. Dividends which were announced and paid during the year, and capital issuances, if any, will be neutralized for the purpose of calculating the increase in equity (in other words, will not be taken into account for the purpose of calculating the rate of increase in equity). In the calculation of annual returns, profits originating from non-recurring events will be neutralized (financial profits, such as nostro profits, will not be considered non-recurring), as well as capital gains. For the avoidance of doubt, reported returns will be considered after taking into account the expenses with respect to the payment of bonuses to the Chairman[3], the CEO, corporate officers and employees, including key employees, and after taking into account the expenses with respect to options to the CEO and to other corporate officers (as well as to any other entity, if any), as recorded in the Bank's books.

(b) In general, the variable annual bonus for officers and key employees who are not officers will be based on a mix of indicators which is comprised of return indicators, personal KPI's (key performance indicators) and qualitative targets.

- The manner by which personal remuneration amounts are connected to the Bank's overall performance is by determining preconditions for the payment of the variable bonus, and its maximum amount, in accordance with the return targets; The personal remuneration amount was determined in accordance with the fulfillment of predefined personal KPI's (key performance indicators) and qualitative indicators.
- The variable remuneration which will be provided granted to corporate officers (excluding the Chairman[4]) will be based on their fulfillment of the targets which were established for them, which are associated with the corporation's performance and the personal performance of the corporate officer, as follows:

Targets	CEO	Corporate officers who are not responsible for control and monitoring	Corporate officers who are responsible for control and monitoring
Reported return target, as required by the Bank	80%*	40%	20%
Key performance indicators (KPI's)	-	40%	60%
Qualitative indicators	20%	20%	20%
Total	**100%**	**100%**	**100%**

* The Board of Directors will be authorized to reduce up to 20% of the variable annual bonus which was calculated with respect to this target, due to non-fulfillment of the risk indicators.

- The remuneration policy for corporate officers includes the option to provide a bonus to the corporate officers in special circumstances (excluding the CEO and Chairman), if the

3 In accordance with the amendment to Directive 301A, the Chairman of the Board is entitled to fixed remuneration only, and the policy document will therefore be updated accordingly.

4 In accordance with the amendment to Directive 301A, the Chairman of the Board is entitled to fixed remuneration only, and therefore, the Chairman's targets in accordance with the remuneration policy documents, which will be updated accordingly, were not specified.

Bank has not fulfilled the preconditions for the receipt of an annual bonus. The scope of the total bonus is limited to an immaterial amount which will not exceed NIS 150,000, while determining a maximum limit of up to one salary for the corporate officer.

The remuneration policy for employees and key employees who are not corporate officers also includes the option to provide a bonus in a year when the actual rate of reported returns is lower than the required rate of reported returns, however, at least by 5%, the scope of the total bonus is limited to a total of NIS 800 thousand, for key employees who are not corporate officers, in an amount which will not exceed one monthly salary per employee, as stated above, and subject to the maximum limit set forth in the policy.

Ways in which the Bank adjusts remuneration in order to take into account longer term performance:

- The remuneration policy documents specify an arrangement for the distribution of the variable remuneration, an arrangement which reinforces the foundation for the variable component over the long term performance which serves as the basis for the payment of the variable bonus, including an arrangement according to which 50% will be deferred and distributed over 3 years, and its payment will be made contingent upon fulfillment of reported returns of 6.5% or higher regarding the year in which the payment is executed, and on the condition that the provision of that part of the deferred variable remuneration will not harm the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks. In the event that, in a certain year, the reported returns are lower than 6.5% and/or the Bank has not fulfilled the required capital adequacy ratio, the deferred remuneration which was supposed to be paid that year, will be canceled. The arrangement applies to all corporate officers and key employees who are not corporate officers. Unless the variable remuneration which has been provided to a corporate officer with respect to the year of the bonus does not exceed one sixth (1/6) of the fixed remuneration of that corporate officer in the same year, in which case it will be necessary to postpone any payment with respect to that variable remuneration.
- The remuneration policy documents also include a stipulation according to which the corporate officer and key employee who is not a corporate officer will repay to the Bank, under the conditions specified in the policy, amounts which were paid to him as part of the terms of tenure and employment, if these were paid to him based on data which were found to be erroneous, and which were restated in the Bank's financial statements (clawback). Additionally, and in accordance with the amendment to Directive 301A, provisions were determined with respect to the repayment of the variable bonus upon the fulfillment of criteria for repayment, which will include, at a minimum, the cases which were specified in the directive, which refer to highly extraordinary circumstances. As part of the update of the policy documents in accordance with the amendment to Directive 301A, the Bank will also be required to determine the amounts or rates of repayment which are appropriate in light of the various types of circumstances. With respect to key employees, the repayment period will be set as 5 years from the date of allocation of the variable bonus. Regarding key employees who are corporate officers, as defined in the Companies Law, the repayment period will be extended by an additional two years, upon the fulfillment of the conditions specified in the directive, Unless the total variable remuneration amount which was provided to the key employee with respect to the calendar year does not exceed 1/6 of the fixed remuneration in that year, in which case there will be no obligation to activate the repayment mechanism.

Forms of variable remuneration:

- In accordance with Directive 301A, ratios were established between the variable remuneration and the fixed remuneration, in a manner whereby, in any case, the variable remuneration to a corporate officer will not exceed 100% of the cost of salary for each corporate officer, subject to the following provisions.

- In exceptional circumstances, the Board of Directors, following the recommendation of the Remuneration Committee, is entitled to determine, by providing a detailed and specific decision, which will be submitted to the general shareholders' meeting for approval, that the maximum variable remuneration for the CEO will amount to 200% of the fixed remuneration for the CEO.
- The variable remuneration, in accordance with the remuneration policy documents, includes remuneration by way of the payment of cash only, and does not includes stocks or stock-based instruments, and other forms.
- The remuneration policy documents include the possibility of providing special grants, such as an additional variable annual bonus to the corporate officers who are responsible for the control and reporting functions. A special annual bonus to the Chairman, subject to the fulfillment of conditions and limits. The remuneration policy also includes the option to provide a bonus, in special circumstances, to the corporate officers (excluding the CEO and Chairman), if the Bank has not fulfilled the preconditions for the receipt of an annual bonus. The scope of the total bonus is limited to an immaterial amount of NIS 150,000, while determining a maximum limit of up to one salary for the corporate officer. The remuneration policy for employees and key employees who are not corporate officers also includes the option to provide a bonus in a year when the actual rate of reported returns is lower than the required rate of reported returns, however, at least by 5%, for key employees who are not corporate officers, in an amount which will not exceed one monthly salary per employee, as stated above, and subject to the maximum limit set forth in the policy.

E - Other rights

In general, the Bank's employees, including members of management (except for the CEO), are not entitled to receive adjustment bonuses and increased severance pay upon retirement. For details regarding the employment terms of the CEO and the Chairman of the Board, see below in the note regarding interested parties and related parties - "Interested Parties and Related Parties".

F - Share-based payment

For details regarding shared-based payment transactions, see below in the note on interested parties and related parties - "shared-based payment transactions".

G - Directive regarding employee rights

On April 9, 2014, the Banking Supervision Department published a circular on the subject of the adoption of accounting principles in the United States with respect to employee rights. The circular updates the requirements for the recognition, measurement and disclosure of employee benefits in the public reporting regulations, in accordance with generally accepted accounting principles for banks in the United States. The circular provides that the amendments to the public reporting regulations will apply beginning on January 1, 2015, where at the time of initial application, the Bank will retrospectively amend the comparative figures for periods beginning on January 1, 2013 and thereafter, in order to meet the requirements of those principles.

For additional details, see Note 1.D.2.

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

	December 31	
	2015	**2014**
Severance pay		
Liability amount	**57.8**	54.4
Fair value of plan assets	**58.7**	56.6
Surplus of liability on plan assets	**(0.9)**	(2.2)
Surplus of plan assets included under the item for "other assets"	**0.9**	2.2
Other benefits*		
Liability amount	**5.5**	7.1
Fair value of plan assets	**-**	-
Surplus of the liability on plan assets	**5.5**	7.1
Surplus of the liability which was included under the item for "other liabilities"	**5.5**	7.1
Total		
Surplus of the liability with respect to employee benefits on plan assets, included under the item for "other liabilities"	**5.5**	7.1
Surplus of plan assets over the liability with respect to employee benefits which was included under the item for "other assets"	**0.9**	2.2

* Primarily includes provisions for vacation and jubilee bonus

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans

1. Liabilities and financial position

	December 31	
	2015	**2014**
A. Change in liability with respect to expected benefit		
Liability with respect to expected benefit (reserve for retirement pay) at start of period	**54.4**	55.7
Cost of service	**3.4**	3.9
Cost of interest	**1.9**	2.5
Actuarial loss (gains)	**(0.4)**	0.2
Benefits paid	**(1.5)**	(7.9)
Liability with respect to expected benefit (reserve for retirement pay) at end of period	**57.8**	54.4
Liability with respect to cumulative benefit at end of period	**55.7**	52.8
B. Change in the fair value of plan assets and the plan's financial position		
Fair value of plan assets at start of period	**56.6**	59.7
Actual return on plan assets	-	0.9
Deposits to the plan by the banking corporation	**3.5**	3.7
Benefits paid	**(1.4)**	(7.7)
Fair value of plan assets (provision for retirement pay) at end of period	**58.7**	**56.6**
Financing condition - net asset recognized at end of period	**0.9**	**2.2**
C. Amounts recognized in the consolidated balance sheet		
Amounts recognized under other assets	**0.9**	2.2
Net asset recognized at end of period	**0.9**	**2.2**
D. Amounts recognized under accumulated other comprehensive income (loss) before tax impact		
Net actuarial gains	**2.4**	3.5
Net liability with respect to the transition	**(1.3)**	(1.6)
Closing balance of accumulated other comprehensive income	**1.1**	**1.9**

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

2. Expenses for the period

	December 31	
	2015	2014
A. Net components of the benefit cost which were recognized under profit and loss		
Cost of service	**3.4**	3.9
Cost of interest	**1.9**	2.5
Projected returns on plan assets	**(1.5)**	(0.9)
Amortization of unrecognized amounts:		
Net actuarial gains	**(0.4)**	(0.5)
Net liability (asset) with respect to transition [(1)]	**(0.3)**	-
Total amortization of unrecognized amounts	**(0.7)**	(0.5)
Total cost of the benefit, net	**3.1**	**5.0**
b. Changes in plan assets and in liabilities for benefits which were recognized under comprehensive income (loss)		
Other, before tax impact		
Net actuarial gains for the period	**0.7**	0.2
Amortization of actuarial profit	**0.4**	0.5
Amortization of net asset with respect to transition	**(0.2)**	-
Total amount recognized under other comprehensive income	**0.9**	**0.7**
Total net cost of the benefit	**3.1**	**5.0**
Total amount recognized in the cost of the benefit, net for the period, and under other comprehensive income	**4.0**	**5.7**

C. Estimated amounts included under accumulated other comprehensive income which are expected to be amortized for accumulated other comprehensive income to the statement of income as an expense (income) in 2016, before tax effect	
Net actuarial gains	(0.4)
Net asset (liability) with respect to transition	(0.3)
Net cost (credit) with respect to previous service	-
Total amount expected to be amortized from accumulated other comprehensive income	**(0.7)**

(1) Amortization of actuarial gains which are due to changes in the discount rate or actuarial gains or losses which are not due to changes in the discount rate are all as defined on January 1, 2013 (date of the initial application of generally accepted accounting principles for banks in the United States, with respect to employee rights) and which were included under accumulated other comprehensive income.

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

3. Assumptions

	December 31	
	2015	**2014**
A. Assumptions on a weighted average basis which are used to determine the liability with respect to the benefit and to measure the net benefit cost for the year that ended		
1. Main assumptions used in the determination of the liability with respect to the benefit		
Discount rate	**1.6%**	1.6%
CPI rate of increase	**1.5%**	1.6%
Churn rate	**9.0%**	9.0%
Real rate of increase in remuneration	**1.0%**	1.0%
2. Main assumptions used in the measurement of the net benefit cost for the period		
Discount rate	**1.5%**	1.6%
Projected long term returns on plan assets	**3.3%**	3.0%
Real rate of increase in remuneration	**1.0%**	1.0%

	Increase of one percentage point		Decrease of one percentage point	
	December 31			
	2015	**2014**	**2015**	**2014**
B. Impact of a change of percentage point on the liability with respect to the expected benefit, before tax impact *				
Discount rate	**(8.7)**	(5.9)	**10.0**	6.5
Churn rate	**0.1**	0.1	**(0.1)**	(0.1)
Rate of increase in remuneration	**10.6**	7.1	**(9.1)**	(6.3)

* The sensitivity analysis is provided only with respect to assumptions which have a significant impact on the liability.

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

4. Plan assets

	For the year ended December 31							
	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Composition of fair value of plan assets								
Asset type								
Cash and deposits in banks	0.1	0.1	-	0.2	0.2	-	-	0.2
Stocks	20.6	-	-	20.6	20.0	-	-	20.0
Bonds:								
Government	5.8	-	-	5.8	7.9	-	-	7.9
Corporate	8.5	6.1	9.5	24.1	8.2	5.9	8.0	22.1
Total	**14.3**	**6.1**	**9.5**	**29.9**	**16.1**	**5.9**	**8.0**	**30.0**
Other	0.4	0.4	7.2	8.0	0.4	0.3	5.7	6.4
Total	**35.4**	**6.6**	**16.7**	**58.7**	**36.7**	**6.2**	**13.7**	**56.6**

	Allocation target	% of plan assets	
	2016	As of December 31	
	%	2015	2014
B. Fair value of plan assets according to asset type and allocation target for 2016			
Cash and deposits in banks	0%-0%	0.0%	0.0%
Stocks	30%-42%	35.0%	35.0%
Bonds:			
Government	3%-15%	10.0%	14.0%
Corporate	29%-53%	41.0%	39.0%
Total bonds	**32%-62%**	**51.0%**	**53.0%**
Other	10%-43%	14.0%	12.0%
Total		**100.0%**	**100.0%**

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

4. Plan assets (Cont.)

		Actual return on plan assets			
	Opening balance	Realized profits / (losses)	Unrealized profits / (losses)	Acquisitions, sales and settlements, net	Closing balance
Asset type					
Corporate bonds	8.0	-	0.3	1.2	9.5
Other	5.7	-	0.2	1.3	7.2
Total	**13.7**	**-**	**0.5**	**2.5**	**16.7**

5. Cash flows

		Actual deposits	
	Forecast *	For the year ended December 31	
	2016	2015	2014
A. Deposits			
Deposits	6.3	3.5	3.7

* Estimate of deposits to be paid to the defined benefit plan in the current fiscal year.

	2015
B. Benefits which the Bank expects to pay in the future	
Year	
2015	6.9
2016	5
2017	5.4
2018	4.7
2019	5.2
2020-2024	19.3
2025 and thereafter	27.6
Total	74.1

* Estimated deposits to be paid to defined benefit plans in the current fiscal year.

Note 24 - Share Based Payment Transactions

1 Previous CEO of the Bank

In accordance with the employment terms of the former CEO, Mr. Uriel Paz, concluded his tenure as the Bank's CEO on October 31, 2015. Mr. Paz was entitled to options of two types - type A units, and type B units. The number of type A options will change in accordance with the returns of the Bank's stock, as specified below: Beginning from 70,518 units for each tranche, in case the returns of the Bank's stock, from the employment commencement date until the exercise date of the option unit, reflect annual returns at a rate of up to and including 6.5% above the basic share price of NIS 8.6 per share, and up to 423,106 units per tranche, in case the returns of the Bank's stock, from the employment commencement date until the exercise date of the option unit, reflect annual returns at a rate of over 9% above the basic share price of NIS 8.6 per share. The number of type B option units will be will be 282,071 units per tranche. The options will vest and will be exercisable in 5 annual tranches, the first of which will vest on the commencement date of the Mr. Uriel Paz's employment in the Bank, and the fifth will vest 4 years after the commencement date of the Mr. Uriel Paz's employment in the Bank. The options will be exercisable for a period of 72 months after the vesting date of each tranche, subject to the provisions of the agreement. The exercise addition for each type A option unit will be in the range between NIS 8.6 for the first tranche and NIS 10.8 for the fifth tranche, and will bear compound interest at an annual rate of 4% from the vesting date until the exercise date, and the exercise addition for each type B option unit will be within the range of NIS 10.3 for the first tranche and NIS 12.5 for the fifth tranche, and will bear compound interest at an annual rate of 3% from the vesting date until the exercise date, all subject to the adjustments specified in the agreement. Each phantom unit will confer upon the Mr. Uriel Paz the right to receive, after exercising the unit, a consideration which will reflect the difference between the average price of the Bank's shares in the 30 business days which preceded the exercise date, and the exercise addition.

In case of termination of the employer - employee relationship between the Bank and Mr. Uriel Paz, the options which vested will be exercisable within 180 days after the date of termination of the employer - employee relationship, after which they will expire. Mr. Paz concluded his tenure as the Bank's CEO on October 31, 2015. Accordingly, all of the allocated options will expire on April 30, 2016.

In the Bank's financial statements as of December 31, 2015, receipts were not recorded with respect to options to the Bank's previous CEO (2014 - amount lower than NIS 0.1 million). The estimated economic value of the options, which was calculated by an external valuer according to the binomial model, is estimated at approximately NIS 4.2 million. As of the allocation date and until February 27, 2011, the Bank's Board of Directors has not yet decided regarding the method of provision of the options to the Bank's CEO, whether within the framework of a plan settled by capital instruments with an alternative for settlement in cash, or within the framework of a plan settled in cash. As a result, and in the absence of the ability of the company's Board of Directors to determine that the settlement of the options will be performed using capital instruments, the Bank accounted for the aforementioned provision as a provision settled in cash, as defined in IFRS 2. As a result, the company measured, in each reporting period, the fair value of the liability where the changes were charged to the statement of income, in consideration of the vesting period.

On February 27, 2011, the Bank's Board of Directors resolved that the options which were granted to the Bank's former CEO would be settled with capital instruments. Therefore, the company classified, at that time, the liability with respect to the options under capital, in accordance with its fair value as of that date.

Note 24 - Share Based Payment Transactions (Cont.)

The calculation of the estimated economic value as of the above date was based on the following main parameters:

Standard deviation of annual returns: 27% to 30%.

Risk-free interest rate: 4.5% to 5.1%.

Share price: NIS 6.56.

Note 24 - Share Based Payment Transactions (Cont.)

2 Executives

A. The Bank's executives, to whom the Bank's Board of Directors approved, on November 29, 2011, the allocation of phantom units (hereinafter: the "Managers"), will be entitled to receive phantom units of two types - type A units, and type B units. The number of type A options will change in accordance with the returns of the Bank's stock, as specified below: Beginning from 58,765 units for each tranche, in case the returns of the Bank's stock, from the employment commencement date until the exercise date of the option unit, reflect annual returns at a rate of up to and including 6.5% above the basic share price of NIS 8.84 per share, and up to 352,589 units per tranche, in case the returns of the Bank's stock, from the employment commencement date until the exercise date of the option unit, reflect annual returns at a rate of over 9% above the basic share price of NIS 8.84 per share. The number of type B option units will be 176,294 units per tranche.

B. The phantom units will vest and will be exercisable in 4 annual tranches, the first of which will vest on November 29, 2012, and the fourth will vest 3 years after this date. The phantom units will be exercisable for a period of 48 months after the vesting date of each tranche, subject to the provisions of the options plan.

C. The exercise addition for all type A phantom units will be within the range between NIS 9.37 and NIS 11.16 for the fourth tranche, and will bear compound interest at an annual rate of 4% from the vesting date until the exercise date, and the exercise addition for each type B phantom unit will be within the range from NIS 11.14 for the first tranche to NIS 12.9 for the fourth tranche, bearing compound interest at an annual rate of 3%, from the vesting date until the exercise date, subject to the adjustments which were specified in the agreement.

D. The units were provided without consideration.

E. The units are non-transferable, except in case of death or in case of legal incompetence.

F. The options plan confers upon the beneficiary protective provisions during the exercise period, in case of the distribution of bonus shares, the distribution of securities by way of rights, changes in the Bank's organizational structure, and in case of the announcement of dividends.

G. Each phantom unit will confer upon the managers the right to receive, after exercising the unit, a consideration which will reflect the difference between the average price of the Bank's share in the 30 business days which preceded the exercise date, and the exercise addition.

H. In case of termination of the employer - employee relationship between the Bank and the executives, for reasons other than death, the options which vested will be exercisable within 30 days after the date of termination of the employer - employee relationship, after which they will expire.

I. The Bank's financial statements as of December 31, 2015 included the recording of expenses of an immaterial sum, similarly to 2014. Additionally, the estimated economic value of the options, which was calculated by an external valuer using the binomial model, is estimated as an immaterial amount.

The calculation of the estimated economic value as of the above date was based on the following main parameters:

Standard deviation of annual returns: 24% to 29%.

Risk-free interest rate: 2.3% to 3.2%.

Share price: NIS 4.96.

Note 25A - Equity

A. The Bank's registered share capital as of December 31, 2015 is comprised of 100,250,000 ordinary shares with a par value of NIS 1 each (as of December 31, 2014 - similar). Issued and paid-up capital as of December 31, 2015 - 70,517,741 shares listed for trading on the Tel Aviv Stock Exchange (as of December 31, 2014 - similar).

The shares are listed for trading on the Tel Aviv Stock Exchange.

B. Dividends

1. Policy and restrictions regarding dividend distributions

On August 29, 2013, the Bank's Board of Directors resolved to adopt a dividend distribution policy of up to 30% of the Bank's net profit in each year, as specified in the immediate report which was published by the Bank on August 29, 2013.

However, the considerations regarding a dividend and its actual distribution, if any, will be affected by the requirement to meet the updated capital targets, as specified in by the Board of Directors (see below in the chapter regarding capital adequacy, chapter on risks and risk management methods) and are subject to the directives issued by the Commissioner of Banks, which will be determined from time to time, and in accordance with the provisions of the law.

A dividend distribution will be performed subject to the provisions of the Companies Law, 5759 - 1999, and Proper Banking Management Directive 331, on the subject of dividend distributions in banking corporations.

In the letter of the Banking Supervision Department on the subject of Basel III - minimum core capital ratios, the banks were required, inter alia, to refrain from dividend distributions if they may cause it not to fulfill the capital targets which were determined therein (for additional details, see Note 25B below).

In certain cases, the Bank can distribute dividends even upon the fulfillment of the aforementioned circumstances, if it has received advance written approval from the Commissioner of Banks for the distribution, and up to the amount which was approved, as stated above.

The above regarding a dividend distribution will not create any undertaking whatsoever towards any third party whatsoever (including with respect to dividend payment dates and/or rates).

The above information regarding dividend distributions constitutes forward looking information, which may not be realized, in whole or in part, or which may be realized differently than expected. This information is based on various assessments and forecasts which were available to the Bank's Board of Directors. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. The influencing factors include forecasts and assessments regarding changes in the state of the economy, legislation, directives issued by supervisory and other entities, and changes in the Bank's profitability, in the strategic plan and in the work plan.

Note 25A - Equity (Cont.)

2. Dividend distributions

Presented below are details regarding dividend distributions in the Bank during the years 2013-2015:

Year	Date of the resolution regarding the distribution	Amount of distribution (NIS in millions)	Effective date	Payment date
2015	25/02/2015	4.5	08/03/2015	22/03/2015
	20/05/2015	5.3	31/05/2015	14/06/2015
	19/08/2015	4.2	26/08/2015	10/09/2015
	19/11/2015	3.1	29/11/2015	13/12/2015
Total for 2015		**17.1**		
2014	03/04/2014	2.5	10/04/2014	27/04/2014
	20/05/2014	3.0	29/05/2014	11/06/2014
	31/07/2014	3.0	11/08/2014	24/08/2014
	14/08/2014	4.4	25/08/2014	07/09/2014
	20/11/2014	4.8	30/11/2014	14/12/2014
Total for 2014		**17.7**		
2013	29/08/2013	11.0	10/09/2013	23/09/2013
	28/11/2013	2.7	05/12/2013	17/12/2013
Total for 2013		**13.7**		

Note 25B - Capital Adequacy, Liquidity and Leveraging in Accordance with the Directives issued by the Commissioner of Banks

Reported amounts in millions of NIS

1. Capital adequacy according to the Commissioner of Banks

Calculated in accordance with Proper Banking Management Directive 201-211 regarding "Measurement and capital adequacy".

	December 31	
	2015	**2014**
A. Consolidated data		
1 - Capital for the calculation of capital ratio		
Tier 1 capital, after supervisory adjustments and deductions	778.6	747.7[1]
Additional Tier 1 capital, after deductions	-	-
Tier 2 capital, after deductions	292.1	359.6
Total Total capital	**1,070.7**	**1,107.3**
2 - Weighted balances of risk assets		
Credit risk	7,201.1	6,918.9
Market risks	72.0	33.2
Operational risk	740.7	698.7
Total weighted balances of risk assets	**8,013.8**	**7,650.8**
3 - Ratio of capital to risk components		
Ratio of Tier 1 capital to risk components	9.7%	9.8%
Ratio of total capital to risk components	13.4%	14.5%
Ratio of minimum Tier 1 capital required by the Commissioner of Banks [2]	9.3%	9.0%
Ratio of minimum total capital required by the Commissioner of Banks [2]	**12.8** %	**12.5%**
B. Capital components for the purpose of calculating the capital ratio (in consolidated figures)		
1 - Tier 1 capital		
Equity	784.0	750.4
Differences between equity and Tier 1 capital	-	-
Total Tier 1 capital, before supervisory adjustments and deductions	**784.0**	**750.4**
Supervisory adjustments and deductions:		
Goodwill and intangible assets	1.2	1.6
Deferred taxes receivable	4.2	1.1
After supervisory adjustments and deductions - Tier 1 capital	-	-
Total supervisory adjustments and other deductions - Tier 1 capital	5.4	2.7
Total Tier 1 capital, after supervisory adjustments and deductions	**778.6**	**747.7**
2 - Tier 2 capital		
Tier 2 capital: instruments, before deductions	201.1	273.0
Tier 2 capital: provisions, before deductions	91.0	86.6
Others	-	-
Total Tier 2 capital, before deductions	**292.1**	**359.6**
Deductions - Tier 2 capital	-	-
Total Tier 2 capital	**292.1**	**359.6**
C. Impact of the transitional provisions on Tier 1 capital		
Ratio of capital to risk components		
Ratio of Tier 1 capital to the risk components, before the implementation of the effect of the transitional provisions (3)	9.7%	9.7%
Impact of the transitional provisions	-	[3]0.1%
Ratio of Tier 1 capital to the risk components, after the implementation of the effect of the transitional provisions in Directive 299.	9.7%	9.8%

Remarks at end of note

Note 25B - Capital Adequacy, Liquidity and Leveraging in Accordance with the Directives issued by the Commissioner of Banks (Cont.)

D. Liquidity coverage ratio (LCR) according to the directives issued by the Commissioner of Banks[4]

The liquidity coverage ratio is calculated in accordance with Proper Banking Management Directive 221, on the subject of the liquidity coverage ratio.

	For the three months ended December 31, 2015
	In percent
Liquidity coverage ratio [5]	403%
Minimum liquidity coverage ratio required by the Commissioner of Banks	100%

E.Leveraging ratio in accordance with the directives issued by the Commissioner of Banks [4]

The leveraging ratio is calculated in accordance with Proper Banking Management Directive 218, on the subject of the leveraging ratio.

Reported amounts in millions of NIS

	As of December 31, 2015
Tier I capital	
Tier I capital	778.6
Total exposures	14,989.5
Leveraging ratio	5.2%
Minimum leveraging ratio required by the Commissioner of Banks	5.0%

(1) The comparative figures were restated in light of the retrospective adoption of directives issued by the Banking Supervision Department on the subject of the discounting of software costs (for details, see Note 1.D.1), and without the impact of the adoption of generally accepted accounting principles in the United States on the subject of employee rights, which entered into effect on January 1, 2015. Additionally, a restatement was implemented in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

(2) The capital ratios which are required by the Commissioner of Banks on January 1, 2015, plus a capital requirement reflecting 1% of the balance of housing loans on the reporting date. This requirement is being applied gradually from April 1, 2015 to January 1, 2017. Accordingly, the ratio of minimum Tier I capital ratio which will be required by the Commissioner of Banks as of January 1, 2017, on a consolidated basis, according to the data as of the reporting date, is 9.9% and 13.4%, respectively.

(3) Including the impact of generally accepted accounting principles in the United States with respect to employee rights.The comparative figures were restated in order to reflect this impact.

(4) This disclosure requirement applies beginning on April 1, 2015. Disclosure is not required for comparative figures which are required for the first time as a result of the adoption of the directive.

(5) The information is presented in terms of simple averages of daily observations during the reported quarter.

Note 26 - Contingent Liabilities and Special Engagements

Reported amounts in millions of NIS

A - Off-balance sheet engagement with respect to activity according to collection rate [1]

	As of December 31	
	2015	**2014**
Balance of credit from deposits by collection rate [2]		
CPI-linked Israeli currency	**1,110.2**	1,372.5
Unlinked Israeli currency	**42.4**	45.4
Foreign currency	-	0.3
Total	**1,152.6**	**1,418.2**

	For the year ended December 31	
	2015	**2014**
Information regarding the provision of loans during the year		
Loans from deposits by collection rate	**2.5**	2.1
Current loans	**1.9**	1.8
Total	**4.4**	3.9

	December 31						
	2015						2014
	Up to 1 Year	1 Year to 3 Years	3 to 5 Years	5 to 10 Years	10 to 20 Years	Total	Total
Flows with respect to fee collection and interest margins, with respect to activity by collection rate [3]							
Future contractual cash flows	11.1	22.0	19.7	19.3	2.2	74.3	93.7
Discounted expected cash flows [4],[5]	10.9	20.6	17.6	16.1	1.6	66.8	84.7

(1) Credits and deposits from deposits whose repayment to the depositor is conditional upon the collection of credits, with the collection fees.
(2) Pending loans and government deposits given for them, in the amount of NIS 91.3 million (2014 - NIS 148.4 million), were not included in this note.
(3) Includes the foreign currency segment and the unlinked NIS segment, which does not exceed 10% of the total deposits, according to collection degree.
(4) Discounting was performed according to a rate of 2.55% (2014 - 2.19%).
(5) These data do not take into account the estimate of early repayments.

Note 26 - Contingent Liabilities and Special Engagements (Cont.)

B - Legal claims

1. General

The Bank is party to legal proceedings, including motions to approve class actions which its customers or former customers have initiated against it, who consider themselves as having incurred damages or injury due to the Bank's activities in the ordinary course of business. In the opinion of Bank management, based on the opinion of its legal counsel, with respect to the chances of pending claims, including motions to approve class actions and claims which will not be dismissed or canceled, adequate provisions have been included in these financial statements to cover possible damages due to all claims, in cases where a provision was required in accordance with generally accepted accounting principles.

2. There are pending motions to approve class actions against the Bank, as specified below:

   A. On July 12, 2010, a claim was filed with the Jerusalem District Court against the Bank, along with a motion to approve the claim as a class action, in the total amount of NIS 10,692 thousand for the entire represented class. In the claim it is alleged that the Bank did not lift the registration of pledges which are registered under its name to secure loans which had already been settled in full by the borrowers. Therefore, it was alleged that the Bank must remove these registrations, and compensate customers who had registered these registrations at their own expense. On March 18, 2014, a motion to approve a settlement agreement which was signed regarding this claim was filed with the Court. In accordance with the Court's decision dated March 20, 2014, the agreement was published in the media, and was submitted to the Attorney General of Israel and to the Commissioner of Banks for approval. The position of the Commissioner of Banks was filed with the Court. The settlement agreement has not yet been approved by the Court. In a discussion which was held on January 12, 2015, the Judge recommended that the plaintiff withdraw its claim. In a discussion which was held on March 29, 2015, after the Attorney General of Israel and the parties had filed their responses, the Court decided, due to the fact that sufficient regulatory steps have not yet been taken regarding the motion, that the case should be set for evidence. In September 2015, evidence hearings were held regarding this claim, and in accordance with the Court's recommendation, the parties are exchanging drafts between them in order to reach a settlement agreement.

      In the opinion of bank management, based on the opinion of its legal counsel, the chances that the Bank will be required to make payments within the framework of the claim (excluding professional fees to the plaintiffs' attorneys) are low.

   B. On September 17, 2013, a claim was filed with the District Court of Jerusalem (inter alia) against the Bank, and a motion was filed to approve the claim as a class action, alleging that the Bank misleads its customers who are disabled persons (at a rate of 40% or higher), and violates the law by not informing them of their legal right to receive discounts on certain fees. The remedies demanded in the motion to approve the claim as a class action include repayment of the difference between the amount charged from disabled customers and the payment which would have been effectively charged from them had the discounts been given. The issuance of a mandamus order is also requested, ordering the Bank to inform its disabled customers regarding the discount. The plaintiff estimated that the total amount of damage caused to the entire class with respect to Bank of Jerusalem amounts to approximately NIS 784 thousand. On June 30, 2014, the Bank filed its response to the motion. A pre-trial hearing regarding the case was held on September 2, 2014. In the hearing it was clear, in light of the Court's remarks with reference to some of the claims in the motion, that the motion's chances of being accepted were low, and the Court proposed that the parties attempt to reach an agreement to resolve the disputes on the case, by sending letters to customers regarding the benefit to disabled persons, including stating, with respect to Bank of

Jerusalem, that the aforementioned arrangement is apparently irrelevant to the Bank, since it does not charge fees, and suggested that the plaintiff consider withdrawing the motion against Bank of Jerusalem.

In the assessment of bank management, based on the opinion of its legal counsel, the Bank has adequate arguments against the arguments in the motion, and therefore, the chances that the motion will be accepted are low.

C. On April 1, 2007, a statement of claim and a motion to recognize the claim as a class action were filed with the District Court of Tel Aviv against Clal Finance Batucha Investment Management Ltd. (hereinafter: "Clal Batucha"), and against additional banks and investment houses.

The plaintiffs contend that they own participation units in various mutual funds which were managed in the past by subsidiaries of the banks, including by Clal Mutual Funds Ltd. (formerly Ilanot Discount Ltd., hereinafter: Ilanot Discount"), which was sold to Clal Batucha. The subject of the claim and the motion to approve involves "brokerage" fees which, as alleged by the plaintiffs, Clal Mutual Funds (which was, during part of the period relevant to the claim, under the control of Clal Batucha), as a mutual fund manager, used to pay to Bank Discount and to Clal Batucha, for buying and selling activities involving securities and/or foreign currency, which Bank Discount and/or Clal Batucha performed on its behalf, due to its status as a stock exchange member company.

As alleged by the plaintiffs, some of the defendants unlawfully charged from mutual funds managed by their subsidiaries fees in rates which were higher than the rates that were charged from other customers of theirs. The plaintiffs further allege that the reason for the continued collection of the high fee was various understandings which Clal Batucha and Bank Discount had reached, within the framework of the sale of the control of Ilanot Discount. The plaintiffs allege that, by these actions, Clal Batucha breached the provisions of the Joint Investment Trust Law, 5754-1994. The plaintiffs further allege that Clal Batucha breached fiduciary duty towards the holders of participation units in the fund, breached the contract between the investors in the investors, misled investors, and abused their lack of knowledge on the matter. The scope of damage claimed to the group is estimated by the plaintiffs, for the period beginning on January 1, 2004, against all of the defendants, as a total of approximately NIS 386.15 million. The plaintiffs contend that, out of this amount, Clal Batucha is responsible for a total of approximately NIS 50.3 million, where with respect to part of the above amount, it is sued alone, and with respect to another part, it is sued jointly and individually with Bank Discount. The relief demanded in the claim is to order all of the defendants to repay the fees which were allegedly overcollected since the beginning of 2004, as well as issuing a mandamus order instructing the defendants to change their practice on all matters associated with the collection of fees.

On February 15, 2010, Clal Batucha filed a response to the motion to approve. On January 9, 2011, the plaintiffs filed their answer to the response by Clal Batucha. On April 17, 2012 the first pre-trial hearing was held regarding the motion, in which it was determined that the claims regarding the broadening of the claim scope will be within the framework of the final decision regarding whether to approve the claim as a class action. Additionally, the Court transferred the material regarding the case to the Israel Securities Authority, which in turn filed, on July 8, 2012, its position regarding the case, and on September 12, 2012, Clal Batucha filed its response to the Authority's position. The parties turned to mediation proceedings, following the recommendation of the Court, which commenced in February 2013. The mediation proceedings were unsuccessful, and the case was returned to the Court and is currently being heard in the Economic Court. In June 2014, evidence hearings were held in the case, and in February 2015, summaries were filed in the case. A ruling has not yet been given.

On August 6, 2013, Bank of Jerusalem acquired all of the shares of Clal Batucha from Clal Finance Ltd., which held 100% of the shares of Clal Batucha. Therefore, in accordance with the purchase agreement, the Bank is also responsible for the liabilities and debts of Clal Batucha with respect to this claim, insofar as any will arise. The above was subject to the obligation of Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the date of the sale, including payment in accordance with a judgment which will be given on the claim, if any, insofar as the total amount of such damages exceeds NIS 2.5 million (discounted for the acquisition date - NIS 2.3 million). On December 21, 2014, Clal Finance Ltd. and Clal Insurance Enterprises Holdings Ltd. notified Bank of Jerusalem that Clal Finance Ltd. had assigned its liabilities and rights in accordance with section 10 of the purchase agreement to Clal Insurance Enterprises Holdings Ltd. In light of the above, the indemnity undertaking of Clal Finance Ltd. now applies to Clal Insurance Enterprises Holdings Ltd.

In the Bank's assessment, which is based on the assessment of its legal counsel, the Bank (formerly - Clal Batucha) has solid defense claims against the claim and against the motion to approve, and the chances that the Court will accept the motion to approve are low.

