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Contents

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Bank of Jerusalem - Report for 2014

Statement of the CEO

2014 continues to be a year marked by economic uncertainty. Although the capital markets recorded fair returns, and the overall economic situation in Israel and around the world has improved somewhat, the level of uncertainty is still high.

Bank of Jerusalem has continued implementing its strategic plan in the various segments:

In the retail segment, the bank has continued implementing its retail expansion strategy on several levels, using innovative methods which differentiate it from its competitors.

1. Continued recruitment of checking account customers - the bank is recruiting new customers, based on highly attractive value offers, which include management of NIS checking accounts for private customers without account management fees, without preconditions and with no time restriction. This offer is unique in the Israeli banking segment.

   The Bank of Jerusalem views this process as a component of its long term retail expansion strategy.

2. Continued expansion of consumer credit activities for customers with no checking account, based on a work model which incorporates an evaluation of each individual customer based on a decision-supporting model, as well as an individual evaluation performed by the banker in the branch.

   This year, the bank continued improving the quality of its underwriting model, while also continuously improving the quality of borrowers and portfolio size. At the end of 2014, in light of implemented changes which are supportive of the regulatory environment, the bank launched the option, for new customers, to open an internet account in order to receive a loan, with no requirement for the customer 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.

3. This year, the bank completed a process involving the acquisition and merger of the brokerage activity of Clal Batucha. For the bank, this process constitutes a significant improvement in its brokerage and capital market operations, and significantly improves this income source in the bank's overall mix of income. The scope of the bank's customers in the securities segment increased from approximately 4 thousand customers to approximately 13 thousand customers.

   Additionally, the scope of the deposited securities portfolio which is managed by the bank increased from approximately NIS 2 billion to approximately NIS 13.4 billion.

4. Continued development of the bank's future branches profile - video branches. Video branches provide services to the public on a continuous basis, 10 to 12 hours per day, six days per week. These branches have a small physical area, and banking services are provided through video by a banker at the call center. The service provided at these branches is at a higher level and a lower cost - a fact which allows the bank to fulfill the bank's value offer of a checking account with no fees, and to provide a high interest rate on deposits and checking accounts with positive balances.

5. Continued sales of the bank's traditional products. Mortgages, deposits, securities, credit cards, and continued accompaniment of residential real estate projects, while leading the market in the municipal renewal segment (Urban Zoning Plan 38).

6. Extensive upgrades to the work processes and control entities in the bank, primarily in the retail segment.

7. Continued upgrading of IT systems, while reinforcing the bank's core system and adopting a multi-channel environment. The call center continued to grow and expand, in terms of its areas of focus and the scope of customer service provided. This year, the bank completed the installation of ATM's in all of its branches, as well as in sites outside of the bank's areas.

In 2015, the bank intends to continue these activities, and to expand even further in the retail segment, while focusing more sharply on income growth and moderation of expenses, after using most of the investments as part of its expansion efforts.

Uriel Paz
Chief Executive Officer

Some of the aforementioned information constitutes forward looking information. The bank's actual conduct may differ significantly from the description provided above, due to a multitude of factors, including, inter alia, due to unexpected political / security events, changes in the preferences of customers, as well as changes in regulation, legal provisions, or directives issued by supervisory entities.

Board of Directors' Report

to the General Meeting of Shareholders

Report for 2014

Bank of Jerusalem Ltd. and its consolidated companies

Board of Directors' Report to the General Meeting of Shareholders

The Board of Directors resolved, in its meeting dated February 25, 2015, to approve and publish the consolidated financial statements of Bank of Jerusalem Ltd. (hereinafter: the "Bank" or "Bank of Jerusalem") and its subsidiaries, for 2014 (hereinafter: the "Reporting Year"). The reports were prepared in accordance with directives issued by the Commissioner of Banks, and the figures are presented based on reported amounts.

First Part - Description of the General Development of the Banking Corporation's Business Operations

The banking corporation's activities and development of its business operations

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. In 1996, the bank's name was changed to its current name, Bank of Jerusalem Ltd. For details regarding the bank's controlling shareholders, see the chapter regarding the bank's controlling shareholders as of December 31, 2013.

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 including households, Israeli residents and foreign residents, and operates in the following segments: mortgages, consumer credit, savings and deposits, financing of residential construction, financing of credit for vehicle purchases, 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 23 branches, which are distributed throughout Israel.

Goals and business strategy

The bank has a strategic plan which is primarily focused on retail growth by increasing its 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 and deposits (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, as defined in its strategic plan, which include the following:

- Expansion of the bank's operations, with an emphasis on expanding operations in the checking accounts, consumer credit and securities segments.

- Transition to the 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.

- Continued upgrading of the bank's IT systems, including continued implementation of the CRM system, continued development of an advanced call center, which allows customers to perform most banking operations without physically arriving at the branch, full distribution and implementation of ATM's and continued expansion of the bank's website. Providing better value offers to customers, in the savings and deposits segment, as well as in additional customer segments. The value offers are not made at the expense of profitability from the customer, but rather are based on a rerouting of the operating model towards technological channels. This model allows the bank to reduce costs, without reducing customer service quality, and without having to compromise the quality of risk management in the bank.

- Increasing awareness among consumers of the bank's image as a competitive and creative bank.

In 2012, the bank commenced a gradual process intended to recruit checking accounts among households (private accounts). The bank also commenced the process of recruiting tens of thousands of new accounts among both new and existing 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 objective is to serve customers while maintaining a narrow and optimal cost foundation. For this purpose, the video branch concept was developed, which is capable of serving approximately 3,000 customers. The branches are populated by one or two shift employees, and rely on technology which allows video calls between the customer and the expert 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 and reduction 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 have continued monitoring 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 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 bank places a great deal of emphasis on reinforcing the control and supervision department, by means of the three control circuits. For further details, see below in the chapter regarding risks and risk management methods.

The bank is continuing its business operations in the project and construction accompaniment segment, while conservatively evaluating the profitability of transactions, and integrating institutional entities in syndications for the purpose of distributing credit risks in large transactions, while routinely evaluating the condition of the real estate market.

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 a strict evaluation by the bank of all changes in the risk profile, which are derived from the new operating characteristics, and by the required capital allocations, in a level which is adequate for the aforementioned risks.

In 2013, an agreement was signed according to which the bank acquired, from Clal Finance Ltd., all of the shares in Clal Finance Batucha Investment Management Ltd. (hereinafter: "Clal Batucha"), as specified the annual report for 2013. Clal Batucha was a member company of the Tel Aviv Stock Exchange and of the Stock Exchange Clearing House, and specialized in the provision of trading services in the stock exchange and in foreign markets. Following the acquisition of the company and its merger into the bank's operations, the bank's activities in the brokerage segment increased significantly. In 2014, the bank completed the merger process and recorded an appreciable increase in income and profit from this activity.