D. On November 17, 2014, a claim and a motion to approve the claim as a class action was filed with the Tel Aviv District Court - Economic Department, against the Bank and against several additional defendants who had served as directors in Clal, alleging that Clal Batucha, in its role as portfolio manager, had performed. on behalf of its customers. transactions with securities of member companies of the IDB Group, in a manner which gave preference to its interests and to the interests of various member companies of the IDB Group, over the interests of its customers. The plaintiff contends that Clal Batucha breached the provisions of the law, including the provisions of the Engagement in Investment Consulting Law, pertaining to the duty of loyalty of Clal Batucha towards its customers, its obligation to inform its customers regarding the conflict of interest which applied to it in the performance of such actions, and without obtaining their advance consent, before performing any transaction which involved a conflict of interests, as well as a prohibition against giving preference to the financial assets of Clal Batucha or of a related corporation thereto. The plaintiff alleges that he was engaged in an investment management agreement with Clal Batucha, which had acquired, for his portfolio, securities of member companies of the IDB Group, and that by so doing, Clal Batucha caused him to incur significant losses. The amount of the personal claim is estimated at approximately NIS 19,000. the petitioner stated that it is not possible to estimate, at this stage, the amount of the collective claim. On June 30, Clal Finance filed, on behalf of the Bank, the Bank's response to the motion. In January 2016, the petitioner filed its response to the respondent's response.

On August 6, 2013, Bank of Jerusalem acquired all of the shares of Clal Batucha from Clal Finance Ltd., which held 100% of the shares of Clal Batucha. Therefore, in accordance with the purchase agreement, the Bank is also responsible for the liabilities and debts of Clal Batucha with respect to this claim, insofar as any will arise. The above was subject to the obligation of Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the date of the sale, including payment in accordance with a judgment which will be given on the claim, if any, insofar as the total amount of such damages exceeds NIS 2.5 million (discounted for the acquisition date - NIS 2.3 million). On December 21, 2014, Clal Finance Ltd. and Clal Insurance Enterprises Holdings Ltd. notified Bank of Jerusalem that Clal Finance Ltd. had assigned its liabilities and rights in accordance with section 10 of the purchase agreement to Clal Insurance Enterprises Holdings Ltd. In light of the above, the indemnity undertaking of Clal Finance Ltd. now applies to Clal Insurance Enterprises Holdings Ltd. In the opinion of bank management, based on the evaluation of its legal counsel, there is a possible chance that the exposure with respect to the motion to recognize the claim as a class action, and with respect to the motion on its own merits, will be realized.

C - Other contingent liabilities

1. In January 2012, a decision was approved in the general shareholders' meeting of the Bank, according to which the Bank will grant, to any person who will serve, from time to time, as a corporate officer in the Bank and in its subsidiaries, an undertaking to indemnify with respect to financial debt which may be imposed on any of the above, and with respect to reasonable litigation expenses which are associated with the list of events which was attached as an annex to the letter of undertaking. The provision of indemnification is contingent upon the fulfillment of the conditions specified in the letter of undertaking and the maximum indemnification amount for corporate officers in the Bank and in its subsidiaries, which will cumulatively not exceed 25% of the Bank's equity.

2. As part of the founding of the company Jerusalem Finance & Issuance (2005) Ltd., a wholly controlled subsidiary of the Bank (hereinafter: "Finance & Issuance"), the Bank undertook to indemnify Finance & Issuance with respect to all of its undertakings, in order to comply with the directives issued by the Commissioner of Banks on the subject of the minimum capital ratio (section 4 of Proper Banking Management Directive 311). Within the framework of public issuances of liability certificates by Finance & Issuance, the Bank undertook towards Finance & Issuance and towards the trustee for those issuances, to fulfill all of the terms of the liability certificates which were issued by it, and which will be held by the public. As of the reporting date, the balance of the Bank's liability amounts to NIS 91 million par value of certificates of deposit (Series B), NIS 100 million par value of deferred liability notes (Series C), NIS 105 million par value of bonds (Series G), NIS 288 million par value of bonds (Series H), NIS 711 million par value (Series I), NIS 100 million par value of deferred liability notes (Series N), and NIS 131 million of deferred liability notes (Series 10), which were issued by Finance & Issuance. The Bank's aforementioned undertaking is irrevocable and non-modifiable, due to the fact that the rights of the certificate of deposit holders are dependent upon them.

3. On August 6, 2013, Bank of Jerusalem acquired all of the shares of Clal Batucha from Clal Finance Ltd., which held 100% of the shares of Clal Batucha. Therefore, in accordance with the purchase agreement, the Bank is also responsible for the liabilities and debts of Clal Batucha, with respect to its past activities, if any, including with respect to existing claims against Clal Batucha, which have been estimated, for the purpose of the attribution of purchasing costs, in the total amount of NIS 5 million (discounted as of the purchasing date - NIS 4.6 million).

   The above is subject to an undertaking by Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the sale date, insofar as the total amount of such damages exceeds NIS 2.5 thousand (discounted as of the acquisition date - NIS 2.3 million).

   The Bank is also responsible, as a result of the purchase agreement, for the indemnification undertakings of various entities which acquired various activities from Clal Batucha before the sale date. The above is subject to an undertaking by Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the sale date, insofar as the total amount of such damages exceeds NIS 30 thousand.

D - Engagements

The Bank and a consolidated company engaged in long term rental contracts, which include an option for extension. The rental fees required for payment in the coming years with respect to these engagements are as follows:

Note 26 - Contingent Liabilities and Special Engagements (Cont.)

	Consolidated		The Bank	
	December 31			
	2015	2014	2015	2014
First year	**16.8**	16.3	**2.6**	2.7
Second year	**15.2**	15.9	**1.5**	2.5
Third year	**15.3**	13.7	**1.5**	1.5
Fourth year	**15.2**	13.8	**1.5**	1.5
Fifth year and thereafter	**109.7**	103.2	**0.8**	1.8
Total long term rental contracts	**172.2**	**162.9**	**7.9**	**10.0**

Note 27 - Pledges and Restrictive Terms

A. In accordance with the bylaws of the Maof Clearing House Ltd. (hereinafter: "Maof Clearing House"), the Bank is required, as a member of the Maof Clearing House, to deposit liquid collaterals for the entire exposure with respect to activities with derivatives and for its shares in the risk reserve. For this purpose, the Bank pledged in favor of the Maof Clearing House its rights to the following accounts:

1. An account in the Stock Exchange Clearing House, under the name of the Maof Clearing House, in which are deposited government bonds at a value equal to the entire collateral requirement from the Bank's customers, and with respect to the Bank's share in the risk reserve (hereinafter: the "Collateral Account"). The value of the bonds which were deposited as of December 31, 2015 amounted to a total of NIS 326.6 million (as of December 31, 2014 - NIS 137.3 million).
2. An account in Bank Leumi le-Israel Ltd., under the name of the Maof Clearing House, in which cash will be deposited with a value equal to no less than 25% of the Bank's share in the risk reserve, and additionally, cash will be deposited in this account, which will be paid as yields of securities which will be deposited in the Bank's collateral account. As of December 31, 2015, funds had been deposited in this account in the amount of NIS 18.3 million (as of December 31, 2014: NIS 4.4 million).

   The accounts specified above are pledged by means of a floating pledge in favor of the Maof Clearing House, and are also pledged by means of a fixed pledge in favor of the Maof Clearing House.

B. As a stock exchange member company, the Bank is required to deposit liquid collaterals to secure the fulfillment of all of the liabilities of the Bank's customers towards the Stock Exchange Clearing House, with respect to transactions which were performed in the Stock Exchange Clearing House, and to secure their share in the risk reserve of the Stock Exchange Clearing House. For this purpose, the Bank pledged, in favor of the Stock Exchange Clearing House, by means of a first priority fixed pledge, its rights to the following accounts:

1. An account in the Stock Exchange Clearing House, under the Bank's name, and which is managed on the Bank's behalf, in which are deposited government bonds at a value equal to the entire collateral requirement from the Bank's customers, and with respect to the Bank's share in the risk reserve. The value of the bonds which were deposited as of December 31, 2015 amounted to a total of NIS 6.4 million (as of December 31, 2014 - NIS 6.3 million).
2. An account in Bank Leumi le-Israel Ltd., under the name of the Stock Exchange Clearing House, in which will be deposited cash in a value equal to no less than 25% of the Bank's share in the risk reserve, and additionally, cash will be deposited in this account, which will be paid as yields of securities which will be deposited in the Bank's collateral account. As of December 31, 2015, funds had been deposited in this account in the amount of NIS 11.9 million, similarly to December 31, 2014.

C. For the purpose of securing the credit which had been provided, or which will be provided, by the Bank of Israel to the Bank, within the framework of the Bank's activities in the RTGS system, the Bank pledged, in favor of the Bank of Israel, in accordance with an agreement with it dated January 24, 2011, bonds which are held by the Bank and which were deposited or will be deposited in a designated account managed in the Stock Exchange under the name of the Bank of Israel. The pledge is not restricted to any amount. The value of the bonds which were deposited as of December 31, 2015 amounted to a total of NIS 73.6 million (as of December 31, 2014 - NIS 117.8 million).

Note 27 - Pledges and Restrictive Terms (Cont.)

Details of securities which were pledged to lenders

	Consolidated	
	2015	**2014**
Available for sale securities	**406.6**	261.4

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Consolidated and in the Bank)

A - Implementation of directives issued by the Commissioner on the subject of derivative instruments and hedging activities

The Bank's activities as a financial intermediary expose it to a variety of financial risks, including market risks. Market risk includes, inter alia, basis risks, interest rate risks, exchange rate volatility risks, and inflation rate risks. As part of the Bank’s comprehensive strategy for managing the exposure level to market risk, as stated above, the Bank executes, inter alia, transactions with derivative financial instruments, in order to reduce its exposure to market risks. The Bank's activities in derivative financial instruments are performed as an intermediary, trader, or end user. The Bank has derivative financial instruments such as future foreign currency swap transactions forward foreign currency contracts and interest swap contracts (CPI, IRS). The Bank does not perform transactions with options to its account (nostro), except for hedging purposes.

Transactions with derivative financial instruments are recorded at fair value, and changes in their fair value are routinely recorded in the statement of income.

Additionally, the Bank engages in contracts which in themselves do into constitute derivative instruments, but which do contain embedded derivatives. Regarding each contract, the Bank evaluates whether the economic characteristics of the embedded derivative are clearly and closely associated with those of the host contract, and determines whether a separate instrument, with the same terms as those of the embedded instrument, would have met the definition of a derivative instrument.When it is determined that an embedded derivative has economic characteristics which are not clearly and closely associated with the economic characteristics of the host contract, and that a separate instrument with the same conditions qualified as a derivative instrument, the derivative instrument is separated from the host contract, and treated as an independent derivative. An embedded derivative which has been separated is presented in the balance sheet together with the host contract.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates

Reported amounts in millions of NIS

B - Scope of operations

1. Denominated amount of derivative instruments

	December 31, 2015				
	Interest contracts		Foreign currency contracts	Contracts with respect to stocks	Total
	NIS - CPI	Other			
A. ALM derivatives (1)(2)					
Futures contracts	-	57.6	-	-	57.6
Forward contracts	-	-	420.4	-	420.4
Swaps	200.0	254.1	-	-	454.1
Total	**200.0**	**311.7**	**420.4**	-	**932.1**
Of which, interest rate swaps in which the banking corporation has agreed to pay a fixed interest rate	-	254.1	-	-	254.1
B. Other derivatives (1)					
Option contracts traded on the stock exchange					
Written options	-	-	144.5	3,904.9	4,049.4
Acquired options	-	-	144.5	3,904.9	4,049.4
Other marketable option contracts					
Written options	-	-	-	691.3	691.3
Acquired options	-	-	-	691.3	691.3
Total	-	-	**289.0**	**9,192.4**	**9,481.4**
C. Credit derivatives and foreign currency spot transactions					
Foreign currency spot contracts	-	-	5.2	-	5.2
Total denominated amount	**200.0**	**311.7**	**714.6**	**9,192.4**	**10,418.7**
2. Gross fair value of derivative instruments					
A. ALM derivatives (1)(2)					
Gross positive fair value	-	1.3	1.9	-	3.2
Gross negative fair value	1.9	0.3	1.1	-	3.3
B. Other derivatives (1)					
Gross positive fair value	-	-	0.9	191.0	191.9
Gross negative fair value	-	-	0.9	191.0	191.9
Total positive fair value	-	**1.3**	**2.8**	**191.0**	**195.1**
Total negative fair value	**1.9**	**0.3**	**2.0**	**191.0**	**195.2**

(1) Excluding credit derivatives and foreign currency spot contracts.
(2) Derivatives which constitute a part of the Bank's assets and liabilities management unit, which were not designated to hedge relationships.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Cont.)

Reported amounts in millions of NIS

B - Scope of operations

1. Denominated amount of derivative instruments

	December 31, 2014				
	Interest contracts		Foreign currency contracts	Contracts with respect to stocks	Total
	NIS - CPI	Other			
A. ALM derivatives [1][2]					
Futures contracts	-	-	-	-	-
Forward contracts	-	-	1,190.1	-	1,190.1
Swaps	-	198.3	-	-	198.3
Total	-	**198.3**	**1,190.1**	-	**1,388.4**
Of which, interest rate swaps in which the banking corporation has agreed to pay a fixed interest rate	-	198.3	-	-	198.3
B. Other derivatives [1]					
Option contracts traded on the stock exchange					
Written options	-	-	90.9	4,179.5	4,270.4
Acquired options	-	-	90.9	4,179.5	4,270.4
Total	-	-	**181.8**	**8,359.0**	**8,540.8**
C. Credit derivatives and foreign currency spot transactions					
Foreign currency spot contracts	-	-	53.1	-	53.1
Total denominated amount	-	**198.3**	**1,425.0**	**8,359.0**	**9,982.3**

2. Gross fair value of derivative instruments

	NIS - CPI	Other	Foreign currency contracts	Contracts with respect to stocks	Total
A. ALM derivatives [1][2]					
Gross positive fair value	-	0.7	20.4	-	21.1
Gross negative fair value	-	3.7	16.0	-	19.7
B. Other derivatives [1]					
Gross positive fair value	-	-	0.7	18.6	19.3
Gross negative fair value	-	-	0.7	18.6	19.3
Total positive fair value	-	**0.7**	**21.1**	**18.6**	**40.4**
Total negative fair value	-	**3.7**	**16.7**	**18.6**	**39.0**

(1) Excluding credit derivatives and foreign currency spot contracts.
(2) Derivatives which constitute a part of the Bank's assets and liabilities management unit, which were not designated to hedge relationships.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Cont.)

Reported amounts in millions of NIS

C - Credit risk with respect to derivative instruments by counterparty in the contract

	December 31, 2015			
	Stock exchanges	Banks	Dealers / brokers	Total
Book value of assets with respect to derivative instruments [(2)]	182.5	3.3	9.3	195.1
Gross amounts which were not set off in the balance sheet:				
Amortization of credit risk with respect to security received in cash	-	-	-	-
Net amount of assets with respect to derivative instruments	**182.5**	**3.3**	**9.3**	**195.1**
Off-balance sheet credit risks, net, with respect to derivative instruments [(1)]	30.5	9.6	6.4	46.5
Total credit risk with respect to derivative instruments	**213.0**	**12.9**	**15.7**	**241.6**
Balance sheet balance of liabilities with respect to derivative instruments	182.6	3.3	9.3	195.2
Gross amounts which were not set off in the balance sheet:				
Pledged collateral in cash	-	-	-	-
Net amount of liabilities with respect to derivative instruments	**182.6**	**3.3**	**9.3**	**195.2**

	December 31, 2014			
	Stock exchanges	Banks	Dealers / brokers	Total
Book value of assets with respect to derivative instruments [(2)]	14.0	21.1	5.3	40.4
Gross amounts which were not set off in the balance sheet:				
Amortization of credit risk with respect to security received in cash	-	-	-	-
Net amount of assets with respect to derivative instruments	**14.0**	**21.1**	**5.3**	**40.4**
Off-balance sheet credit risks, net, with respect to derivative instruments [(1)]	54.7	35.1	13.7	103.5
Total credit risk with respect to derivative instruments	**68.7**	**56.2**	**19.0**	**143.9**
Balance sheet balance of liabilities with respect to derivative instruments	14.1	19.6	5.3	39.0
Gross amounts which were not set off in the balance sheet:				
Pledged collateral in cash	-	6.5	-	6.5
Net amount of liabilities with respect to derivative instruments	**14.1**	**13.1**	**5.3**	**32.5**

(1) The difference is positive between all amounts with respect to derivative instruments (including derivative instruments with a negative fair value) which were included under the borrower's debt, as calculated for the purpose of restrictions on the borrower's debt, before the amortization of credit risk, and the balance sheet balance of assets with respect to the borrower's derivative instruments.

(2) Of which, the balance sheet balance of independent derivative instruments amounts to NIS 195.1 million (as of December 31, 2014 - NIS 40.4 million), which is included under the item for assets with respect to derivative instruments.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Cont.)

Reported amounts in millions of NIS

D - Details regarding repayment dates (par value amounts)

	Up to 3 months	3 months to 1 year	1 Year to 5 years	Over 5 years	Total
			December 31, 2015		
Interest contracts (NIS - CPI)	200.0	-	-	-	200.0
Interest contracts (other)	57.6	-	186.0	68.1	311.7
Foreign currency contracts	584.0	130.6	-	-	714.6
Contracts with respect to shares	8,789.9	60.1	342.0	0.4	9,192.4
Total	**9,631.5**	**190.7**	**528.0**	**68.5**	**10,418.7**
			December 31, 2014		
Interest contracts (NIS - CPI)	-	-	-	-	-
Interest contracts (other)	-	-	105.0	93.3	198.3
Foreign currency contracts	1,132.9	292.1	-	-	1,425.0
Contracts with respect to shares	8,140.7	66.0	151.7	0.6	8,359.0
Total	**9,273.6**	**358.1**	**256.7**	**93.9**	**9,982.3**

Note 29 - Operating Segments (Consolidated)

A - General

The Bank works through the Bank's headquarters, branches and subsidiaries. The Bank's operating segments have been classified in accordance with the directives issued by the Commissioner of Banks, according to the types of customers which are included in each of the segments, and do not necessarily correspond to the Bank's organizational structure. The Bank operates and provides a variety of banking services in four main operating segments. Presented below are details regarding the reported operating segments which existed until the publication of the new directives regarding supervised operating segments:

Households segment

The customers of this segment are households and small businesses which have similar operational indicators as households.

Private banking segment

The customers of this segment are customers of medium financial wealth, to whom services are given through a branch specializing in private banking, primarily for foreign residents (mostly from North America, England and France).

Business segment

The customers of this segment are construction companies, contractors and real estate companies, business customers, corporations and associations.

Financial management segment

The segment includes the management of the Bank's free financial capital and positions, management of the Bank's nostro portfolio, activity vis-à-vis banks in Israel and abroad, and vis-à-vis the Bank of Israel, as well as the execution of transactions with derivative financial instruments.

Unallocated amounts and adjustments

Including capital gains from the sale of fixed assets.

B - The main principles which were applied in the division of the results of operations among the various segments:

Interest income, net

Margin received from the difference between the credit interest which was provided to the segment's customers and the price of money (the economic transfer price which corresponds to the linkage segment and the credit's average lifetime)

and margin received from the difference between the deposit interest rate which was provided to the segment's customers and the price of money (the economic transfer price which corresponds to the linkage segment and the average deposit lifetime).

Non-interest income

Non-interest income is directly charged to the segment where the customer activity is classified.

Expenses with respect to credit losses

The provision was charged to the operating segment under which the customer activity for which the provision was performed is classified. Similarly, a collection from a provision which was performed or reduced was also attributed to the segment under which the customer's activity is classified.

Note 29 - Operating Segments (Consolidated) (Cont.)

Operating and other expenses

Identifiable direct expenses were specifically charged to the operating segments. The balance of indirect expenses or direct expenses which were not precisely attributable, was attributed according to the model which was used to attribute these expenses, based on the proportion of direct positions in the segment, relative to all positions in the Bank, for each of the operating segments.

Taxes on income

Taxes were calculated according to the effective tax rate, and were attributed accordingly to each segment.

Return on equity

Allocation of capital for the purpose of calculating return on equity in each of the operating segments was based on the average risk assets in each segment. Returns in each segment were calculated in accordance with the equity which was attributed to the segment, as stated above.

Note 29 - Operating Segments (Cont.)

Reported amounts in millions of NIS

	For the year ended December 31, 2015					
	Households	Private banking	Business	Financial management	Unallocated amounts and adjustments	Total
Interest income, net:						
From externals	236.5	22.0	32.0	43.6	-	334.1
Inter-segmental	8.3	1.4	2.6	(12.3)	-	-
Non-interest income - from externals	79.0	12.1	44.6	0.9	6.1	142.7
Total income	**323.8**	**35.5**	**79.2**	**32.2**	**6.1**	**476.8**
Expenses with respect to credit losses	(40.8)	(0.6)	1.0	-	-	(40.4)
Operating and other expenses, excluding depreciation and amortization	(249.1)	(24.3)	(40.8)	(7.0)	-	(321.2)
Depreciation and amortization	(34.1)	(3.9)	(6.1)	(0.5)	-	(44.6)
Profit (loss) before taxes	**(0.2)**	**6.7**	**33.3**	**24.7**	**6.1**	**70.6**
Provision for taxes on income	-	(2.1)	(10.4)	(7.9)	(1.6)	(22.0)
Net profit	**(0.2)**	**4.6**	**22.9**	**16.8**	**4.5**	**48.6**
Return on equity (percentage of net profit from average equity)	-	**6.1%**	**14.5%**	**31.7%**		**6.3%**
Average balance of assets	7,371.4	1,279.5	1,222.9	4,105.9	-	13,979.7
Average balance of liabilities	6,548.3	934.8	2,179.0	3,544.1	-	13,206.2
Average balance of risk assets	4,968.4	744.1	1,589.2	602.8	-	7,904.5
Average balance of securities	6,373.3	332.2	4,768.9	-	-	11,474.4
Average balance of other managed assets	1,246.4	-	-	-	-	1,246.4
Margin from credit provision activity	215.3	21.4	29.3	26.6	-	292.6
Margin from deposits receipt activity	14.9	2.0	2.5	-	-	19.4
Other	14.6	-	2.8	4.7	-	22.1
Total interest income, net	**244.8**	**23.4**	**34.6**	**31.3**	-	**334.1**

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.D.1. and 1.D.2.

Note 29 - Operating Segments (Cont.)

Reported amounts in millions of NIS

	For the year ended December 31, 2014					
	Households	Private banking	Business	Financial management	Unallocated amounts and adjustments	Total
Interest income, net:						
From externals	226.6	18.9	34.5	37.0	-	317.0
Inter-segmental	7.2	1.1	2.1	(10.4)	-	-
Non-interest income - from externals	73.1	9.9	46.8	18.1	-	147.9
Total income	**306.9**	**29.9**	**83.4**	**44.7**	-	**464.9**
Expenses with respect to credit losses	(29.2)	0.3	10.4	0.1	-	(18.4)
Operating and other expenses, excluding depreciation and amortization	(242.7)	(25.4)	(41.9)	(6.0)	-	(316.0)*
Depreciation and amortization	(27.7)	(3.3)	(5.1)	(0.3)	-	(36.4)*
Profit before taxes	**7.3**	**1.5**	**46.8**	**38.5**	-	**94.1***
Provision for taxes on income	(2.5)	(0.4)	(14.3)	(11.9)	-	(29.1)*
Net profit	**4.8**	**1.1**	**32.5**	**26.6**	-	**65.0***
Return on equity (percentage of net profit from average equity)	**1.2%**	**1.5%**	**22.9%**	**60.6%**	-	**9.1%**
Average balance of assets	7,446.9	1,153.8	1,258.7	3,502.6	-	13,362.0
Average balance of liabilities	7,387.4	1,043.7	1,771.5	2,437.9	-	12,640.5
Average balance of risk assets	4,976.5	673.0	1,486.0	463.4	-	7,598.9
Average balance of securities	5,694.7	294.2	5,456.3	-	-	11,445.2
Average balance of other managed assets	1,525.3	-	-	-	-	1,525.3
Margin from credit provision activity	193.0	17.1	29.6	20.6	-	260.3
Margin from deposits receipt activity	18.3	2.9	4.3	-	-	25.5
Other	22.5	-	2.7	6.0	-	31.2
Total interest income, net	**233.8**	**20.0**	**36.6**	**26.6**	-	**317.0**

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.D.1. and 1.D.2.

Note 29 - Operating Segments (Cont.)

Reported amounts in millions of NIS

	For the year ended December 31, 2013					
	Households	Private banking	Business	Financial management	Unallocated amounts and adjustments	Total
Interest income, net:						
From externals	198.2	20.0	39.9	(0.9)	-	257.2
Inter-segmental	(6.4)	(1.0)	(2.2)	9.6	-	-
Non-interest income - from externals	53.9	11.0	27.4	14.2	-	106.5
Total income	**245.7**	**30.0**	**65.1**	**22.9**	-	**363.7**
Expenses with respect to credit losses	(53.0)	(0.5)	(1.2)	-	-	(54.7)
Operating and other expenses, excluding depreciation and amortization	(203.9)	(28.4)	(27.3)	(6.6)	-	(266.2)*
Depreciation and amortization	(20.2)	(3.1)	(2.8)	(0.3)	-	(26.4)*
Profit before taxes	**(31.4)**	**(2.0)**	**33.8**	**16.0**	-	**16.4***
Provision for taxes on income	8.6	0.4	(8.7)	(4.0)	-	(3.7)*
Net profit	**(22.8)**	**(1.6)**	**25.1**	**12.0**	-	**12.7***
Return on equity (percentage of net profit from average equity)	**-3.1%**	**-1.4%**	**15.6%**	**25.2%**	-	**2.5%**
Average balance of assets	7,273.2	1,160.3	1,397.2	2,745.8	-	12,576.5
Average balance of liabilities	7,269.8	1,016.6	3,485.9	109.5	-	11,881.8
Average balance of risk assets	4,675.4	654.0	1,454.5	412.3	-	7,196.2
Average balance of securities	2,369.4	271.8	251.5	-	-	2,892.7
Average balance of other managed assets	1,855.8	-	-	-	-	1,855.8
Margin from credit provision activity	160.2	15.2	32.0	(4.6)	-	202.8
Margin from deposits receipt activity	16.1	3.8	5.7	-	-	25.6
Other	15.5	-	-	13.3	-	28.8
Total interest income, net	**191.8**	**19.0**	**37.7**	**8.7**	-	**257.2**

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.D.1. and 1.D.2.

Note 29A - Supervised Operating Segments

Reported amounts in millions of NIS

A. In accordance with the circular issued by the Banking Supervision Department on November 3, 2014, beginning with the financial statements for 2015, the report regarding operating segments is prepared in accordance with the framework and classifications which were determined in the public reporting regulations of the Banking Supervision Department. According to this circular, the financial statements for 2015 include the presentation of balance sheet data only regarding supervised operating segments. Additionally, in the financial statements for 2015, the Bank is entitled not to provide disclosure for comparative figures.

B. Definitions

- Private individuals - individuals, including individuals who manage joint accounts, who, as of the reporting date, have no debts to the Bank, or whose debts are classified under the market segment "private individuals - housing loans and other".
- Private banking segment - private individuals where the balance of their financial assets portfolio in the Bank, on a consolidated basis (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- Households - private individuals, excluding customers included under private banking.
- Business - customers who are not included under the definition of "private individuals" and who are not an institutional entity or banking corporation.
- Business turnover - annual sales turnover or annual income turnover.
- Micro business - businesses with a turnover of less than NIS 10 million.
- Small business - businesses with a turnover greater than or equal to NIS 10 million, and less than NIS 50 million.
- Medium sized business - businesses with a turnover greater than or equal to NIS 50 million, and less than NIS 250 million.
- Large business - businesses with a turnover greater than NIS 250 million.
- Financial management segment - includes the following segments: trading activities - investment in marketable securities, market making activities regarding securities and derivative instruments, activities with derivative instruments which are not designated for hedging and are not a part of the banking corporation's assets and liabilities, repurchasing and borrowing transactions of marketable securities, short sales of securities, underwriting services of securities, activities involved in the management of assets and liabilities - including investment in available for sale bonds and in held to maturity bonds, which were not associated with the segment of derivatives which are a part of the management of assets and liabilities, deposits in banks and from banks in Israel and abroad, deposits in governments and of governments, real investment activities - investment in available for sale stocks and investments in associate companies of businesses, other - management, operation, trust and safeguarding services for banks, consulting services, sale and credit portfolio management activities, financial product development activities.
- Other segment - including discontinued operations, profits from provisions and other results associated with employee rights which have not been associated with the other activity segments, activities which have not been associated with the other segments, and adjustments between the total of items attributed to the segments, and total items in the consolidated financial statements.
- Managed assets - securities of customers and assets due to the activity, by collection rate.

Note 29A - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

Information regarding supervised operating segments - consolidated

	December 31, 2015							
	Activities in Israel							
	Households	Private banking	Small and micro businesses	Medium sized business	Large business	Institutional entities	Financial management segment	Total activities in Israel
Average balance of assets [1]	7,937.0	4.7	1,130.0	753.6	41.7	6.8	4,105.9	**13,979.7**
Average balance of credit to the public [1]	7,937.0	4.7	1,130.0	563.6	41.7	6.8	-	**9,683.8**
Balance of credit to the public at the end of the reporting period	8,187.8	5.0	1,200.8	569.6	37.7	-	-	**10,000.9**
Balance of impaired debts	15.9	-	9.8	-	-	-	-	**25.7**
Balance of debts in arrears of over 90 days	175.3	-	3.1	-	-	-	-	**178.4**
Average balance of liabilities [1]	7,032.9	1,631.5	1,134.3	291.7	49.9	1,143.2	1,922.7	**13,206.2**
Of which: average balance of public deposits [1]	7,032.9	1,631.5	1,134.3	101.7	49.9	1,143.2	-	**11,093.5**
Balance of public deposits at the end of the reporting period	6,762.8	1,594.0	1,115.7	108.9	58.8	1,378.8	-	**11,019.0**
Average balance of risk assets [1][2]	5,262.0	23.0	1,370.2	532.8	66.1	81.3	569.1	**7,904.5**
Balance of risk assets at end of reporting period [2]	5,379.5	22.9	1,296.6	607.9	54.6	82.0	570.3	**8,013.8**
Average balance of managed assets [1]	4,804.5	3,113.7	586.6	1.5	4,202.0	12.5	-	**12,720.8**

(1) Average balances are calculated based on the balance at the beginning of the quarter or month.
(2) Risk weighted assets - as calculated for the purpose of capital adequacy (Proper Banking Management Directive 201).

Note 29A - Supervised Operating Segments (Cont.)

Private individuals - households and private banking - activity in Israel, consolidated

	December 31, 2015						
	Households segment			Private banking segment			
	Housing loans	Other	Total households	Housing loans	Other	Total private banking	Total
Average balance of assets	6,872.6	1,064.4	**7,937.0**	2.0	2.7	**4.7**	**7,941.7**
Average balance of credit to the public	6,872.6	1,064.4	**7,937.0**	2.0	2.7	**4.7**	**7,941.7**
Balance of credit to the public at the end of the reporting period	7,020.7	1,167.1	**8,187.8**	3.2	1.8	**5.0**	**8,192.8**
Balance of impaired debts	-	15.9	**15.9**	-	-	-	**15.9**
Balance of debts in arrears of over 90 days	164.6	10.7	**175.3**	-	-	-	**175.3**
Average balance of liabilities	-	7,032.9	**7,032.9**	-	1,631.5	**1,631.5**	**8,664.4**
Of which: average balance of public deposits	-	7,032.9	**7,032.9**	-	1,631.5	**1,631.5**	**8,664.4**
Balance of public deposits at the end of the reporting period	-	6,762.8	**6,762.8**	-	1,594.0	**1,594.0**	**8,356.8**
Average balance of risk assets	3,994.3	1,267.7	**5,262.0**	1.7	21.3	**23.0**	**5,285.0**
Balance of risk assets at end of reporting period	4,048.5	1,331.0	**5,379.5**	2.3	20.6	**22.9**	**5,402.4**
Average balance of managed assets	1,246.4	3,558.1	**4,804.5**	-	3,113.7	**3,113.7**	**7,918.2**

Note 29A - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

Information regarding supervised operating segments - consolidated (Cont.)

Micro, small, medium and large businesses - activity in Israel, consolidated

	December 31, 2015									
	Small and micro businesses segment			Medium sized business segment			Large business segment			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
Average balance of assets	953.0	177.0	**1,130.0**	563.5	190.1	**753.6**	41.7	-	**41.7**	**1,925.3**
Average balance of credit to the public	953.0	177.0	**1,130.0**	563.5	0.1	**563.6**	41.7	-	**41.7**	**1,735.3**
Balance of credit to the public at the end of the reporting period	1,067.5	133.3	**1,200.8**	569.5	0.1	**569.6**	37.7	-	**37.7**	**1,808.1**
Balance of impaired debts	8.5	1.3	**9.8**	-	-	-	-	-	-	**9.8**
Balance of debts in arrears of over 90 days	3.0	0.1	**3.1**	-	-	-	-	-	-	**3.1**
Average balance of liabilities	429.6	704.7	**1,134.3**	93.9	197.8	**291.7**	49.6	0.3	**49.9**	**1,475.9**
Of which: average balance of public deposits	429.6	704.7	**1,134.3**	93.9	7.8	**101.7**	49.6	0.3	**49.9**	**1,285.9**
Balance of public deposits at the end of the reporting period	442.5	673.2	**1,115.7**	100.0	8.9	**108.9**	58.5	0.3	**58.8**	**1,283.4**
Average balance of risk assets	1,267.8	102.4	**1,370.2**	531.8	1.0	**532.8**	66.1	-	**66.1**	**1,969.1**
Balance of risk assets at end of reporting period	1,195.7	100.9	**1,296.6**	607.1	0.8	**607.9**	54.6	-	**54.6**	**1,959.1**
Average balance of managed assets	9.7	576.9	**586.6**	-	1.5	**1.5**	0.9	4,201.1	**4,202.0**	**4,790.1**

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses

Reported amounts in millions of NIS

A. Debts [1] and off-balance sheet credit instruments

Provision for credit losses

	For the year ended December 31, 2015					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
1. Movement in the balance of the provision for credit losses						
Balance of the provision for credit losses at start of year	10.2	64.5	36.0	110.7	-	110.7
Expenses with respect to credit losses	(0.4)	0.5	40.3	40.4	-	40.4
Accounting write-offs	(1.1)	(4.9)	(37.1)	(43.1)	-	(43.1)
Collection of debts which were written off in previous years	0.4	0.1	5.9	6.4	-	6.4
Net accounting write-offs	(0.7)	(4.8)	(31.2)	(36.7)	-	(36.7)
Balance of the provision for credit losses at end of year (*)	**9.1**	**60.2**	**45.1**	**114.4**	-	**114.4**
(*) Of which: with respect to off-balance sheet credit instruments	1.8	0.4	0.6	2.8	-	2.8

	December 31, 2015					
2. Additional information regarding the method used to calculate the provision for credit losses with respect to debts [1] and for debts [1] with respect to which it was calculated						
Recorded debit balance of debts [1]:						
Evaluated on an individual basis	1,533.7	-	4.3	1,538.0	-	1,538.0
Evaluated on a collective basis (**)	351.9	7,023.9	1,087.1	8,462.9	-	8,462.9
Total debts [1]	**1,885.6**	**7,023.9**	**1,091.4**	**10,000.9**	-	**10,000.9**
(**) Of which: where the provision with respect to them was calculated according to the extent of the arrears	76.0	6,759.5	-	6,835.5	-	6,835.5
Provision for credit losses with respect to debts [1]						
Evaluated on an individual basis	5.5	-[3]	-	5.5	-	5.5
Evaluated on a collective basis (***)	1.8	59.8[2]	44.5	106.1	-	106.1
Total provision for credit losses	**7.3**	**59.8**	**44.5**	**111.6**	-	**111.6**
(***) Of which: where the provision with respect to them was calculated according to the extent of the arrears	0.3	59.8	-	60.1	-	60.1

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(2) Includes provision balances beyond what is required according to the extent of arrears method, which was calculated on an individual basis, in the amount of NIS 5.5 million, and which was calculated on a collective basis in the amount of NIS 24.2 million.
(3) Balance lower than NIS 0.1 million.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses

Reported amounts in millions of NIS

A. Debts (1) and off-balance sheet credit instruments (Cont.)

Provision for credit losses

	For the year ended December 31, 2014					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
1. Movement in the balance of the provision for credit losses						
Balance of the provision for credit losses at start of year	11.0	69.9	30.5	111.4	-	111.4
Expenses with respect to credit losses	(9.6)	(1.3)	29.3	18.4	-	18.4
Accounting write-offs	(0.2)	(6.8)	(30.5)	(37.5)	-	(37.5)
Collection of debts which were written off in previous years	9.0	2.7	6.7	18.4	-	18.4
Net accounting write-offs	8.8	(4.1)	(23.8)	(19.1)	-	(19.1)
Balance of the provision for credit losses at end of year (*)	**10.2**	**64.5**	**36.0**	**110.7**	-	**110.7**
(*) Of which: with respect to off-balance sheet credit instruments	1.5	0.9	0.4	2.8	-	2.8

	December 31, 2014					
2. Additional information regarding the method used to calculate the provision for credit losses with respect to debts (1) and for debts (1) with respect to which it was calculated						
Recorded debit balance of debts (1):						
Evaluated on an individual basis	1,382.3	0.5	6.2	1,389.0	-	1,389.0
Evaluated on a collective basis (**)	322.8	6,976.7	985.9	8,285.4	38.9	8,324.3
Total debts (1)	**1,705.1**	**6,977.2**	**992.1**	**9,674.4**	**38.9**	**9,713.3**
(**) Of which: where the provision with respect to them was calculated according to the extent of the arrears	122.2 (4)	6,771.8	-	6,894.0(4)	-	6,894.0(4)
Provision for credit losses with respect to debts(1)						
Evaluated on an individual basis	7.0	-(3)	-	7.0	-	7.0
Evaluated on a collective basis (***)	1.7	63.6(2)	35.6	100.9	-	100.9
Total provision for credit losses	**8.7**	**63.6**	**35.6**	**107.9**	-	**107.9**
(***) Of which: where the provision with respect to them was calculated according to the extent of the arrears	0.4 (4)	63.6 (4)	-	64.0 (4)	-	64.0 (4)

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(2) Includes provision balances beyond what is required according to the extent of arrears method, which was calculated on an individual basis, in the amount of NIS 0.5 million, and which was calculated on a collective basis in the amount of NIS 24.5 million.
(3) Balance lower than NIS 0.1 million.
(4) Reclassified.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

A. Debts (1) and off-balance sheet credit instruments (Cont.)

Provision for credit losses

	December 31, 2013					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
1. Movement in the balance of the provision for credit losses						
Balance of the provision for credit losses at start of year	9.6	60.5	22.5	92.6	-	92.6
Expenses with respect to credit losses	2.1	21.1	31.5	54.7	-	54.7
Accounting write-offs	(4.0)	(11.8)	(31.6)	(47.4)	-	(47.4)
Collection of debts which were written off in previous years	3.3	0.1	7.8	11.2	-	11.2
Net accounting write-offs	(0.7)	(11.7)	(23.8)	(36.2)	-	(36.2)
Other	-	-	0.3	0.3		0.3
Balance of the provision for credit losses at end of year (*)	**11.0**	**69.9**	**30.5**	**111.4**	-	**111.4**
(*) Of which: with respect to off-balance sheet credit instruments	1.4	0.7	0.4	2.5	-	2.5

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.

(2) Includes provision balances beyond what is required according to the extent of arrears method, which was calculated on an individual basis, in the amount of NIS 0.3 million, and which was calculated on an collective basis in the amount of NIS 24.5 million.

(3) Balance lower than NIS 0.1 million.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts (Cont.) [1]

1. Credit quality and arrears

	December 31, 2015					
		Troubled[2]			Non-impaired debts Additional Information	
Activities of borrowers in Israel	Non-troubled	Non-impaired	Impaired[3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Public - commercial						
Construction and real estate - construction	1,126.2	-	5.4	1,131.6	-	-
Construction and real estate - real estate activities	481.8	4.0	3.1	488.9	3.0	0.7
Financial services	165.8	-	-	165.8	-	-
Commercial - other	97.9	0.1	1.3	99.3	0.1	0.1
Total commercial	**1,871.7**	**4.1**	**9.8**	**1,885.6**	**3.1**	**0.8**
Private individuals - housing loans	6,853.8	170.1[6]	-	7,023.9	164.6	32.2
Private individuals - other	1,055.4	20.1	15.9	1,091.4	10.7	10.1
Total public - activities in Israel	**9,780.9**	**194.3**	**25.7**	**10,000.9**	**178.4**	**43.1**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activities in Israel	**9,780.9**	**194.3**	**25.7**	**10,000.9**	**178.4**	**43.1**
Foreign banks	-	-	-	-	-	-
Total	**9,780.9**	**194.3**	**25.7**	**10,000.9**	**178.4**	**43.1**

	December 31, 2014					
		Troubled[2]			Non-impaired debts Additional Information	
Activities of borrowers in Israel	Non-troubled	Non-impaired	Impaired[3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Public - commercial						
Construction and real estate - construction	1,036.4	9.5	22.7	1,068.6	0.1	-
Construction and real estate - real estate activities	381.9	6.5	1.5	389.9	5.9	1.4
Financial services	91.1	-	-	91.1	-	-
Commercial - other	151.3	0.3	3.9	155.5	-	0.3
Total commercial	**1,660.7**	**16.3**	**28.1**	**1,705.1**	**6.0**	**1.7**
Private individuals - housing loans	6,779.3	197.4[6]	0.5	6,977.2	197.4	55.4
Private individuals - other	957.4	22.4	12.3	992.1	11.4	11.2
Total public - activities in Israel	**9,397.4**	**236.1**	**40.9**	**9,674.4**	**214.8**	**68.3**
Banks in Israel	38.9	-	-	38.9	-	-
Government of Israel	-	-	-	-	-	-
Total activities in Israel	**9,436.3**	**236.1**	**40.9**	**9,713.3**	**214.8**	**68.3**
Foreign banks	-	-	-	-	-	-
Total	**9,436.3**	**236.1**	**40.9**	**9,713.3**	**214.8**	**68.3**

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of a resale agreement.

(2) Credit risk which is impaired, subordinate or subject to special supervision, including with respect to housing loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.

(3) In general, impaired debt does not accrue interest income. For details regarding certain impaired debts which were restructured in the troubled debt restructuring, see Note 5.B.2.C. below.

(4) Classified as non-impaired troubled debts. Accumulate interest income.

(5) Accumulate interest income. Debts in arrears of 30 to 89 days, in the amount of NIS 7.3 million, were classified as non-impaired troubled debts (December 31, 2014 - NIS 8.1 million).

(6) Including the balance of housing loans in the amount of NIS 9.8 million, with a provision according to the extent of the arrears, regarding which an arrangement was signed regarding the repayment of a borrower's amounts in arrears, where a change was implemented to the amortization schedule with respect to the balance of the loan which has not yet come due (December 31, 2014 - NIS 13.9 million).

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B.Debts [1](Cont.)

2. Additional information regarding impaired debt

A. Impaired debts and specific provision

Activities of borrowers in Israel	Balance of [2] impaired debts for which a specific provision exists[3]	Balance of specific provision[3]	Balance of [2] impaired debts with respect to which no provision exists [3]	Total balance[2] of impaired debts	Balance of contractual principal of impaired debts
	December 31, 2015				
Public - commercial					
Construction and real estate - construction	2.4	0.1	3.0	5.4	12.9
Construction and real estate - real estate activities	2.4	0.1	0.7	3.1	3.7
Financial services	-	-	-	-	-
Commercial - other	1.3	0.2	-	1.3	1.1
Total commercial	**6.1**	**0.4**	**3.7**	**9.8**	**17.7**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	15.9	9.0	-	15.9	29.0
Total public - activities in Israel	**22.0**	**9.4**	**3.7**	**25.7**	**46.7**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activities in Israel	**22.0**	**9.4**	**3.7**	**25.7**	**46.7**
Foreign banks	-	-	-	-	-
Total	**22.0**	**9.4**	**3.7**	**25.7**	**46.7**
Of which:					
Measured according to the present value of cash flows	3.3	0.2	2.9	6.2	
Debts in troubled debt restructuring	20.4	9.4	2.9	23.3	
	December 31, 2014				
Public - commercial					
Construction and real estate - construction	20.5	1.3	2.2	22.7	30.3
Construction and real estate - real estate activities	0.5	- [4]	1.0	1.5	2.8
Financial services	-	-	-	-	-
Commercial - other	1.6	0.4	2.3	3.9	4.1
Total commercial	**22.6**	**1.7**	**5.5**	**28.1**	**37.2**
Private individuals - housing loans	0.5	- [4]	-	0.5	0.5
Private individuals - other	12.3	3.9	-	12.3	20.1
Total public - activities in Israel	**35.4**	**5.6**	**5.5**	**40.9**	**57.8**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activities in Israel	**35.4**	**5.6**	**5.5**	**40.9**	**57.8**
Foreign banks	-	-	-	-	-
Total	**35.4**	**5.6**	**5.5**	**40.9**	**57.8**
Of which:					
Measured according to the present value of cash flows	4.4	0.7	4.5	8.9	
Debts in troubled debt restructuring	16.6	4.7	3.3	19.9	

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of a resale agreement.
(2) Recorded debit balance.
(3) Specific provision for credit losses.
(4) Balance of less than NIS 0.1 million

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B.Debts (1)(Cont.)

2. Additional information regarding impaired debts

B. Average balance and interest income from activities of borrowers in Israel

	December 31, 2015			December 31, 2014		
	Average balance of impaired debts(2)	Interest income which was recorded(3)	Of which, recorded on a cash basis	Average balance of impaired debts(2)	Interest income which was recorded(3)	Of which, recorded on a cash basis
Public - commercial						
Construction and real estate - construction	9.3	0.3	0.3	30.4	0.7	0.7
Construction and real estate - real estate activities	1.7	0.1	0.1	2.7	-(5)	-
Commercial - other	3.1	0.1	0.1	5.4	0.1	0.1
Total commercial	**14.1**	**0.5**	**0.5**	**38.5**	**0.8**	**0.8**
Private individuals - housing loans	**0.1**	-	-	0.9	-	-
Private individuals - other	14.5	0.7	0.7	11.1	0.5	0.5
Total	28.7	1.2(4)	1.2	50.5	1.3(4)	1.3

	December 31, 2013		
Public - commercial			
Construction and real estate - construction	49.4	1.8	1.8
Construction and real estate - real estate activities	8.2	0.2	0.2
Commercial - other	8.2	-	-
Total commercial	**65.8**	**2.0**	**2.0**
Private individuals - housing loans	-	-	-
Private individuals - other	7.0	0.1	0.1
Total	72.8	2.1(4)	2.1

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(2) Average recorded debit balance of impaired debts during the reporting period.
(3) Interest income which was recorded during the reporting period, with respect to the average balance of impaired debts, during the time period in which the debts were classified as impaired.
(4) Had the debts accrued interest in accordance with their original terms, interest income would have been recorded in the amount of NIS 1.2 million, for the year ended December 31, 2015 (for the year ended December 31, 2014 - NIS 2.4 million; and for the year ended December 31, 2013 - NIS 4.7 million).
(5) Balance lower than NIS 0.1 million.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B.Debts [1](Cont.)

2. Additional information regarding impaired debts

C. Troubled debts in restructuring - borrowers' activities in Israel

	December 31, 2015				
	Recorded debit balance				
	Non-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]
Public - commercial					
Construction and real estate - construction	-	-	-	4.6	4.6
Construction and real estate - real estate activities	0.7	-	-	0.8	1.5
Financial services	-	-	-	-	-
Commercial - other	0.3	-	-	1.0	1.3
Total commercial	**1.0**	-	-	**6.4**	**7.4**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	9.9	-	-	6.0	15.9
Total	**10.9**	-	-	**12.4**	**23.3**

	December 31, 2014				
	Recorded debit balance				
Public - commercial					
Construction and real estate - construction	-	-	-	2.9	2.9
Construction and real estate - real estate activities	-	-	-	1.0	1.0
Financial services	-	-	-	-	-
Commercial - other	0.4	-	-	3.3	3.7
Total commercial	**0.4**	-	-	**7.2**	**7.6**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	8.8	-	-	3.5	**12.3**
Total	**9.2**	-	-	**10.7**	**19.9**

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(2) Accrues interest income
(3) Included under impaired debts
As of December 31, 2015, there are no liabilities in the Bank for the provision of additional credit to debtors regarding whom a troubled debt restructuring was performed, which involved the implementation of changes to the credit terms.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B.Debts [1](Cont.)

2. Additional information regarding impaired debts

C. Troubled debts in restructuring - borrowers' activities in Israel

	Restructurings which were performed in the reporting year								
	December 31, 2015			December 31, 2014			December 31, 2013		
	Number of contracts	Debit balance recorded before restructuring	Debit balance recorded after restructuring	Number of contracts	Debit balance recorded before restructuring	Debit balance recorded after restructuring	Number of contracts	Debit balance recorded before restructuring	Debit balance recorded after restructuring
Public - commercial									
Construction and real estate - real estate activities	1	0.7	0.7	-	-	-	-	-	-
Commercial - other	2	0.3	0.3	-	-	-	6	3.4	3.4
Total commercial	**3**	**1.0**	**1.0**	-	-	-	**6**	**3.4**	**3.4**
Private individuals - housing loans	-	-	-	-	-	-	-	-	-
Private individuals - other	465	10.1	10.1	293	6.4	6.4	250	7.4	7.4
Total	**468**	**11.1**	**11.1**	**293**	**6.4**	**6.4**	**256**	**10.8**	**10.8**

	Failed restructurings[2]					
	December 31, 2015		December 31, 2014		December 31, 2013	
	Number of contracts	Debit balance Recorded	Number of contracts	Debit balance Recorded	Number of contracts	Debit balance Recorded
Public - commercial						
Commercial - other	-	-	-	-	2	-
Total commercial	-	-	-	-	**2**	-
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	72	0.3[3]	50	1.1[3]	72	1.6[3]
Total	**72**	**0.3**	**50**	**1.1**	**74**	**1.6**

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(2) Debts which became, during the reporting year, debts in arrears of 30 days or more, which were restructured in a troubled debt restructuring during the 12 months which preceded the date when they became debts in arrears.
(3) Beginning with the reports for 2015, the Bank has applied an update to the collection of questions and answers on the subject of impaired debts, credit risk and the provision for credit losses, which requires, inter alia, debts which are estimated on a collective basis which were restructured, as well as failed restructurings, to be written off within a maximum of 60 days. The Bank will adopt the directive prospectively. For additional details, see Note 1.D.7.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B.Debts [1](Cont.)

3. Additional information regarding housing loans

Balances as of the end of the year, by financing rate (LTV)[2], repayment type and interest type

		December 31, 2015			
		Balance of housing loans			Credit risk Off-balance sheet Total
		Total	Of which: Bullet and balloon	Of which: Variable interest	
First priority pledge: financing rate	Up to 60%	5,661.3	219.9	4,321.6	591.0
	Over 60%	1,403.5	45.3	1,175.5	63.0
Second priority pledge or no pledge		35.1	0.9	22.7	4.7
Total		**7,099.9**	**266.1**	**5,519.8**	**658.7**

		December 31, 2014			
		Balance of housing loans			Credit risk Off-balance sheet Total
		Total	Of which: Bullet and balloon	Of which: Variable interest	
First priority pledge: financing rate	Up to 60%	5,553.0	180.9	4,508.7	516.4
	Over 60%	1,505.9	26.4	1,321.0	70.6
Second priority pledge or no pledge		40.5	1.6	27.1	3.4
Total		**7,099.4**	**208.9**	**5,856.8**	**590.4**

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.

(2) The ratio between the approved facility upon the provision of the facility, and the value of the asset, as approved by the Bank upon provision of the facility.
Credit quality - LTV ratio

The LTV ratio constitutes an additional indication of credit quality for the Bank. The LTV ratio is the ratio between the loan amount and the estimated value of the financed asset which was approved by the Bank when the facility was provided (the Bank will note the policy regarding monitoring the LTV ratio and including it in the determination of the debt's risk and the management of credit risk and/or determination of the provision beyond the minimum provision required according to the extent of the arrears method). Note 30.B.3. presents debit balances with respect to housing loans, segmented by LTB ratio ranges and pledge priority levels.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

C. Credit to the public and off-balance sheet credit risk, by the borrower's credit size

	December 31, 2015			December 31, 2014		
Maximum credit limit, NIS Thousands	Number of borrowers(1)	Credit (2)	Credit risk Off-balance sheet(2)(3)	Number of borrowers(1)	Credit (2)	Credit risk Off-balance sheet(2)(3)
to 10	**11,115**	**27.2**	**11.5**	9,398	25.5	9.8
10 to 20	**7,034**	**76.5**	**22.0**	6,955	77.8	19.3
20 to 40	**10,653**	**262.4**	**41.4**	10,236	255.8	36.8
40 to 80	**12,217**	**569.2**	**47.4**	10,962	515.3	44.8
80 to 150	**3,240**	**316.0**	**26.5**	3,699	362.1	29.2
150 to 300	**3,952**	**820.4**	**20.0**	4,222	877.9	20.0
300 to 600	4,693	**1,891.9**	**64.6**	4,648	1,876.1	67.6
600 to 1,200	2,812	**1,962.9**	**229.9**	2,637	1,912.5	168.4
1,200 to 2,000	778	**973.1**	**142.2**	787	1,028.2	108.3
2,000 to 4,000	411	**860.5**	**193.8**	395	873.4	160.0
4,000 to 8,000	152	**631.4**	**174.7**	147	615.0	150.4
8,000 to 20,000	70	**503.8**	**291.0**	65	520.8	200.5
20,000 to 40,000	24	**516.3**	**245.4**	18	269.1	224.9
40,000 to 200,000	14	**589.3**	**188.1**	12	464.9	174.6
	57,165	**10,000.9**	**1,698.5**	54,181	9,674.4	1,414.6

(1) Number of borrowers, by total credit and off-balance sheet credit risk. A borrower as defined in Proper Banking Management Directive 313, on the subject of "Restrictions on debt of a borrower or group of borrowers".
(2) Balance sheet and off-balance sheet credit risk are presented according to the effect of the provision for credit losses and before the effect of the deductible collaterals for the purpose of the debt of the borrower or group of borrowers.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the debt restrictions of a single borrower.

Note 30 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts in millions of NIS

D. Off-balance sheet financial instruments

Contract balances or specified amounts at end of year

	December 31			
	2015	2014	2015	2014
	Balances of contracts[1]		Balance of the provision for credit losses	
Transactions in which the balance represents credit risk:				
Guarantees to secure credit	78.9	78.8	0.3	0.2
Guarantees to apartment buyers	60.9	9.4	0.2	0.1
Other guarantees and liabilities	122.6	101.7	0.2	0.4
Unused credit facilities of credit cards	184.7	187.4	0.5	0.4
Unused revolving debitory account facilities and other credit facilities in accounts on demand	50.1	48.5	-	-
Irrevocable undertakings to provide credit which have been approved and not yet provided	1,214.9	1,001.1	1.6	1.7
Total	**1,712.1**	1,426.9	**2.8**	2.8

(1) Balances or specified amounts of contracts at year end, before the effect of the provision for credit losses.

Note 31 - Assets and Liabilities by Linkage Bases

Reported amounts in millions of NIS

	December 31, 2015					
	Israeli currency		Foreign currency[1]			
	Unlinked	Linked To the CPI	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	1,909.0	-	134.2	28.7	-	2,071.9
Securities	1,216.4	49.7	378.2	126.8	8.4	1,779.5
Credit to the public, net[2]	5,383.6	3,382.9	984.9	137.9	-	9,889.3
Buildings and equipment	-	-	-	-	156.9	156.9
Intangible assets	-	-	-	-	1.2	1.2
Assets with respect to derivative instruments	181.7	-	12.9	0.5	-	195.1
Other assets	74.6	5.3	-	-	45.7	125.6
Total assets	**8,765.3**	**3,437.9**	**1,510.2**	**293.9**	**212.2**	**14,219.5**
Liabilities						
Public deposits	6,884.3	2,323.6	1,526.2	284.9	-	11,019.0
Deposits from banks	-	39.4	-	-	-	39.4
Government deposits	0.8	-	-	-	-	0.8
Lent securities	279.6	107.7	-	-	-	387.3
Bonds and deferred liability notes	491.2	1,143.3	0.3	-	-	1,634.8
Liabilities in respect of derivative instruments	181.7	1.9	11.6	-	-	195.2
Other liabilities	83.5	-	15.5	0.6	59.4	159.0
Total liabilities	**7,921.1**	**3,615.9**	**1,553.6**	**285.5**	**59.4**	**13,435.5**
Difference	844.2	(178.0)	(43.4)	8.4	152.8	784.0
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(250.8)	198.2	49.0	3.6	-	-
Total general	**593.4**	**20.2**	**5.6**	**12.0**	**152.8**	**784.0**

(1) Including linkage to foreign currency.
(2) After deducting provisions for credit losses which were attributed to linkage bases

Note 31 - Assets and Liabilities by Linkage Bases

Reported amounts in millions of NIS

	December 31, 2014					
	Israeli currency		Foreign currency[1]			
	Unlinked	Linked To the CPI	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	3,007.3	-	196.9	73.8	-	3,278.0[4]
Securities [4]	821.7[4]	66.3	11.7	-	2.7	902.4
Credit to the public, net[2]	4,930.2	3,492.9	1,019.4	124.0	-	9,566.5
Buildings and equipment	-	-	-	-	149.7[3]	149.7[3]
Intangible assets	-	-	-	-	1.6	1.6
Assets with respect to derivative instruments	13.6	-	26.8	-	-	40.4
Other assets	84.3[3]	3.9	-	-	58.0[3],[4]	146.2[3],[4]
Total assets	**8,857.1**[3],[4]	**3,563.1**	**1,254.8**	**197.8**	**212.0**[3],[4]	**14,084.8**[3],[4]
Liabilities						
Public deposits	6,662.2	2,453.2	1,513.5	348.3	-	10,977.2
Deposits from banks	-	42.5	-	-	-	42.5
Government deposits	5.0	-	-	-	-	5.0
Lent securities	570.1	12.6	-	-	-	582.7
Bonds and deferred liability notes	501.6	1,001.2	0.3	-	-	1,503.1
Liabilities in respect of derivative instruments	16.2	-	22.8	-	-	39.0
Other liabilities	84.5[3]	-	20.3	1.6	78.5	184.9[3]
Total liabilities	**7,839.6**[3]	**3,509.5**	**1,556.9**	**349.9**	**78.5**	**13,334.4**[3]
Difference	1,017.5[3] [4]	53.6	(302.1)	(152.1)	133.5[4]	750.4[3],[4]
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(482.5)	-	328.5	154.0	-	-
Total general	**535.0**	**53.6**	**26.4**	**1.9**	**133.5**	**750.4**[3]

(1) Including linkage to foreign currency.
(2) After deducting provisions for credit losses which were attributed to linkage bases
(3) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.
(4) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

Note 31 - Assets and Liabilities by Linkage Bases - Bank

Reported amounts in millions of NIS

	December 31, 2015					
	Israeli currency		Foreign currency [(1)]			
	Unlinked	Linked To the CPI	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	1,909.0	-	134.2	28.7	-	2,071.9
Securities	1,234.2	49.7	378.2	126.8	8.4	1,797.3
Credit to the public, net[(2)]	5,383.6	3,382.9	984.9	137.9	-	9,889.3
Investments in investee companies	21.5	-	-	-	364.1	385.6
Buildings and equipment	-	-	-	-	12.8	12.8
Intangible assets	-	-	-	-	1.2	1.2
Assets with respect to derivative instruments	181.7	-	12.9	0.5	-	195.1
Other assets	67.9	-	-	-	43.5	111.4
Total assets	**8,797.9**	**3,432.6**	**1,510.2**	**293.9**	**430.0**	**14,464.6**
Liabilities						
Public deposits	7,501.6	3,188.7	1,526.2	284.9	-	12,501.4
Deposits from banks	-	39.4	-	-	-	39.4
Government deposits	0.8	-	-	-	-	0.8
Lent securities	279.6	107.7	-	-	-	387.3
Bonds and deferred liability notes	115.5	292.4	0.3	-	-	408.2
Liabilities in respect of derivative instruments	181.7	1.9	11.6	-	-	195.2
Other liabilities	72.6	-	15.5	0.6	59.6	148.3
Total liabilities	**8,151.8**	**3,630.1**	**1,553.6**	**285.5**	**59.6**	**13,680.6**
Difference	646.1	(197.5)	(43.4)	8.4	370.4	784.0
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(250.8)	198.2	49.0	3.6	-	-
Total general	**395.3**	**0.7**	**5.6**	**12.0**	**370.4**	**784.0**

(1) Including linkage to foreign currency.
(2) After deducting provisions for credit losses which were attributed to linkage bases

Note 31 - Assets and Liabilities by Linkage Bases - Bank

Reported amounts in millions of NIS

	December 31, 2014					
	Israeli currency		Foreign currency [1]			
	Unlinked	Linked To the CPI	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	3,007.3	-	196.9	73.8	-	3,278.0
Securities [4]	805.8	66.3	11.7	-	2.7	886.5
Credit to the public, net[2]	4,930.3	3,492.8	1,019.4	124.0	-	9,566.5
Investments in investee companies	21.7	-	-	-	359.6[3]	381.3[3]
Buildings and equipment	-	-	-	-	16.1	16.1
Intangible assets	-	-	-	-	1.6	1.6
Assets with respect to derivative instruments	13.6	-	26.8	-	-	40.4
Other assets	99.6[3]	-	-	-	53.3	152.9[3]
Total assets	**8,878.3**[3]	**3,559.1**	**1,254.8**	**197.8**	**433.3**	**14,323.3**[3]
Liabilities						
Public deposits	7,303.7	3,082.4	1,513.5	348.4	-	12,248.0
Deposits from banks	-	42.5	-	-	-	42.5
Government deposits	5.0	-	-	-	-	5.0
Lent securities	570.1	12.6	-	-	-	582.7
Bonds and deferred liability notes	117.6	367.3	0.3	-	-	485.2
Liabilities in respect of derivative instruments	16.2	-	22.8	-	-	39.0
Other liabilities	70.6[3]	-	20.3	1.6	78.0	170.5[3]
Total liabilities	**8,083.2**[3]	**3,504.8**	**1,556.9**	**350.0**	**78.0**	**13,572.9**[3]
Difference	795.1	54.3	(302.1)	(152.2)	355.3	750.4
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(482.5)	-	328.5	154.0	-	-
Total general	**312.6**	**54.3**	**26.4**	**1.8**	**355.3**	**750.4**

(1) Including linkage to foreign currency.
(2) After deducting provisions for credit losses which were attributed to linkage bases
(3) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.
(4) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

Note 32 - Assets and Liabilities by Linkage Bases and Repayment Periods - Consolidated [1]

Expected future contractual cash flows
Reported amounts, NIS millions

	On demand Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 2 years	2 years 3 years
As of December 31, 2015					
Israeli currency (including foreign currency-linked)					
Assets*	2,526.3	498.8	1,942.5	1,431.4	1,006.4
Liabilities **	4,026.0	519.1	2,079.1	2,055.0	837.2
Difference	(1,499.7)	(20.2)	(136.6)	(623.6)	169.2
Derivative instruments (excluding options)	(178.7)	-	126.0	-	-
Difference after the effect of derivative instruments	(1,678.4)	(20.2)	(10.6)	(623.6)	169.2
Foreign currency [3]					
Assets*	175.4	117.2	413.4	114.3	113.2
Liabilities **	1,149.2	233.5	330.0	78.4	0.2
Difference	(973.8)	(116.3)	83.4	35.9	113.0
Of which: difference - in USD	(746.4)	(188.8)	(217.0)	23.6	98.0
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	178.6	0.1	(126.0)	-	-
Difference after the effect of derivative instruments	(795.2)	(116.2)	(42.6)	35.9	113.0
Total					
Assets*	**2,701.7**	**616.1**	**2,356.0**	**1,545.7**	**1,119.6**
Liabilities **	**5,175.2**	**752.6**	**2,409.1**	**2,133.4**	**837.3**
Difference	**(2,473.5)**	**(136.5)**	**(53.2)**	**(587.7)**	**282.2**
* Of which: credit to the public	312.7	462.4	1,563.3	1,320.5	1,071.1
** Of which: public deposits	4,478.0	689.0	2,163.1	1,903.4	557.2
As of December 31, 2014					
Israeli currency (including foreign currency-linked)					
Assets*	3,360.4	387.5	1,582.0	1,211.9	941.7
Liabilities **	2,858.2	576.7	2,318.4	2,637.2	749.0
Difference	502.2	(189.2)	(736.4)	(1,425.4)	192.7
Derivative instruments (excluding options)	(367.4)	(180.9)	65.7	-	-
Difference after the effect of derivative instruments	134.8	(370.1)	(670.7)	(1,425.4)	192.7
Foreign currency [3]					
Assets*	295.7	7.9	117.1	118.2	105.0
Liabilities **	1,156.6	325.5	360.7	3.9	-
Difference	(860.9)	(317.5)	(243.6)	114.4	105.0
Of which: difference - in USD	(601.5)	(309.7)	(211.6)	92.6	92.0
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	367.5	180.8	(65.7)	-	-
Difference after the effect of derivative instruments	(493.4)	(136.7)	(309.3)	114.4	105.0
Total					
Assets*	**3,656.1**	**395.4**	**1,699.1**	**1,330.1**	**1,046.7**
Liabilities **	**4,014.8**	**902.1**	**2,679.1**	**2,641.1**	**749.0**
Difference	**(358.7)**	**(506.8)**	**(980.0)**	**(1,311.0)**	**297.8**
* Of which: credit to the public	351.6	370.9	1,478.5	1,203.0	1,025.4
** Of which: public deposits	3,953.1	839.0	2,432.9	2,095.8	533.0

Comments at the end of the note

Note 32 - Assets and Liabilities by Linkage Bases and Repayment Periods - Consolidated [(1)] (Cont.)

Expected future contractual cash flows
Reported amounts, NIS millions

						Balance sheet balances [(4)]		
3 years to 4 years	4 years to 5 years	5 years to 10 years	10 years to 20 years	Over 20 years	Total Cash flows	No repayment period[(2)]	Total	Contractual rate of return[(5)]
788.8	664.6	2,751.8	2,490.5	524.0	14,625.3	3.8	12,276.6	3.31%
427.0	835.0	846.4	249.9	-	11,874.8		11,590.0	0.94%
361.8	(170.4)	1,905.4	2,240.6	524.0	2,750.5	3.8	686.6	
-	-	-	-	-	(52.7)		(52.7)	
361.8	(170.4)	1,905.4	2,240.6	524.0	2,697.8	3.8	633.9	
131.0	104.1	446.1	332.7	77.9	2,025.3		1,730.7	2.51%
-	-	-	-	-	1,791.3		1,786.1	0.49%
131.0	104.1	446.1	332.7	77.9	234.1	-	(55.4)	
94.4	89.3	374.9	274.3	1.9	(195.9)		(427.2)	
-	-	-	-	-	-			
-	-	-	-	-	52.7		52.7	
131.0	104.1	446.1	332.7	77.9	286.8	-	(2.7)	
919.8	**768.7**	**3,197.9**	**2,823.2**	**602.0**	**16,650.6**	**3.8**	**14,007.3**	**3.21%**
427.0	**835.0**	**846.4**	**249.9**	**-**	**13,666.0**	**-**	**13,376.1**	**0.88%**
492.8	**(66.3)**	**2,351.5**	**2,573.3**	**602.0**	**2,984.6**	**3.8**	**631.2**	
865.1	743.5	2,793.2	2,777.0	449.0	12,357.8	3.8	9,889.3	4.21%
103.6	585.1	480.6	245.3	-	11,205.3		11,019.0	1.03%
808.9	654.4	2,861.8	2,491.8	504.3	14,804.6	4.5	12,482.9	3.30%
561.1	392.5	1,209.5	288.4	-	11,591.0	-	11,412.7	1.12%
247.8	261.9	1,652.3	2,203.4	504.3	3,213.6	4.5	1,070.2	
-	-	-	-	-	(482.6)	-	-	
247.8	261.9	1,652.3	2,203.4	504.3	2,731.0	4.5	1,070.2	
102.1	97.7	407.7	339.6	1.3	1,592.5	-	1,389.9	2.83%
0.2	-	0.6	0.2	-	1,847.6	-	1,843.2	0.50%
101.9	97.7	407.1	339.4	1.3	(255.1)	-	(453.3)	
89.8	86.2	360.4	306.9	0.6	(94.3)	-	(285.5)	
-	-	-	-	-	-	-	-	
-	-	-	-	-	482.6	-	-	
101.9	97.7	407.1	339.4	1.3	227.5	-	(453.3)	
910.9	**752.1**	**3,269.6**	**2,831.4**	**505.7**	**16,397.1**	**4.5**	**13,872.8**	**3.25%**
561.3	**392.5**	**1,210.1**	**288.6**	**-**	**13,438.6**	**-**	**13,255.9**	**1.03%**
349.7	**359.6**	**2,059.4**	**2,542.8**	**505.7**	**2,958.5**	**4.5**	**616.9**	
854.8	731.8	2,785.2	2,799.6	425.9	12,026.7	4.5	9,566.5	4.13%
369.6	105.1	569.3	279.3	-	11,177.0	-	10,977.2	1.12%

Note 32 - Assets and Liabilities by Linkage Bases and Repayment Periods - Bank (1)

Expected future contractual cash flows
Reported amounts, NIS millions

	On demand Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 2 years	2 years 3 years
As of December 31, 2015					
Israeli currency (including foreign currency-linked)					
Assets*	2,514.3	498.9	1,960.5	1,431.4	1,006.4
Liabilities **	4,168.6	522.2	2,147.1	2,056.7	842.8
Difference	(1,654.3)	(23.3)	(186.6)	(625.3)	163.6
Derivative instruments (excluding options)	(178.7)	-	126.0	-	-
Difference after the effect of derivative instruments	(1,833.0)	(23.3)	(60.6)	(625.3)	163.6
Foreign currency (3)					
Assets*	175.4	117.2	413.4	114.3	113.2
Liabilities **	1,149.2	233.5	330.0	78.4	0.2
Difference	(973.8)	(116.3)	83.4	35.9	113.0
Of which: difference - in USD	(746.4)	(188.8)	(217.0)	23.6	98.0
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	178.6	0.1	(126.0)	-	-
Difference after the effect of derivative instruments	(795.2)	(116.2)	(42.6)	35.9	113.0
Total					
Assets*	**2,689.7**	**616.1**	**2,373.9**	**1,545.7**	**1,119.6**
**Liabilities ** **	**5,317.8**	**755.8**	**2,477.1**	**2,135.1**	**842.9**
Difference	**(2,628.1)**	**(139.6)**	**(103.2)**	**(589.4)**	**276.6**
* Of which: credit to the public	312.7	462.4	1,563.3	1,320.5	1,071.1
** Of which: public deposits	4,631.5	751.0	2,393.7	2,051.5	794.4
As of December 31, 2014					
Israeli currency (including foreign currency-linked)					
Assets*	3,546.4	384.7	1,428.5	1,240.5	972.6
Liabilities **	3,141.2	743.1	2,732.8	2,725.2	719.9
Difference	405.2	(358.5)	(1,304.3)	(1,484.6)	252.6
Derivative instruments (excluding options)	(367.4)	(180.9)	65.7	-	-
Difference after the effect of derivative instruments	37.8	(539.4)	(1,238.6)	(1,484.6)	252.6
Foreign currency (3)					
Assets*	295.7	7.9	117.1	118.2	105.0
Liabilities **	1,156.6	325.5	360.7	3.9	-
Difference	(860.9)	(317.5)	(243.6)	114.4	105.0
Of which: difference - in USD	(601.5)	(309.7)	(211.6)	92.6	92.0
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	367.5	180.8	(65.7)		
Difference after the effect of derivative instruments	(493.4)	(136.7)	(309.3)	114.4	105.0
Total					
Assets*	**3,842.1**	**392.6**	**1,545.7**	**1,358.8**	**1,077.6**
**Liabilities ** **	**4,297.8**	**1,068.6**	**3,093.5**	**2,729.0**	**719.9**
Difference	**(455.7)**	**(676.0)**	**(1,547.9)**	**(1,370.3)**	**357.6**
* Of which: credit to the public	351.6	370.9	1,478.5	1,203.0	1,025.4
** Of which: public deposits	4,068.9	958.6	2,978.3	2,362.0	589.5

Comments at the end of the note

Note 32 - Assets and Liabilities by Linkage Bases and Repayment Periods - Bank [(1)]

Expected future contractual cash flows
Reported amounts, NIS millions

						Balance sheet balances [(4)]		
3 years to 4 years	4 years to 5 years	5 years to 10 years	10 years to 20 years	Over 20 years	Total Cash flows	No repayment period[(2)]	Total	Contractual rate of return[(5)]
788.8	664.6	2,751.8	2,490.5	524.0	14,631.2	3.8	12,303.9	3.31%
430.0	843.4	846.4	249.9	-	12,107.1		11,834.9	0.80%
358.8	(178.7)	1,905.4	2,240.6	524.0	2,524.1	3.8	469.0	
-	-	-	-	-	(52.7)		(52.7)	
358.8	(178.7)	1,905.4	2,240.6	524.0	2,471.4	3.8	416.3	
131.0	104.1	446.1	332.7	77.9	2,025.3		1,730.7	2.51%
-	-	-	-	-	1,791.3		1,786.1	0.49%
131.0	104.1	446.1	332.7	77.9	234.1	-	(55.4)	
94.4	89.3	374.9	274.3	1.9	(195.9)		(28.9)	
-	-	-	-	-	-			
-	-	-	-	-	52.7		52.7	
131.0	104.1	446.1	332.7	77.9	286.8	-	(2.7)	
919.8	**768.7**	**3,197.9**	**2,823.2**	**602.0**	**16,656.6**	**3.8**	**14,034.6**	**3.21%**
430.0	**843.4**	**846.4**	**249.9**	-	**13,898.4**	-	**13,621.0**	**0.76%**
489.8	**(74.6)**	**2,351.5**	**2,573.3**	**602.0**	**2,758.2**	**3.8**	**413.6**	
865.1	743.5	2,793.2	2,777.0	449.0	12,357.8	3.8	9,889.3	4.21%
334.3	745.5	776.3	245.3	-	12,723.4		12,501.4	0.86%
839.3	684.5	2,863.3	2,490.5	521.9	14,972.2	4.5	12,500.1	3.27%
571.9	399.9	1,076.5	10.4	-	12,121.0	-	11,651.7	1.13%
267.4	284.5	1,786.7	2,480.1	521.9	2,851.1	4.5	848.4	
-	-	-	-	-	(482.6)	-	-	
267.4	284.5	1,786.7	2,480.1	521.9	2,368.5	4.5	848.4	
102.1	97.7	407.7	339.6	1.3	1,592.5	-	1,389.9	2.83%
0.2	-	0.6	0.2	-	1,847.6	-	1,843.2	0.50%
101.9	97.7	407.1	339.4	1.3	(255.1)	-	(453.3)	
89.8	86.2	360.4	306.9	0.6	(94.3)	-	(285.5)	
-	-	-	-	-	-	-	-	
					482.6	-	-	
101.9	97.7	407.1	339.4	1.3	227.5	-	(453.3)	
941.4	**782.2**	**3,271.0**	**2,830.2**	**523.2**	**16,564.6**	**4.5**	**13,890.0**	**3.22%**
572.1	**399.9**	**1,077.2**	**10.6**	-	**13,968.6**	-	**13,494.9**	**1.04%**
369.3	**382.2**	**2,193.9**	**2,819.6**	**523.2**	**2,596.0**	**4.5**	**395.1**	
854.8	731.8	2,785.2	2,799.6	425.9	12,026.7	4.5	9,566.5	4.13%
512.1	238.7	688.6	1.3	-	12,398.0	-	12,248.0	0.90%

Note 32 - Assets and Liabilities by Linkage Bases and Repayment Periods - Consolidated [1] (Cont.)

(1) In this note, the expected future contractual cash flows with respect to the assets and liabilities items are presented by currencies, in accordance with the periods remaining until the contractual repayment date of each flow. The data are presented net of the effect of accounting write-offs and provisions for credit losses.

(2) Assets without a repayment period, including assets in the amount of NIS 3.8 million whose maturity date has passed (NIS 4.5 million as of December 31, 2014).

(3) Not including Israeli currency linked to foreign currency.