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.

The bank's activities in 2014

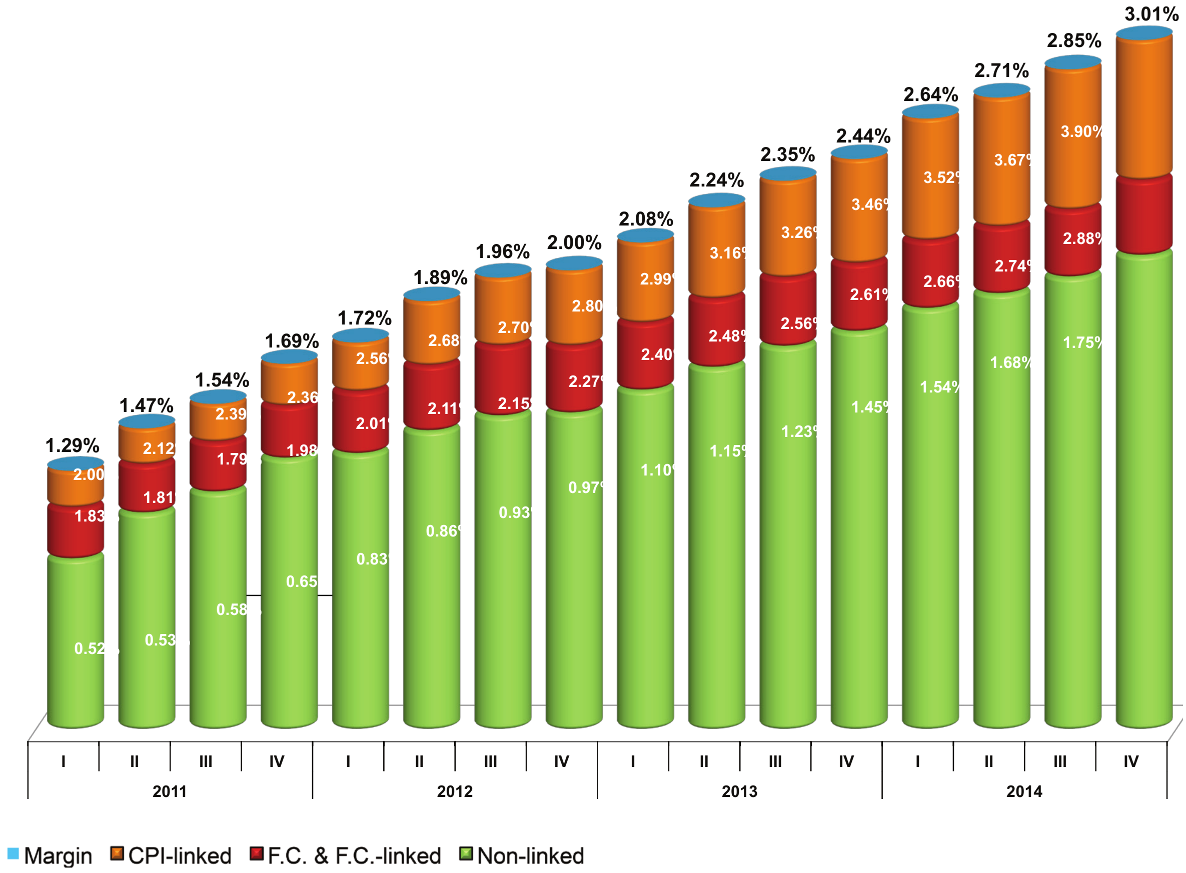
Developments in profit and loss items

Net profit during the reporting year amounted to NIS 66.3 million, as compared with NIS 17.2 million last year, an increase of approximately 285%, The increase is primarily due to the increase in interest income, net and to the decrease in expenses with respect to credit losses, as specified below.

Net profit returns over average equity amounted to 9.2%, as compared with 2.5% in the corresponding period last year.

Net interest income in the reporting year amounted to NIS 317.0 million, as compared with NIS 257.2 million in 2013 - an increase of approximately 23%. 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.

Presented below are data regarding the credit margin - quarterly average in the years 2011-2014 (Millions of NIS):



Expenses with respect to credit losses in the reporting year amounted to approximately NIS 18.4 million, as compared with approximately NIS 54.7 million in the corresponding period last year - a decrease of approximately 66%. The decrease is primarily due to a non-recurring expense in the amount of NIS 19.2 million, which was recorded in the corresponding period last year due to the application of a collective provision on residential credit at a rate of 0.35%, in accordance with a directive issued by the Bank of Israel, beginning on March 21, 2013. Additionally, a decrease occurred in expenses, as a result of the improvement in collection processes and in underwriting management. Additionally, during the year, income was recorded upon the conclusion of the past debt collection process, in the amount of NIS 8.0 million.

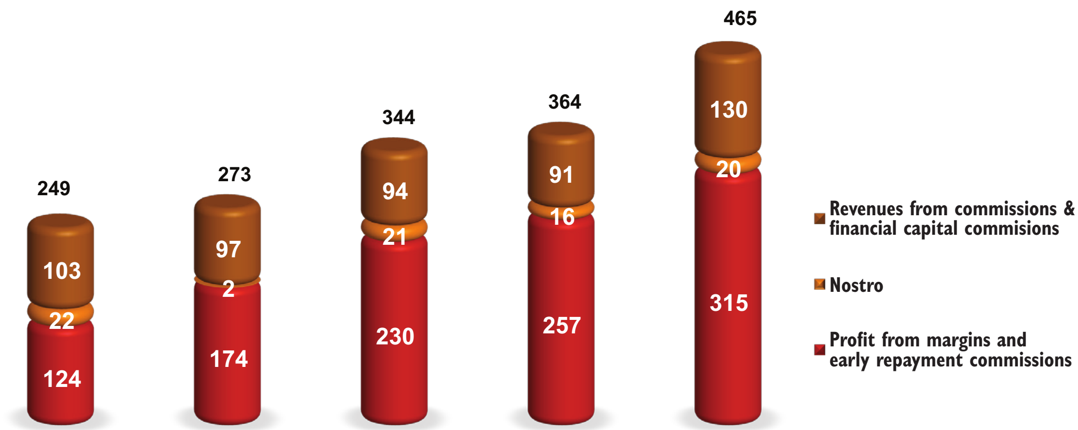
The ratio of expenses with respect to credit losses for the period to total net credit to the public (including off-balance sheet credit risk) was 0.19%, as compared with 0.57% in 2013.

Non-interest financing income in the reporting year amounted to NIS 18.1 million, as compared with NIS 14.2 million in the corresponding period last year. The increase was primarily due to the increase in nostro profits.