(4) As included in the note "Assets and Liabilities by Linkage Bases", including off-balance sheet amounts with respect to derivatives, uncleared, net.

(5) The projected rate of return is the interest rate which deducts the expected future contractual cash flows which are presented in this note with respect to monetary items, to their balance sheet balance.

(6) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

Note 32 - Assets and Liabilities by Linkage Bases and Repayment Periods - Bank [1] (Cont.)

(1) In this note, the contractual future cash flows expected with respect to the assets and liabilities items are presented by are presented by linkage bases, in accordance with the periods remaining until the contractual repayment date of each flow. The data are presented net of the effect of accounting write-offs and provisions for credit losses.
(2) Assets without a repayment period, including assets in the amount of NIS 3.8 million whose maturity date has passed (NIS 4.5 million as of December 31, 2014).
(3) Not including Israeli currency linked to foreign currency.
(4) As included in the note "Assets and Liabilities by Linkage Bases", including off-balance sheet amounts with respect to derivatives, uncleared, net.
(5) The projected rate of return is the interest rate which deducts the expected future contractual cash flows which are presented in this note with respect to monetary items, to their balance sheet balance.

Note 33A - Balances and Fair Value Estimates of Financial Instruments (Consolidated)

A. Fair value of financial instruments

The information included in this note refers to the assessment of the fair value of financial instruments.

Regarding most of the Bank's financial instruments, "market prices" cannot be quoted, since there is no active market in which they are traded. Therefore, fair value is estimated using conventional pricing models, such as the present value of future cash flows, discounted at a rate which reflects the risk level embedded in the financial instrument. The estimation of fair value using forecasts of future cash flows and the determination of the discount interest rate are subjective. Therefore, for most financial instruments, the aforementioned fair value estimate is not necessarily an indication of the disposal value of the financial instrument on the reporting date. The fair value estimate is prepared according to the interest rates which are valid as of the reporting date, and do not take into account fluctuations in interest rates. Different assumptions regarding interest rates will result in fair value amounts which may be significantly different. The above generally applies to fixed interest bearing or non-interest bearing financial instruments. Additionally, the determination of fair value does not take into account fees which were received or paid though business activities, and do not include the tax impact.

It should be noted that it is possible that the difference between the balance sheet balance and the fair value balances will not be realized, due to the fact that, in most cases, the Bank may hold the financial instrument to maturity. Due to all of the above factors, it should be emphasized that the data included in this note do not indicate the value of the banking corporation as a going concern. Additionally, caution should be applied when conducting comparisons between the fair value amounts of various banks due to the multiplicity of valuation techniques and possible estimates for application when assessing fair value.

B - Main method and assumptions used to estimate the fair value of financial instruments

Deposits in banks, bonds and non-traded bills, and credit to the government - according to the discounted future cash flows method, based on interest rates at which the Bank executed similar transactions on the reporting date.

Marketable securities - by market value, non-marketable securities - by revaluation data which are received from external sources.

Credit to the public - the fair value of the balance of credit to the public is estimated using the method regarding the present value of future cash flows, less the appropriate discount rates. The balance of credit was distributed into categories by main population types, distributed by linkage and credit segments, according to fixed and variable interest rates. The cash flows (principal and interest) were discounted according to interest rates which are identical to the average interest rate used in the Bank for similar transactions on the reporting date. The fair value calculation did not take into account early repayments of credit, whose impact is not unequivocal. The fair value of debit balances in checking accounts was estimated based on their balance sheet balance.

The fair value of troubled debt was calculated using discount interest rates which reflect the high credit risk embodied in them. These discount rates were no lower than the highest interest rate used by the Bank in its transactions as of the reporting date. Future cash flows for troubled debts were calculated after deducting write-offs and provisions for credit losses. The fair value calculation did not take into account early repayments of credit, whose impact is not unequivocal.

Note 33A - Balances and Fair Value Estimates of Financial Instruments (Consolidated) (Cont.)

Deposits, bonds and deferred liability notes - according to the future discounted cash flows method, using the interest rates at which the Bank raises similar deposits, or in issuances of similar bonds or deferred liability notes, by the Bank on the reporting date, excluding bonds listed for trading on the stock exchange, which are presented at market value. The fair value of credit balances in checking accounts and of deposits without a repayment date were estimated according to the balance sheet balance.

Regarding off-balance sheet financial instrument whose balance represents credit risk - Fair value was estimated according to the present value of future cash flows, discounted by the interest rate which reflects the interest level at which a similar transaction would have been performed on the reporting date. Derivative instruments for which there is an active market were estimated according to market value, and derivative instruments which are not traded on an active market were estimated according to models which were used by the Bank in its current operations, and which take into account the risks embodied in the financial instrument.

Financial instruments for an original period of up to three months, and at variable market interest - The balance sheet balance constitutes an approximation of fair value, subject to changes in credit risk and in the Bank's margin in variable interest transactions.

Note 33A - Balances and Fair Value Estimates of Financial Instruments (Consolidated) (Cont.)

Reported amounts in millions of NIS

	December 31									
	2015					2014				
		Fair value					Fair value			
	Book value	Level 1[1]	Level 2[1]	Level 3[1]	Total	Book value	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets										
Cash and deposits in banks	2,071.9	2,071.9	-	-	2,071.9	3,278.0	3,278.0	-	-	3,278.0
Securities [2]	1,779.5	1,267.5	506.1	5.9	1,779.5	902.4[6]	901.3	1.1	-	902.4
Credit to the public, net[3]	9,889.3	-	-	10,024.0	10,024.0	9,566.5	-	-	9,679.7	9,679.7
Assets with respect to derivative instruments	195.1	191.9	3.2	-	195.1	40.4	19.3	21.1	-	40.4
Other financial assets	10.5	-	-	10.5	10.5	17.2	-	-	17.2	17.2
Total financial assets[4]	**13,946.3**	**3,531.3**	**509.3**	**10,040.4**	**14,081.0**	**13,804.5**[6]	**4,198.6**	**22.2**	**9,696.9**	**13,917.7**
Financial liabilities										
Public deposits	11,019.0	-	1,361.9	9,723.1	11,085.0	10,977.2	-	1,921.9	9,130.2	11,052.1
Deposits from banks	39.4	-	-	47.2	47.2	42.5	-	-	43.8	43.8
Government deposits	0.8	-	-	0.8	0.8	5.0	-	-	5.0	5.0
Lent securities	387.3	387.3	-	-	387.3	582.7	582.7	-	-	582.7
Bonds and deferred liability notes	1,634.8	1,468.5	-	187.7	1,656.2	1,503.1	1,322.4	-	209.9	1,532.3
Liabilities in respect of derivative instruments	195.2	191.9	3.3	-	195.2	39.0	19.3	19.7	-	39.0
Other financial liabilities	99.2	-	-	99.2	99.2	105.6[5]	-	-	105.6[5]	105.6[5]
Total financial liabilities [4],[5]	**13,375.7**	**2,047.7**	**1,365.2**	**10,058.0**	**13,470.9**[3]	**13,255.1**[5]	**1,924.4**	**1,941.6**	**9,494.5**[5]	**13,360.5**[5]

(1) Level 1 - fair value measurements which use quoted prices on an active market. Level 2 - fair value measurements which use other significant observable inputs. Level 3 - fair value measurements which use significant unobservable inputs.

(2) For additional details regarding the balance sheet balance of securities, see the note regarding securities.

(3) Of which, damaged credit whose collection is conditional upon collateral as of December 31, 2015 and December 31, 2014 in the amount of NIS 3.2 million and NIS 19.8 million, respectively.

(4) Of which: Liabilities whose balance sheet balance is identical to fair value (instruments which are presented in the balance sheet at fair value) or which constitute an approximation of fair value (instruments for an original period of up to 3 months regarding which use was made of the balance sheet balance as an approximation of fair value) as of December 31, 2015 and December 31, 2014, in the amount of NIS 4,057.0 million and NIS 4,220.8 million, respectively. Liabilities whose balance sheet balance is identical to fair value (instruments which are presented in the balance sheet at fair value) or which constitute an approximation of fair value (instruments for an original period of up to 3 months regarding which use was made of the balance sheet balance as an approximation of fair value) as of December 31, 2015 and December 31, 2014, in the amount of NIS 2,043.6 million and NIS 2,543.6 million, respectively. For additional information regarding instruments which were measured at fair value on a repeated basis, and on a non-repeated basis, see Note 21A.

(5) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

(6) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

Note 33B - Items Measured at Fair Value on a Repeated Basis

Reported amounts in millions of NIS

	December 31, 2015			
	Fair value measurements used in:			
	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total Fair value
Assets				
Available for sale securities:				
Bonds - Government of Israel	787.9	-	-	787.9
Bonds - foreign governments	-	402.3	-	402.3
Bonds - other companies	2.7	12.6	-	15.3
Stocks and funds	-	-	5.9(2)	5.9
Total available for sale securities	**790.6**	**414.9**	**5.9**	**1,211.4**
Marketable securities:				
Bonds - Government of Israel	476.0	35.5	-	511.5
Foreign government bonds	-	55.8	-	55.8
Basket certificates	0.8	-	-	0.8
Total marketable securities	**476.8**	**91.3**	-	**568.1**
Assets with respect to derivative instruments:				
Interest contracts - other		1.3		1.3
Foreign currency contracts	0.9	1.9	-	2.8
Share contracts	191.0	-	-	191.0
Total assets with respect to derivative instruments:	**191.9**	**3.2**	-	**195.1**
Total financial assets	**1,459.3**	**509.4**	**5.9**	**1,974.6**
Liabilities				
Lent securities	387.3	-	-	387.3
Liabilities in respect of derivative instruments:				
Interest contracts - NIS/CPI	-	1.9	-	1.9
Interest contracts - other	-	0.3	-	0.3
Foreign currency contracts	0.9	1.1	-	2.0
Share contracts	191.0	-	-	191.0
Total liabilities with respect to derivative instruments	**191.9**	**3.3**	-	**195.2**
Total financial liabilities	**579.2**	**3.3**	-	**582.5**

(1) Level 1 - fair value measurements which use quoted prices on an active market. Level 2 - fair value measurements which use other significant observable inputs. Level 3 - fair value measurements which use significant unobservable inputs.

(2) Reserves in the amount of NIS 5.9 million were purchased in an issuance in December 2015 and were revaluated for the first time in 2016.

Note 33B - Items Measured at Fair Value on a Repeated Basis

Reported amounts in millions of NIS

	December 31, 2014			
	Fair value measurements used in:			
	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total Fair value
Assets				
Available for sale securities				
Bonds - Government of Israel (2)	609.9	-	-	609.9
Bonds - other companies *	21.7	1.1	-	22.8
Total available for sale securities	**631.6**	**1.1**	-	**632.7**
Marketable securities				
Bonds - Government of Israel	266.0	-	-	266.0
Total marketable securities	**266.0**	-	-	**266.0**
Assets with respect to derivative instruments				
Interest contracts - NIS/CPI	-	-	-	-
Interest contracts - other	-	0.7	-	0.7
Foreign currency contracts	0.7	20.4	-	21.1
Share contracts	18.6	-	-	18.6
Total assets with respect to derivative instruments:	**19.3**	**21.1**	-	**40.4**
Total financial assets	**916.9**	**22.2**	-	**939.1**
Liabilities				
Lent securities	**582.7**	-	-	**582.7**
Liabilities in respect of derivative instruments				
Interest contracts - NIS/CPI	-	-	-	-
Interest contracts - other	-	3.7	-	3.7
Foreign currency contracts	0.7	16.0	-	16.7
Share contracts	18.6	-	-	18.6
Total liabilities with respect to derivative instruments	**19.3**	**19.7**	-	**39.0**
Total financial liabilities	**602.0**	**19.7**	-	**621.7**

(1) Level 1 - fair value measurements which use quoted prices on an active market. Level 2 - fair value measurements which use other significant observable inputs. Level 3 - fair value measurements which use significant unobservable inputs.
(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds to available for sale bonds. For details, see Note 1.F.

Note 34 - Interested Parties and Related Parties[1] of the Bank and its Consolidated Companies

Reported amounts, NIS millions

A - Balances

	December 31, 2015									
	Interested parties									
	Shareholders									
	Controlling shareholders[2]		Others[3]		Corporate officers[4]		Others[5][6]		Anyone who was a interested party when the transaction was executed	
	As of December 31[8]	Highest balance during the year[9]	As of December 31[8]	Highest balance during the year[9]	As of December 31[8]	Highest balance during the year[9]	As of December 31[8]	Highest balance during the year[9]	As of December 31[8]	Highest balance during the year[9]
Assets										
Credit to the public	-	-	-	-	2.9	3.1	-	-	-	-
Provision for credit losses	-	-	-	-	-	-	-	-	-	-
Credit to the public, net	-	-	-	-	2.9	3.1	-	-	-	-
Liabilities										
Public deposits	6.7	7.1	-	-	1.9	1.9	5.2	334.4	-	-
Other liabilities - other payables and credit balances	-	-	-	-	-	-	-	-	-	-
Share capital (included in equity) [10]	678.6	678.6	-	39.2[11]	0.1	0.1	-	-	-	-

B - Summary business results of interested parties and related parties

	December 31, 2015			
	Interested parties			
	Shareholders			
	Controlling shareholders[2]	Others[3]	Corporate officers[4]	Others[5][6]
Interest income, net	(0.1)	-	0.1	-
Expenses with respect to credit losses	-	-	-	-
Non-interest income	0.2	-	-	0.6
Operating and other expenses	-	-	-	0.6
Total	0.1	-	0.1	-

Remarks at end of note

Note 34 - Interested Parties and Related Parties(1) of the Bank and its Consolidated Companies

Reported amounts, NIS millions

C - Remuneration and any other benefit to interested parties

	December 31, 2015							
	Interested parties							
	Shareholders							
	Controlling shareholders(2)		Others(3)		Corporate officers(4)		Others(5)(6)	
	Total benefit	Number of benefit recipients	Total benefit	Number of benefit recipients	Total benefit	Number of benefit recipients	Total benefit	Number of benefit recipients
Interested party who is employed in the corporation or on its behalf	-	-	-	-	12.6	13.0	-	-
Director who is not employed in the corporation or on its behalf	0.3	2.0	-	-	1.5	9.0	-	-

D - Interest income, net, in transactions with the banking corporation and its consolidated companies with interested parties and related parties

	2015
A. With respect to assets	
From credit to the public	**0.1**
B. With respect to liabilities	
On public deposits	**(0.1)**
Total interest income, net	-

(1) Interested party, related party, related person - as defined in section 80.D of the public reporting regulations.
(2) Controlling shareholders and their relatives - as defined in section 80.D(1) of the public reporting regulations.
(3) Other holders - including holders of 5% or more of the means of control of the banking corporation, and those who are entitled to appoint one or more directors of the banking corporation, or its CEO - in accordance with section 80.D(2) of the public reporting regulations.
(4) Corporate officers - as defined in section 80.D(3) of the public reporting regulations.
(5) In accordance with section 80.D(4) of the public reporting regulations
(6) There are no assets or liabilities as of the balance sheet date with respect to corporations, where the person or corporation which was included in one of the aforementioned groups of interested parties, in accordance with the Securities Law, holds twenty five percent or more of their issued share capital, or of the voting rights therein, or who is entitled to appoint twenty five percent or more of the directors in associate companies or investee companies under joint control - in accordance with section 80.D(7) of the public reporting regulations.
(7) In accordance with section 80.D(8) of the public reporting regulations
(8) Balance as of the balance sheet date.

(9) Highest balance during the year - based on end of month balances at the end of each month.
(10) Holdings of interested parties and related parties in the capital of the banking corporation.
(11) During the year, another shareholder sold some of its holdings, and therefore, it does not meet the definition provided in section 80.D(2). of the public reporting regulations.
(12) Amounts lower than NIS 0.1 million are not presented in this note.
(13) In accordance with the public reporting regulations, the presentation of comparative figures is not required.

Note 34 - The Bank's Interested Parties and Related Parties[1] (Consolidated)

E - Employment terms of the CEO

On June 30, 2015, the Bank's Board of Directors resoled to appoint Mr. Gill Topaz to the position of the Bank's CEO, subject to the approval of the Commissioner of Banks. The Remuneration Committee, in its meeting on July 8, 2015, and later the Board of Directors, in its meeting on July 14, 2015, approved the terms of tenure and employment of the Bank's incoming CEO, Mr. Gill Topaz (hereinafter: the "Employment Terms" and the "CEO", respectively). The CEO's employment terms were approved in the general meeting on August 20, 2015. The employment terms were determined in accordance with the Bank's remuneration policy for corporate officers, which was approved by the general meeting on July 20, 2014, and updated on August 20, 2015 (hereinafter: the "Remuneration Policy").

Presented below are details regarding the CEO's employment terms:

General

The CEO's employment period will be four years, beginning at the start of his tenure in the Bank. The parties will be entitled to terminate the work relationship at any time, by providing notice in writing six months in advance, as specified below. During 6 months after the date of the termination of the employer - employee relationship, the CEO will be subject to provisions regarding non-competition, as specified in the terms of the transaction, and in consideration of an adjustment bonus. The Bank is entitled, in its exclusive discretion, to extend the non-competition period by an additional 3 months, against payment in the amount of his salary for this period.

Fixed and variable remuneration

The CEO's monthly salary in 2015 and 2016 amounted to a gross total of NIS 97,750; Beginning with the salary for January 2017, his salary will amount to a gross total of NIS 103,500, for a full time position; beginning with the salary for January 2018, his salary will amount to a gross total of NIS 115,00, for a full time position; and beginning with the salary for January 2019, his salary will amount to a gross total of NIS 120,000, for a full time position ("Monthly Salary"). The monthly salary will be linked to increases in the consumer price index, as specified in the employment terms. The CEO will also be entitled to social benefits and fringe benefits, as specified in the employment terms.

The Bank's CEO will be entitled to receive an annual bonus in accordance with and subject to the following cumulative preconditions: A. Fulfillment of the reported rate of return which will be determined by the Board of Directors after receiving the recommendation of the Remuneration Committee for each calendar year with respect to each bonus year, which will be in the range of 8%-8.5%, and as determined by the Board of Directors with respect to each year (for details regarding the definition of reported returns, see Note 23 regarding the remuneration policy to the Bank's corporate officers). B. The Bank fulfilled the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks during the bonus year. The CEO will be entitled to receive a variable annual bonus as follows:

Reported rate of return As defined in the remuneration policy	Variable annual bonus limit (NIS Thousands)			
	2016	2017	2018	2019
8%/8.5%-10%	392-943	415-963	461-1,070	484-1,123
10%-12%	943-1,513	963-1,450	1,070-1,300	1,123-1,229
12%-14%	1,513-1,600	1,450-1,550	1,300-1,350	1,229-1,275

The calculation of the limit for the variable annual bonus, in each of the levels of the reported rate of return, will be implemented in a linear and pro-rata fashion among the levels specified above. The scope of the allocated annual bonus, subject to the fulfillment of the preconditions, will be determined by weighing the fulfillment of the following targets:

A. Fulfillment of the reported rate of return will entitle the CEO to receive 80% of the variable annual bonus limit to which he is entitled. At the time of the calculation, the Board of Directors will be required to evaluate, after receiving the recommendation of the Remuneration Committee, the fulfillment by the Bank's CEO of the risk indicators which were determined for him in advance, and accordingly, the Board of Directors will be entitled to reduce up to 20% from the maximum limit for the variable annual bonus which was calculated with respect to this target.

B. Fulfillment of qualitative targets, at a rate of up to 20% of the maximum variable annual bonus to which he is entitled, to be based on areas such as fulfillment of the Bank's strategic plan, fulfillment of the Bank's overall financial targets, and others.

In any case, the maximum variable remuneration will not exceed 100% of the fixed remuneration (as defined in the remuneration policy) for the Bank's CEO. Notwithstanding the above, in exceptional circumstances, the Board of Directors, following the recommendation of the Remuneration Committee, is entitled to determine, by providing a detailed and specific decision, which will be submitted to the general shareholders' meeting for approval, that the maximum variable remuneration for the CEO will amount to 200% of the fixed remuneration for the CEO. Payment of the variable remuneration will be distributed over several years, with 50% of the variable remuneration being paid in cash, shortly after the publication of the Bank's annual financial statements for the bonus year, while the remaining 50% of the variable remuneration will be deferred over the following three years, and will be distributed into three equal annual payments. The execution of each of the deferred payments will be contingent upon the fulfillment of reported returns of 6.5% or higher in the year for which the payment is executed, on account of the deferred bonus, and on the condition that the provision of that part of the deferred variable remuneration will not harm the capital adequacy ratios which are required in accordance with the directives issued by the Commissioner of Banks for that year. Notwithstanding the above, when the variable remuneration with respect to a bonus year does not exceed one sixth (1/6) of the fixed remuneration for that year, it will not be necessary to postpone any payment with respect to that variable remuneration, and it will be possible to pay the entire variable remuneration shortly after the publication of the Bank's annual financial statements.

With respect to all types of variable remuneration, fringe benefits are not paid. In circumstances where the Bank's CEO is not entitled to receive severance pay, and in other circumstances, as will be determined (if determined) by the Board of Directors from time to time, after receiving the recommendation of the Remuneration Committee, the Bank will be entitled to revoke the CEO's entitlement to variable remuneration (in whole or in part), including the bonuses, and to all parts of the variable remuneration which have not yet been paid, including with respect to the deferred parts of the variable remuneration.

Retirement terms

Severance pay - the Bank's payments to the pension severance pay plan will come in place of the payment of severance pay which may be owed to the CEO or to his survivors, and will exhaust all of the Bank's liabilities in connection with the payment of severance pay, as specified in section 14 of the Severance Pay Law. Upon the termination of employment of the banks CEO, the Bank will release, in favor of the Bank's CEO, all of the funds which accumulated in his favor in the pension plan, including the interest accrued thereupon, and the Bank will not be entitled to receive any sum out of the plan funds. Advance notice period - in case of the termination of the employer - employee relationship, as initiated by either of the parties, the advance notice period will be 6 months, in writing. The Bank will be entitled to forgo the work of the Bank's CEO during the advance notice period, in whole or in part. In that case, the Bank's CEO will be entitled to receive payment of all of the rights set forth in the agreement, as if he had effectively worked during this period. However, the Bank will be entitled to terminate the working relationship immediately, or during the advance notice period, provided that it will pay to the Bank's CEO the advance notice consideration which remains in his favor, in the amount of the monthly salary and the value of the fringe benefits and social benefits specified in the agreement, excluding the variable remuneration.

Adjustment bonus - upon the conclusion of the CEO's employment, an adjustment bonus will be paid to the CEO in an amount equal to three monthly salaries, according to the salary which was paid to him upon the conclusion of his employment in the Bank. The adjustment bonus constitutes consideration for the 6 month non-competition undertaking. The payment of the adjustment bonus will be subject to payment postponement arrangements, as specified in the remuneration policy.

Payment of variable retirement terms will be subject to payment postponement arrangements past the date of the CEO's departure and the activation of ex-post adjustment mechanisms. For additional details regarding the postponement arrangements, see the Bank's immediate report dated June 12, 2014.

Additional general provisions

All of the provisions of the agreement with the CEO will be subject to the Bank's remuneration policy, as this will be in effect from time to time, and to the directives issued by the Bank of Israel and the Commissioner of Banks, from time to time. The Board of Directors will be entitled, for special reasons, to decide to reduce the variable remuneration (in whole or in part) given to the Bank's CEO, after receiving the recommendation of the Remuneration Committee. If it is found that amounts have been paid to the Bank's CEO as part of his terms of tenure and employment, which were based on figures which were found to be erroneous, and which were restated in the Bank's financial statements, and where, in light of the restatement of those figures, lower amounts should have been paid to the Bank's CEO than those which he actually reviewed, or if no amounts at all should have been paid, then the Bank's CEO will repay those amounts to the Bank, upon the Bank's demand, plus linkage differentials from the payment date until the repayment date.

F. Employment terms of the Bank's former CEO (concluded his tenure as the Bank's CEO on October 31, 2015)

Mr. Uri Paz discontinued serving as the Bank's CEO on October 31, 2015, after the passage of six months following his announcement regarding his intention to terminate his position (hereinafter: the "Former CEO").

The former CEO's employment terms were approved by the Bank's Board of Directors on August 14, 2014, in accordance with section 272(c)(3) of the Companies Law, 5759-1999 (hereinafter: the "Companies Law"), for a period of three years beginning on the date of the extension of his tenure on April 14, 2014, whereby the parties were entitled to terminate the working relationship at any time by providing written notice six (6) months in advance; This was after the Board of Directors resolved that the conditions for their approval had not been fulfilled, although they were not approved by the Bank's general meeting from July 20, 2014, due to the absence of the required majority among shareholders who are not the Bank's controlling shareholders or interested parties in the approval of the resolution.

Note 34 - The Bank's Interested Parties and Related Parties (1) (Consolidated)

Following the notice sent by the Banking Supervision Department, the Board of Directors, in its meeting on February 25, 2015, held a renewed discussion in connection with its aforementioned resolution dated August 14, 2014, and again decided that, in this case, the conditions set forth in the Companies Law for the approval of the aforementioned terms of tenure and employment had been fulfilled, based on detailed reasons, and after having evaluated, inter alia, the resolution of the general meeting, which re-approved the former CEO's terms of tenure and employment.

The following are the principal terms of the former CEO's employment agreement (hereinafter: the "Employment Agreement"):

Fixed salary

The former CEO's monthly salary was specified in the agreement as a gross total of NIS 139,000 per month (hereinafter: the "Monthly Salary"), in a full time position, linked to increases in the consumer price index gross per month 15, 2014, with respect to February 2014. In each calendar year during his period of employment, the former CEO was entitled to a fixed annual bonus in the amount of one monthly salary, and to a proportional part with respect to work during part of the year. The fixed annual payment will not be considered as part of the monthly salary for the purpose of social provisions, including severance pay. He was also entitled to social benefits and fringe benefits. The aforementioned terms were provided to the former CEO until the date of termination of his tenure, on October 31, 2015.

Variable annual bonus

In accordance with the employment agreement, the former CEO was entitled to an annual bonus, subject to the following cumulative preconditions: A. Fulfillment of a minimum reported rate of return, to be determined by the Board of Directors after receiving the recommendation of the Remuneration Committee regarding each bonus year, at a rate of 8% - 8.5%. B. Fulfillment of the Bank's capital adequacy ratios, as required in accordance with the directives issued by the Commissioner of Banks in the bonus year (for details regarding the definition of reported returns, see Note 15 regarding the remuneration policy for the Bank's corporate officers). During the reporting year, the precondition requiring fulfillment of a minimum rate of reported returns was not fulfilled, and therefore, the former CEO is not entitled to a variable annual bonus with respect to the relative period during which he was employed in 2015.

The payment of variable remuneration will be distributed throughout several years. 50% of the variable remuneration will be paid in cash, shortly after the publication of the Bank's annual financial statements for the bonus year. The remaining 50% of the variable remuneration will be deferred over the following three years, and will be distributed into three equal annual payments. The execution of each of the deferred payments will be contingent upon the fulfillment of reported returns of 6.5% or higher in the year for which the payment is executed, on account of the deferred bonus, and on the condition that the provision of that part of the deferred variable remuneration will not harm the capital adequacy ratios which are required in accordance with the directives issued by the Commissioner of Banks for that year. In the event that, in a certain year for which the former CEO is entitled to a deferred payment, the reported returns are lower than 6.5% and/or the Bank has not fulfilled the capital adequacy ratio required in accordance with directives issued by the Commissioner of Banks, the Bank's former CEO will not be entitled to receive payment of the deferred remuneration with respect to that year, and that payment will be canceled. The other deferred payments, which are intended for payment on subsequent dates to the date of the exception, will not be canceled on the same date, and will be subject to the fulfillment of the aforementioned conditions, which will apply with respect to each year that is relevant to the deferral.

Note 34 - The Bank's Interested Parties and Related Parties [1] (Consolidated)

Payments upon termination of employment:

In accordance with the employment agreement, the former CEO is entitled, upon the termination of his employment, to receive severance pay. The Bank's payments to the pension plan with respect to severance pay comes in place of the payment of severance pay, and exhaust the Bank's obligations on all matters associated with the payment of severance pay, as specified in section 14 of the Severance Pay Law, and upon the termination of the employment of the former CEO, the banks will release, in favor of the former CEO, all funds which accrued in his favor in the pension plan, including interest thereupon; And an adjustment bonus in the amount of six monthly salaries (for this purpose, this refers to his monthly salary). The adjustment bonus constitutes consideration for the 6 month non-competition undertaking. Part of the bonus was paid immediately, while another part was distributed in accordance with the terms and conditions specified on this matter in Proper Banking Management Directive 301A, and in directives issued by the Commissioner of Banks.

Options plan:

Option units were allocated to a company wholly owned and controlled by the Bank's former CEO, through which the Bank's former CEO gave services to the Bank until April 13, 2014, in accordance with the options plan which was approved by the Bank's Board of Directors on February 27, 2011 (hereinafter: the "Options Plan") (for additional details regarding the options plan, see Note 22A to the financial statements). In case of termination of the employer - employee relationship between the Bank and the former CEO, the options which vested will be exercisable within 180 days after the date of termination of the employer - employee relationship, after which they will expire. Accordingly, all of the options which were allocated will expire on April 30, 2016, insofar as they have not been exercised by that date, by the former CEO.

G - Employment Terms of the Chairman of the Board

The Bank's Board of Directors, in its meeting on September 17, 2015, decided to appoint Mr. Zeev Nahari as a director and as the Chairman of the Bank's Board of Directors ("Chairman of the Board"), in accordance with section 11c.(a)(3) of the Banking Ordinance, 1941, and the Bank's bylaws, until the date when the appointment will be presented for approval to the special general meeting which will be convened for this purpose, and subject to the receipt of the required approvals. On October 11, 2015, approval was received from the Bank of Israel, certifying that it does not have an objection to the appointment of Mr. Nahari as a director and as the Chairman of the Bank's Board of Directors, and from that date onwards, Mr. Nahari has effectively served as a director and as the Chairman of the Bank's Board of Directors.

The Remuneration Committee and the Board of Directors, in their meetings which were held in September and October 2015, approved the terms of tenure and employment of the Chairman of the Board, Mr. Zeev Nahari (hereinafter: the "Employment Terms"). The employment terms of the Chairman of the Board were approved in the general meeting which was convened on November 19, 2015. The employment terms were determined in accordance with the Bank's remuneration policy for corporate officers, which was approved by the general meeting on July 20, 2014, as updated on August 20, 2015 (hereinafter: the "Remuneration Policy").

Note 34 - The Bank's Interested Parties and Related Parties (1) (Consolidated)

Presented below are details regarding the principal employment terms of the Chairman of the Board:

General

The Chairman's period of employment will be 4 years, commencing with his actual tenure. Notwithstanding the provisions of the above section, the parties will be entitled to terminate the work relationship at any time, by providing written notice three (3) months in advance. During the employment period, the Chairman will be employed on a 4 day work week basis (no less than 80% position). The Chairman of the Board undertakes not to engage in any other activity and/or in any other position and/or in nay other engagement and/or work, at or on behalf of any banking corporation or financial entity or entity active in the capital market, and/or in any other engagement which is prohibited in accordance with the Proper Banking Management Directives, unless advance written consent has been received for the foregoing from the Bank's Board of Directors. The Chairman of the Board undertook to avoid conflicts of interest.

Monthly salary and fringe benefits

The Chairman of the Board's monthly salary will amount to a gross total of NIS 95,000 per month of work (with respect to a 80% position). The salary will be linked to increases in the consumer price index, with the base index being the index on the commencement date of his position. Additionally, the Chairman of the Board will be entitled to receive social benefits and fringe benefits which include, inter alia, social provisions; sick days, convalescence pay, a vehicle appropriate for his position, corporate officer's insurance according to the Bank's policy, insofar as there will be a transfer of control in the Bank, run-off insurance according to the Bank's conventional practice, undertaking to indemnify according to the customary terms for senior corporate officers in the Bank, reimbursement of expenses associated with the fulfillment of his position, and additional benefits.

Variable remuneration

In accordance with the terms of tenure and employment, and in accordance with Proper Banking Management Directive 301A, the Chairman of the Board will not be entitled to receive a variable annual bonus.

Retirement terms

Severance pay - the Bank's payments to the pension severance pay plan will come in place of the payment of severance pay which may be owed to the Chairman of the Board or to his survivors, as applicable, and will exhaust all of the Bank's obligations in connection with the payment of severance pay, as specified in section 14 of the Severance Pay Law. Upon the conclusion of the employment of the Chairman of the Board, the Bank will release, in favor of the Chairman of the Board, all funds which have accrued in his favor in the pension plan, including interest accrued thereupon, and the Bank will not be entitled to receive any amount out of the plan funds.

Advance notice period - in case of the termination of the employer - employee relationship, as initiated by either of the parties, the advance notice period will be 3 months, in writing. The Bank will be entitled to forgo the work of the Chairman of the Board during the advance notice period, in whole or in part. In the above case, the Chairman of the Board will be entitled to receive payment of all of the rights set forth in the agreement, as if he had effectively worked during this period. However, the Bank will be entitled to terminate the working relationship immediately, or during the advance notice period, provided that it pays to the Chairman of the Board the consideration for the remaining advance notice period which remains in his favor, in the amount of the monthly salary and the value of the fringe and social benefits specified in the agreement.

Additional general provisions

All of the provisions of the agreement with Chairman of the Board will be subject to the Bank's remuneration policy, as this will be in effect from time to time, and to the directives issued by the Bank of Israel and the Commissioner of Banks, from time to time.

H. Employment terms of the former Chairman of the Board (whose tenure as the Chairman of the Bank's Board of Directors concluded on September 10, 2015)

On September 9, 2015, Mr. Zeev Gutman, the former Chairman of the Bank's Board of Directors (the "Former Chairman of the Board"), announced that he was removing his candidacy as a director for an additional tenure period, and requested not to be re-appointed as a director in the annual general meeting which was scheduled for September 10, 2015; The employment terms of the former Chairman of the Board were approved by the general meeting on October 3, 2011, after approval was received from the Audit Committee, in its meeting on June 20, 2011, and later from the Board of Directors, in its meeting on July 17, 2011.

The following are the primary components of the engagement terms with the former Chairman of the Board, Mr. Zeev Gutman, through a company wholly owned and controlled by him (hereinafter: the "Services Agreement"):

The services were provided to the Bank by the former Chairman of the Board within the framework of an engagement between an orderer and an independent contractor, through a company under the control of the former Chairman (hereinafter: the "Company"). The consideration with respect to these services to the Bank was established based on the aforementioned framework, and there was no employer - employee relationship between the Bank and the former Chairman.

The services agreement terminated on September 10, 2015, following the announcement of the former Chairman of the Board dated September 9, 2015, according to which he is removing his candidacy as a director for an additional tenure period, and requesting not to be re-appointed as a director in the annual general meeting which was scheduled for September 10, 2015;

Fixed consideration

The consideration with respect to the services was determined as a monthly total of NIS 108,340, plus duly calculated value added tax (hereinafter: the "Monthly Consideration"). Linked to increases in the consumer price index which was published on October 14, 2011, with respect to September 2011. In accordance with the provisions of the services agreement, the monthly consideration with respect to 2015 amounted to a total of NIS 123,683, plus duly calculated VAT (an increase of 10% relative to the previous year, due to the fact that, according to the terms of the agreement wit him, the Bank's net profit for a given year exceeded NIS 61 million, and he will be entitled to this addition). The Bank will also bear, in accordance with the services agreement, all current expenses associated with the provision of the services, against the provision of receipts (if these are not owed directly to the Bank), including the provision of a vehicle and telephone.

Note 34 - The Bank's Interested Parties and Related Parties [(1)] (Consolidated)

Variable bonus

In accordance with the provisions of the services agreement, the company is entitled to a variable bonus upon the fulfillment of the conditions specified in the agreement; In 2015, the preconditions for the fulfillment of the minimum reported rate of return of 9%, which confer entitlement for the bonus, were not met, and therefore, the company is not entitled to a proportional annual bonus with respect to the period during which the agreement was in effect in 2015.

Payments upon termination of the agreement

In accordance with the services agreement, the former Chairman of the Board is entitled to an advance notice period of three months, and therefore, the monthly consideration was paid to the company, as well as the additional terms, for an additional period of three months, until December 10, 2015.

Note 35 - Events After the Balance Sheet Date and Various Subjects

1 On December 16, 2014, Bank of Jerusalem offered to Dexia Bank an outline for the acquisition of all Dexia Bank shares. On April 29, 2015, a letter from Dexia Bank was received by Bank of Jerusalem, announcing that it had decided not to accept Bank of Jerusalem's offer. On May 12, 2015, the Bank's Board of Directors discussed the response of Dexia Bank, and decided that Bank of Jerusalem's offer will remain in effect at this stage. Accordingly, the Bank issued, on May 13, 2015, a response letter to Dexia Bank, in which the Bank announced to Dexia Bank that its offer remains unchanged at this stage, and repeated its offer to hold a serious, relevant dialogue regarding the aforementioned offer. Additionally, on May 12, 2015, the Bank's Board of Directors approved the Bank's engagement in a non-binding memorandum of understanding with an American investment fund, according to which the fund expressed willingness to undertake to acquire 15%-20% of the shares of Bank of Jerusalem, after the completion of the transaction for the acquisition of shares of Dexia Bank, insofar as that transaction will be completed, in accordance with the offer (and, of course, subject to the receipt of a holding permit from the Bank of Israel). On May 27, 2015, a letter was received from Dexia Bank by Bank of Jerusalem, in response to the response letter which Bank of Jerusalem had sent to Dexia Bank, in which it announced that it had decided not to accept Bank of Jerusalem's offer, based on its previous statements.

On February 4, 2016, the Bank's Board of Directors approved an extension of the memorandum of understanding with JCF Foundation to June 30, 2016, with respect to the Dexia transaction. It is hereby clarified that the aforementioned decision does not constitute any decision, or the expression of any position, by the Board of Directors, nor any restriction with respect to the performance of the transaction, or with respect to the profitability of the Dexia acquisition transaction, or the terms which may be offered by the Bank for a transaction of this kind, if any.

2 On January 22, 2016, the Bank announced that a hacking breach of a securities information website which is separate from the Bank's central website had been discovered. A report regarding the hacking breach was sent to the Banking Supervision Department.