Fees in the reporting year amounted to NIS 118.3 million, as compared with NIS 91.4 million in the corresponding period last year. The increase in the amount of NIS 31.9 million was due to fees with respect to actions with securities, which significantly increased due to the acquisition of Clal Batucha. On the other hand, a decrease was recorded in income from credit handling, in the amount of approximately NIS 5.6 million, primarily as a result of the initial application of the directives issued by the Bank of Israel regarding "Non-repayable fees and other costs" (FAS 91).

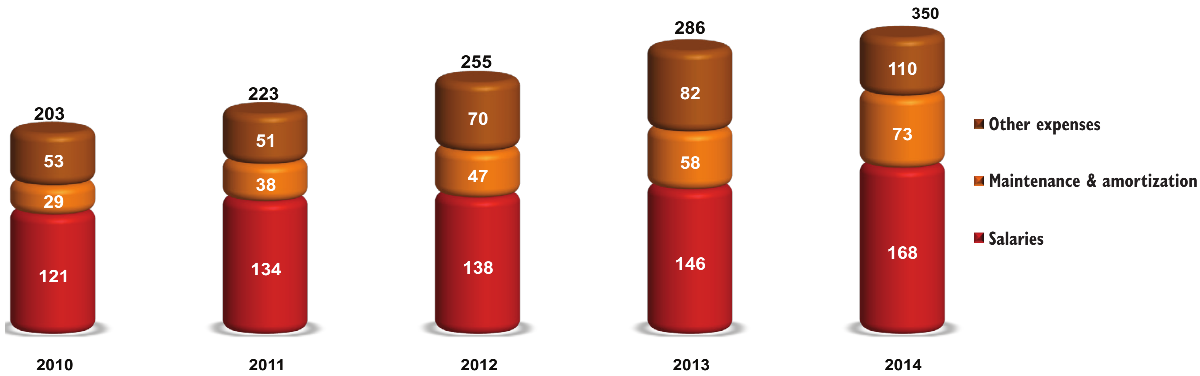
Other income in the reporting year amounted to NIS 11.5 million, as compared with NIS 0.9 million in the corresponding period last year. The increase was due to the amortization of deferred income, which was created upon the acquisition of Clal Batucha. For details, see the chapter regarding significant events during the reporting period, presented below.

Presented below is the composition of the bank's income, in millions of NIS:



Operating and other expenses in the reporting year amounted to NIS 350.4 million, as compared with NIS 286.4 million in the corresponding period last year - an increase of approximately 22%. Approximately half of the increase was due to increasing the size of the operation, due to the acquisition of Clal Batucha, while the other half of the increase was primarily due to the increase in depreciation and IT expenses, as a result of the implications of implementing the bank's strategic plan.

Payroll expenses in the reporting year amounted to NIS 167.7 million (neutralized by payroll expenses resulting from the acquisition of Clal Batucha, payroll expenses amounted to approximately NIS 151.9 million), as compared with NIS 146.1 million in the corresponding period last year. The increase in payroll expenses, neutralized by the Clal merger, was primarily due to variable remuneration costs with respect to 2014, in the amount of approximately NIS 7.5 million.
Presented below is the composition of the bank's expenses, in millions of NIS:



The provision for taxes on operating income amounted to a total of NIS 29.8 million in 2014. The effective tax rate in 2014 amounted to approximately 31.0%, as compared with the statutory tax rate in financial institutions, of 37.71%. For additional details, see Note 28 to the financial statements.

Presented below are details regarding net earnings per share in the last three years:

	2014	2013	2012
Net earnings per share (NIS)	0.94	0.24	0.51

Developments in other comprehensive income items

Adjustments with respect to the presentation of available-for-sale securities at fair value, net (after tax impact)amounted to a decrease of approximately NIS 0.6 million, as compared with a decrease of NIS 0.8 million in 2013.

Developments in balance sheet items

The total balance sheet as of December 31, 2014 amounted to NIS 14,077 million, as compared with NIS 13,469 million at the end of 2013, an increase of approximately 5%. The increase was due to the increase in cash balances and deposits in banks, and to the increase in the balances of securities, as specified below.

Cash balances and deposits in banks as of December 31, 2014 amounted to NIS 3,278 million, as compared with NIS 2,833 million at the end of 2013, an increase of approximately 16%. The increase was primarily due to the issuance of debentures, as specified below in the chapter regarding the raising of financing sources.

The balance of securities as of December 31, 2014 amounted to NIS 880 million, as compared with NIS 677 million at the end of 2013, an increase of approximately 30%.

Presented below is the composition of the securities portfolio:

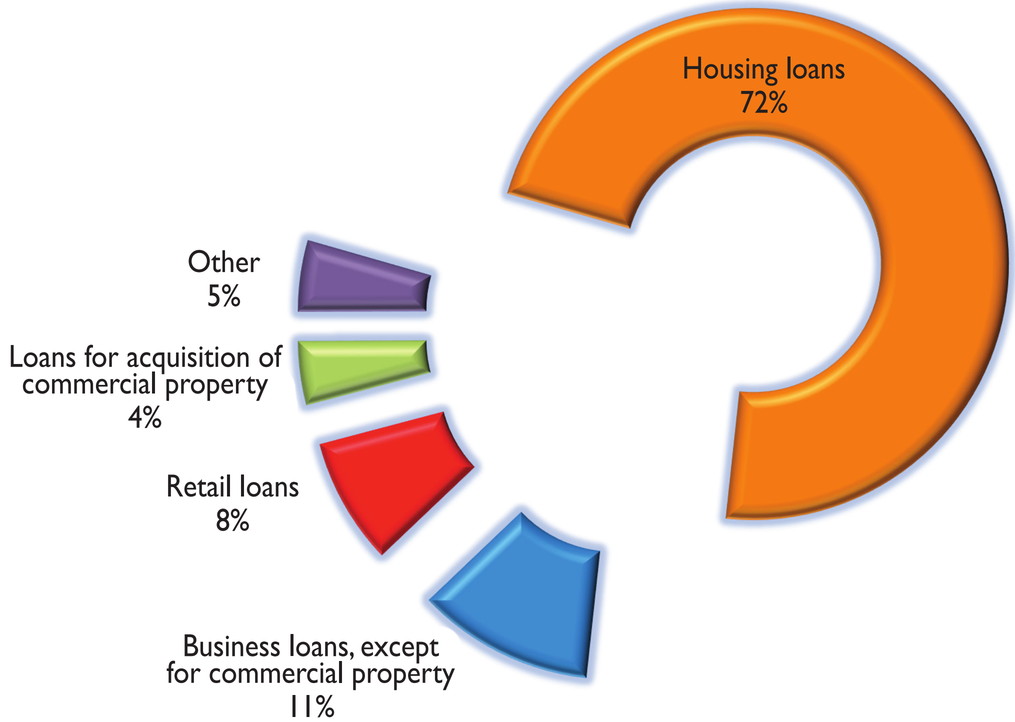
	Balances as of December 31		Percentage of the securities portfolio as of December 31, 2014
	2014	2013	
	Millions of NIS		
Israeli government debentures	**854**	661	**97%**
Israeli bank debentures	**10**	11	**1%**
Corporate and other debentures	**16**	5	**2%**
Total securities	**880**	677	**100%**

The increase was primarily due to the investment in the portfolio for redemption of Israeli government debentures in the amount of NIS 207 million, which was performed in the beginning of 2014.