The website which was hacked, which only contained information regarding the securities segment (with no option to perform transactions), was taken off the internet at the Bank's initiative.
Based on evaluations which were conducted and are being conducted by the Bank, in consultation with experts, and in coordination with national entities which are responsible for cyber enforcement in Israel, it appears that the activity was performed by hostile anti-Israel activists belonging to the hacker organization "Anonymous". The action was performed outside of state borders.
Based on an evaluation of the information which was collected since the discovery of the event, it appears that no unauthorized actions were performed with respect to customers' accounts, and that no damage was caused to customers.

Upon the discovery of the event, the Bank implemented, and continues to implement, actions to protect customer accounts, and performed immediate actions, including the resetting of access passwords to those accounts.

The Bank estimates that the breach involved approximately 38,000 records, of which approximately 6,000 are active accounts of the Bank in the securities segment. The others are historical customers of the stock exchange member company, who received information through that separate website.

Notice was given to the Bank's insurers.

Note 35 - Events After the Balance Sheet Date and Various Subjects

3. On February 11, 2016, due to the significant changes in regulatory requirements in connection with the capital adequacy ratio, and after the receipt of approval from the Banking Supervision Department, the Bank sold bonds which had been classified as bonds held to maturity. This sale was performed following a preliminary discussion which the Bank held vis-à-vis the Banking Supervision Department, which concluded with the Bank accepting the demand from the Banking Supervision Department, which determined that this sale must be done subject to a restatement of the financial statements as of December 31, 2014, and for the year then ended, in order to retrospectively reflect the correction of an error in the classification of the bonds from the held to maturity portfolio to the available for sale portfolio, on the acquisition date. As a result of this sale, the Bank will record profit after tax in the amount of approximately NIS 21 million in the first quarter of 2016. For details regarding the impact of the restatement on the annual financial statements as of December 31, 2014 and for the year then ended, which were published in the past, see Note 1.F.

Note 36 - Data Based on Nominal Historical Figures for Tax Purposes

A. Data Based on Nominal Historical Figures for Tax Purposes

	December 31	
	2015	2014[(1)(2)]
Total assets	14,464.4	14,322.8
Total liabilities	13,680.7	13,573.5
Equity	783.7	749.3

B.Statement of Income

	For the year ended December 31		
	2015	2014	2013
Net profit	48.7	65.1[(1)]	12.9[(1)]

(1) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds to available for sale bonds. For details, see Note 1.F.

Corporate Governance, Audit and Additional Details Regarding the Banking Corporation's Business Affairs and the Management Thereof

Report for 2015

Bank of Jerusalem Ltd. and its Consolidated Companies

Corporate Governance, Audit and Additional Details Regarding the Banking Corporation's Business Affairs and the Management Thereof - Table of Contents

Part A - Corporate Governance and Audit

Board of Directors and management

Names and positions of Board members [1]:

Name of director	Main position
Zeev Nahari (began serving on October 11, 2015)	Chairman of the Bank's Board of Directors.
Zalman Shoval	Chairman of the Board of Directors of Export Investment Co. Ltd. (the parent company); Joint Chairman of the Faire Fund.
Yehuda Orbach (began serving on September 13, 2015) [2]	C.P.A., Chairman of the Audit Committee of the Holocaust Restitution Company of Israel; Lecturer on auditing of information systems in institutions of higher education; Advisor and auditor.
Shmuel Eshel [2]	Consulting and business accompaniment
Adiv Baruch (discontinued serving on September 12, 2015) [2]	Managing partner and Director at Signum Ltd.
Moshe Bauer	CEO and Director of C.F.C. Comprehensive Financing Co. Ltd.
Ovad Ben-Ozer (OBM) (passed away on January 1, 2016)	Manager of companies.
Zeev Gutman (discontinued serving on September 10, 2015)	Chairman of the Bank's Board of Directors until September 10, 2015.
Ram Harmelch	CEO and owner of Manof Marang Ltd. and director in companies.
Pinchas Volovelsky (discontinued tenure on May 10, 2015)	Attorney, partner in law firm.
Ira Sobel [3]	C.P.A., economic advisor to companies and director in companies.
Dr. Nurit Krausz [3]	CEO and founder of Redstart Modeling Services and Consulting Ltd.
Gideon Shoval	CEO of Export Investment Co. Ltd.

(1) Additional details regarding the Bank's Board members, including their tenure commencement date, their membership in Board of Directors committees, service on additional boards of directors, whether they are employees of the Bank, its subsidiary, its related company or of an interested party, or any family member of another interested party, are presented in the Bank's periodic report for 2015.

(2) Outside director in accordance with the Companies Law, 5759 - 1999.

(3) Outside director in accordance with Proper Banking Management Directive 301, and independent director in accordance with the Companies Law, 5759-1999.

Report regarding directors with accounting and financial expertise

In accordance with the provisions of the Companies Law, 5759-1999 (hereinafter: the "Companies Law") and the Companies Regulations (Conditions and Tests for Director with Accounting and Financial Expertise and for Director with Professional Qualifications), 5765-2005, at least two directors must have accounting and financial expertise, as this term is defined in the aforementioned Companies Law (hereinafter: "Directors with Accounting and Financial Expertise") and at least two of the outside directors must have accounting and financial expertise;

In accordance with Proper Banking Management Directive 301, at least one fifth of all Board members must have accounting expertise; In accordance with Directive 630 of the public reporting directives issued by the Commissioner of Banks, the Board of Directors' report must include specification of the minimum required number of directors with accounting and financial expertise, as determined by the Board of Directors, and the Board of Directors' reasons for its decision, as specified in the aforementioned directive; Additionally, details must be given regarding the minimum number of directors with accounting and financial expertise, who have been determined by the Bank as qualified for membership in the Board of Directors' Audit Committee, and in any other Board of Directors committee which is authorized to discuss the financial statements. The aforementioned Directive 630 further determines that the Report of the Board of Directors and Management must specify the number of directors with accounting and financial expertise on the reporting date.

In accordance with the decision a resolution of the Bank's Board of Directors (as set forth in the Board's work policy), the minimum number of directors with accounting and financial expertise will be the number set forth in Proper Banking Management Directive 301, and in the Companies Law, i.e.: (a) At least one fifth of all Board members must have accounting and financial expertise, provided that at least two Board members have accounting and financial expertise, and at least two outside directors have accounting and financial expertise; (b) At least two members of the Audit Committee, which also serves as the financial statements review committee, must have accounting and financial expertise, due to the following reasons: (a) In the assessment of the Board of Directors, the aforementioned minimum number must allow the Board of Directors and the Audit Committee to fulfill the obligations applicable to them, in accordance with the provisions of the law and the incorporation documents, and in particular, their obligation to evaluate the Bank's financial position and to prepare the financial statements; (b) The aforementioned minimum number must take into account the size of the Bank, the complexity of its operations, and the range of risks associated therewith.

As of the reporting date, all members of the Bank's Board of Directors, and all members of the Audit Committee (which serves as the financial statements review committee), have accounting and financial expertise, in accordance with their education, qualifications and experience, as specified below:

Name	Education, qualifications and experience:
Zeev Nahari	Education: Certified Public Accountant, University of Haifa. Qualifications and experience: • Current position - Chairman of the Bank's Board of Directors; Financial advisor to Israel Electric Corporation. • Fulfilled various roles in Bank Leumi Le-Israel Ltd. (during the years 1965-2011); In his last position, served as an executive member of management for funds, accounting and the capital market. Also served as Chairman of the Board of Arab Israeli Bank Ltd., and as Chairman or director in companies from the Bank Leumi Le-Israel Group, as specified in the Bank's periodic report for 2015. Also served as a director in Bank Leumi USA, Bank Leumi le-Israel Corporation and Israel Corporation Ltd.

Name	Education, qualifications and experience:
Zalman Shoval	Education: B.A. in International Relations from UC Berkeley, California; M.A. in Internal Relations, Economics and Political Science from University of Geneva; Ph.D. in International Relations and Political Science from Pacific University. Qualifications and experience: • Current position - Chairman of the Board of Export Investment Co. Ltd., and Joint Chairman of Faire Fund; Chairman or Director on the boards specified in the Bank's periodic report for 2015. • Formerly served as the CEO of Export Bank and as Israel's Ambassador to the United States, Chairman of Bank of Jerusalem, member of the Knesset Finance Committee, member of the Knesset Foreign Affairs and Defense Committee, and member of the Board of Directors of Hadassah (Israel).
Yehuda Orbach	Education: C.P.A., B.A. in Accounting and Economics, The Hebrew University of Jerusalem; Qualifications and experience: • Current profession - C.P.A., Chairman of the Audit Committee of the Company for the Holocaust Restitution Company of Israel; Lecturer on auditing of information systems in institutions of higher education; Advisor and auditor; Reviewer in the Peer Review Institution. • Served as VP and chief internal auditor in Union Bank of Israel Ltd. and its subsidiaries from 2000 to 2014.
Shmuel Eshel	Education: B.A. in Political Science and Labor Studies, Tel Aviv University. Qualifications and experience: • Current position - consulting and business accompaniment. Director on the boards of corporations specified in the Bank's periodic report for 2015. • Served as VP of Union Bank in the mortgage segment (2004-2009); Member of management in Union Bank, VP, Business Division Manager in Union Bank (1998-2004); Additional positions in Union Bank, beginning in 1977. Until June 2009, served as a director in Livluv Insurance Agency and in Carmel - Mortgage and Investment Union Ltd. Also served as Chairman of Leasing Union Ltd., and as a director in Plenus Lending Fund (1998 - 2004).
Moshe Bauer	Education: high school. Qualifications and experience: • Current position: CEO and director of C.F.C. Comprehensive Finance Ltd. Deputy Chairman of the Board of Export Investment Co. Ltd., and director in the corporations specified in the Bank's periodic report for 2015. • Formerly served as Foreign Currency Department Manager in Ellern Bank, as the Bank's secretary, and subsequently as the Bank's export secretary.

Name	Education, qualifications and experience:
Ram Harmelch	Education: B.A. in Statistics and Geography from Tel Aviv University; M.B.A. from Tel Aviv University. Qualifications and experience: • Current position - CEO of Manof Marang Ltd. and director in companies, as specified in the Bank's periodic report for 2015. • Served as Deputy CEO, Business Division Manager and Credit Risk Manager in Mercantile Discount Bank (from 1998 to 2012); Served as CEO of Maalot The Israeli Securities Rating Co. Ltd. from 1994 to 1998.
Ira Sobel	Education: C.P.A., B.A. in Business Management / Accounting, The College of Management Academic Studies, Rishon Letzion; Executive M.B.A. from Tel Aviv University and Northwestern University, Chicago, USA, M.A. in Gender Studies, Tel Aviv University. Qualifications and experience: • Current position: C.P.A., economic consultant for companies. • Served as Senior Audit Manager in the Banking Segment of KMPG Somekh Chaikin, and as assistant to the firm's CEO (1994-2002). Served as a director on the boards of corporations specified in the Bank's periodic report for 2015.
Dr. Nurit Krausz	Education: B.Sc. in Aerospace Engineering, Haifa Technion; M.Sc. in Physics, Haifa Technion; D.Sc. in Physics, Haifa Technion. Qualifications and experience: • Current position - Manager and Founder of Redstart Modeling Services and Consulting Ltd., a company specializing in the provision of consulting activities regarding model development for Japanese and American stocks only. Formerly served as head of the model validation department and head of the comprehensive risk department at Bank Leumi (2006 to 2011). Algorithmic Trading Manager at Schonfeld Securities in the United States (2000 to 2006).
Gideon Shoval	Education: L.L.B. in Law, Buckingham University; L.L.M. in Law, Columbia University; M.B.A., IMD Business Administration School. Current position - CEO and Director of Export Investment Co. Ltd.

Board of Directors

During 2015 and until the publication date of the report, the following changes took place in the composition of the Board of Directors:

On May 10, 2015, Mr. Pinchas Volovelsky concluded his tenure as a director in the Bank, upon the entry into effect of his resignation notice.

On September 10, 2015, Mr. Zeev Gutman concluded his tenure as a director and as the Chairman of the Bank's Board of Directors, following his announcement dated September 9, 2015, in which he announced that he was removing his candidacy as a director for an additional tenure period, and requested not to be re-appointed as a director in the annual general meeting which was set for September 10, 2015.

On September 10, 2015, in the annual general meeting of the Bank's shareholders, a resolution was passed to appoint, for an additional period of tenure, the following directors who currently hold office in the Bank (and who are not outside directors): Messrs. Zalman Shoval, Gideon Shoval, Moshe Bauer, Ovad Ben Ozer and Ram Harmelch. It was also resolved, in the aforementioned general meeting, to appoint Mr. Yehuda Orbach as an outside director in the Bank, for a three year tenure period, beginning on September 13, 2015.

On September 12, 2015, Mr. Adiv Baruch concluded his tenure as an outside director in the Bank in accordance with the Companies Law.

On October 11, 2015 Mr. Zeev Nahari began serving as the Chairman of the Bank's Board of Directors, after an announcement which was received from the Bank of Israel, according to which it does not object to his appointment as a director and as the Chairman of the Board, in accordance with the Board of Directors' resolution dated September 17, 2015. Subsequently, Mr. Nahari was appointed to serve as a director in the Bank in a special general meeting of the Bank, which was held on November 19, 2015.

On December 4, 2015, Mr. Shmuel Eshel commenced his tenure as an outside director in the Bank in accordance with the Companies Law, for an additional period of tenure (third period of tenure).

Mr. Ovad Ben Ozer passed away on January 1, 2016.

As of the publication date of the report, the Bank's Board of Directors includes nine directors, two of which are outside directors as defined in the Companies Law, who are also outside directors in accordance with Proper Banking Management Directive 301, as well as two independent directors, as defined in the Companies Law, who are also outside directors in accordance with Proper Banking Management Directive 301.

It is noted that on October 14, 2010, the Commissioner of Banks contacted the Bank's Board of Directors, within the framework of an evaluation of the functioning and structure of the Bank's Board of Directors, in order to determine rules regarding the composition of the Board of Directors and the ratio between outside directors and other directors. In 2015, the composition of the Bank's Board of Directors fulfilled the required ratio between outside directors and other directors, in accordance with the terms which were agreed upon with the Banking Supervision Department (at least five outside directors out of twelve or thirteen directors).

During 2015 and until the publication date of the report, changes took place in the compositions of Board of Directors committees, as follows:

On May 10, 2015, and upon the conclusion of his tenure as a director in the Bank, Mr. Pinchas Volovelsky's status as a member of the Board of Directors' Credit Committee was discontinued.

On May 12, 2015, a decision was reached to establish an ad hoc CEO Search Committee, whose members include Shmuel Eshel (Chairman), Gideon Shoval, Zeev Gutman and Ira Sobel;

On August 18, 2015, Ms. Ira Sobel discontinued serving as a member of the Remuneration Committee.

On September 10, 2015, and upon the conclusion of his tenure as the Bank's Board of Directors, Mr. Zeev Gutman discontinued serving as the Chairman of the Risk Management Committee and as a member of the Capital Planning and Strategy Committee. On that date, Mr. Shmuel Eshel discontinued serving as a member of the Risk Management Committee, and began serving as a member of the Capital Planning and Strategy Committee; Ms. Ira Sobel began serving as a member of the Risk Management Committee, and Mr. Ram Harmelch began serving as a member of the Board of Directors' Credit Committee.

On September 12, 2015, and upon the conclusion of his tenure as a director in the Bank, Mr. Adiv Baruch discontinued serving as a Chairman of the Remuneration Committee and as a member of the Audit Committee.

On September 13, 2015, Mr. Yehuda Orbach began serving as Chairman of the Remuneration Committee and as a member of the Risk Management Committee and Audit Committee.

On October 11, 2015, upon the commencement of his tenure as the Chairman of the Board of Directors, Mr. Zeev Nahari began serving as Chairman of the Risk Management Committee and as a member of the Capital Planning and Strategy Committee.

On October 20, 2015, Mr. Zeev Nahari began serving as a member of the Remuneration Committee in its extended composition for discussing the remuneration policy and the remuneration agreements of all employees (excluding key employees), in accordance with section 38(e) of Proper Banking Management Directive 301.

On December 29, 2015, Mr. Ovad Ben Ozer OBM discontinued serving as a member of the Remuneration Committee, and Mr. Ram Harmelch began serving as a member of that committee.

As of the publication date of the report, the Board of Directors' committees operate as follows:

Audit Committee: Messrs. Shmuel Eshel (Chairman) (outside director), Yehuda Orbach (outside director), Ms. Ira Sobel (outside director in accordance with Directive 301, and independent director in accordance with the Companies Law) and Mr. Ram Harmelch.

Risk Management Committee: Messrs. Zeev Nahari (Chairman), Yehuda Orbach (outside director), Nurit Krausz (outside director in accordance with Directive 301, and independent director in accordance with the Companies Law), Ms. Ira Sobel (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law) and Mr. Ram Harmelch.

Capital Planning and Strategy Committee: Messrs. Gideon Shoval, Zeev Nahari, Nurit Krausz (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law), Shmuel Eshel (outside director) and Mr. Ram Harmelch.

Remuneration Committee: Messrs. Yehuda Orbach (Chairman), Shmuel Eshel (outside director) and Ram Harmelch; Remuneration Committee, extended composition (for discussions regarding the remuneration policy and remuneration agreements of all employees (except key employees), in accordance with section 38(e) of Proper Banking Management Directive 301): members of the Remuneration Committee and Mr. Zeev Nahari.

Board of Directors' Credit Committee: Messrs. Moshe Bauer (Chairman), Ira Sobel (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law), Shmuel Eshel (outside director) and Mr. Ram Harmelch.

Note: The members of the CEO Search Committee (ad-hoc committee), which was active during the reporting year, include the following: Messrs. Shmuel Eshel (Chairman) (outside director), Gideon Shoval, Zeev Gutman and Ira Sobel (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law); following its recommendation to the Board of Directors in June 2015, regarding the appointment of a CEO, the committee discontinued its activities.

In 2015, 19 meetings of the Board of Directors took place, and 45 meetings of the Board of Directors committees took place.

Corporate officers

On April 30, 2015, Mr. Uri Paz, the Bank's CEO, announced his intention to conclude his tenure as the Bank's CEO, and on October 31, 2015, he discontinued serving as the Bank's CEO.

On June 30, 2015, the Bank's Board of Directors resoled to appoint Mr. Gill Topaz to the position of the Bank's CEO, subject to the approval of the Commissioner of Banks. On August 2, 2015, the Bank received a notice from the Commissioner of Banks, stating that the Banking Supervision Department does not object to the appointment of Mr. Gill Topaz as the Bank's CEO. Mr. Topaz began serving as the Bank's CEO on November 1, 2015.

On July 14, 2015, the Board of Directors resolved to appoint Mr. Israel Boker as Acting CEO, in addition to his position as Deputy CEO and Retail Division Manager.

Members of bank management as of December 31, 2015

Gill Topaz	CEO
Israel Boker	Acting CEO and Deputy CEO, Retail Division Manager
Michael Tayer	Deputy CEO, Resource Division Manager
Michael Ben Yishay	VP, Risk Division Manager (CRO)
Sarit Weistuch	VP, Legal Advisor, Legal Department Manager
Alexander Zaltsman	VP, Monetary Division Manager
Moshe Omer	VP, Financial Department Manager

Corporate officers who are not management members:

Ron Sagi	VP, Internal Auditor with the status of management member
Carmel Florentz	Bank Secretary
Ayelet Russak	Real Estate Sector Department Manager

Additional details regarding the Bank's corporate officers are presented in the Bank's periodic report for 2015, and on the MAGNA system of the Israel Securities Authority at http//www.magna.isa.gov.il.

Internal auditor

Mr. Ron Sagi has served as the internal auditor of the Bank since March 20, 2012. He holds a B.A. in Economics from The Hebrew University. Mr. Ron Sagi has a great deal of experience in the banking industry. From the years 2003 to 2010, he served as VP and manager of the Bank's operations and banking infrastructures division, and from December 2010 until his appointment as the Bank's internal auditor, served as acting and deputy internal auditor.

The internal auditor complies with the conditions set forth in section 3(A) of the Internal Audit Law, with the provisions of section 146(B) of the Companies Law, 5759-1999, and with the provisions of section 8 of the Internal Audit Law, 5752-1992. The internal auditor is not a family member of any other corporate officer or interested party in the Bank, has no significant business relations with the Bank, and does not directly hold any of the Bank's securities. The internal auditor is also responsible for the public complaints handling unit, and does not serve in any other position other than the above positions, and additionally, the internal auditor does not serve in any other position outside of the Bank which creates or which may create a conflict of interests with his position as internal auditor.

At the time of Mr. Sagi's appointment to the position of internal auditor, the Board of Directors believed that the significant banking experience which Mr. Sagi accumulated in his various positions in the Bank, his education (including completing specific studies in the field of internal auditing), and his qualifications for the position during his fulfillment of the position of deputy auditor, will enable him to deal successfully with the challenges involved in internal auditing, during a period of significant changes in the Bank's business affairs.

The employees of the internal audit department fulfill the requirements of Proper Banking Management Directive 307 - Internal Audit Function, and are appointed only with the approval of the internal auditor.

The internal auditor is subordinate to the Chairman of the Bank's Board of Directors.

The scope of employment of the internal auditor and his subordinate staff of employees amounted in 2015 to an annual average of approximately 9.5 positions (including the performance of internal auditing by means of professional external entities, at an average scope of 1.5 positions). The average scope of positions in the public complaints unit amounted in 2015 to 1.5 positions.

Audit plan

Internal auditing in the Bank operates in accordance with the annual work plan, which is based on the multi-annual audit work plan, which is comprised of a work plan for the current year, and a work plan for the coming three years.

The multi-annual work plan refers to most audit subjects, including the Bank's organizational units, subsidiaries and auxiliary corporations, work processes, marketed products and IT systems. Additionally, the internal audit unit also controls the Bank's management processes regarding the exposure to various risks, including: credit risks, financial risks, operational risks (including embezzlement and fraud risks), compliance risks, etc. Additionally, the internal audit unit monitors the correction of significant deficiencies which are identified in the audit work performed by the internal auditor, the auditor and the Commissioner of Banks in the Bank of Israel. A summary annual report is submitted once per year to the Chairman of the Board, to the Bank's CEO, and to the members of the Audit Committee.

The annual and multi-annual work plans are prepared in accordance with the Internal Audit Law, 5752 - 1992 and in accordance with Proper Banking Management Directive 307 - function of internal audit.

The multi-annual work plan is derived from a structured methodology for the assessment of risks and controls, which was used to determine the frequency of audits on each individual subject.

According to the methodology which was used to prepare the new multi-annual work plan, the frequency of audits in the various entities was determined in accordance with the risk assessment. Regarding subjects with a higher risk level, it was determined that the frequency of auditing will be once per year, and regarding subjects with a lower risk level, the frequency of audits will be once every two or four years. Regarding information systems, auditing frequency was determined as appropriate for the system's risk. The multi-annual work plan was prepared by the internal audit unit with the assistance of an external company. Each year, the multi-annual work plan is updated, including taking into account changes in the organizational structure, changes and developments in the business, operational and risk management activities, regulatory provisions, audit findings, and more.

The annual work plan is derived from the multi-annual work plan.

The Audit Committee and Board of Directors approved the multi-annual work plan and the work plan for 2015, including the resources of the internal audit unit, as required according to the new multi-annual work plan.

As part of the process of implementing ICAAP in the Bank, and in accordance with the directives issued by the Commissioner of Banks, and with the provisions of Basel II, an independent entity is required to challenge and evaluate the process performed by the Bank. The Bank's internal audit unit was determined as the independent entity which will be responsible for preparing the independent survey document. The independent review document reviews the risk management system which is applied by the Bank, the ratio between risk and capital level of the banking corporation, and the methodology which was developed to monitor compliance with the internal capital policy. The independent survey document includes details regarding the applied controls and evaluation processes, the entity who performed them, and main conclusions from the survey. The document is presented to the Audit Committee and Board of Directors. For the purpose of preparing this survey, the internal audit unit enlists the assistance of external professional consultants.

The multi-annual work plan and the work plan for 2015 were discussed and approved by the Audit Committee on December 11, 2014, and later by the Chairman of the Board and by the Board of Directors Assembly, in its meeting on December 25, 2014.

During 2015, the internal audit unit operated in accordance with this work plan. However, in light of changes in business operations, and in several of the Bank's significant processes, and in accordance with the recommendation issued by the internal audit unit, the Audit Committee approved, during the year, an update to the work plan. The annual and multi-annual work plans provide the internal auditor with the ability to exercise judgment and to deviate from the plans, provided that he updates the Chairman of the Board and the Audit Committee Chairman on an ongoing basis, and receives their approval for the above.

Additionally, significant transactions which were performed by the Bank, if any, are reported to the internal auditor and are evaluated by him, including the approval process for those transactions.

The internal auditor is entitled, within the framework of the approved budget, to make use of outsourcing for the performance of audit works which require special knowledge and expertise and/or if the unit is understaffed.

The internal auditor prepares the internal audit plans in accordance with conventional standards, and operates in accordance with the directives and guidelines issued by the Commissioner of Banks.

In 2011, an external assessment was performed regarding the work of the Bank's internal audit unit, and regarding its compliance with the requirement to prepare audit reports, in accordance with conventional professional standards. The findings of the assessment, in which it was determined that the Bank's internal audit unit is operating in accordance with conventional professional standards, were presented to the Board of Directors' Audit Committee. Once per year, the internal audit unit performs an internal process of assessing the quality of the internal audit function, whose findings are presented to the Audit Committee.

The internal auditor is given free access to information, in accordance with the provisions of section 9 of the Internal Audit Law, 5752-1992, and in accordance with section 30 of Proper Banking Management Directive

307 - internal audit function, including continuous and immediate access to the Bank's information systems, including to financial data which are saved in those systems, and data of subsidiaries.

Reference to corporations which constitute material holdings

The internal auditor also serves as the internal auditor for all of the Bank's subsidiaries. The subsidiaries are included in the annual and multi-annual work plans, and are audited at a frequency which was determined according to the assessment of current risks and controls, as specified in the previous section.

Audit reports and discussions regarding audit reports

In accordance with the work policy of the Audit Committee and the work policy of the internal auditor, which is derived from the former, each audit report is submitted in writing to the audited entity, to the CEO, to the Chairman of the Board, and to the Audit Committee Chairman. A discussion with the audited entities is held regarding each audit report, and additionally, a summary discussion is held regarding the significant findings and recommendations with members of management, and, if necessary, with the Bank's CEO. The audit reports are also presented to the Audit Committee for a discussion, after receiving the appropriate reference to the report's findings from the audited entity and from the Bank's CEO. Material audit reports are submitted to the Board of Directors.

A summary of internal audit activities in the first half of 2015 was discussed by management and later by the Audit Committee on July 21, 2015, and by the Board of Directors on September 10, 2015. A summary of the annual activities in 2015 was discussed by management and later by the Audit Committee on February 2, 2016, and by the Board of Directors on February 4, 2016. The internal audit unit also reports to the Audit Committee, on a quarterly basis, regarding the manner and extent of the implementation of the recommendations of the internal audit unit, based on the audit reports which were conducted in the Bank's various operating segments.

In the event that particularly severe findings are identified, an immediate report is submitted to the CEO, the Chairman of the Audit Committee, and the Chairman of the Board of Directors.

The summary reports regarding the activities of the internal audit unit, and regarding the method and degree of implementation of the recommendations of the internal audit unit, are also presented to the Chairman of the Board and to the Bank's CEO.

Remuneration of the internal auditor

The salary cost of the internal auditor amounted in the reporting year to a total of approximately NIS 969 thousand.

Assessment of the Board of Directors

Once per year, the Audit Committee holds a meeting with the internal auditor only. This meeting was held on December 24, 2015.

Based on the routine reports which are submitted by the internal auditor, and in accordance with the work policies regarding the internal audit function, the Audit Committee was satisfactorily convinced of the internal auditor's fulfillment of the professional standards according to which he prepared the audit reports regarding the Bank's various activities. Additionally, the Audit Committee conducted a survey of the internal audit unit's work which was performed by an external entity, in accordance with Proper Banking Management Directive 307, regarding internal auditing.

The Audit Committee and Board of Directors believe that the fees and payments given to the internal auditor have no impact on the auditor's professional judgment.

The Board of Directors and the Audit Committee also believe that the scope, characteristics and continuity of the activities and work plan of the internal auditor are reasonable in light of the applicable circumstances, and constitute an appropriate solution for fulfilling the Bank's internal audit goals.

Disclosure regarding the financial statements approval process

The organ in the Bank which is responsible for oversight (as defined in Proper Banking Management Directive 303) is the Bank's Board of Directors. The names of Board members, and details regarding their accounting and financial expertise, are specified in the chapter regarding the Board of Directors and management, as are the salaries of the following corporate officers.

Fundamental issues pertaining to the disclosure given in the financial statements are discussed in the disclosure committee led by the CEO and with the participation of the chief accountant, the legal advisor, additional members of management, the Bank's secretary, the accounting department manager and the financial statements unit manager.

The meeting includes the preparation, as observers, of the internal auditor and an external accountant. The committee's discussions involve subjects which have a significant impact on the financial statements, subjects which are of interest to the public, developments which are required for reporting to the public, and any other issue which the committee views as necessary to discuss before submitting the reports to the Audit Committee.

Prior to the approval of the financial statements by the Board of Directors, the draft financial statements, the draft report of the Board of Directors and management, the draft corporate governance and audit report, and additional details regarding the banking corporation's business affairs and the management thereof, and the draft risks report, are submitted to the Audit Committee and, in parallel, to the Board members who are not members of the Audit Committee.

The committee is comprised of the following Board members: the Committee Chairman, Mr. Shmuel Eshel (outside director), Mr. Yehuda Orbach (outside director), Ms. Ira Sobel (outside director in accordance with Directive 301 and independent director) and Mr. Ram Harmelch.

The Board of Directors Audit Committee discusses the financial statements with the participation of the Chairman of the Board as an observer who is not a committee member, and who is not present during the reaching of decisions in the committee, in accordance with Proper Banking Management Directive 301.

The meeting is also attended by the CEO, legal advisor, risk manager, internal auditor and external accountants.

The committee meeting includes a detailed discussion of the financial statements, and a decision is reached regarding the issuance of a recommendation to the Board of Directors regarding the approval of the financial statements.

After the committee's aforementioned recommendation regarding the approval of the financial statements is received, updates are submitted regarding the draft financial statements and the draft Board of Directors' report, following the aforementioned committee meeting, to the Board members for review, several days before the date of the scheduled meeting for the approval of the reports (the aforementioned draft is submitted before the above date to the Board members, concurrently with its submission to the Audit Committee).

The Board meeting, with the participation of the CEO, the Chief Accountant and the Internal Auditor, includes a review of the financial results and the financial position, and a presentation of the data regarding the Bank's operations. Additionally, answers are provided to the Board members' questions.

As background material in advance of the discussion, the Board of Directors receives the draft financial statements, along with extensive associated background material regarding the Bank's activities.

The meeting is also attended by the Bank's external auditor, who provides his professional opinion regarding the financial statements, and regarding accounting issues in connection with the financial statements and control issues which arose during the performance of the audit. At the end of the discussion, the Board of Directors decides regarding the approval of the financial statements.

Auditor's professional fees (1,2,3)

NIS Thousands

	Consolidated		The Bank	
	For the year ended December 31			
	2015	2014	2015	2014
For auditing activities(4)				
Auditor	1,384	1,357	1,230	1,224
For services associated with auditing (5)				
Auditor	12	35	-	-
For tax services (6)				
Auditor	301	334	301	334
For other services				
Auditor	395	361	395	361
Total salary of auditors	2,092	2,087	1,926	1,919

(1) Report by the Board of Directors to the annual general shareholders' meeting regarding the auditors' fees for audit activities, with respect to additional audit activities, in accordance with sections 165 and 167 of the Companies Law, 5759-1999.
(2) The auditors' fees include payments to partnerships and corporation corporations under their control, as well as payments in accordance with the VAT Law.
(3) Including paid fees and accrued fees.
(4) Audit of annual financial statements and review of interim statements.
(5) Audit related fees, primarily including prospectuses.
(6) Current tax services and preparation of reports to tax authorities.

Executive salary

For the year ended December 31, 2015									
Details of remuneration recipient				Remuneration for services				Other remuneration	Total
Name	Position	Scope of employment	Stake in the corporation's capital	Salary[1]	Management fees[2]	Bonus[3]	Benefit with respect to share-based payment[4]	Interest[5]	
A. Zeev Nahari[6]	Chairman of the Board of Directors	Partial	-	406	-	-	-	-	406
B. Zeev Gutman[7]	Outgoing Chairman of the Board of Directors	Partial	-	-	1,491	-	-	-	1,491
C. Gill Topaz[8]	CEO	Full	-	343	-	-	-	-	343
D. Uri Paz [9]	Outgoing CEO	Full	-	2,082	-	-	-	-	2,082
E. Israel Boker [10]	Acting CEO, Deputy CEO, Retail Division Manager	Full	-	1,473	-	15	-	-	1,488
F. Michael Tayer [11]	Deputy CEO, Resource Division Manager	Full	-	1,135	-	15	-	1	1,151
G. Michael Ben Yishay [12]	VP, Risk Division Manager	Full	-	980	-	15	-	1	996
H. Ron Sagi [13]	VP and internal auditor, holds the status of management member.	Full	-	954	-	15	-	1	970

For the year ended December 31, 2014									
Details of remuneration recipient				Remuneration for services				Other remuneration	Total
Name	Position	Scope of employment	Stake in the corporation's capital	Salary[1]	Management fees[2]	Bonus[3]	Benefit with respect to share-based payment[4]	Interest[5]	
A. Zeev Gutman[7]	Outgoing Chairman of the Board of Directors	Partial	-	-	1,484	143	-	-	1,627
B. Uri Paz [9]	Outgoing CEO	Full	-	1,843	582	753	67	2	3,247
C. Israel Boker [10]	Deputy CEO, Retail Division Manager	Full	-	1,314	-	347	-	1	1,662
D. Michael Tayer [11]	Deputy CEO, Resource Division Manager	Full	-	1,121	-	223	(28)	-	1,316
E. Michael Ben Yishay [12]	VP, Risk Division Manager	Full	-	989	-	102	-	4	1,095
F. Moshe Omer [14]	VP, Financial Division Manager	Full	-	910	-	179	-	-	1,089

(1) Includes provisions for severance pay, remuneration, study funds, National Insurance and vacation days, as well as associated benefits, but does not include payroll tax. Included in the statement of income under payroll and associated expenses.
(2) Includes the payment of monthly management fees and associated benefits, but does not include VAT. Included in the statement of income, under the item for payroll and associated expenses.
(3) Includes a bonus which was allocated with respect to him in the reporting year and which has not yet been paid (excluding payroll tax). In accordance with the remuneration policy for corporate officers, and in light of the fact that "reported returns", as defined in the policy, were lower than 6.5%, the deferred remuneration with respect to 2014 which was supposed to be paid during the reporting year, was canceled (see Note 23 to the financial statements); The canceled amount is not specified in the above table; Regarding amounts which were canceled for corporate officers, see below in notes (9), (10), (11) and (14). Included in the statement of income under payroll and associated expenses
(4) For details, see Note 21A to the financial statements. Included in the statement of income under payroll and associated expenses
(5) Includes an interest benefit with respect to loans given under benefit conditions. Included in the statement of income under the item from financing activities before expenses for credit losses.
(6) Mr. Zeev Nahari - the Bank's Chairman of the Board since October 11, 2015 - for details regarding his employment terms, see Note 34.
(7) Mr. Zeev Gutman - discontinued serving as the Bank's Chairman of the Board on September 10, 2015 - for details regarding his employment terms and resignation, see Note 34.
(8) Mr. Gill Topaz - began serving as the Bank's CEO on November 1, 2015 - for details regarding his employment terms, see Note 34.
(9) Mr. Uriel Paz - concluded his tenure as the Bank's CEO on October 31, 2015 - for details regarding his employment terms and resignation, see Note 34. In accordance with the remuneration policy for corporate officers, in light of the fact that "reported returns", as defined in the policy, were lower than 6.5%, the deferred remuneration with respect to 2014, which was supposed to be paid during the reporting year, in the amount of NIS 126 thousand, was canceled.
(10) Mr. Israel Boker - Retail Division Manager, employed in the Bank beginning on March 12, 2013, in accordance with a personal employment agreement, for an undefined period. The monthly salary of Mr. Boker is linked to the consumer price index. Over the course of the year (in August), his monthly salary was updated to NIS 18 thousand.
Each of the parties to the employment agreement is entitled to terminate the agreement by providing notice three months in advance. Additionally, Mr. Boker will be entitled to have the Bank release to him, upon the conclusion of his employment, all of the funds which were accumulated to his credit in the various funds. Mr. Boker has a balance of credit with benefit conditions similarly to all of the Bank's employees as of December 31, 2015, in the amount of NIS 10 thousand. In accordance with the remuneration policy for corporate officers, due to the fact that the "reported returns", as defined in the policy, are lower than 6.5%, the deferred remuneration with respect to 2014 which was supposed to be paid during the reporting year, in the amount of NIS 58 thousand, was canceled.

(11) Mr. Michael Tayer - Resources Division Manager, employed in the Bank since September 18, 2011, in accordance with a personal employment agreement for an undefined period. The monthly salary of Mr. Tayer is linked to the consumer price index.
Each of the parties to the employment agreement is entitled to terminate the agreement by providing notice three months in advance. Additionally, Mr. Michael Tayer will be entitled to have the Bank release to him, upon the conclusion of his employment, all of the funds which have accrued for him in the various funds.
155,139 type A option units have been allocated to Mr. Michael Tayer as part of the options for executives program, as well as 77,569 type B option units (for details regarding the options plan for executives, see Note 34). In accordance with the remuneration policy for corporate officers, and due to the fact that the "reported returns", as defined in the policy, were lower than 6.5%, the deferred remuneration with respect to 2014, which was supposed to be paid during the reporting year - and which amounted to NIS 73 thousand - was canceled.
(12) Mr. Michael Ben Yishai - Risk Division Manager, employed in the Bank since January 1, 1998, in accordance with a personal employment agreement, for an undefined period. The monthly salary of Mr. Ben Yishay is linked to the consumer price index.
Each of the parties to the employment agreement is entitled to terminate the agreement, by providing notice three months in advance. Mr. Ben Yishay will also be entitled to have the Bank the release to him upon the conclusion of his employment, all of the funds which have accrued for him in the various finds.
Mr. Michael Ben Yishay has a balance of credit, under preferred conditions, as of December 31, 2015 which amounts to NIS 4 thousand.
(13) Mr. Ron Sagi - Internal Manager, employed in the Bank since September 20, 1998, in accordance with a personal employment agreement for an undefined period. The monthly salary of Mr. Sagi is linked to the consumer price index. Each of the parties to the employment agreement is entitled to terminate the agreement by providing notice three months in advance. Mr. Sagi will also be entitled to have the Bank release to him, upon the conclusion of his employment, all of the funds which have accrued for him in the various funds. Mr. Ron Sagi has a balance of credit under preferred conditions, similarly to the Bank's other employees, which amounts to NIS 16 thousand as of December 31, 2015.
(14) Mr. Moshe Omer, Financial Division Manager, has been employed in the Bank since December 15, 2013, in accordance with a personal employment agreement, for an undefined period. The monthly salary of Mr. Omer is linked to the consumer price index.
Each of the parties to the employment agreement is entitled to terminate the agreement by providing notice three months in advance. Additionally, Mr. Omer will also be entitled to have the Bank release to him, upon the conclusion of his employment, all of the funds which have accrued for him in the various funds. In accordance with the remuneration policy for corporate officers, and due to the fact that the "reported returns", as defined in the policy, were lower than 6.5%, the deferred remuneration with respect to 2014, which was supposed to be paid during the reporting year - and which amounted to NIS 03 thousand - was canceled.

Provision of a liability for indemnification of corporate officers in the Bank and in its subsidiaries

In January 2012, the general shareholders' meeting of the Bank approved a decision, according to which the Bank will provide, to anyone who serves, from time to time, as corporate officers in the Bank and in its subsidiaries, an undertaking to indemnify with respect to financial debt which will be imposed on any of the above, and with respect to reasonable litigation expenses which are associated with the list of events which was attached as an annex to the letter of undertaking (hereinafter: the "Letter of Undertaking to Indemnify"). The provision of indemnification is contingent upon the fulfillment of the conditions specified in the letter of undertaking and the maximum indemnification amount for corporate officers in the Bank and in its subsidiaries, which will cumulatively not exceed 25% of the Bank's equity.

In October 2013, the general shareholders' meeting of the Bank approved updates to the letter of undertaking to indemnify corporate officers in the Bank and in its subsidiaries, and accordingly, a reference was added in the letter of indemnity to additional laws, in order to allow indemnification in cases which are permitted by law, also by virtue of those laws. Additionally, a generally applicable section was added which may allow indemnification (with respect to trial expenses and payments to parties injured by the breach), insofar as such indemnification will be permitted in accordance with additional laws. For details regarding the update to the letter of undertaking.

Transactions with controlling shareholders

On February 18, 2016, the Audit Committee approved that its decision of February 18, 2010 was valid for an additional year, until the publication date of the annual reports for 2016. The aforementioned resolution pertained to the criteria which were determined for distinguishing between exceptional banking transactions and non-exceptional banking transactions, and criteria which were determined for the definition of insignificant (non-banking) transactions. For details regarding the decision, the background details of reaching the decision, and the criteria which were determined by the Audit Committee, see the description of transactions with the controlling shareholder in the Bank's annual report as of December 31, 2014, which was published on February 25, 2015, and which is included herein by way of reference, on page 128.

Presented below are details regarding the balances of the controlling shareholder group and of other parties regarding which the controlling shareholder has a personal interest in their dealings with the Bank (NIS Thousands):

	Balance as of December 31, 2015			Highest balance in 2015		
Balance type	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.
Credit	0.5	-	-	19.5	-	-
Unused facility	149.5	-	-	149.5	-	-
Deposits	(10,985.4)(1)	(852.6)	-	(340,547.7)(2)	(873.3)	-

	Balance as of December 31, 2014			Highest balance in 2014		
Balance type	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.
Credit	**37.1**	**-**	**-**	**216.8**	**-**	**-**
Unused facility	**120.4**	**-**	**-**	**136.4**	**-**	**-**
Deposits	**(106,985.4) (1)**	**(717.2)**	**(68.8)**	**(107,716.7) (2)**	**(916.8)**	**(331.2)**

Presented below are details regarding income from fees with respect to transactions with securities and/or transactions in foreign currency (which are not debt transactions or deposit transactions) by the controlling shareholder group and by others regarding whom the controlling shareholder has a personal interest in their engagements with the Bank

(NIS Thousands):

	For 2015			For 2014		
Balance type	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.
Income from fees	1,559.7	3.7	2.2	2,087.4	0.9	6.9

It is noted that as of December 31, 2015, credit facilities were recorded regarding activities with securities in the accounts of the controlling shareholders and companies under their control, at a total scope of NIS 6 million; during the reporting year, these facilities were not used.

As of the date of this report, all of the facilities were canceled (at the time, the facilities were provided in the Bank's ordinary course of business, and under market conditions).

In the year ended December 31, 2015, the Bank did not engage in any non-banking transactions with the controlling shareholder, or in which the controlling shareholder has a personal interest, and which do not constitute insignificant transactions, as defined above.

(1) Of which, a total of NIS 5.2 million and NIS 99.8 million was held in trust by a company from the controlling shareholder group, on behalf of unrelated third parties as of December 31, 2015 and December 31, 2014, respectively.

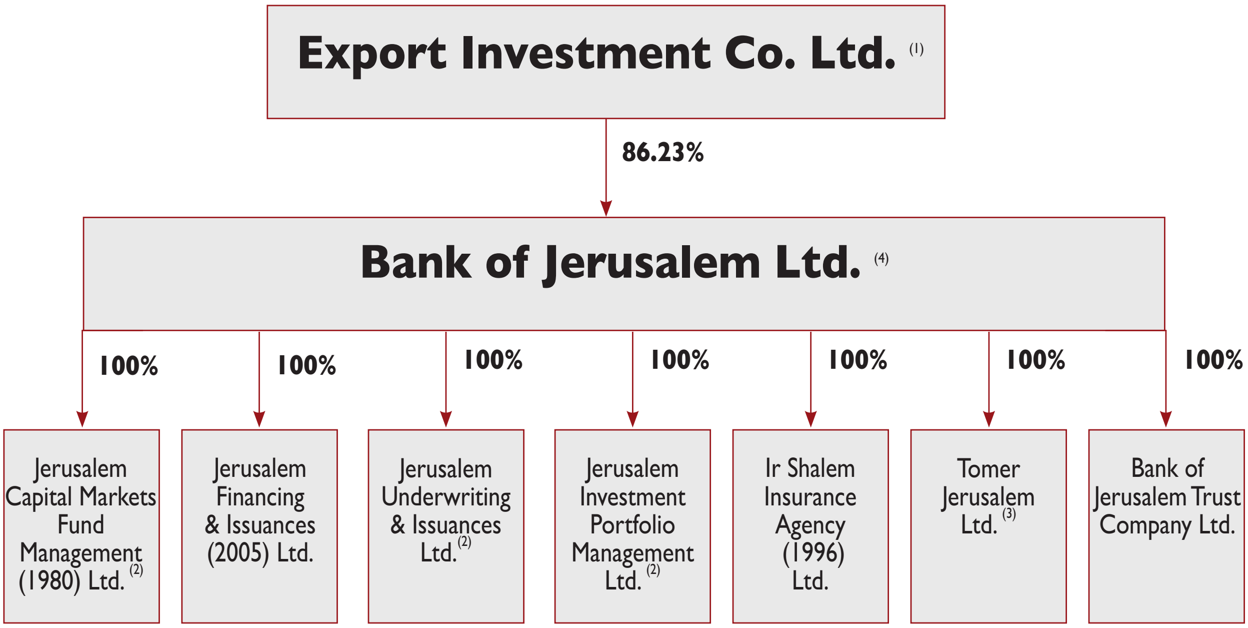
(1) Of which, a total of NIS 333.4 million and NIS 99.8 million were held in trust by a company from the controlling shareholder group, on behalf of unrelated third parties during 2015 and 2014, respectively.

Part B - Additional Details Regarding the Banking Corporation's Business Affairs and the Management Thereof

Diagram of the Bank's Holding Structure

Presented below is a diagram of the Bank's holding structure in subsidiaries and associate companies as of December 31, 2015.

For details regarding the areas of engagement of the subsidiaries and associate companies, see Note 15 to the financial statements.



(1) For details regarding the Bank's controlling shareholders, see below.
(2) Inactive.
(3) Mr. Zalman Shoval has immaterial holdings in the company, as specified in regulations 11-13 in the periodic report.
(4) The Bank holds shares of the Tel Aviv Stock Exchange Office Ltd. (NIS 24,993 par value, constituting 5.21% of the issued and paid-up share capital of Stock Exchange Office Ltd.).

Controlling shareholders of the Bank

Mrs. Kena Shoval is a controlling shareholder of the Bank, and holds 74.30% of the issued and paid-up share capital of Exports Investment Co. Ltd., which is a public company whose shares are traded on the Tel Aviv Stock Exchange Ltd. (hereinafter: "Export"). Export holds 86.23% of the Bank's issued and paid-up share capital. Additionally, Mrs. Shoval holds 0.33% of the Bank's issued and paid-up share capital, through the companies K. Shoval Holdings Ltd.; I.C.C. - Israel Capital Corporation Ltd.; Financial Trust Corporation Ltd.; and Foreign Trust Ltd., which are private companies owned and controlled by Mrs. Kena Shoval.

According to the legal opinions which were provided to the Bank, Messrs. Zalman Shoval (the husband of Mrs. Kena Shoval, and a director in the Bank) and Mr. Gideon Shoval (the son of Mrs. Kena Shoval, and a director in the Bank) are considered controlling shareholders in the Bank, by virtue of the provisions of the Bank Licensing Law.

Mr. Zalman Shoval is considered a controlling shareholder also in accordance with the provisions of the Securities Law.

Fixed assets and facilities

The amortized cost of buildings and equipment amounted to NIS 156.9 million as of December 31, 2015, as compared with NIS 149.7 million as of December 31, 2014.

Most of the areas in which the Bank's business operations are managed are rented areas. As of December 31, 2015, the Bank has available to it areas amounting to approximately 13,500 square meters, similarly to the total areas which were available to it as of December 31, 2014.

As of the end of 2015, the area of the headquarters in Airport City amounted to a total area of approximately 5,000 square meters. The remaining area was used for the Bank's branches and various departments.

As of the end of 2015, the Bank owns real estate with an area of approximately 600 square meters, as compared with approximately 1,000 square meters as of December 31, 2014.

The rental agreement with respect to the Bank's headquarters in Airport City was signed on December 19, 2010. The rental agreement is for a period of 7 years (until 2018), with an option to extend for an additional 7 years (until 2025), and an additional option to extend for an additional 7 years (until 2032).

The remaining fixed assets include software costs (see below in the IT chapter), equipment, furniture and vehicles, which are used by the Bank for its operating activities.

For additional details, see also Note 16 to the financial statements.

The Bank's policy is to hold only the real estate properties which it actually requires, or which it is expected to require in the future. The Bank evaluates, on an ongoing basis, the characteristics and locations of the areas which it requires, based on its business plan and the plan regarding the national distribution of branches, and performs adjustments as required.

Intangible assets

Trademarks and domain names - The Bank holds the intellectual property rights to the following trademarks, which are registered under the Bank's name in the Registrar of Trademarks: "Bank of Jerusalem", "Bank of Jerusalem - For the Important Decisions in Life" and "Mehadrin Banking". The Bank is also the registered owner of the following domain names:

www.bankofjerusalem.co.il

www.jerusalembank.co.il

www.bankjerusalem.org

www.bankjerusalem.net

www.bankjerusalem.com

www.bank-jerusalem.com

www.jbank.co.il

www.בנק-ירושלים.co.il

www.בנק ירושלים.co.il

Databases - The Bank and member companies in the group are the owners of registered databases, which contain data in connection with the Bank's business operations and customers.

Customer relations - As part of the acquisition of Clal Batucha, part of the acquisition cost was attributed to an asset representing "customer relations" (in other words, the estimated fair value of the company's existing contracts, which represents the part of the acquisition cost which is attributed to the company's ability to generate future cash flows from the renewal of its existing contracts as of the acquisition date). As of December 31, 2015, this asset is estimated at a total of approximately NIS 1.2 million, in addition to the Bank's customers prior to the acquisition transaction.

IT and information systems

The Bank's IT department works to develop advanced technological systems and to continuously improve the Bank's IT systems and infrastructures. This activity is managed by Tomer Jerusalem Ltd.

IT centers

The Bank's main IT center is located in the management building, at Airport City in Lod.

During the first quarter of 2016, the Bank's DR site was transferred from Jerusalem to hosting in the IBM building in Netanya.

Information systems

Support for the Bank's business operations is provided through 3 core systems:

Commercial system (BankWare) - used to manage the commercial activities and main ledger; mortgage management system - used to manage mortgage activities; central capital market system - used to manage activities in the capital market.

The Bank also has various additional systems and applications which are used for business, operational, and managerial data purposes.

Integration and connectivity

The Bank operates according to a SOA architecture. The Bank has a software tool (ESB - Enterprise service bus) which allows integration between the channel systems and the core systems. The integration method used to integrate between the systems is performed by developing web services securely.

Backup and disaster recovery

The Bank's policy regarding disaster recovery is based on the operation of systems which have been defined as critical, in accordance with the time frame which was determined in the policy in an alternative site.

For this purpose, a backup (DR) site has been established in Jerusalem, which includes the systems which support processes of critical importance.

The Bank has a business continuity plan (BCP) and disaster recovery plan (DRP), respectively. in 2015, the Bank continued improving its preparedness in terms of business continuity in case of emergency / failure.

Cyber protection and information security

The information security unit was expanded into the cyber protection and information security unit, in response to Directive 361, in the first half of 2015. The information security manager was appointed as the cyber and information security manager. The trend of improvement and expansion of the Bank's information security segment continued.

During 2015, comprehensive information security tests were performed in the Bank's systems, after which improvements were introduced to the information systems and to the financial systems, in order to increase information security. Additionally, an emphasis was placed on preventing information leaks, and protection and filtering tools were introduced to protect against attacks and vulnerabilities on the Banking operations website.

For details regarding the Bank's announcement regarding a hacking breach of a securities information website which is separate from the Bank's central website. See the chapter regarding a summary description of the main risks to which the Bank is exposed, in the Report of the Board of Directors and Management.

IT infrastructure

The Bank's IT infrastructure fully supports the various systems.

In 2015, the Oracle database storage array was converted to the Exadata system, a project which significantly improved performance, improved the recovery capability and the completeness of information in the DR site in case of a disaster, and significantly reduced the Bank's database costs. Additionally, in 2015, 30 additional ATM's of the Bank were established outside of bank areas (not attached to bank branches).

Management of suppliers

The Bank relies on various systems, including the core systems which were developed and are maintained by various companies. The Bank ensures to maintain appropriate engagements with all external IT suppliers, in order to ensure the proper functionality, continuous operation and technological and functional upgrades of the systems. The Bank periodically verified the position and economic stability of the companies, primarily with respect to systems which support critical business activities.

The Bank's relationships are set forth in detailed agreements vis-à-vis each and every supplier, which define the supplier's duties towards the Bank (including SLA's), as well as the Bank's duties towards the supplier.

The Bank is dependent on software suppliers of the Bank's commercial system and mortgage system. Source codes and documentation for these software programs are deposited in trust, in accordance with the directives of the Banking Supervision Department. The banks receives full scale service regarding capital market issues from FMR Ltd., and is dependent on it in this regard. The Bank relies on the technological infrastructures of IBM, EMC, Oracle, Virmware and Microsoft.

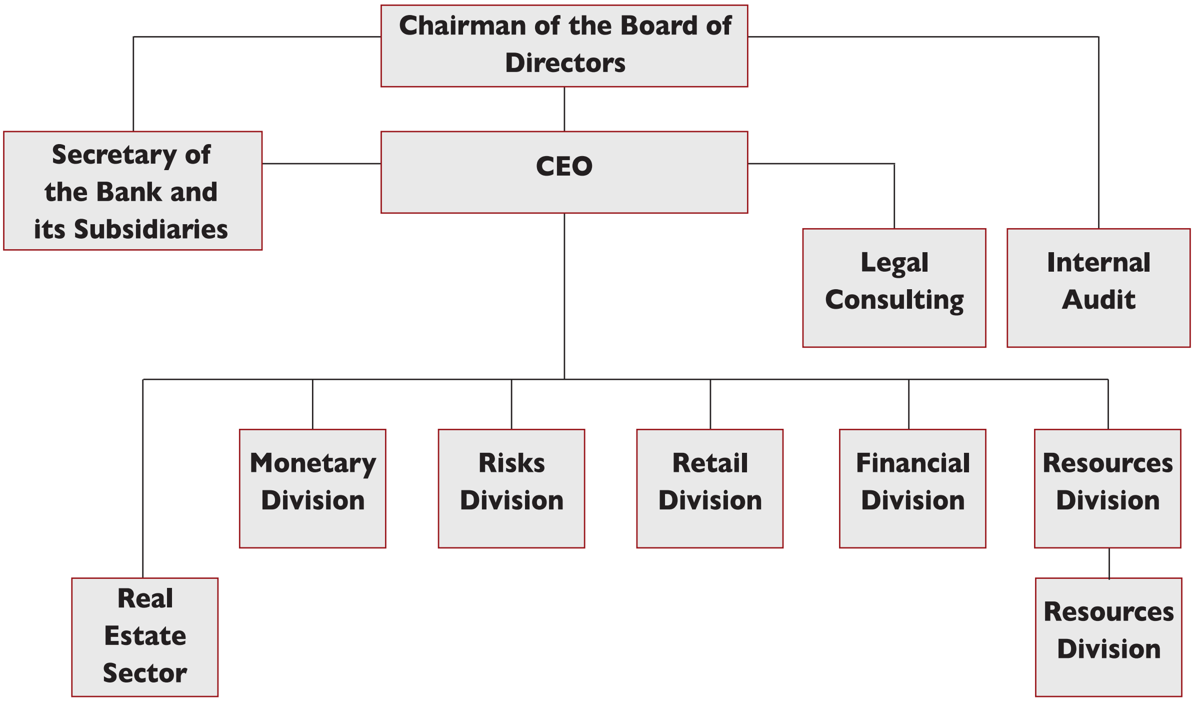
Scope of investment

For details regarding the scope of the investment, see the chapter regarding developments in income, expenses and other comprehensive income, in the Report of the Board of Directors and Management.

Human capital

Diagram of the organizational structure

Presented below is a diagram of the Bank's organizational structure:



Workforce outline [1][2]

Presented below are details regarding the number of employees employed in the Bank and its subsidiaries:

	As of the end of		Annual average	
	2015	2014	2015	2014
Number of employees:	607	597	608	586
Of which, through outsourcing [2]	87	84	94	71
Number of positions:				
Ordinary work hours	603	591	604	579
Overtime	24	19	23	21

(1) The reporting does not include the Bank's call center, which is operated through an external supplier.
(2) The outsourcing section includes employees who are employed through software houses and other companies which provide services to the Bank, from which certain employees are hired for specific positions.

For details regarding the positions in the different operating segments, see the chapter regarding operating segments in this report.

Rotation and vacations

The Bank operates in accordance with the Proper Banking Management Directive regarding rotation, and regards the rotation of senior sensitive position holders as an important component of the internal control processes in the organization. In case it is not possible to rotate senior position holders, the Bank implements compensating controls. During 2015, 56 employees were rotated, of which 3 hold sensitive positions. During 2014, 50 employees were rotated, of which 21 hold sensitive positions.

The Bank established a specific vacation usage target for the Bank's employees, and performs specific monthly followup of the target's fulfillment. In 2015, inter alia, due to increased enforcement of the fulfillment of the vacation usage target, the provision for vacations was reduced.

Training

The Bank conducts training sessions and professional training workshops for its employees on a routine basis in accordance with the employee's position and the Bank's requirements.

In 2015, training at the Bank focused on training the staff of branches, call center and back end staff to support the business objectives which were established by bank management. Training sessions in the core segment included, inter alia, training on checking accounts and consumer credit, and specific training for credit officers, as well as basic training regarding the investment segment. The Bank continues to conduct training sessions for the Bankers employed in the call center, and for video conference bankers, while providing knowledge on various professional subjects, as well as personal skills in the fields of service and sales. In 2015, a comprehensive training program was commenced for bankers in the branches, in order to implement a service culture and work routines in order to improve the service provided to the Bank's customers. In addition to the above, training sessions were provided in the risk management channel (regarding money laundering, operational risks, management of controls and arrears, compliance and administrative enforcement), as well as training regarding the application of FATCA legislative provisions and training with respect to information security.

In 2015, monthly training was provided for branch training supervisors and to the training supervisors for back end staff, regarding professional updates and ongoing training. The implementation of updates through the training supervisors was intended to accelerate the implementation of new work processes among the staff of the branches and the back end staff.

In 2015, the Bank conducted 834 training days, as compared with 1,195 training days in 2014. The decrease was due to the expansion of training delivered through a remote education system, and the use of training supervisors for professional updates and implementation of processes in the branches and in the back office.

Remuneration policy

For details regarding the remuneration policy for corporate officers, remuneration policy for employees and key employees who are not corporate officers, the entities which oversee remuneration in the Bank, planning and structure of the remuneration processes, description of the methods used to take into account current and future risks in the remuneration process, and the connection between performance during the performance measurement period and remuneration levels, see Note 23 to the financial statements.

In 2015, the Remuneration Committee convened 11 times, and the remuneration which was paid to its members during the year amounted to approximately NIS 108 thousand. Presented below are details regarding the variable remuneration which was received by the corporate officers during the reporting year.

Presented below are details regarding the amounts of remuneration given to corporate officers with respect to the reporting year

	Corporate officers		Other key employees	
Total value of remuneration with respect to the reporting year	Non-deferred	Deferred	Non-deferred	Deferred
Fixed remuneration				
Cash-based	12,600	-	820	-
Variable remuneration				
Cash-based	150	-	-	-

	Corporate officers		Other key employees	
Description	Number	Amount	Number	Amount
1 **Remuneration paid**				
A. Number of employees who received variable remuneration during the reporting year	11		2	
B. Number and total of guaranteed bonuses granted during the reporting year	11	1,418	2	70
2 **Deferred remuneration**				
A. Total balance of unpaid deferred remuneration (in cash):	5	**721**	-	**-**
B. Total deferred remuneration paid during the reporting year	-	-	-	**-**
3. Total unpaid sum of the balance of deferred remuneration and held remuneration which is exposed to retrospective adjustments, either explicit and/or implicit.	5	**721**	-	**-**

No bonuses had been given as of the signing date, and no severance pay was paid during the reporting year.

For details regarding the remuneration program for the CEO and Chairman, see Note 34 to the financial statements.

Description of employment agreements

In December 2015, several collective arrangements were signed between bank management and the Bank's employees' committee, which formalized most of the employment terms for all of the Bank's employees, excluding corporate officers and key employees. The collective arrangements were signed for a period of four years, until December 31, 2019.

Approximately 56% of the Bank's employees are employed through personal employment agreements which define the terms of their employment in the Bank, in addition to the arrangements set forth in the collective arrangements. Once per year, an update to their employment terms is evaluated, in accordance with the employee's differential contribution to the Bank, and in accordance with managers' recommendations. The personal employment agreements are signed separately with each employee, in accordance with the salary and the social benefits arrangement which were specifically agreed with them.

The employment terms of approximately 44% of the Bank's employees are set forth in an agreement which was signed with the employees' committee in the Bank, which defines their employment terms and their salary promotions (ranked employee agreement). In addition to the terms set forth in the collective arrangements, the agreement is updated once every two years, with the consent of the employees' committee, as set forth in a written addendum which is signed between management and the employees' committee. This update includes salary additions over the base salary and associated benefits, and takes into account the rate of increase of the consumer price index for the period relevant to the update. Additionally, the Bank holds, once per year, personal ranking discussions for the aforementioned employees, in accordance with each employee's differential contribution to the Bank, and according to the managers' recommendations.

Retirement arrangements - the retirement terms of the Bank's employees were formalized in the aforementioned collective arrangements. Employees of the subsidiary are employed in accordance with the Bank's employment agreements.

Additionally, the Bank and its subsidiary acquire the services of manpower companies, software houses and other specialized companies (see details regarding employees through "outsourcing", in the table presented above).

Development of human resources

The Bank focuses on value-based investment in its employees, along with the development of employees and human capital.

Aside from structured internal training sessions, which focus on the Bank's core business areas and the risk management segment, the Bank also encourages its employees to attend academic studies in areas which are associated with their specializations. The Bank also sends it employees to attend continuing education programs, one-day seminars and professional conferences which are associated with the fields of banking.

The Bank conducts management training courses as needed and in accordance with the available promotion courses. In 2015, managers in various ranks of management in headquarters and in the branches received personalized training sessions in order to improve management skills and to help them face the managerial challenges which they face management their routine work. The training program for managers at the Bank's branches is planned for 2016.

The Bank is currently accepting primarily academic employees, and as of the end of 2015, the Bank employees 66% academic employees, of which 26% hold a Master's degree, and 5% are studying for their Master's degree. The rate of employees with a post-secondary education, out of the Bank's total employees, amounts to 12%, while the rate of employees studying for a Bachelor's degree amounts to 3%.

The Bank encourages mutual responsibility among its employees, and has established a joint fund between the Bank and its employees, to support employees who are in financial distress situations.

Corporate officers and authorized signatories

As of December 31, 2015, 10 corporate officers are serving in the Bank (who are not directors), through personal contracts. There are 198 authorized signatories in the Bank: 103 in the branches, and 95 at headquarters. For details regarding the retirement of corporate officers during the reporting period, see the chapter regarding corporate officers, below.

Significant agreements

For a summary description of the significant agreements which are outside of the Bank's ordinary course of business, and regarding collaboration agreements which are relevant to the operating segments, which were signed and/or which are in effect during the reporting year, see the details provided regarding each segment.

During the period, no significant cross-organizational agreements were reached.

Legislative restrictions and oversight of the banking corporation

Legislative oversight restrictions which specifically apply to a particular oversight segment will be expanded upon in segmental reporting.

The Bank has a banking license in accordance with section 10 of the Banking Law (Licensing), 5741- 1981. In accordance with the Bank's license, it is subject to the following restrictions: the Bank will not control and will not be an interested party in corporations of any kind whatsoever, in Israel or abroad, excluding auxiliary corporations, without the Commissioner's approval, for a certain corporation or for a certain type of corporation. The above will not apply to corporations which the Bank lawfully held prior to the provision of the license, and where the holding is in accordance with the determined conditions.

Additionally, in accordance with the Bank's license, the appointment of the Chairman of the Board of Directors and the CEO require advance written approval from the Commissioner of Banks.

It is hereby clarified that the requirements of the license regarding the control of auxiliary corporations and the approval for the tenure of the Chairman and CEO are requirements which are currently included in the Banking legislation, and which refer to all banking corporations.

According to the directive issued by the Bank of Israel to the Bank, the Bank is entitled to perform option and spot transactions between currencies or interest rates only for hedging purposes. Transactions which are not for hedging purposes will require advance approval from the Bank of Israel.

Licenses for the activities of subsidiaries

Ir Shalem, a wholly owned and controlled subsidiary of the Bank, has an insurance agent corporation license in accordance with the Control of Financial Services Law (Insurance), 5741-1981. In accordance with the directives issued by the Commissioner of Insurance and the Commissioner of Banks, Ir Shalem is entitled to engage only in the marketing of life insurance policies and structural insurance policies, as part of housing loans which are given by the Bank (this restriction does not apply with respect to insurance which was prepared before January 1, 2006).

Restrictions on legislation, standardization, directives and special constraints

The Bank is a commercial bank, whose securities are traded on the Tel Aviv Stock Exchange Ltd., and which is a member company of the Tel Aviv Stock Exchange Ltd., a member of the Stock Exchange Clearing House and the Maof Clearing House, and is therefore subject to all of the relevant laws.

The Bank's activities are subject to laws, regulations and directives, some of which are unique to the banking system, while others, which, even if they are not unique, as stated above, do affect significant segments of its operations. The Banking Ordinance, various banking laws and Proper Banking Management Directives which are published by the Commissioner of Banks from time to time constitute the primary and legal basis for the Bank's activities. These define, inter alia, the limits of the Bank's permitted activities, the relationship between the Bank and its customers, the use of the Bank's assets, the method for reporting regarding its aforementioned activities to the Commissioner of Banks and to the public, and the activities which are permitted for the Bank's subsidiaries, and the terms of their control and ownership.

Along with the above, the Bank is subject to extensive legislation which regulates its activities in the capital market, both for its customers and for itself (for example, in the field of investment consulting and customer portfolio management, securities laws and restrictions on activities in the insurance segment), and to the guidelines issued by the Ministry of Finance which regulate the Bank's activities as a market maker with government bonds.

The fees charged by banks, including the Bank of Jerusalem, are overseen by the Bank of Israel. Additionally, the Bank of Israel has determined tariff schedules, in which are specified the services for which banks will be entitled to collect fees, as well as the method used to calculate such fees.

Additional laws, on unique subjects, impose on the banks, including on the Bank, specific obligations and rules. The above includes, for example, legislation regarding the prohibition against money laundering and terrorism financing; The Credit Data Law, legislation regarding housing loans, laws regarding guarantees, etc.

In addition to the above, there is also legislation which, due to its connection to the Bank's activities, has a significant impact on the Bank's conduct. On this matter, it should be noted that enforcement laws, liquidation and receivership laws, and various tax laws are relevant.

The Bank's activities are subject to supervision and control by the Banking Supervision Department, and by additional supervisory entities in specific operating segments, such as the Israel Securities Authority, the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance and the Antitrust Commissioner.

The Bank and its subsidiaries operate in order to fulfill the duties applicable to them by virtue of provisions of the law.

As part of the legislation, most laws which apply to the banks activities include the option to impose on it financial sanctions with respect to breaches of provisions of the law and of the provisions of secondary legislation (including circulars and directives), which have been issued, or which may be issued, by virtue thereof.

Presented below is a summary description of legislative amendments (including directives issued by the Commissioner of Banks) which are relevant to the reporting period, and which significantly affect, or may significantly affect, the Bank's activities (for details regarding legislative amendments which are relevant to the reporting period, which affect or which may affect the activities in the operating segments, see the separate reference to each operating segment).

Legislative updates and directives issued by the Bank of Israel

The legislative updates and/or directives issued by the Bank of Israel, which are specific to the various operating segments, were described in the relevant chapters of this report. Additionally, provisions of the law and regulation which were received until the publication date of the Bank's annual report for 2014 were described in the Bank's financial reports for 2014.

Directive issued by the Bank of Israel on the subject of the liability regarding employee rights

On April 9, 2014, the Banking Supervision Department published a circular on the subject of the adoption of accounting principles in the United States with respect to employee rights. The circular updates the requirements for the recognition, measurement and disclosure of employee benefits in the public reporting regulations, in accordance with generally accepted accounting principles for banks in the United States. This circular includes certain updates to the public reporting regulations, but does not include the required updates to the directives due to the adoption of these principles. These subjects, including additional clarifications, if required, will be handled separately.

The circular provides that the amendments to the public reporting regulations will apply beginning on January 1, 2015, where at the time of initial application, the banking corporation will retrospectively correct the comparative figures for periods beginning on January 1, 2013 and thereafter, in order to meet the requirements of those principles, inter alia, in accordance with the provisions of the circular:

- The discount rate used to calculate the liability with respect to employee rights will be based on the market yields of government bonds in Israel. As a result, the transitional provision in existing directives, which established the discount rate used to calculate reserves to cover employee rights, was canceled.

- A banking corporation will apply the generally accepted accounting principles for banks in the United States regarding share-based payment, as stated in - ASC 718, Compensation - Stock Compensation.

For details regarding the impact of the adoption of accounting principles in the United States on the subject of employee rights on the Bank, see Note 1.D.1. to the financial statements.

Proper Banking Management Directive 361, on the subject of cyber protection management

On March 16, 2015, a new Proper Banking Management Directive was published which regulates the way in which the Bank is required to manage its defense against cyber threats to which financial institutions are exposed in Israel and around the world.

The directive includes regulation of the requirements and expectations of the Banking Supervision Department regarding banking corporations on the subject of cyber protection management. It establishes a framework for the management of cyber risks, while allowing freedom for the banking corporation in its implementation. This method of regulation is intended to allow the banking corporation to dynamically adjust its protection system to the current map of cyber threats.

In light of the above, the directive does not specify a closed "list of controls", but rather defines principles regarding cyber protection. The expectation is for the banking corporation to adopt these principles in its establishment of the cyber protection system, in accordance with the scope and characteristics of its activities and risk profile.

The directives determines that banking corporations are required to place a special emphasis and to adopt the required measures in order to ensure effective management of cyber risks. In particular, banking corporations are required to expand and deepen the current capabilities of the information security system, in a manner which will allow them to deal with cyber threats.

The directive views the management of cyber risks as part of the comprehensive system of risk management in the banking corporation, and determines that cyber risk constitutes an operational risk as well as a strategic risk for the Bank.

The directive requires the appointment of a senior employee, with the appropriate knowledge and experience, as the "cyber protection manager", and requires verification that his organizational location and authorities allow him to carry out his responsibilities regarding guidance and coordination of all relevant processes and activities.

In accordance with the directive, the Bank is required formulate a cyber protection strategy, to set forth in writing the framework for the management of cyber risks, and to establish a corporation-wide cyber protection policy. Based on an analysis of the cyber risks, the Bank is required to formulate an appropriate work plan. Orderly reports regarding cyber risks are to be submitted ti management and Board of Directors, as well as reports "regarding cyber events"), in cases which will be defined by the Commissioner.

The directive is in effect as of September 1, 2015.

On January 22, 2016, after the balance sheet date, a securities website, which is separate from the Bank's main website, was hacked. Based on an investigation which was conducted, no unauthorized actions were found to have been performed, and no damage was caused to customers. For additional details, see the chapter regarding information and IT systems in this report.

The Bank is implementing this directive.

For details regarding the Bank's announcement regarding a hacking breach of a securities information website which is separate the Bank's central website,

see the chapter regarding a summary description of the main risks to which the Bank is exposed, in the Report of the Board of Directors and Management.

Letter by the Bank of Israel regarding the discounting of software costs

On May 21, 2015, a letter was received from the Commissioner of Banks, regarding the discounting of self-development software costs, according to which, inter alia:

A. The estimated useful lifetime of discounted software costs should be updated such that it does not exceed 5 years.

B. A materiality threshold for discounting of no less than NIS 300 thousand should be determined. Any software development project whose total costs are lower than the determined materiality threshold should be charged to the statement of income.

C. Regarding products for which the total discountable costs is not lower than the materiality threshold, a discount factor for work hours of less than 1 will be determined, in order to take into account potential inefficiency and acceptable deviations in software development projects.

D. The rank of employees whose costs are discounted to assets will be limited to the manager rank, where it can be demonstrated that most of their time is focused on actual development, and where they are responsible for a limited number of employees.

E. The recording of discountable costs with respect to software development of all development employees will be done in accordance with the individual reporting of hours, and not by way of proportional allocation of costs.

The Bank is applying the instructions regarding the discounting of software costs beginning with the financial statements as of June 30, 2015, by way of retrospective adoption. The comparative figures were restated.

For additional details, see Note 1.D.1. to the financial statements regarding the accounting policy.

Amendment to Proper Banking Management Directive 308 - Compliance and compliance function in banking corporations

On June 3, 2015, Proper Banking Management Directive 308 was published in order to amend the directive which regulates the activities of the compliance officer regarding developments which occurred in the segment, in the area of risk management in general, and in the management of compliance risk in particular. The principle components of the amendment to the directive are as follows:

The definitions of compliance risk, compliance unit, Chief Compliance Officer and employees of the compliance unit were adjusted according to the definitions provided in the Basel document. Additionally, the definition of compliance directives was expanded beyond consumer directives in accordance with the Basel document, which determines that "compliance risk" is derived from laws, regulatory directives, compliance directives and the ethical code of conduct, which apply to the banking corporation's activities.

The Board of Directors' responsibility for overseeing compliance risk in the banking corporation was stressed and emphasized, and additionally, the responsibility of senior management for effective management of compliance risk was established.

The required characteristics in order to allow the compliance unit to fulfill its role in an effective and efficient manner were determined, including: the compliance unit must be permanent and independent;

The status of the compliance unit must be formalized by means of a charter; The compliance unit must be granted an organizational status which does not create any potential conflict of interests;The remuneration provided to the unit's employees must be consistent with the unit's targets, in a manner which does not create incentives for employees to act in contravention of the unit's goals and functions; The allocation of appropriate resources and workforce to the unit, as well as the professional qualifications of the unit's employees and manager.

The compliance unit will be managed by the Chief Compliance Officer. In order to maintain its independence and strengthen its position, it was determined that the Chief Compliance Officer will not fulfill any other position in the banking corporation.

The circular will enter into effect no later than January 1, 2016.

The Bank is adjusting its conduct to the provisions of the amendments to the Proper Banking Management Directive.

Amendment to Proper Banking Management Directive 301A, - remuneration policy of a banking corporation

On August 13, 2015, an amendment was published to Proper Banking Management Directive 301A, in light of the Commissioner's position, according to which the remuneration policy in banks must conform to his directives.

The main provisions of the amendment are as follows:

Addition of a requirement specifying that the remuneration policy and agreements of a banking corporation must include a stipulation specifying that any variable remuneration granted and paid to a key employee must be repayable, upon the fulfillment of the criteria for repayment. The criteria for repayment and the amounts or rates of repayment will be determined by the banking corporation, but will include, as a minimum, the cases which were specified in the directive which apply to highly extraordinary circumstances.

Notwithstanding the foregoing, when the total variable remuneration in a certain calendar year does not exceed 1/6 of the fixed remuneration in that year, there is no obligation to activate the repayment mechanism with respect to that part of the variable remuneration.

The addition of a new provision specifying that the Board members of a banking corporation, including the Chairman of the Board, will receive fixed remuneration only. The amount of the fixed remuneration given to the Chairman of the Board will be determined relative to the remuneration of the other Board members in the banking corporation, and in consideration of, inter alia, the banking corporation's size and the complexity of its activities, and also in consideration of the scope of the position.