The net balance of credit to the public as of December 31, 2014 amounted to NIS 9,567 million, as compared with NIS 9,627 million at the end of 2013, an increase of approximately 1%.

Presented below is the composition of the balance of credit to the public:

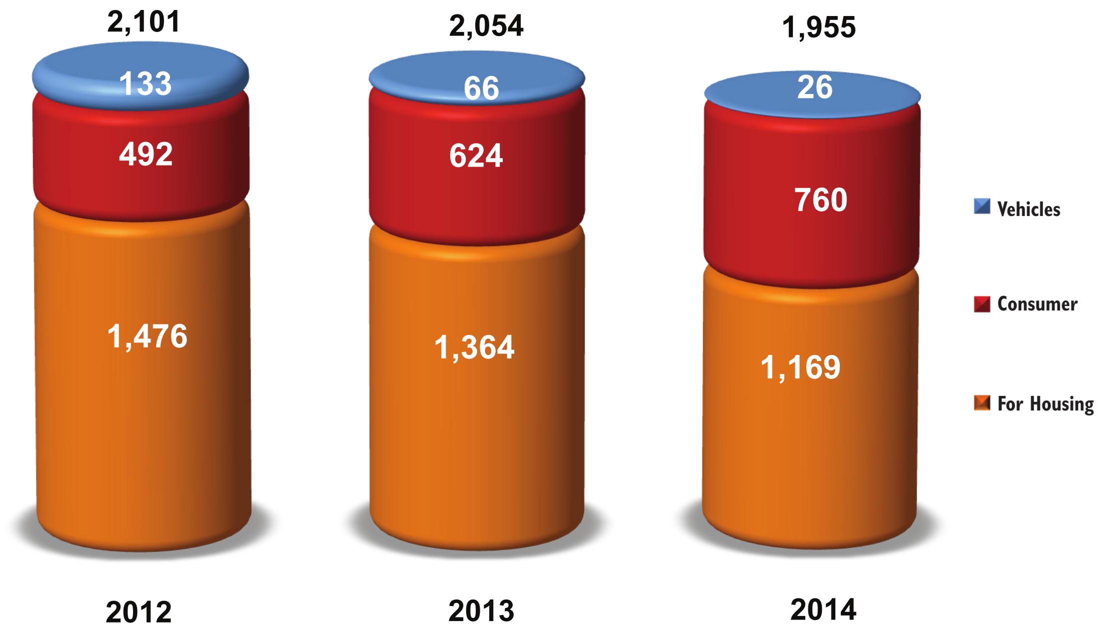
	Balances as of December 31		
	2014	2013	
	Millions of NIS		Change in percent
Housing credit	**6,914**	6,921	-
Business credit, excluding commercial assets	**1,069**	1,021	5%
Consumer credit	**765**	629	22%
Credit for the acquisition of commercial assets	**387**	396	(2%)
Other	**432**	660	(35%)
Total credit to the public	**9,567**	9,627	**(1%)**



Presented below is a table illustrating retail credit performance:

	For the year ended December 31		
	2014	**2013**	
	Millions of NIS		Change in percent
Performance of housing credit	1,067	1,259	(15%)
Refinancing of housing loans	102	105	(3%)
Total housing credit (including refinancing)	**1,169**	**1,364**	**(14%)**
Performance of consumer credit (including credit cards and checking accounts*)	786	690	14%
Total retail credit	**1,955**	**2,054**	**(5%)**

(*) Net accrual of checking accounts balances and credit cards during the period.



The balance of public deposits amounted as of December 31, 2014 to NIS 10,977 million, as compared with NIS 11,071 million at the end of 2013, a decrease of approximately 1%.

The balance of debentures and deferred liability notes amounted as of December 31, 2014 to NIS 1,503 million (of which, a balance of deferred liability notes in the amount of NIS 482 million), as compared with NIS 1,406 million at the end of 2013 (of which - balance of deferred liability notes in the amount of NIS 537 million). The increase was due to the issuance of debentures, which was performed in December 2014, as specified below in the chapter regarding the raising of financing sources, and on the other hand due to current repayments of debentures.

The total balance of public deposits, debentures and deferred liability notes amounted as of December 31, 2014 to NIS 12,480 million, as compared with NIS 12,477 million at the end of 2013.

The balance of borrowed securities amounted as of December 31, 2014 to approximately NIS 583 million, as compared with approximately NIS 28 million at the end of 2013. The increase was due to the expansion of the activity in 2014.

Developments in off-balance sheet items

Balance of loans from deposits, by collection rate (loans to eligible parties out of government funds) amounted as of December 31, 2014 to NIS 1,418 million, as compared with NIS 1,703 million at the end of 2013, a decrease of approximately 17%. The decrease is primarily due to the ongoing reduction in the scope of loan provided to eligible parties in the economy, due to, inter alia, the low interest environment, which caused a lack of economic profitability in using these loans. Income from collection fees by collection rate amounted in 2014 to NIS 13.6 million, as compared with NIS 15.5 million in 2013.

As of December 31, 2014, approximately 14 thousand customers hold **securities portfolios with the bank**, as compared with approximately 13 thousand customers at the end of 2013. The balance of securities portfolios of these customers amounted as of December 31, 2014 to approximately NIS 13.4 billion.

The Trust Company of Bank of Jerusalem Ltd. (a wholly owned and controlled subsidiary of the bank) is engaged in holding in escrow the accounts and financial assets of foreign residents and other parties. The balance of assets held in escrow by the company as of December 31, 2014 amounted to approximately NIS 10 thousand (as compared with 2013 - a total of NIS 100 thousand). In 2014, the company's income from fees amounted to NIS 15 thousand, as compared with NIS 23 thousand in 2013.

Developments in income and expense rates

Presented below are the interest margins of the bank's interest bearing assets, as compared with the bank's liabilities in the various linkage segments:

	2014	2013
Unlinked	2.59%	2.35%
CPI-linked	2.22%	1.34%
Foreign currency and linked to foreign currency	2.17%	2.04%
Total	**2.44%**	**1.92%**

The increase in interest margins is primarily due to the improvement of profitability in residential credit, the increased size of the consumer credit portfolio and the improved mix of sources vs. uses.

For extensive details, see Addendum A to the Management Review.

Events during the reporting year

1. Further to the bank's acquisition from Clal Finance Ltd. of its entire stake in Clal Finance Batucha Investment Management Ltd. ("Clal Batucha") on December 15, 2013, and Further to the merger of Clal Batucha and Clal Finance Batucha Brokerage Ltd. on December 22, 2013, and in accordance with the provisions of Note 7E to the financial statements for December 31, 2013, as of December 31, 2013, the bank recognized the fair value of the assets which were acquired and the liabilities which were accepted within the framework of the business combination according to a temporary measurement, in light of the fact that as of the approval date of the financial statements for 2013, the bank had not received preliminary approval from the Tax Authority regarding the tax implications of the merger.

   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 (the "merger"), subject to the fulfillment of the conditions specified in section 103C of the Ordinance (which provide, inter alia, that the bank will continue the main economic activity of each of the acquired companies, Batucha and Brokerage, for two years, and that the controlling shareholders in the bank will hold their shares for a period of at least two years after the merger date, which entered into effect on December 31, 2013).

The aforementioned decision is conditional upon the fulfillment of the conditions specified in the directive and in the taxation decision. It is noted that it was determined, within the framework of the taxation decision, that notwithstanding the provisions of the directive, business losses which have accrued in the acquired companies, Batucha and Brokerage, by the end of 2013, may be deducted beginning from 2014, equally over 9 years, so long as this amount does not exceed 50% of the taxable income of Bank of Jerusalem in the same tax year. Additionally, it was determined that the bank will not be permitted to set off capital losses which were accumulated by Clal Batucha until the end of 2013.

In accordance with the standard (IFRS 3), the balance sheet data as of December 31, 2013, which constitute comparative figures in the financial statements, were restated in order to reflect the adjustment of accounting treatment with respect to the presentation of the deferred tax asset with respect to the aforementioned transfered losses. Due to the above, a deferred tax asset was recorded in the amount of NIS 57.5 million.

As a result of the adjustment of the value of the assets which were acquired by the bank, profit was created from the acquisition at an opportune price of NIS 57.1 million. In accordance with a directive issued by the Banking Supervision Department, this profit was recorded as deferred income in the bank's balance sheet, 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, and is included in the statement of income, under the item for other income. There was no significant influence on the bank's results for the year ended December 31, 2013 due to this restatement.

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 were created as a result of this acquisition, at the end of each reporting period.

2. Further to the announcement which was received by the bank on June 4, 2013, concerning the submission of a request to the committee regarding the imposition of financial sanctions on banking corporations, to impose on the bank financial sanctions pursuant to The Prohibition on Money Laundering Law, 5760 - 2000 (the "Prohibition on Money Laundering Law"), with respect to apparent breaches of the aforementioned law, on March 25, 2014, the bank accepted the decision of the committee regarding the imposition of financial sanctions on banking corporations, in accordance with section 14 of the Prohibition on Money Laundering Law, with respect to a breach of provisions of the Prohibition on Money Laundering Law, the Prohibition on Money Laundering Order (Duties of Identification, Reporting and Record Keeping of Banking Corporations to Prevent Money Laundering and Terrorist Financing), 5761 - 2001, and the Prohibition on Money Laundering

Regulations (Methods and Dates for Submission of Reports by Banking Corporations and Entities Specified in the Law's Third Addendum to the Database), 5762 - 2002, further to the audit report dated February 2013, which was prepared the Banking Supervision Department with respect to the period between 2007 and 2010.

In accordance with the committee's decision, financial sanctions were imposed on the bank in the total amount of NIS 800 thousand, while noting the fact that this amount was determined in consideration of the fact that during the audit process, the bank cooperated regarding the disclosure of the breaches and their results, and implemented effective actions to correct the breaches and to prevent their recurrence, shortly after receiving the draft audit report.

3. On July 8, 2014, following Operation Protective Edge, a "Special Home Front Situation" was declared in accordance with section 9C of the Civil Defense Law, 5711- 1951.

   Accordingly, on July 9, 2014, the Commissioner of Banks issued instructions to the banking corporations, stating that the banking corporations are required to provide easements to their customers regarding exceptions from credit facilities, banking communication services, management of business operations outside of the banking corporation's offices, provision of telephone orders and charges by authorization, in accordance with the easements specified in Proper Bank Management Order 355.

   Additionally, the banking corporations were required to reinforce their call centers, as necessary, and not to restrict account owners residing in townships in which a special home front situation was declared, due to checks which were rejected beginning from the date of the letter, until further notice, and to increase the banking corporation's preparation for and awareness of cyber attacks.

   On July 27, 2014, the Commissioner of Banks issued additional instructions for the provision of easements to customers, as follows:

   - A banking corporation may not restrict an account or an account owner, of an individual or a corporation, whose official residence in the records of the banking corporation is located in townships in which a special home front situation was declared, due to rejected checks, beginning from the date of the letter, until further notice.

   - Action must be taken in accordance with the Checks Without Coverage Regulations (Exceptions to the Application of the Law), 5774-2014, according to which, in the event that a person is called up to reserve military service in emergency circumstances, or to reserve military service in a special situation, and a check in their account has been rejected, that check will be deducted from the total of checks regarding section 2(A) of the Law, if the date of the rejection occurred during the period when they were in reserve military service, as stated above, up to fifteen days after the end of the reserve military service period.

The Commissioner of Banks also ordered, in light of the uncertainty which was created due to the security situation, which pertains to the collection of debts of small businesses and private individuals, and to the effect on the status of arrears on chances of collection, that the banking corporations are requested to act in accordance with the following instructions in their preparation of financial statements for the second and third quarters of 2014:

- A banking corporation is not required to write off, in accounting terms, debts of borrowers in Israel who are subject to the requirements regarding accounting write offs under section 29D.5 of the Public Reporting Regulations, unless the banking corporation is aware of other reasons which require accounting write-offs, other than the debt's state of arrears.

- The banking corporation is requested to assess the impact of the security situation on the likelihood of debt collection, and accordingly to increase the provision for credit losses, which is calculated on a group basis.

  On July 24, 2014, the government held a special meeting, which included a discussion of actions to strengthen the home front, due to the continuation of Operation Protective Edge. Following the aforementioned meeting, the banks were instructed as follows:

- Support for mortgage takers - the postponement of two monthly payments will be allowed for borrowers who received a mortgage from the State by virtue of the Housing Loans Law, 5752-1992, and who have requested the postponement of payments. Borrowers throughout the entire country will be eligible to file such requests.

- Freezing of actions to evict mortgage debtors - the banks will work to freeze eviction proceedings and notices which were planned for implementation during the period of Operation Protective Edge, against persons who had received a mortgage from the State by virtue of the Housing Loans Law, 5752-1992. This section applies to borrowers throughout the entire country.