Notwithstanding the foregoing, the banking corporation is entitled to pay to the Chairman social benefits and associated expenses, in accordance with the conventional practice regarding the employment terms of all corporate officers in the banking corporation.

The provisions of the amendment apply immediately to remuneration agreements which were approved on or after the publication date of this circular, including extensions or amendments of existing remuneration agreements. Remuneration agreements which were approved before the publication date of this circular will be amended accordingly no later than December 31, 2017.

The Bank is working in accordance with the provisions of the Proper Banking Management Directive, including as regards the remuneration of the Chairman and the other Board members, in order to comply with the provisions of the aforementioned amendment. The Bank will update the remuneration policy in accordance with the amendment.

Letter from the Bank of Israel regarding the management of risks associated with the operation of a voluntary disclosure programs in Israel

On January 26, 2016, the Commissioner of Banks published a letter to the banking corporations regarding the management of risks associated with the operation of a voluntary disclosure programs in Israel. In this letter, the Commissioner of Banks called the banks' attention to the fact that also in cases where an individual has acted vis-à-vis the Tax Authority in accordance with a voluntary disclosure program, this in itself does not suffice to protect them from arraignment with respect to crimes which do not involve concealment of income. In light of the foregoing, the Bank is required:

A. To update its policies and procedures, and to inform its employees regarding the above, and regarding the fact that the presentation of approval from the Tax Authority by the client does not constitute authorization of the legitimate source of the funds for the purpose of the prohibition on money laundering.

B. To evaluate which tests from the Second Addendum to the Prohibition on Money Laundering Order may be relevant with respect to reports regarding irregular activity.

C. To formalize in policies a prohibition on the receipt of electronic transfers from abroad, as part of a voluntary disclosure process, which do not include details of the transferor or transferee.

D. To inform the Bank of Israel, in writing, within 60 days, regarding the steps which it has taken or implement the aforementioned requirements.

The Bank is working to implement the provisions of the letter.

Letter from the Bank of Israel regarding increased operational efficiency of the banking system in Israel.

On January 12, 2016, the Commissioner of Banks published a letter to the banking corporations regarding increased operational efficiency of the banking system in Israel. In the letter, the Commissioner expressed her position, according to which the level of efficiency in banks is low relative to banking systems in other developed countries, and therefore, she views increased efficiency measures as an important step towards ensuring the banks' stability. In light of the foregoing, the Bank's Board of Directors is required to outline a multi-annual increased efficiency plan, including defined interim goals, which will reflect the long term commitment to efficiency at a level which is appropriate for the current economic environment.The Banking Supervision Department intends to define a periodic reporting framework, and to approve easements regarding capital adequacy for banks which fulfill the conditions specified in the letter, provided that they approve an increased efficiency plan by December 31, 2016.

The Bank is preparing for the implementation of the provisions in the Commissioner's letter.

Draft letter from the Bank of Israel regarding compliance with tax laws in Israel

On December 14, 2015, the Commissioner of Banks published a draft letter to the banking corporations regarding compliance with tax laws in Israel. In the draft, the Commissioner of Banks presented her position, according to which a banking corporation may be exposed to various risks when it opens or manages an account in which funds are deposited, which may originate from the customer's evasion of tax payment. In light of the above, the banking corporations are required, according to the aforementioned draft, to incorporate these risks into the various levels and aspects of risk management in the banking corporation. As part of the foregoing, the Bank is required to address these risks in the Bank's policy, to hold discussions about it in the Board of Directors, and to evaluate and manage the relevant patterns of action in order to identify accounts in which funds are deposited which may originate from tax evasion by the customer, in order to identify such customers, and not provide service to them. The banks contacted the Banking

Supervision Department with a request to define and delimit the patterns of action addressed in the draft letter, in order to allow the banks to full its requirements. A response to the banks' questions has not yet been received from the Banking Supervision Department.

Proposed legislation

From time to time, proposed legislative amendments are presented to the Knesset on various subjects, some of which may have an effect on the business operations of banking corporations in general, including the Bank. Additionally, from time to time various regulators (such as the Commissioner of Banks, the Israel Securities Authority, etc.) distribute drafts of their directives and instructions, for public comment. As of the reporting date, there are a number of legislative proposals, in various stages of legislation, as well as a number of drafts which were distributed by the Commissioner of Banks. Proposed legislation and drafts of these directives are intended to increase the control and regulation of bank-customer relationships, to regulate various aspects of the Bank's activities, to regulate the activities of public companies on various subjects, and more. However, as of the date of the financial statements, these proposals and drafts are in various stages of legislation or regulation, and may be subject to changes, and there is no certainty regarding when they will be completed or whether they will eventually become binding legislative provisions or supervisory directives.

Description of the banking corporation’s business by operating segments

Summary description of operating segments

The Bank works through the Bank’s headquarters, branches and subsidiaries. The Bank's operating segments have been classified in accordance with the directives issued by the Commissioner of Banks, according to the types of customers which are included in each of the segments, and do not necessarily correspond to the Bank's organizational structure.

The Bank operates and provides a variety of banking services in four main operating segments. Presented below are details regarding the reported operating segments:

- **Households segment** - the customers of this segment are households and small businesses which have similar operational indicators to households.
- **Private banking segment** - The customers of this segment are customers with a medium to high degree of financial wealth, to whom services are given through a branch specializing in private banking, primarily for foreign residents (mostly from North America, England and France).
- **Business segment** - the customers of this segment are construction companies, contractors and real estate companies, business customers, corporations and associations.
- **Financial management segment** - this segment includes the management of the Bank’s free financial capital and positions, management of the Bank’s nostro portfolio and transaction rooms, activity vis-à-vis banks in Israel and abroad, and vis-à-vis the Bank of Israel, as well as the execution of transactions regarding derivative financial instruments.
- **Unallocated amounts and adjustments** - including capital gains from the sale of fixed assets.

The attribution of income and expenses by the Bank’s operating segments is performed as follows:

Interest income, net

Margin received from the difference between the credit interest which was provided to the segment’s customers and the price of money (the economic transfer price which corresponds to the linkage segment and the credit’s average lifetime) and the margin received from the difference between the deposit interest rate which was provided to the segment's customers and the price of money (the economic transfer price which corresponds to the linkage segment and the average deposit lifetime).

Expenses with respect to credit losses

The provision was charged to the operating segment which includes the classification of the customer activity for which the provision was made. Similarly, a collection from a provision which was performed or reduced was also attributed to the segment under which the customer's activity is classified.

Non-interest income

Non-interest income was directly charged to the segment where the customer activity is classified.

Operating and other expenses

Identifiable direct expenses were specifically charged to the operating segments. The balance of indirect expenses or direct expenses which were not precisely attributable, was attributed according to the model which was used to attribute these expenses, based on the proportion of direct positions in the segment, relative to all positions in the Bank, for each of the operating segments.

Taxes on income

Taxes were calculated according to the effective tax rate, and were attributed accordingly to each segment.

Return on equity

Allocation of capital for the purpose of calculating return on equity in each of the operating segments was based on the average risk assets in each segment. Returns in each segment were calculated in accordance with the equity which was attributed to the segment, as stated above.

The segments in this report are presented according to a distribution of segments which the Bank implemented until 2015.

On November 3, 2014, the Commissioner of Banks published a circular specifying provisions regarding the implementation of reporting regarding supervised operating segments.

The purpose of the report is to allow a banking corporation to report regarding operating segments in accordance with a standard and comparable format which was determined by the Banking Supervision Department.

The Commissioner's directives in the aforementioned circular determine, inter alia:

- The definition of supervised operating segments and the customers which will be included in each segment.
- Beginning with the report as of March 31, 2016 and thereafter, full disclosure will be given, as required in the directive.
- A clarification specifying that a banking corporation whose operating segments, in accordance with its management approach, are significantly different from the supervised operating segments, will additionally provide disclosure regarding operating segments, in accordance with management's approach.
- A transitional provision specifying that banking corporations must provide disclosure in the 2015 report for supervisory operating segments.

The Bank is preparing for the implementation of the directive, and the annual report will include the required disclosure.

Presented below are details regarding the average balances of assets and liabilities which were used in operating segments:

	Assets			Liability		
	2015	2014	Change	2015	2014	Change
Segments	NIS Millions		%	NIS Millions		%
Households	7,371.4	7,446.9	(1%)	6,548.3	7,387.4	(11%)
Private banking	1,279.5	1,153.8	11%	934.8	1,043.7	(10%)
Business	1,222.9	1,258.7	(3%)	2,179.0	1,771.5	23%
Financial management	4,105.9	3,502.6	17%	3,544.1	2,437.9	45%
Total	**13,919.7**	**13,362.0**	**5%**	**13,206.2**	**12,640.5**	**4%**

Presented below are details regarding operating income and returns on operating income to capital, by operating segments:

	Net profit (loss)		Return on equity	
	2015	2014	2015	2014
Segments	NIS Millions		Percent	
Households	(0.2)	4.8	-	1.2%
Private banking	4.6	1.1	6.1%	1.5%
Business	22.9	32.5	14.5%	22.9%
Financial management	16.8	26.6	31.7%	60.6%
Unallocated amounts and adjustments	4.5	-	-	-
Total	**48.6**	**65.0**	**6.3%**	**9.0%**

Presented below is the average number of direct positions attributed to the operating segments:

	Number of employees		
	2015	2014	Change
Segments	NIS Millions		%
Households	222	222	-
Private banking	26	28	(7%)
Business	37	38	(2%)
Financial management	3	3	-
Total	**288**	**291**	**(10%)**

Households segment

Summary description of the segment's characteristics

In the household segment, the Bank offers a variety of financial services and products. The main products which are currently available to the Bank's customers within the framework of this operating segment include: loans for residential apartments and commercial properties, general purpose loans to secure residential apartments, consumer loans and credit cards, checking accounts, deposits and savings, checking facilities, loans for the acquisition of vehicles, capital market activities involving securities and investment advice.

Most of the Bank's customers who belong to this operating segment receive banking services from the Bank by means of the Bank's branches and by means of the Bank's call center.

Main products and services in the segment

Presented below is a description of the main products and services offered within the framework of the activity in this segment:

Mortgages:

- Provision of housing loans and all purpose loans against the pledging of residential homes for individuals who are residents of Israel, and to purchasing groups for long periods, with various linkage bases and in accordance with various interest tracks which are determined in accordance with the loan type, customer preferences, the borrower's repayment ability and in accordance with the Bank of Israel's restrictions on housing loans.
- Activities in the mortgage segment also include the provision of associated services involving life insurance for borrowers and property insurance along with a mortgage, which are provided in accordance with the directives issued by the Commissioner of Insurance and the Commissioner of Banks, through Ir Shalem Insurance Agency (1996) Ltd., a subsidiary wholly owned and controlled by the Bank (hereinafter: "Ir Shalem").

Banking and finance:

- Management of checking accounts.
- Provision of solo consumer loans for defined time periods to households. Issuance of credit cards to the Bank's customers.
- Credit facilities and activities in checking accounts which are determined in accordance with the customer's needs and income level.
- Provision of credit for defined periods, against collateral.
- Raising of deposits and savings from households.

Capital market:

- Provision of services involving securities - buying, selling and operating transactions with securities and derivatives in Israel and abroad, in the Bank's branches.
- Investment consulting - provision of consulting services regarding securities to customers in all of the Bank's branches, through licensed consultants.

Primary markets and their distribution methods

- In 2013, the Bank was nominated as a primary market maker with government bonds, in accordance with a letter of nomination from the Accountant General in the Ministry of Finance. The Bank's appointment period is from January 1, 2014 to December 31, 2017.

- The purpose of market making with government bonds is to ensure an optimal allocation of government bonds to investors, and to increase the transparency and liquidity with respect to trading of government bonds. This activity is performed by virtue of the State Lending Law, 5739-1979, which regulates the appointment of primary market makers for government bonds, and the engagement therewith. The terms of the appointment establish the obligation to acquire from the government bonds in a minimum amount, on a periodic basis, an obligation to publish the buying and selling prices of the bonds in the trading system of the primary market makers, the right to participate in the acquisition of bonds from the government, the right to receive options for the acquisition of bonds from the government, the right to borrow bonds from the government, and the right to trade bonds in the trading system of the primary market makers. The conditions for qualification as a primary market maker regarding government bonds include, inter alia, a requirement that the primary market maker be a reputable financial entity (banking corporation or stock exchange member company), and have minimum capital of at least NIS 400 million. Additionally, the letter of appointment set forth provisions regarding the management of bond tenders in the primary market and secondary market, provisions regarding oversight by the Ministry of Finance, an obligation to maintain confidentiality, rules for activity, etc. The Bank's income from this activity is due to selling and buying margins, according to the conventional practice in the market for government bonds, and from benefits which are reserved for market markers, and provided by the Ministry of Finance.

A description of the business process in the past and of the business process which is planned for the future.

One of the main goals underlying the Bank's strategic plan (as described above) is the development and expansion of the household segment, while significantly increasing the scope of customers in the segment, in parallel to the expansion of the array of services and products which will be offered to the segment's customers and increasing the profitability embodied therein. The Bank intends to offer, within the framework of this operating segment, products which will include unique characteristics which embody added value, as compared with the products which are currently available in the Israeli banking system.

Presented below are the primary components of the Bank's strategic plan in this operating segment:

- Significant expansion of the existing customer base, through the provision of consumer credit to existing and new customers, through the Bank's branches, and through the internet.
- Provision of mortgages which meet the personal needs and preferences of each customer, while focusing on high profitability channels.
- Increased raising of deposits from households, through the Bank's branches and/or through the internet.
- Provision of agency and consulting services regarding securities, as a supplementary product to the provision of deposits.
- Increasing the number of customers who manage their checking accounts in the Bank (this activity was commenced in October 2012). Increasing the marketing and selling efforts, including through an ongoing improvement of customer service, inter alia, by:
- Continued expansion of the call center.
- Distribution of advanced automatic bank teller machines, which allow the performance of additional transactions.
- Continued operation and improvement of an advanced credit underwriting system, as a decision-supporting tool, which allows the provision of rapid and quality service to customers.
- Improvement of the process of opening of new checking accounts and providing credit over the internet.

The Bank's plans and assessments, as specified above, evaluation of forward looking information, and are based on various forecasts and assumptions which were available to the Bank. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. Influencing factors include forecasts and estimates regarding economic developments in Israel and around the world, and particularly regarding the economic situation in the market, including the effect of macro-economic and geo-political conditions and changes in capital markets, as well as various other factors which affect risk exposure, including: preferences of the public, directives issued by supervisory entities and others, aspects associated with the Bank's image, technological developments and human resource issues.

Material developments in markets of the operating segment, or material changes in the characteristics of its customers

The main customers of this segment are private customers, households, which are residents of Israel. The Bank's value offer in the checking accounts segment is intended for all sectors and all socioeconomic population groups. Activities in this segment are characterized by significant distribution among customers. From the credit perspective, the emphasis on households should be noted, where the credit given to each of them is in a relatively low scope, and therefore, the Bank has no significant dependence on any individual customer or on a limited number of customers, the loss of which could significantly affect the operating segment. This segment also has significant weight in raising the Bank's sources through the various channels.

Out of the Bank's 24 branches, 5 of the Bank's branches are located in areas whose populations are characterized as mostly ultra-orthodox, and 3 branches are located in areas associated with minority population sectors.

Critical factors for success in the operating segment and changes occurring therein

- Creating a variety of products which are tailored to the needs of existing customers and potential customers, which will have innovative and unique characteristics and which provide a high-quality value offer to the customer.
- Use of the significant knowledge and experience which has been accumulated in the Bank with respect to the mortgage segment, which assists in understanding the relevant variables which affect the value of real estate which serves as collateral against loans given to customers, high credit underwriting ability and channels with high profitability.
- Exposure and availability of the nationally distributed distribution network (branches).
- Provision of professional and reliable service, while providing solutions for the customer's personal needs and preferences.
- Expansion of the existing customer base in this operating segment, and expansion of the variety of products and services that are offered to customers in this segment.
- Flexibility and sensitivity to changes on the market, including response ability and entry to new operating segments.
- Development of IT systems and infrastructures to allow the provision of varied and advanced products to customers through the branches, the Bank's call center and website, while keeping risk levels low.
- Development and monitoring of credit rating models.

Main barriers to entry and exit in the operating segment

- The barriers to entry in this segment include: a service-oriented, professional and highly skilled workforce, customer habits, advanced IT systems and maintenance thereof, and minimum capital requirements.
- Additionally, exiting the mortgage segment occurs over a range of years, due to the long lifetime of the

loans, which are given for periods of up to 30 years. Or, alternatively, the sale of the mortgage portfolio to another financial institution.

Alternatives to the products and services of the operating segments and changes occurring therein

- Alternatives to the products and services offered by the Bank to the customers in the segment are the same services and products offered by the extra-banking system, including capital market services which are also provided by investment houses with online trading platforms. Regarding consumer credit, there are more extra-banking financial entities and institutional entities (credit card companies and insurance companies) which target the relevant population groups with credit provision offers. Additionally, food retail chains, in collaboration with the credit card companies, issue credit cards to customers by means other than the banking system.

Customers

- The main customers of this segment are private customers, households, which are residents of Israel. The Bank's value offer in the checking accounts segment is intended for all sectors and all socioeconomic population groups.

Marketing and distribution

- The marketing activities of the Bank's household segment is based on the distribution network of the Bank's branches, direct banking (internet and call center) and direct mailing to customers. The Bank conducts, from time to time, advertising campaigns in various media.
- The Bank is not dependent on the marketing and distribution channels in this operating segment.

Restrictions on legislation, standardization, circulars issued by the Commissioner of Banks and special constraints

Presented below are details regarding the legislative provisions which are relevant to the household segment:

American legislation

In 2011, The Foreign Account Tax Compliance Act (FATCA) was enacted in the United States, according to which financial institutions from around the world will be required to identify all of their American customers, and to submit reports regarding the data of these customers to the IRS. In January 2013, the final version of regulations on the subject was published, which are expected to enter into effect in the second half of 2014.

On April 6, 2014, the Commissioner of Banks issued a directive to banking corporations stating that they are required to continue preparing for the implementation of the provisions of FATCA, whether or not an agreement is signed with the State of Israel, including registering the Bank in the IRS's designated portal. Additionally, according to the circular, the banks are required to appoint a supervisor and to establish a designated work team for this subject, and to set forth policies and procedures for the implementation of the provisions of FATCA.

The Bank is preparing to implement the provisions of the law and the directives issued by the Commissioner of Banks, as part of its ongoing preparation towards implementing the law, including registering the Bank on the IRS website. On July 1, 2014, an agreement was signed between the State of Israel and the U.S. Department of the Treasury regarding the implementation of the provisions of FATCA, which will regulate the transfer of information regarding accounts which are held in Israel by citizens or residents of the United States to tax authorities in the United States, through the Israel Tax Authority.

The Bank is preparing to submit the information to the Israeli tax authorities, as required.

In accordance with the Bank's policy, the Bank refrains from providing any advice or assistance on the subject of taxation, including any advice related to the manner in which the account is identified as American, or in connection with American taxation, including any advice whatsoever regarding FATCA.

As of the reporting date, the Bank is unable to estimate the impact of the aforementioned legislation on its operations.

Additionally, in light of the existing legislation in the United States, financial institutions which do not hold an appropriate American license are restricted against providing the entire array of services involving securities to customers who are residents of the United States. Therefore, Bank of Jerusalem is required to provide services involving securities to its customers who are residents of the United States, only in accordance with the restrictions set forth in American legislation on the matter.

Law Memorandum in Amendment of the Income Tax Ordinance, 5775-2015.

As part of the implementation of the FATCA agreement and preparation for the signing of agreements in accordance with the common reporting standard regarding automatic exchanges of information of the OECD (the CRS), on November 15, 2015, a Law Memorandum in Amendment of the Income Tax Ordinance was published, which primarily includes the following provisions:

A. Amendments to the Income Tax Ordinance;

- Conferring the authority upon the Minister of Finance to establish provisions in the regulations regarding actions required for performance by an Israeli financial institution which is subject to reporting.
- Conferring the authority upon the Minister of Finance to establish in regulations the conditions which, when fulfilled, obligate a financial institution in Israel which is subject to reporting to close a new account which has been opened, and for which the financial institution has been unable to receive declarations or documents.
- Imposition of financial sanctions on financial institutions due to a failure to adequately perform the process of identifying an account owner, and due to failure to transfer information / partial transfer of information with respect to the accounts which are managed by it.
- Sanctions and imposition of personal responsibility on any individual who performs actions with the aim of avoiding information exchanges for the purpose of the enforcement of tax laws in another country, or with the aim of helping another person avoid information exchanges for the purpose of enforcing the tax laws of another country.
- Conferring upon the Israel Tax Authority the authority to transfer information to a tax authority in another country, in accordance with an international agreement.
- Conferring upon the Minister of Finance the authority, in certain cases, to establish provisions with respect to the provision of notice by an Israeli financial institution to customers notifying them that they may be included in reports submitted to a foreign tax authority.

B. Amendment to the Prohibition on Money Laundering Law:

- Financial institutions will be entitled to make use of identification details which they has received by virtue of the Prohibition on Money Laundering Law, during the fulfillment of their duties or during their work, for the purpose of FATCA, or for the purpose of upholding an international agreement.
- Adjustment of the term "control" in the Prohibition on Money Laundering Law to the recommendations of the international Financial Action Task Force (FATF):

Clarification stating a requirement to identify the individual who hods control of the corporation.

Establishment of a presumption according to which the holding of 20% of a certain type of a corporation's means of control (instead of 50%, as currently required) is sufficient to consider the holder a "controlling shareholder", when there is no other entity who holds a higher stake.

A determination that, in cases where no single controlling shareholder has been identified, the Chairman of the Board and the CEO will be viewed as the controlling shareholder, and if there are no such corporate officers - the corporate officer who holds effective control of the corporation.

Bank of Jerusalem is implementing the requirements of FATCA and is preparing to fulfill the standards' requirements regarding automatic information exchanges (CRS) of the OECD.

Circular issued by the Banking Supervision Department regarding informing customers of interest rate margins

On January 15, 2015, the Commissioner of Banks published a circular emphasizing that failure to provide information to customers who have a debit balance, and who request to deposit funds in a deposit by means of a standing order, regarding the margin between the interest rates paid on the deposit and the interest rates charged with respect to the negative balance in the account, may be considered, in certain circumstances, as misleading the customer. Therefore, the banks are required to act as follows:

A. Regarding customers who request to deposit funds in a deposit while having a negative balance - it is necessary to provide information to the customer regarding the aforementioned interest rate margins, before depositing the funds in the deposit.

B. Regarding customers who, as of the date of the letter, have a negative balance, and who, in parallel, deposit funds in a deposit by means of standing orders - such customers must be contacted in writing, and must be presented with the interest rates which are paid on the deposit, the interest rates which are charged with respect to the negative balances in the account, and the interest rate margins between the two, according to the current interest rates as of the date of sending the letter.

C. Self-initiated offers to deposit funds in a deposit may not be sent to customers with negative balances.

The Bank is implementing the provisions of the circular.

Letter of the Commissioner of Banks regarding the management of risks due to cross-border activities of customers

On March 16, 2015, the Commissioner of Banks published a letter regarding the management of risks due to cross-border activities of customers. The letter was published in light of the enactment of FATCA and in light of the regulations published by the OECD, which apply standards for inter-country information transfers on tax subjects, and which impose and/or may impose in the future various obligations on financial institutions around the world, including, inter alia, obligations regarding due disclosure and reporting requirements, and also in light of the adoption of the aforementioned standards by the State of Israel.

The main provisions of the directive are as follows:

A. The Board of Directors' banking corporation must evaluate and update its policy, and verify that management updates its policies and controls accordingly, with respect to the risks which are inherent to cross-borders activities of the banking corporation's customers, with an emphasis on tax liabilities outside of the country where the account was opened, regardless of whether or not the customer is a resident of that country, according to a risk-based approach, including reference to the points specified in the letter.

B. In the provision of banking services to customers who are subject to the FATCA provisions, banking corporations are required to work to implement them further to that stated in the Commissioner's letter dated April 6, 2014.

C. Refusal to provide banking services for an existing account, and refusal to open an account, with respect to customers who do not cooperate with the banking corporation in the manner which is required in order to implement the corporation's policy and procedures with respect to cross border risk, will be considered reasonable refusal for the purpose of the Banking Law (Customer Service), 5741-1981:

The circular enters into effect on the its date of publication, and in parallel, the Bank is required to complete the optimization of documents of customers to which the circular applies by the end of 2016 (or, for customers classified as "high risk" - by the end of 2015).

The Bank is working to implement the directives issued by the Commissioner.

Letter from the Commissioner of Banks regarding risks associated with engagement with entities who are included on the list of international sanctions in connection with the crisis in the Ukraine

On March 23, 2015, the Commissioner of Banks sent a letter in which he called the attention of the banking system to the existence of international sanctions on certain Russian businesses and entities. In the letter, the Commissioner noted that due to the fact that sanctions could also apply to banks and other financial institutions, the banks are required to become aware of them, and also to receive specific legal advice. Accordingly, the Bank is required to hold a discussion, no later than May 1, 2015, in which it will specify the steps which it intends to take in order to reduce this risk.

The Bank is implementing the provisions of the letter.

Amendment to Proper Banking Management Directive 470 - debit cards

On June 29, 2015, an amendment was published to Proper Banking Management Directive 470, within the framework of the Bank of Israel's activities in order to increase competition in the debit card segment, and to promote the use of immediate debit cards and charge cards. The main provisions of the amendment are as follows:

A. Establishment of the obligation that a bank's debit cards and ATM's must comply with the EMV standard (a European standard which is intended to reduce the potential for debit card fraud).

B. Regulation of the method used to transfer funds in transactions implemented through debit cards, and a determination stating that, in transactions of this kind, the customer will be charged the amount on the broadcast date of the transaction, and the funds will be transferred from the clearing entity to the business within 3 business days from the broadcast date of the transaction.

C. Requirement obligating issuers to mark debit cards and charge cards in a way which differentiates them from other debit cards.

D. Establishment of an obligation to present, in the checking account page, each transaction which was performed using a debit card, after its performance, including specification of the transaction details.

The directive enters into effect, for the most part, on April 1, 2016. The separate marking obligation enters into effect on October 1, 2015.

The Bank is implementing the provisions.

Letter from the Commissioner regarding expanding the distribution of immediate debit cards

Further to the aforementioned amendment, the Commissioner of Banks published, on June 29, 2015, a letter to the banking corporations, in which it was stated that, in order to increase the distribution of debit cards, banking corporations are required to act vis-à-vis their customers who meet the definition of "household" or "micro business", in the following manner:

A. Beginning from the date of the letter - to offer debit cards to all new customers who open checking accounts with them, except in cases where there is a reasonable justification for not doing so.

B. To offer debit cards to all of the Bank's current customers who hold checking accounts, by initiating contact no later than December 31, 2016.

C. The Bank is prohibited to charge card fees with respect to debit cards which were was issued to customers who have a valid credit card which was issued by the Bank. Regarding customers who do not have such credit cards - lower card fees will be charged for debit cards than those charged for credit cards.

The Bank is working in accordance with the provisions of the letter, and is preparing to contact its customers.

The Bank estimates that the implementation of the directive will not have a significant impact on the Bank's income.

Amendment to Proper Banking Management Directive 454 - early repayment of non-housing loan

On June 21, 2015, an amendment was published to Proper Banking Management Directive 454, which is intended to determine a standard mechanism for determining the interest rate which is used to calculate the discount component in non-housing loans which were extended to private individuals or to micro businesses, as defined in the public reporting regulations, and to create uniformity, as much as possible, between the early repayment of housing loan and the early repayment of non-housing loans.

The amendment included adjustment of the conditions for the performance of early repayment of a non-housing loan, to the conditions which apply to the early repayment of housing loans. Additionally, a new mechanism was established for the calculation of the discount component, which is based on the average interest rate and neutralizes the borrower's risk premium in case of early repayment. Additionally, the requirements regarding the disclosure which the Bank is required to give to customers regarding early repayment were expanded. The directive enters into effect on April 1, 2016 (also with respect to loans which were extended before the amendment to the directive).

The Bank is preparing to implement the directive. The Bank estimates that the implementation of the directive will have no impact on a significant impact on the Bank's income.

Declaration of delivery of messages and alerts as a "service subject to supervision"

On May 10, 2015, the Banking Ordinance (Customer Service) (Supervision of Message or Alert Service), 5775-2015 was published, which determined that message or alert services are defined as a "service subject to supervision", and that the maximum fee amount which can be charged with respect to such service is NIS 5 per message or alert. The ordinance entered into effect on July 1, 2015.

The Bank is implementing the directives included in the Ordinance. The Bank estimates that the implementation of the provisions of the Ordinance will have no impact on significant impact on its income.

Letter from the Commissioner regarding contact initiated for the provision of credit to retail customers

On June 23, 2015, the Commissioner of Banks published a letter to the banking corporations, in which the banking corporations were required to refresh their policies on all matters associated with contact initiated for the purpose of providing credit to specific retail customers, and to establish policies and procedures on the matter, particularly with respect to the following issues:

A. Definition of specific target markets, inter alia based on risk and the profitability of the customer's acceptance of the loan.

B. Determination of call scripts which regulate the disclosure given to the customer regarding their needs and the credit terms.

C. Determination of the appropriate means of marketing to the target population.

D. Documentation of the call to the customer, including recording of telephone calls.

The Bank transferred to the Banking Supervision Department the policies and procedures which it updated on the matter on September 1, 2015, which is the effective date specified in the directive.

The Bank is preparing to implement the directive.

The Enforcement Law (Amendment 47 and Transitional Provision) (Exemption for Debtors of Limited Means), 5775-2015

On August 3, 2015, the aforementioned amendment to the Enforcement Law was published, which formalized the process with respect to "debtors of limited means". In accordance with the amendment to the law, the Enforcement Registrar is entitled to declare that a debtor is a debtor of limited means, and to establish a monthly payment order in accordance with the debtor's economic ability, and also to impose on the debtor various restrictions in accordance with the law.

The amendment to the law is intended to allow debtors of limited means to receive the exemption to which they would have been entitled had they initiated bankruptcy proceedings, according to the preconditions which were determined in the amendment, and the restrictions specified for the issuance of the exemption order.

On September 7, 2015, regulations were published regarding the implementation of the aforementioned Amendment 47.

Presented below are details regarding the significant agreements and collaboration agreements to which the Bank is party, which are relevant to the household segment:

Agreements with the Government of Israel for the provision of loans

The Bank has a framework agreement with the Government of Israel for the provision of loans for which the Government is responsible (including arrangement, execution and collection) to entitled individuals through the Ministry of Construction & Housing. According to the agreements, the Bank is entitled to receive fees at various rates, as set forth in the aforementioned agreements, as well as participation in collection expenses. The last framework agreement was signed in July 2004, is in effect for two years, and is automatically renewed each time for an additional period of one year, save in the event that either of the parties has announced the termination of the agreement 4 months before the end of its period.

Additionally, the Bank signed, in May 2008, an agreement with the Government of Israel regarding loans which will be provided to entitled individuals through the Ministry of Construction & Housing, beginning on the signing date of the agreement. The loans which will be provided to entitled individuals under the agreement are mostly out of the Bank's funds, and under the Bank's responsibility, and to a lesser degree, out of the State's funds, and under the State's responsibility. The Bank is entitled to receive subsidization from the government with respect to loans which it has given out of the Bank's funds, as well as fees at various rates with respect to the loans which it has provided out of State funds. The agreement is in effect for one year, and is automatically renewed each time for a period of one additional year, unless either of the parties has given notice regarding the termination of the agreement 3 months before the end of the agreement period.

The Bank has undertaken towards the Government of Israel that in its provision of services under the aforementioned agreements, it will operate in accordance with government circulars, and that it will indemnify the State of Israel if it has not done so. The Bank works in accordance with the provisions of the government's circulars regarding the loans to entitled individuals, and therefore estimates that the liability for indemnification does not create any significant exposure for the Bank.

Agreement regarding life insurance for borrowers

The Bank is party to agreements from 1992 (as updated, from time to time) with several insurance companies, Ir Shalem, and additional insurance agencies. According to the agreements, the insurance companies undertake to provide life insurance to the borrowers, subject to the terms set forth in the agreements and in the insurance policies. The insurance companies are entitled to a premium, and the Bank and the aforementioned insurance agencies are entitled to receive payment from the insurance companies, in consideration of their services. The Bank is the policyholder and beneficiary. The aforementioned agreements apply only to life insurance policies for borrowers which were prepared until December 31, 2005.

Agreement regarding property insurance for borrowers

On April 1, 2007, agreements were signed between the Bank, Ir Shalem Insurance Agency (1996) Ltd., and several insurance companies, according to which the insurance companies undertook to insure assets which had been pledged in favor of the Bank, subject to the terms set forth in the agreements and in the insurance policies, and to pay a commission to Ir Shalem. The agreements were renewed at the end of March 2015, and were extended until March 31, 2016, and will be renewed on an annual basis. The agreements apply only to structural insurance policies which were prepared with respect to loans which were given until December 31, 2005.

Framework agreement - life insurance and structural insurance as an addition to housing loans

An agreement dated April 10, 2006, which is in effect as of January 1, 2006, between Ir Shalem and an insurance company, according to which the insurer will issue life insurance policies and structural insurance policies (including water damage) as an addition to housing loans which will be given by the Bank to the Bank's customers, and which will be marketed by Ir Shalem through a subsidiary of an insurance corporation.

Agreement with Bank Leumi Le-Israel Ltd.

The Bank is party to an agreement with Bank Leumi le-Israel Ltd. ("Bank Leumi") dated November 15, 1998, according to which the Bank receives from Bank Leumi clearing services for relays presented in the Bank and relays drawn on the Bank through the Bank Leumi clearing house, in consideration of fees as specified in the agreement.

Agreement with a credit card company

The Bank has an agreement with Israel Credit Cards Ltd.. dated August 8, 2002, which reflects the relationship within the framework of the collaboration between the Bank and the aforementioned credit card company, including as regards the division of responsibilities between the credit card company and the Bank, as well as the commercial terms between the parties.

For additional details regarding the results of operations of the household segment, and an analysis of the business activities therein, see the chapter regarding operating segments in the Report of the Board of Directors and Management for 2015.

Private banking segment

Summary description of the segment's characteristics

The banking activity in the private banking segment provides services and products which are given in the household segment, to a population group which primarily includes foreign residents with a medium to high degree of financial wealth. Services in this segment are given through a branch of the Bank specializing in the provision of these services and products to foreign residents. In this operating segment, greater emphasis is placed on providing personal, high quality service.

Main products and services in the segment

Activities in this segment primarily include the following services and products:

- Mortgages - provision of loans to finance the acquisition of apartments in Israel, as well as the provision of credit for other purposes, which is backed up by pledging of a real estate asset.

Banking and finance - a variety of products and services in this segment, including the provision of credit, checking accounts activity, raising of deposits in foreign currency, and other areas, where the emphasis is placed on the provision of professional and advanced service which is tailored to each customer's specific personal needs.

Capital markets - activities performed by customers with securities, including the execution and operation of transactions involving securities and derivatives in Israel and around the world; Investment consulting provided by consultants who specialize primarily in investment areas which are relevant to foreign residents, with a particular specialization in foreign markets.

Primary markets and their distribution methods

Most of the marketing is performed through personal contact with potential customers in conferences and events in which the Bank participates through customer referrals by professionals who are involved in the aforementioned communities abroad, including attorneys, consultants and accountants with whom the Bank maintains ongoing relationships.

A description of the business process in the past and of the business process which is planned for the future.

In recent years, a trend has become increasingly apparent of most banks operating in Israel, which are engaged in developing and promoting services and products given through private banking services.

The Bank views this operating segment as an important component of its business operations, and accordingly, acts with the aim of, inter alia:

- Preserving the status and reputation which the Bank has created among Jewish communities abroad.
- Expansion of the variety of financial services and products which are relevant to this market segment, while ensuring the implementation of all regulatory provisions, including the evaluation and identification of customers' sources of income, and signing them on the relevant documents and declarations which are required for each customer segment.

Material developments in markets of the operating segment, or material changes in the characteristics of its customers

Critical factors for success in the operating segment

The unique success factors include a broad network of relationships with Jewish communities in various countries around the world, and the provision of professional and personal service to customers of the segment in the areas of private banking, in addition to the success factors which were detailed extensively under the household segment, and which are also relevant to this segment. Additionally, ensuring compliance with al; regulatory provisions and signing customers on the relevant documents which are required for each customer segment is critical to the success and maintenance of this activity type.

Main barriers to entry and exit in the operating segment

Customers' habits, regulatory restrictions, training of a professional and skilled workforce and technological infrastructure may constitute barriers to entry in this operating segment. Exiting the mortgage segment is a long term process, due to the long lifetime of the loans.

Alternatives to products and services of the operating segment

Most of the products and services in this segment have no alternatives, although there is competition between banking and financial institutions in Israel and around the world.

Competition

All banks provide banking services to this market segment. The Bank is unable to estimate its relative share in the banking system in connection with this operating segment. In order to deal with the competition, the Bank invests a great deal of efforts in unique professional training of employees in the private banking branch. An additional advantage of the Bank in this operating segment is the service level and availability of bankers in the Bank who speak various languages, who are highly familiar with the cultures of those customers, and who have the ability to create personal connections with customers in the segment.

Customers

The customers of this segment are primarily foreign residents with a strong connection to the State of Israel, who have a medium to high degree of financial wealth. Most of the customers are residents of the United States and Western Europe. The Bank has no significant dependence on any individual customer, and the activities in this segment are characterized by a distribution of credit risks and raising of distributed sources. The services are given through a private banking branch, where the majority of assets purchased in this segment, through the Bank's financing, are in the Jerusalem region.

Restrictions on legislation, standardization, circulars issued by the Commissioner of Banks and special constraints

In addition to the details which were provided on this matter with respect to the household segment, as specified above, and which are also relevant to this operating segment, the services provided in this segment are also subject to specific restrictions set forth in laws which apply in the various coutnries of residency of the customers in this segment.

For additional details regarding the results of operations of the private banking segment and an analysis of the business activities therein, see the chapter regarding operating segments in the Report of the Board of Directors and Management for 2015.