  On September 3, 2014, the Commissioner of Banks announced that in light of the termination of the special home front situation, the banks were required to resume ordinary operations, and ordered the banks to discontinue acting in accordance with the various instructions for action which he had issued, as specified above in this section, immediately or in accordance with the termination date, as determined by the Commissioner in his letter.

  The bank applied the aforementioned instructions, and acted in accordance with all of the instructions and guidelines specified above.

4. On July 20, 2014, the general shareholders' meeting approved the remuneration policy for corporate officers in the bank, in accordance with section 267A of the Companies Law, 5759-1999, and in accordance with Proper Bank Management Directive A301, regarding the remuneration policy of a banking corporation. (For details regarding the remuneration policy, see the immediate

report dated June 12, 2014, reference number 2014-01-89982, whose provisions are provided herein by way of reference).

On July 1, 2014, the bank's Board of Directors approved, following the recommendation by the Remuneration Committee, principles of the remuneration policy for employees and key employees who are not corporate officers (as defined in the Companies Law), 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.

For details, see below in the chapter regarding human capital.

5. On September 28, 2014, the Commissioner of Banks published directives regarding restrictions on the provision of housing loans.

   The following are the primary components of the provisions which were included in the new directive:

   - Increasing target capital in accordance with the size of the housing loan portfolio - the banking system is required to increase the Tier 1 target capital at a rate which reflects 1% of the balance of housing loans. The application date of the requirement to fulfill the target minimum capital 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 71 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 loan portfolio will change the required equity addition.

   - Cancellation of the requirement to provide increased risk weight for leveraged loans at variable interest.

6. On November 4, 2014, a claim and a motion to recognize the claim as a class action were filed with the District Court of Tel Aviv against the bank, for the repayment of fees in an amount which was estimated by the plaintiff at NIS 65.5 million, claiming that the bank had, allegedly, unlawfully

collected certain fees in connection with foreign currency conversion activities, as well as lack of due disclosure and apparent deception of customers regarding the costs involved in conversion services, and regarding the alleged existence of a restrictive arrangement in connection with the provision of the conversion services. The motion was submitted to the bank on November 5, 2014, and the bank's response to the motion has not yet been filed.

In the assessment of bank management, the chances that the bank will be required to execute payments within the framework of the claim are low.

7. On December 4, 2014, Jerusalem Financing and Issuance Ltd. issued NIS 292.5 million par value as a marketable series extension (Series I) in consideration of NIS 317.4 million, in accordance with the shelf offering report dated December 2, 2014. For additional details, see the company's immediate report dated December 4, 2014, the contents of which are included herein by way of reference.

8. On December 16, 2014, Bank of Jerusalem sent an offer for the acquisition of all of the shares of Dexia Israel Bank, and its subsequent merger into Bank of Jerusalem. For additional details, see the company's immediate report dated December 16, 2014 (reference number 2014-014-222876), the contents of which are included herein by way of reference.

   On December 16, 2014, Dexia Israel Bank Ltd. published an immediate report, in which it stated that prior to receiving the offer from Bank of Jerusalem, no negotiations were conducted, and that currently no negotiations are being conducted between Dexia Israel Bank and Bank of Jerusalem (reference number 2014-01-223464). Additionally, on December 18, 2014, Dexia Israel Bank published an immediate report in which it referred to a notice which was published by the controlling shareholder in Dexia Israel Bank to the foreign media, under the heading: "Dexia Denies the Existence of Any Discussions Whatsoever At This Stage with Bank of Jerusalem, in Connection With the Sale of Dexia Israel Bank". The announcement also stated that the Dexia Group had undertaken to execute an orderly and competitive process of selling its stake in Dexia Israel, in order to maximize the value of Dexia Israel for all interested parties, and in accordance with its commitments towards the European Commission. On January 6, 2015, Dexia Israel announced, in a letter to the bank, that it had received its letter, submitted it to the Board members, and will respond to the bank.

9. During the reporting period, the bank distributed dividends in the total amount of NIS 17.7 million. For details, see below in the chapter regarding equity.

10. For details regarding the approval and terms of the continued tenure of the bank's CEO, Uriel Paz, see Note 21 to the financial statements.

11. For details regarding the rating of the bank's liabilities by the rating company Standard & Poor's Maalot, see below in the chapter regarding the raising of financing sources.

Events after the balance sheet date

For details regarding the approval of the terms of tenure and employment of the bank's CEO, see Note 21 to the financial statements.

Details of main investee companies

For details regarding the main investee companies, see Note 7 to the financial statements.

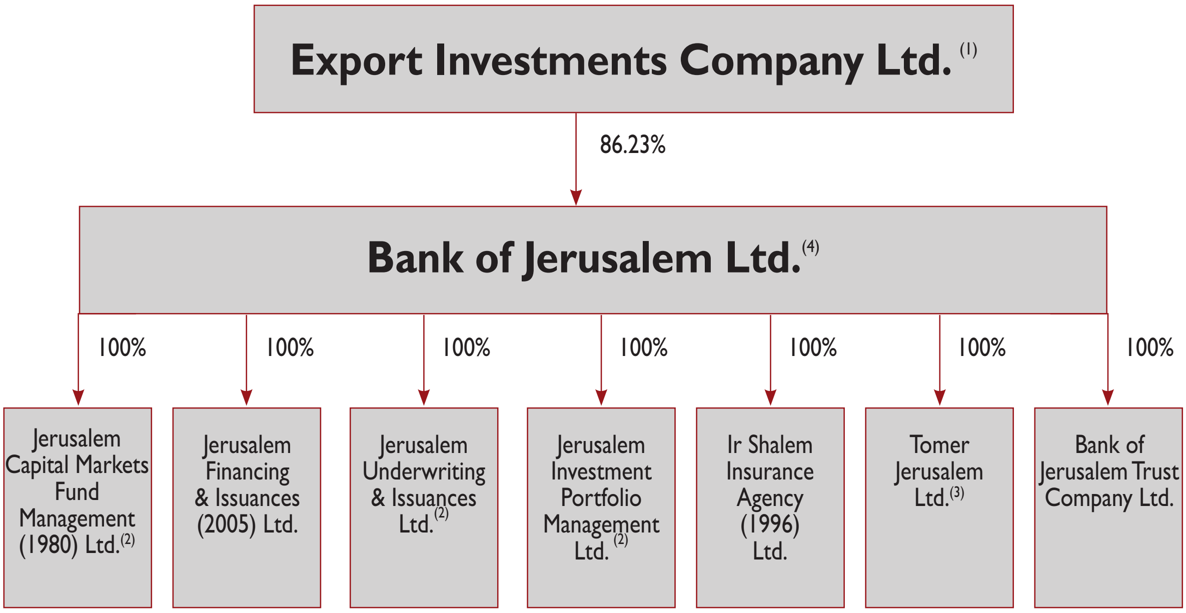
Main data from the financial statements

The main data from the bank's financial statements and other details which were published in the Board of Directors' report are attached as Annex A to the Board of Directors' report.