Business segment

Summary description of the segment's characteristics

The business segment provides banking services to business customers, corporations and associations. These services are provided to the Bank's customers through the real estate sector and through the retail division, by means of the commercial banking department and by means of the private banking branch. The segment includes activities in the real estate sector involving the accompaniment of residential construction projects, primarily in accordance with the closed accompaniment method, including, inter alia, the financing of urban renewal projects, initiated projects, removal-construction transactions, and projects initiated and financed by purchase groups. The vast majority of the real estate portfolio is implemented in collaboration with insurance companies which issue securities in accordance with the Sales Law for accompanied projects, and sometimes also through collaboration involving financial credit. The Bank also manages credit which is given to finance projects in the solar energy segment (management of existing credit only), whether independently or through joint financing with financial entities, and through commercial loans. According to the Bank's credit policy, the current business credit in the commercial banking unit and the private banking branch has been in an ongoing trend of reduction in recent years, a trend which is expected to continue in the coming year.

Main products and services in the segment

Activities in this segment primarily include:

Construction and real estate - the Bank finances the acquisition of land and the construction of residential projects, and provides guarantees of various types, in accordance with the needs of the transaction. Financing for the construction of residential projects is for the most part given through the closed accompaniment method, according to the specific needs of each project, and in accordance with its characteristics. In the closed accompaniment method, the project is separated from the customer's other activities. A designated account is opened for the project, which is used for the purpose of that project only, to which are deposited the funds which are received from the buyers of residential units, as well as equity and the Bank's credit. These funds are used to perform the project and are released in accordance with the rate of progress on construction, in accordance with reports issued by an expert supervisor. As part of the financing of the construction project, the Bank provides performance guarantees, monetary guarantees, and guarantees in accordance with the Sale Law to individuals who buy units in the project. The land and receipts are pledged in favor of the Bank. In most transactions, collateral in accordance with the Sale Law is issued by insurance companies with whom the Bank has a collaboration agreement.

The Bank collaborates with financial entities for the purpose of expanding the scope of its activities and achieving profitable returns, while distributing credit risks and fulfilling the required regulatory restrictions.

The difference between the various types of collaboration with financial entities is reflected in the type of credit or collateral which is provided by the financial entity: provision of collateral in accordance with the Sale Law; Provision of collateral to land owners in a combination transaction; and provision of financial credit, in accordance with the operator model.

The operator model in the real estate and construction segment is implemented in accordance with the following principles:

Banking and finance

The operator model in the solar energy credit segment is implemented in accordance with the following principles:

Primary markets and their distribution methods

Marketing and distribution are performed through the managers and employees in the Bank's real estate segment, in the commercial banking department and in the private banking branch.

The Bank recruits customers and expands its operations in the real estate segment, inter alia, by collecting information with respect to tenders for the acquisition of lands designated for construction, evaluating them and contacting the winners of those tenders, through its broad familiarity with the entities operating in the segment. Additionally, the Bank works to expand its activities based on the Bank's existing customer base.

The Bank is exposed to the target market by providing sponsorships for events which are organized by the Association of Contractors and Builders in Israel and by local contractors' organizations, and through participation in various conferences, including the participation of professionals on behalf of the Bank, who present and/or participate in professional panels in such events.

Description of the business process in the past and of the business process which is planned for the future.

As part of the strategic plan (as described above), the Bank works to implement a selective segmental policy in the segment involving the provision of credit to construction companies and residential real estate, with an emphasis on maintaning the portfolio's existing volume, without increasing the current risk level. For this purpose, the Bank is working to create collaborations between the Bank and insurance companies and other institutional entities, in order to provide credit for the accompaniment of projects (the operator model) and issuing collateral in accordance with the Sale Law (Apartments) and other guarantees. This strategy allows the Bank to increase the scope of projects which it is handling, in accordance with the Bank's policy, use of accumulated expertise, engagement in large and complex transactions and distribution of risk, while accordingly increasing return on equity resulting from this activity, and reducing risk.

The Bank also works to direct risk and inputs towards the financing of projects (accompaniment of residential construction), while reducing the scope of commercial credit to finance the operating activities of small companies and businesses, as much as possible, and reducing the scope of credit given to projects in the solar energy segment.

The Bank's plans and estimates, as specified above, constitute forward looking information, and are based on various assumptions and forecasts which are available to the Bank's Board of Directors. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. Influencing factors include forecasts and estimates regarding economic developments in Israel and around the world, and particularly regarding the economic situation in the market, including the effect of macro-economic and geo-political conditions and changes in capital markets, as well as various other factors which affect risk exposure, including: preferences of the public, directives issued by supervisory entities and others, aspects associated with the Bank's image, technological developments and human resource issues.

Notes at the end of this annex.

Material developments in markets of the operating segment, or material changes in the characteristics of its customers

The construction and real estate segment was characterized by increased prices in recent years and by a great deal of demand for apartments, along with a shortage of available lands for construction. 2015 was characterized by an average rate of residential unit sales, and a price level which was higher than the prices of the previous year, despite the expectation for price declines, due to steps which were announced by policymakers, such as the target price and "Zero VAT", which was eventually not implemented. This expectation did not materialize, in light of the lack of lands available for construction, the workforce shortage in the construction segment, and from regulatory restrictions which affected the banking system. Therefore, there is still uncertainty in the real estate market regarding price levels, which are affected, inter alia, by a lack of lands available for construction, and a decrease in the scope of building projects commenced in high demand areas (the marketing of lands by the Ministry of Housing and the Israel Land Administration focuses primarily on the periphery), and imposing burdens on mortgage takers, along with government steps which are intended to reduce housing costs.

Critical success factors in the operating segment and changes occurring therein:

- Professional training of a skilled and experienced workforce.
- Intelligent risk management, while maintaining adequate risk monitoring systems to identify and minimize risks.
- Provision of high-quality and rapid service.

In the construction and real estate segment:

- Specific professional knowledge in this segment, including understanding and the ability to analyze the set of relevant variables which affect the risk level in a real estate the project, including: High demand areas, construction in stages, land available for construction, etc.
- Identification of opportunities through contacts with experienced entrepreneurs in the segment.
- Strong credit underwriting ability, as reflected in correct selection of the accompanying project, which is derived from the location of the project and its marketing possibilities, in accordance with market requirements.
- Determination of a financing structure for the transaction which corresponds to the needs of the project and the customer.
- Monitoring and control of the project's income and expenses, until its completion.
- Ability to manage credit in crisis conditions.
- Adequate assessment of the customer's repayment ability.
- Expanding basis of collaborating parties (additional insurance companies which were added in recent years).

Banking and finance:

- Strict management of credit, including the continuous aplication of controls.
- Reliable and ongoing assessment of the Bank's current set of collateral and tracking the company's current reports.

Main barriers to entry and exit in the operating segment and changes occurring therein

- Regulatory restrictions on banking corporations, including restrictions on the obligations of a borrower or group of borrowers, as well as other regulatory restrictions, including, for example, extra-banking entities which are restricted in terms of independent entry into the real estate segment, due to the Sale Law which requires, under certain conditions, the issuance of bank guarantees to the buyers of units in construction projects.

- Minimum capital requirements.
- Long term relationships with entities engaged in the areas which were specified under the business segment.
- Familiarity and accumulated experience in the provision of financing through the closed accompaniment method.

Alternatives to products and services in the operating segment and changes occurring therein

As an alternative to bank credit, alternative financing products have been developed, which are provided by extra-banking entities. These credit alternatives include raising on the capital market, inter alia, through the issuance of bonds in real estate companies, which are at times backed by specific cash flows, including direct credit given by these entities. This credit alternative and its availability are affected by the state of the capital market, and therefore, there is a decline in the scope of issuances.

Customers

In the construction and real estate segment, the Bank accompanies approximately 270 projects, with an average of approximately 50 residential units per project. Over half of the accompanied projects are located in high demand areas: the Greater Jerusalem region, Central region and Sharon region.

The Bank's credit portfolio is distributed, and the Bank is not dependent on any individual customer or on a limited group of customers. The credit balance of the Bank's customers does not overlap with the restriction of any single borrower. The distribution of the portfolio is also made possible through the Bank's strategic collaboration with insurance companies, which generally issue policies in accordance with the Sales (Apartments) Law to buyers in projects which are accompanied by the Bank. There are also collaborations with insurance companies regarding the provision of financial credit in accompanied projects (according to the operator model).

The existing credit in the commercial activity is distributed among a large number of customers. There are two types of customers in the solar energy segment: 1) property owners who own solar energy systems built on rooftops which they own; and 2) the greater part - entrepreneurs who rent rooftops on which solar energy systems are installed.

Additionally, following the acquisition of Clal Batucha, the Bank now provides services for most of the institutional entities in Israel, including the banks, insurance companies and pension and provident entities.

Competition

The competition between the banks over high-quality customers in the real estate segment is reflected in the rates of equity invested in the project, the transaction structure, fee rates, interests on credit and the level of customer service. Insurance companies are also planning to enter the project financing segment; one of them effectively entered the segment in 2015, and the other is also in the preparation and entry stages.

The Bank's primary methods for dealing with competition are based on the relationships which it has built over the years and the Bank's existing customer base, which constitute a source of leverage for the Bank's ongoing activities. Additionally, the Bank sometimes uses the surplus of sources in existing projects to leverage future activities in new projects initiated by its customers. The Bank applies a mechanism to determine the scope of equity which is required in projects, which is derived from the rate of performance and sales in the project. The aforementioned mechanism incentivizes early sales in the projects, thereby reducing the risk level in these projects.

The Bank is unable to estimate its share in the credit balance in this segment, relative to the entire banking system. However, the Bank believes that in 2015, the Bank's relative share in the accompaniment of new residential units amounted to approximately 12% of all residential units which were under construction in

2015. Additionally, the Bank's share in the segment of small and medium sized solar energy facilities is higher than the Bank's share in the banking system.

Restrictions on legislation, standardization, directives and special constraints

The Bank in general, and the business segment in particular, operate under a series of laws, regulations, regulatory provisions and directives, which are applied to the banks by legislative and supervisory entities, including the Banking Supervision Department, the Israel Securities Authority, the Antitrust Commissioner and the Commissioner of Capital Markets, Insurance and Savings at the Ministry of Finance.

Presented below are details regarding updates to legislation and regulatory provisions on issues which are associated with the provision of banking services to the business segment:

Amendment to Proper Banking Management Directive 313 - restrictions on debt of a borrower or group of borrowers

On June 9, 2015, an amendment was published to Proper Banking Management Directive 313. The purpose of the amendment is to update the restrictions which were determined by the Commissioner with respect to the debt of a borrower or group of borrowers, further to the previous actions taken by the Banking Supervision Department which were intended to limit the concentration of credit portfolios in the local banking system. The primary amendments are as follows:

A. The definition of capital for the purpose of calculating debt limits of a borrower or group of borrowers was limited to Tier 1 capital (after supervisory adjustments and deductions), as defined in Proper Banking Management Directive 202 (linear reduction over the next three years). The restrictions on the provision of credit to borrowers and to groups of borrowers were thereby hardened.

B. The restriction on the debt of a banking group of borrowers to a banking corporation, which until now was 25% of capital, was hardened, and will amount to 15% of capital from now on.

The amendments to the directive enter into effect on January 1, 2016. The Bank currently fulfills the updated restrictions according to the amendment.

Collaboration agreements

The Bank has collaborations with several insurance companies for the provision of credit and/or for the issuance of insurance policies by them to the buyers of apartments in residential projects, in which financing was provided by the Bank, through the closed accompaniment method (the issuance of policies is performed by the insurance companies, as required under the Sales (Apartments) Law, and also by financing the solar energy segment (management of existing credit only). The engagements with insurance companies include arranging the collaboration between the Bank and the insurance companies on the following subjects: responsibility for the ongoing management of the project and submission of reports, receipt and release of collateral and initiating measures for the realization of pledges and credit relationships between the entities.

For additional details regarding the results of operations in the private banking segment and an analysis of the business activities therein, see the chapter regarding operating segments in the Report of the Board of Directors and Management for 2015.

Financial management segment

General

Financial management segment

Summary description of the segment's characteristics

The activities in this segment include the Bank's financial management, and do not include activities vis-à-vis the Bank's customers. The main operating areas in this segment are:

- Management of the Bank's available financial capital.
- Management of the Bank's nostro portfolio.
- Management of the exposures to market risks, including base, interest and liquidity exposures.
- Activities vis-à-vis banks in Israel and around the world.

Main products and services in the segment

The activities in this segment are concentrated in the financial division. The Bank's main financial exposures are managed are created in the banking portfolio as an inseparable part of the Bank's business operations. In general, the Bank aims to minimize its financial exposures, except in cases where, according to our estimate, there is a clear advantage to maintaining the exposure to one or more market factors. The Bank manages, on an ongoing basis, the positions in the various linkage segments through the various financial tools which are available to it, in accordance with the risk management policy which was determined by the Bank's Board of Directors, in consideration of economic developments and of the Bank's business environment. The Bank maintains a unit responsible for the measurement and estimation of the development of exposures on a continuous basis, and the various exposures are reported to the Bank's Board of Directors as part of the ordinary course of business.

Additionally, the Bank initiates actions involving investment in and hedging of nostro portfolios, which are used for the following activity types:

- Activity intended to hedge against deposits which are deposited in the Bank for short, medium and long periods, as well as investments against the Bank's equity.
- Activity involving investments in bonds, primarily with the aim of achieving surplus returns on the Bank's liquid balances.
- Trading activity which is characterized by short-term investments, primarily in governmental securities, both in the primary market and in the secondary market.
- Investing activities with respect to non-governmental securities is limited and specific, in accordance with the Bank's credit policy.
- As part of liquidity management, and in consideration of the restrictions were which determined by the Board of Directors, liquidity surpluses are deposited in the Bank of Israel and in banks in Israel and around the world. For this purpose, and as part of the Bank's activities in foreign currency, the Bank has credit facilities Board of Directors in Israel, which it uses, from time to time, in accordance with its current needs. These facilities are monitored on an ongoing basis as part of the Bank's management of counterparty risk. For details regarding the liquidity model, counterparty risk and restrictions of management and Board of Directors, see the chapter regarding risks and risk management methods.

The investment portfolios and financial products are evaluated on an ongoing basis, in consideration of the macro-economic forecasts regarding exchange rates, short and long term interest rates, inflation, growth and yield curves, and in accordance with the Bank's risk appetite at a given moment.

Primary markets and their distribution methods

Market making with government bonds

In 2013, the Bank was appointed as a primary market maker with government bonds, in accordance with a letter of appointment from the Accountant General in the Ministry of Finance. **The Bank's appointment period was from January 1, 2014 to December 31, 2015 (there is also an option to extend it for an additional period).**

The purpose of market making with government bonds is to ensure an optimal allocation of government bonds to investors, and to increase the transparency and liquidity with respect to trading of government bonds. This activity is performed by virtue of the State Lending Law, 5739-1979, which regulates the appointment of primary market makers for government bonds, and the engagement therewith. The terms of the appointment establish the obligation to acquire from the government bonds in a minimum amount, on a periodic basis, an obligation to publish the buying and selling prices of the bonds in the trading system of the primary market makers, the right to participate in the acquisition of bonds from the government, the right to receive options for the acquisition of bonds from the government, the right to borrow bonds from the government, and the right to trade bonds in the trading system of the primary market makers. The conditions for qualification as a primary market maker regarding government bonds include, inter alia, a requirement that the primary market maker must be a reputable financial entity (banking corporation or stock exchange member company), and have minimum capital of at least NIS 400 million. Additionally, the letter of appointment set forth provisions regarding the management of bond tenders in the primary market and secondary market, provisions regarding oversight by the Ministry of Finance, an obligation to maintain confidentiality, rules for activity, etc. The Bank's income from this activity is due to selling and buying margins, according to the conventional practice in the market for government bonds, and from benefits which are reserved for market markers, and provided by the Ministry of Finance.

Description of the business process in the past and of the business process which is planned for the future.

Since the end of 2014, the Bank has significantly reduced its exposure to the various market risks, based on the assessment that the risk in the markets is inappropriately priced. Accordingly, the increase in market volatility and the decrease in the value of financial assets in recent months had a minimal impact on the Bank,

except for the investment portfolios in Israeli government bonds, which the Bank decided to increase, based on its assessment that the Bank of Israel interest rate will be decreased, and will remain low over time.

The Bank's business plan for 2016 includes continued maintenance of a conservative position and low exposures to the various market factors, based on the assessment that the volatility in capital markets will continue in the coming months, and in light of the economic uncertainty.

Material developments in markets of the operating segment, or material changes in the characteristics of its customers

In the last months of 2015, the volatility in stock and bond markets increased significantly, due to the concern regarding the consequences of the decelerated growth in China, the decrease of commodities prices and a possible deceleration in growth in the developed economies, and primarily in the United States. The primary implications of these developments on the Bank include a low inflation environment, and apparently, maintenance of the Bank of Israel interest rate at low levels over time. The decrease in the inflation rate may have an adverse effect on the Bank's asset value, while the low interest rate environment harms the Bank's financial margin from the raising of deposits.

The Bank is evaluating the economic developments on an ongoing basis in order to minimize the effects of these factors on its financial results.

Critical factors for success in the operating segment

The critical success factors in this segment include the ability to deal with the various exposures in the banking portfolio, including assessment of the behavior of hybrid instruments in the Bank's balance sheet, in changing market conditions; the ability to correctly identify market conditions and the expected timing of changes in those conditions; the ability to understand and analyze the possible impact of macro-economic factors on market conditions and to predict their intensity, and the ability to act quickly in order to change the positions and exposures in accordance with market conditions. Another important factor is the professionalism of employees who are responsible for management of the financial segment in general, and the nostro portfolio in particular.

For additional details regarding the results of operations in the financial management segment, and an analysis of the business activities therein, see the chapter regarding operating segments in the Report of the Board of Directors and Management 2015.

Raising of financial sources

The Bank’s activities in the segment involving the raising of sources from the public is primarily concentrated in the financial segment, due to the fact that this activity pertains to all of the Bank’s operating segments, and the fact that this segment has unique characteristics.

Restrictions on legislation, standardization, circulars issued by the Commissioner of Banks and special constraints

The Bank operates within the framework of laws, regulations and directives issued by authorities, which are imposed on the banks by the banking Supervision Department, the Israel Securities Authority and the Commissioner of Capital Markets, Insurance and Savings.

Competition structure

The competition structure in the banking segment results in a situation whereby most of the Bank's customers deposit their funds in the commercial bank in which their checking account is managed, and are indifferent to interest offers on the various investment products of other banks. As a result, only some of the banks' customers conduct comparisons between the prices of different banks, in order to achieve the maximum interest on their investments.

The Bank strives to raise sources also through the capital market, by issuing bonds and deferred liability notes. The issuance was performed by a wholly controlled subsidiary, Jerusalem Finance & Issuance, which is the Bank's raising arm, and therefore, the Bank undertook to fulfill all of the terms of the liability certificates, to pay all amounts which will be required in order to repay the liability certificates to their holders and the interest on them, in accordance with the terms specified in the issuance prospectus which was published by Jerusalem Finance & Issuance.

Customers

In recent years, the Bank has placed a great deal of emphasis on expanding the base of depositors and on increasing the rate of deposits from households, in order to reduce its reliance on large depositors. The Bank's portfolio of deposits is distributed among many customers, a fact which reduces its liquidity risk and provides the Bank with a low sensitivity level to individual depositors. The Bank has no customers or groups of customers whose balance of deposits in the Bank reaches 5% of total public deposits. Following the acquisition of the stock exchange member company Clal Batucha, thousands of new household customers joined the Bank, which assisted in diversifying and expanding the Bank's depositor base.

Marketing and distribution

In 2011, the Bank launched a unique venture to raise deposits from households, known as the "closed system". The system allows customers to deposit funds in deposits at the Bank, over the internet, without the hassle associated with opening a full account at the Bank branch, thereby increasing the Bank's accessibility to potential customers. The enterprise was created in accordance with Proper Banking Management Directive 417 of the Bank of Israel.

The raising from households is performed through the Bank's branches, which are distributed throughout the country, and also through the closed system. Additionally, the creation of the capital market branch allows the Bank to reach out to new customers who conduct intensive activities in the capital market. Raising from institutional customers is implemented performed directly by the deposits department.

Competition and alternatives to products and services in the operating segment

The competition in the source raising segment is fierce, and involves all of the banks. The competition primarily focuses on the segment of customers which is sensitive to changes in interest rates. The Bank handles competition, inter alia, by offering attractive sales to customers and by developing new products to diversify the mix of products. Additionally, the various capital market products constitute an alternative to investment in the deposits offered by the Bank.

Bank of Israel

The Bank of Israel serves as the central entity for the financing and absorption of funds in the short term for the banking system, and for the Bank in particular. It is noted that each bank which borrows funds from the Bank of Israel requires collateral. This requirement is taken into account in the ongoing management of liquidity. An additional channel for the raising of short-term sources is the inter-banking money market.

The scope and types of deposits in the banking system are affected by, inter alia, the monetary policy of the Bank of Israel. Presented below is a review of the monetary instruments used by the Bank of Israel to implement its monetary policy:

Interest - once per month, on the last Monday of the liquidity month, the Bank of Israel publishes the interest rate for the following month. This interest is the base interest for loan tenders and deposits which are available to the banking system, as specified below.

Liquidity requirement - the directives issued by the Bank of Israel require the banks to maintain liquid resource balances with respect to public deposits, at various rates, in accordance with the deposit period. The rates of the liquidity requirement are currently 6% of deposits with periods from one day up to and including six days; and 3% for deposits of a defined time period of one week to one year. There is no liquidity requirement for deposits with a period of one year or more.

Deposits intended to absorb liquidity surpluses - the Bank of Israel provides deposit tenders to the banking system as an system to absorb the surplus liquidity in the system. The deposit tenders are for the following time periods: one day, one week, one month. The maximum interest in these tenders is the Bank of Israel interest rate. Additionally, there is a window for the depositing of a daily deposit at the Bank of Israel, with no restriction as to amount, with an interest rate lower than 0.5% of the Bank of Israel interest rate, where the Bank of Israel interest rate is higher than 0.5% (0.25% in the current interest environment).

Short term bills - the main financial instrument used to absorb NIS surpluses is the short term bill, through the current public issuances and the activities of the Bank of Israel on the secondary market.

Loan tenders in the Bank of Israel - the Bank of Israel provides short term credit tenders (for up to one week) to the banking system as an instrument to inject liquidity into the system, where the minimum interest in these tenders is the Bank of Israel interest rate. Additionally, there is a daily credit window at the Bank of Israel, with an interest rate 0.5% higher than the Bank of Israel interest rate. The receipt of credit from the Bank of Israel, both through tenders and through the credit window, is restricted to the amount of the collateral held for each bank at the Bank of Israel.

Material agreements and collaboration agreements

None

Ratings provided for the Bank's liabilities by Standard & Poor's Maalot

On May 30, 2015, the rating company Standard & Poor's Maalot announced that it was leaving the Bank's rating as ilA+, and left the rating outlook as "stable".

On September 30, 2014, the rating company Standard & Poor's Maalot announced that following the publication of the updated criteria for local rating, the rating would be updated for three deferred liability note instruments which were issued by the Bank, from a rating of ilA to an updated rating of ilA-. The rating company clarified that "these rating activities do not reflect changes in the credit quality of issuers, or of the other debt series which were issued by them".

Annexes

Annex 1, Rates of interest income and expenses - of the Bank and its consolidated companies [1] and analysis of changes in interest income and expenses

Part A - Average Balances and Interest Rates - Assets

Reported amounts in millions of NIS

	For the year ended December 31								
	2015			2014			2013		
	Average balance[2]	Interest income	Income rates Percent	Average balance[2]	Interest income	Income rates Percent	Average balance[2]	Interest income	Income rates Percent
Interest bearing assets									
Credit to the public [3]	9,683.8	393.6	4.06	9,635.5	433.4	4.50	9,695.2	509.4	5.25
Deposits in banks	297.7	0.2	0.07	162.2	0.2	0.12	190.5	0.6	0.31
Deposits in central banks	1,588.2	1.9	0.12	1,658.6	10.3	0.62	1,302.0	16.8	1.29
Available for sale bonds [4]	917.5	9.1	0.99	550.1	12.1	2.20	701.5	11.6	1.65
Bonds for trading [4]	446.0	1.0	0.22	470.4	1.8	0.38	299.5	4.8	1.60
Other assets	6.4	0.5	7.81	29.6	0.6	2.03	-	-	-
Total interest bearing assets	12,939.6	406.3	3.14	12,506.4	458.4	3.67	12,188.7	543.2	4.46
Receivables with respect to non-interest bearing credit cards	35.4	-	-	32.9	-	-	30.5	-	-
Other non-interest bearing assets [5]	1,004.7	-	-	838.0	-	-	363.3	-	-
Total assets	13,979.7	406.3	2.91	13,377.3	458.4	3.43	12,582.5	543.2	4.32

Notes at the end of this annex.

Annex 1, Rates of interest income and expenses - of the Bank and its consolidated companies (1) and analysis of changes in interest income and expenses (Cont.)

Part B - Average balances and interest rates - liabilities and capital

Reported amounts in millions of NIS

	For the year ended December 31								
	2015			2014			2013		
	Average balance(2)	Interest expenses	Income rates Percent	Average balance(2)	Interest expenses	Income rates Percent	Average balance(2)	Interest expenses	Income rates Percent
Interest bearing liabilities									
On demand	802.1	1.3	0.17	348.5	3.5	1.00	231.8	1.8	0.78
For fixed periods	8,754.1	47.0	0.54	9,412.0	100.8	1.07	9,461.8	202.6	2.14
Total public deposits	9,556.2	48.3	0.51	9,760.5	104.3	1.07	9,693.6	204.4	2.11
Deposits from banks	45.3	1.6	3.53	51.1	2.2	4.31	60.8	3.4	5.59
Securities which were lent or sold within the framework of a repurchasing agreement	364.3	0.4	0.11	349.8	1.1	0.31	-	-	-
Bonds	1,533.0	21.9	1.43	1,318.4	33.8	2.56	1,484.2	78.2	5.27
Total interest bearing liabilities	**11,498.8**	**72.2**	**0.63**	**1,479.8**	**141.4**	**1.23**	**1,238.6**	**286.0**	**2.54**
Non-interest bearing public deposits	1,537.3	-	-	1,053.3	-	-	531.4	-	-
Other non-interest bearing liabilities (7)	170.1	-	-	107.4	-	-	111.8	-	-
Total liabilities	**13,206.2**	**72.2**	**0.55**	**12,640.5**	**141.4**	**1.12**	**11,881.8**	**286.0**	**2.41**
Total capital resources	**773.5**			**736.8**			**700.7**		
Total liabilities and capital resources	**13,979.7**	-	-	**13,377.3**	-	-	**12,582.5**	-	-
Interest margin			**2.51**			**2.44**			**1.92**
Net returns (8) on interest bearing assets	**12,939.6**	**334.1**	**2.58**	**12,506.4**	**317.0**	**2.53**	**12,188.7**	**257.2**	**2.11**

Notes at the end of this annex.

Annex 1, Rates of interest income and expenses - of the Bank and its consolidated companies (1) and analysis of changes in interest income and expenses (Cont.)

Part C - Average balances and interest rates - additional information regarding interest bearing assets and liabilities which are attributed to the activity in Israel

Reported amounts in millions of NIS

	For the year ended December 31								
	2015			2014			2013		
	Average balance(2)	Interest income / (expenses)	Income / expense rates	Average balance(2)	Interest income / (expenses)	Income / expense rates	Average balance(2)	Interest income / (expenses)	Income / expense rates
			Percent			Percent			Percent
Unlinked Israeli currency									
Total interest bearing assets	7,765.4	255.7	3.29	7,582.5	269.6	3.56	7,077.5	286.4	4.05
Total interest bearing liabilities	6,898.9	(37.9)	(0.55)	6,901.7	(66.9)	(0.97)	6,251.7	(106.0)	(1.70)
Interest margin			**2.74**			**2.59**			**2.35**
CPI-linked Israeli currency									
Total interest bearing assets	3,466.3	110.8	3.20	3,629.8	154.2	4.25	3,701.5	219.6	5.93
Total interest bearing liabilities	3,467.7	(29.5)	(0.85)	3,381.3	(68.5)	(2.03)	3,759.7	(172.6)	(4.59)
Interest margin			**2.35**			**2.22**			**1.34**
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest bearing assets	1,707.9	39.8	2.33	1,294.1	34.6	2.67	1,409.7	37.2	2.64
Total interest bearing liabilities	1,132.2	(4.8)	(0.42)	1,196.8	(6.0)	(0.50)	1,227.2	(7.4)	(0.60)
Interest margin			**1.91**			**2.17**			**2.04**
Total activities in Israel									
Total interest bearing assets	12,939.6	406.3	3.14	12,506.4	458.4	3.67	12,188.7	543.2	4.46
Total interest bearing liabilities	11,498.8	(72.2)	(0.63)	11,479.8	(141.4)	(1.23)	11,238.6	(286.0)	(2.54)
			2.51			**2.44**			**1.92**

Notes at the end of this annex.

Annex 1, Rates of interest income and expenses - of the Bank and its consolidated companies (1) and analysis of changes in interest income and expenses (Cont.)

Part D - Analysis of Changes in Interest Income and Expenses

Reported amounts in millions of NIS

	For the year ended December 31, 2015, as compared with the year ended December 31, 2014			For the year ended December 31, 2014, as compared with the year ended December 31, 2013		
	Increase (decrease) due to change		Net change	Increase (decrease) due to change		Net change
	Amount	Price		Amount	Price	
Interest bearing assets						
Credit to the public in Israel	2.0	(41.8)	(39.8)	(2.7)	(73.3)	(76.0)
Other interest bearing assets in Israel	1.8	(14.1)	(12.3)	0.1	(8.9)	(8.8)
Total interest income	**3.8**	**(55.9)**	**(52.1)**	**(2.6)**	**(82.2)**	**(84.8)**
Interest bearing liabilities						
Public deposits in Israel	(1.0)	(55.0)	(56.0)	0.7	(100.8)	(100.1)
Other interest bearing liabilities	2.9	(16.1)	(13.2)	(3.6)	(40.9)	(44.5)
Total interest expenses	**1.9**	**(71.1)**	**(69.2)**	**(2.9)**	**(141.7)**	**(144.6)**

(1) The figures are presented after taking into account the effects of hedging derivative instruments.
(2) Based on balances as of the start of the month (in the unlinked Israeli currency segment - based on daily balances).
(3) Before deducting the average balance-sheet balance of provisions for credit losses. Including impaired debts which do not accrue interest income.
(4) The average balance of bonds held for trading and of bonds available for sale includes the deduction of the average balance of unrealized profits/losses from adjustments to fair value of bonds held for trading and profits/losses with respect to bonds available for sale, which are included in equity under other comprehensive income, in the item for "adjustments with respect to the presentation of available for sale securities at fair value", for the years 2015, 2014 and 2013, in the amount of 2.6, 13.1 and (0.8), respectively.
(5) Including derivative instruments and other non-interest bearing assets, less the provision for credit losses.
(6) Fees in the amount of NIS 13.9, 21.1 and 12.3 million were included under interest income in the years 2015, 2014 and 2013, respectively.
(7) Including derivative instruments.
(8) Net returns - interest income, net, divided by total interest bearing assets.
(9) The change attributed to the change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to the change in price was calculated by multiplying the old quantity by the change in price.

Annex 2 - statement of income - multi-quarterly information for the years 2014 and 2015

Reported amounts in millions of NIS

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	86.7	118.6	145.2	55.8	105.1	125.4	133.1	94.8
Interest expenses (income)	2.3	35.2	58.6	(23.9)	22.9	42.9	55.9	19.7
Interest income, net	84.4	83.4	86.6	79.7	82.2	82.5	77.2	75.1
Expenses with respect to credit losses	14.4	12.2	8.8	5.0	5.6	8.3	5.2	(0.7)
Interest income, net, after expenses with respect to credit losses	70.0	71.2	77.8	74.7	76.6	74.2	72.0	75.8
Non-interest income								
Non-interest financing income (expenses)	1.6	(1.0)	(2.4)	2.7	3.7	5.3	5.6	3.5
Fees	28.5	28.1	30.5	37.4	32.9	29.4	26.4	29.6
Other income	7.9	2.4	4.1	2.9	2.9	2.9	2.8	2.9
Total non-interest income	38.0	29.5	32.2	43.0	39.5	37.6	34.8	36.0
Operating and other expenses								
Payroll and associated expenses	44.0	36.8	42.4	43.1	49.9*	41.7*	40.7*	38.9*
Maintenance and depreciation of buildings and equipment	21.9	20.3	19.7	19.9	18.0*	18.4*	18.3*	16.5*
Other expenses	34.1	27.5	28.0	28.1	30.9	27.8	25.3	26.0
Total operating and other expenses	100.0	84.6	90.1	91.1	98.8*	87.9*	84.3*	81.4*
Profit before taxes	8.0	16.1	19.9	26.6	17.3*	23.9*	22.5*	30.4*
Provision for taxes	1.7	5.6	5.8	8.9	3.5*	7.6*	7.7*	10.3*
Net profit	6.3	10.5	14.1	17.7	13.8*	16.3*	14.8*	20.1*
Earnings per share (in NIS)								
Basic and diluted net earnings per share (NIS)	0.09	0.15	0.20	0.25	0.19*	0.23*	0.21*	0.29*

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.D.1. and 1.D.2.

Annex 2 - balance sheet - multi-quarterly information for the years 2014 and 2015 (Cont.)

Reported amounts in millions of NIS

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Assets								
Cash and deposits in banks	2,071.9	2,228.5	2,325.1	3,161.1	3,278.0	2,499.2	2,226.4	2,497.7
Securities	1,779.5	1,567.7(2)	1,511.3(2)	829.1(2)	902.4(2)	1,090.0(2)	997.2(2)	1,123.0(2)
Credit to the public, net	9,889.3	9,859.6	9,599.8	9,520.5	9,566.5	9,567.6	9,574.7	9,593.4
Buildings and equipment	156.9	151.7	154.6	149.5	149.7(1)	140.6(1)	137.8(1)	138.0(1)
Intangible assets	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9
Assets with respect to derivative instruments	195.1	111.0	210.8	39.0	40.4	39.1	22.5	16.5
Other assets	125.6	127.7(2)	129.1(2)	147.3(2)	146.2(1)(2)	157.1(1)(2)	201.5(1)(2)	146.3(1)(2)
Total assets	14,219.5	14,047.5(2)	13,932.1(2)	13,848.0(2)	14,084.8(1)(2)	13,495.3(1)(2)	13,161.9(1)(2)	13,516.8(1)(2)
Liabilities and capital								
Public deposits	11,019.0	11,119.3	10,926.0	11,124.6	10,977.2	10,748.1	10,775.3	10,855.0
Deposits from banks	39.4	43.9	43.1	42.3	42.5	47.0	47.9	52.1
Government deposits	0.8	-	-	2.1	5.0	-	0.7	-
Lent securities	387.3	399.0	326.1	245.7	582.7	459.4	144.9	401.2
Bonds and deferred liability notes	1,634.8	1,430.6	1,495.6	1,421.3	1,503.1	1,284.4	1,285.7	1,315.7
Liabilities in respect of derivative instruments	195.2	117.5	190.8	35.6	39.0	30.5	16.8	6.6
Other liabilities	159.0	156.1	180.4	204.5	184.9(1)	185.3(1)	163.1(1)	174.4(1)
Total liabilities	3,435.5	13,266.4	13,162.0	13,076.1	13,334.4(1)	12,754.7(1)	12,434.4(1)	12,805.0(1)
Equity	784.0	781.1(2)	770.1(2)	771.9(2)	750.4(1)(2)	740.6(1)(2)	727.5(1)(2)	711.8(1)(2)
Total liabilities and capital	14,219.5	14,047.5(2)	13,932.1(2)	13,848.0(2)	14,084.8(1)(2)	13,495.3(1)(2)	13,161.9(1)(2)	13,516.8(1)(2)

(1) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F. to the financial statements. The notes to the financial statements constitute an inseparable part thereof.

Bank Branches and subsidiaries

Central Management
2 HaNegev Street, Airport City
Postal address: 2 Herbert Samuel Street, Jerusalem 91022

Business Department
HaNegev Street, Airport City

Private banking branch
18 Keren HaYesod Street , Jerusalem 992149

Jerusalem branch
2 Herbert Samuel Street, Jerusalem 91022

Geula branch
21 Shamgar Street, Jerusalem

Tel Aviv branch
21 Ehad Ha'Am Street, Tel Aviv 65251

Be'er Sheva branch
90 Hadassah Street, Be'er Sheva 84221

Haifa branch
9 Pal-Yam Street (Zim House), Haifa 33095

Bnei Barak branch
2 Hazon Ish Street, Bnei Barak 51512

Ashkelon branch
5 Herzl Street, Ashkelon 78601

Ashdod branch
118 Shavi Zion Street, Ashdod 77273

Rishon LeZion branch
63 Herzl Street, Rishon LeZion 75267

Holon branch
28 Sokolov Street, Holon 58256

Petah Tikwah branch
10 HaHaganah Street, Petah Tikwah 49591

Netanya branch
45 Herzl Street, Netanya 42401

Mode'in Elite branch
18 Avnei Nezer, Mode'in Elite

Pisgat Zeev Branch
Moshe Dayan Blvd. 164, Jerusalem

Kiryon branch
195 Dereh Akko, Kiryat Bialik 27000

Nazareth branch
6092/50 El Riad Center, Nazareth 16000

Sakhnin Branch
Sakhnin Mole Shopping Center, Sahknin Main Road

Karmiel branch
5 Ma'ale Kamon St., Hutsot Karmiel Mall, Karmiel

Umm al fahm branch
Alharam Mall, Main road, Umm al fahm

Bat Yam branch
Bat Yam Mall, 92 Yoseftal st., Bat Yam

Elad Branch
94 Rabi Yehuda Hanassi st., Elad

Beit Shemesh Branch
2 Rabin st., Naimi Mall, Beit Shemesh

Beitar Illit Branch
2 Ismach Israel St. , Haim Zaken - Tmarim Center, Beitar Illit

Jerusalem Financing and Issuances (2005) Ltd.
2 Herbert Samuel Street, Jerusalem 91022

Bank of Jerusalem

www.bankjerusalem.co.il