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, 2014.

For details regarding the areas of engagement of the subsidiaries and associate companies, see Note 7C.



(1) For details regarding the controlling shareholders in the bank, 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 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.).

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 Markets Ltd.; Magen T.A. 25 Trade Ltd.

Magen Financial Products Ltd.; Tsuot Mutual Funds Management (1993) Ltd.; Moment Investment Products Ltd.; Batucha Mutual Funds Management Ltd. Ilanot-Batucha Capital Markets Ltd. Moment Investment and Trading Ltd.; Klil Investment Products Ltd.; Magen Dollar Trading Ltd.

Most of the liquidated holdings are inactive companies which were transferred to the bank's control due to the acquisition of Clal Batucha in 2013.

Controlling shareholders of the bank

Mrs. Kena Shoval is a controlling shareholder in 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.; ICC 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.

Forward looking information

Some of the information provided in the Board of Directors' report, which does not refer to known 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, as part of the forward looking information, due to an extensive series of factors, including, inter alia, due to extraordinary economic events, including: 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.

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 competition structure 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.

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 of medium to high 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.

The bank's activities in the segment involving the raising of sources from the public is concentrated on 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 and cross-segmental characteristics, this activity will be described in summary form in the chapter raising of financing sources", and not separately for each segment.

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 cash price (the economic transfer price which corresponds to the linkage segment and the credit's average lifetime).

This profit includes inter-segmental financing costs - charging the segment that provided the loan, and crediting the segment that raised the loan, for the transfer prices (accordingly, income in the segment that raised the deposits is increased, while on the other hand, income in segments were credit was used is decreased).

Expenses with respect to credit losses

The provision was carried 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 carried 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 asserts in each segment. Returns in each segment were calculated in accordance with the equity which was attributed to the segment, as stated above.

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 reporting is to allow a banking corporation to report regarding operating segments in accordance with a uniform 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 which customers will be included in each segment.

- A provision ordering the banking corporation to provide disclosure for balance sheet data of supervised operating segments in the financial statements for 2015.

- 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.

Disclosure of balance sheet data which are required under this provision will be given for the first time in the public report for 2015.

The bank is preparing to implement these directives.

Investments with the banking corporation's capital and transactions with its shares

Equity

The bank's equity as of December 31, 2014 amounted to NIS 745.2 million, as compared with NIS 697.2 million at the end of 2013.

The increase was primarily due to net profit in the amount of NIS 66.3 million, and on the other hand, due to a decrease with respect to a dividend distribution in the amount of NIS 17.7 million.

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 capital for the purpose of calculating the ratio of capital to risk components, amounted as of December 31, 2014 to NIS 273 million, as compared with NIS 342 million at the end of 2013.

For details regarding the impairment of available-for-sale debentures (government and corporate), which was recorded to a capital reserve, by time periods and the rate of impairment, see data regarding the financial management segment.

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

For details regarding the capital targets according to the Basel Accords, see below in the chapter regarding capital adequacy, in the chapter on risks and risk management methods.

The bank evaluates its capital requirements within the framework of the bank's annual work plan, and in accordance with the guidelines issued by the Bank of Israel, in accordance with the aplication of the provisions of Basel III, and in accordance with developments in the ordinary course of business. The bank is unable to predict the types of capital instruments which will be developed in accordance with the directives issued by the Bank of Israel.

The ratio of core capital to risk components as of December 31, 2014 amounts to 9.7%, as compared with 9.3% at the end of 2013. This ratio is higher than the minimum ratio required by the Commissioner of Banks

Dividend distributions

In the reporting period, the bank distributed dividends in the total amount of NIS 17.7 million, as specified below:

- On April 3, 2014, the bank's Board of Directors resolved to perform an interim cash dividend distribution in the amount of NIS 2.5 million (gross), based on the balance of the bank's retained earnings. The dividend was paid on April 27, 2014, to shareholders who held the bank's shares as of April 10, 2014 (the effective date).

- On May 20, 2014, the bank's Board of Directors resolved to perform an interim cash dividend distribution in the amount of NIS 3.0 million (gross), based on the balance of the bank's retained earnings. The dividend was paid on June 11, 2014, to shareholders who held the bank's shares as of May 29, 2014 (the effective date).

- On July 31, 2014, the bank's Board of Directors resolved to perform an interim cash dividend distribution in the amount of NIS 3.0 million (gross), based on the balance of the bank's retained earnings. The dividend was paid on August 24, 2014, to shareholders who held the bank's shares as of August 11, 2014 (the effective date).

- On August 14, 2014, the bank's Board of Directors resolved to perform an interim cash dividend distribution in the amount of NIS 4.4 million (gross), based on the balance of the bank's retained earnings. The dividend was paid on September 7, 2014, to shareholders who held the bank's shares as of August 25, 2014 (the effective date).

- On November 20, 2014, the bank's Board of Directors resolved to perform an interim cash dividend distribution in the amount of NIS 4.8 million (gross), based on the balance of the bank's retained earnings. The dividend was paid on December 14, 2014, to shareholders who held the bank's shares as of November 30, 2014 (the effective date).

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), and the information included therein is provided herein by way of reference.

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 Bank 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 Bank 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 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.

Second Part - Other Information

Financial data regarding the banking corporation's operating segments

Details regarding the bank's operations by segment are provided in Note 29 to the financial statements. Developments in operating segments are provided below under the part regarding a description of the corporation's business by operating segments. In the bank's operating segments, no operating and other expenses were recorded which are attributed to the operating segment, which are due to inter-segmental transactions.

Material developments in the business environment

General

The Israeli economy grew in 2014 at a rate of approximately 2.5% (according to the early estimate prepared by the Central Bureau of Statistics). In the last quarter of the year, the exporting of goods (excluding diamonds, boats and airplanes) increased by 8.7%, as compared with a decrease of approximately 5.3% in importing of goods. The marketing chain sales index increased by 5.0%, and total purchases on credit cards increased by 8.1%. Additionally, in the months September - November, the general revenue index (excluding diamonds) increased at an annual rate of 3.3%.

The economy growth forecast currently stands at 3.2%, and approximately 3.0% for 2015 and 2016, respectively.

The unemployment rate in Israel as of the end of 2014 amounted to 5.9%, as compared with a rate of 6.2% at the end of 2013. The combined index increased in 2014 by approximately 1.7%.

Inflation and exchange rate

In 2014, the consumer price index (index in lieu) decreased by approximately 0.2%, as compared with an increase of 1.8% in 2013. The index without fruits and vegetables remained unchanged; the index without housing fell by 1.4%; and the index without energy increased by 0.1%.

In 2014, the USD/NIS exchange rate increased by approximately 12%, while the EUR/NIS exchange rate decreased by approximately 1.2%.

Fiscal and monetary policy

In 2014, the Bank of Israel interest rate gradually deceased from 1% in January 2014 to 0.25% during the year, and remained at this rate until the end of the year. The Bank of Israel's decision to reduce the interest rate was intended to encourage economy activity on the market, where concerns regarding the increase of inflation dissolved, and allowed the continued decrease of the interest rate.

The total government deficit for 2014 amounted to NIS 29.9 billion, which represents 2.8% of GDP, as compared with the government's original target of 3.0% of GDP.

Capital and financial market

In 2014, a positive trend was recorded on the markets. The Tel Aviv 25 and Tel Aviv 100 indices recorded all-time record highs. Daily trading volume on the stock exchange amounted to approximately NIS 1.2 billion, an increase of approximately 3.4% as compared with 2013.

The debenture market in Israel was characterized by increases in debenture indices, due to the decrease in interest expectations during the year.

The Tel Aviv 25 Index recorded an increase of approximately 10.2%, and the Tel Aviv 100 Index recorded an increase of approximately 6.7%. The government debentures index recorded an increase of approximately 6.6%.

Construction segment

In 2014, 19,370 new apartments were sold, a decrease of approximately 14.4% as compared with the corresponding period last year. Distributed by regions, a decrease was recorded in the number of new apartments sold: in the Northern Region approximately 26%, in the Southern Region approximately 24%, in the Central Region approximately 22%, and in the Haifa Region approximately 18%. However, an increase of approximately 14% was recorded in the Tel Aviv Region, and approximately 10% in the Jerusalem Region.

The number of new apartments remaining for sale at the end of November 2014 amounted to 27,710 new apartments, an increase of approximately 2.4% as compared with the end of November 2013.

Vehicle branch

In 2014, approximately 240 thousand new vehicles were transferred, an increase of approximately 12.7% as compared with 2013.

Significant accounting policy

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 2 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 subjects:

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 Bank Management Directive 314, issued by the Commissioner of Banks. Additionally, in accordance with the instructions which were issued by the Control of Banks Authority, a collective provision for credit losses was 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 degree of the delay or specific provision.

Regarding other retail credit and 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 companies credit card beginning from January 1, 2011 (in the original provision - January 2010). The provision is 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 identified, for the purpose of a specific evaluation, 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 regarding which there are signs indicating a possible problem in the repayment of the credit given to them, the bank evaluated the collectible amount from the borrower, in accordance with the forecasted cash flows from its business operations, the value of realizing its assets, the value of realizing third party guarantee, 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 - regarding 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 provision in respect thereof: ordinary debt, debt under special supervision, subordinate debt, impaired debt.

Provision for credit losses - a distinction was made w 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 collective provision rates for balance sheet and off-balance sheet credit losses is based on historical loss rates in the various market segments (some of the retail credit is based on historical segmental loss rates in the various operating segments), distributed by non-troubled credit and troubled credit in the last 5 years, and on the rates of net accounting write-offs which were actually recorded. In accordance with the transitional provisions issued by the Commissioner of Banks, amendments were made to these provision rates, as well as quarterly updates.

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. Additionally, 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.

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 credit risk 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.

In 2014, expenses for credit losses amounted to approximately NIS 18.4 million, as compared with NIS 54.7 million in 2013, a decrease of NIS 36.3 million. The decrease was primarily due to a non-recurring expense in the amount of NIS 19.2 million which was recorded in the corresponding period last year, following the application of a collective provision for housing, at a rate of 0.35%, in accordance with a directive issued by the Bank of Israel on March 21, 2013. Additionally, in 2014, income was recorded upon the conclusion of the past debt collection process in the amount of NIS 8.0 million.

For additional details regarding the quantitative effects, see Note 5 to the financial statements and Addendum E to the Management Review.

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 receivable are calculated with respect to temporary differences regarding which tax savings are expected to be created on the reversal 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 28 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 19 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 of similar assets and liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets; Data which are primarily derived from observable market data, or supported by observable market data, by way of an adjustment, or by other means.

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

This hierarchy requires the bank to use observable market data 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 the application of this standard was previously based.

For additional details regarding the quantitative effect of the implementation of fair value measurement - see Note 20 to the financial statements and Addendum D to the Management Review.

Non-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 redemption portfolio below cost (amortized cost) is non-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.

- Period of time in 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 non-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 debenture regarding which significant impairment has occurred in the debenture rating on the date of its acquisition by the banking corporation, and the debenture rating on the publication date of the report for this period.

- A debenture which, after its acquisition, was classified by the banking corporation as troubled.

- A debenture 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.

If the decrease in fair value is considered as being of a non-temporary nature, the cost (amortized cost) of the security will be amortized to fair value, in a manner whereby the loss amounts which were accumulated to capital 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). In 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 2014, no provision for impairment was performed in the bank (in 2013 - NIS 0.3 million).

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 regarding the 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 legal accumulated 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 to provide a certain assessment.

For additional details regarding contingent liabilities, see Note 18 to the financial statements.

Third Part - Description of the Banking Corporation's Business by Operating Segments

In 2014, net profit in the segments, save for the business segment, decreased. For details, see the profitability data regarding each individual segment.

	Assets			Liabilities		
	2014	2013	Change	2014	2013	Change
Segments	Millions of NIS		%	Millions of NIS		%
Households	7,417.4	7,273.2	1.9	7,387.4	7,269.8	1.6
Private banking	1,153.8	1,160.3	-	1,043.7	1,016.6	2.7
Business	1,288.2	1,397.2	(7.8)	3,272.2	3,485.9	(6.1)
Financial management	3,502.6	2,745.8	27.6	937.2	109.5	756
Total	**13,362.0**	**12,576.5**	**6.2**	**12,640.5**	**11,881.8**	**6.4**

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

	Net profit (loss)		Return on equity	
	2014	2013	2014	2013
Segments	Millions of NIS		%	
Households	6.3	(14.0)	1.4%	(3.1%)
Private banking	1.0	(0.8)	1.6%	(1.4%)
Business	32.5	21.7	22.0%	15.6%
Financial management	26.5	10.3	64.4%	25.2%
Total	**66.3**	**17.2**	**9.2%**	**2.5%**

Households segment

General

In the household segment, the bank offers a variety of financial services and products. The main products which are available to the bank's customers under this operating segment include checking accounts, deposits and savings, checking facilities, consumer loans and credit cards, loans for the acquisition of residential apartments, for the acquisition of vehicles, all purpose loans, activities on the capital market with securities and investment consulting.

Most of the bank's customers belong to this operating segment, received banking services from the bank by means of the bank's branches and by means of the bank's call center.

Goals and business strategy

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:

- Expansion of activity in the branches.
- Increasing the number of customers who manage their checking account in the bank (this activity was commenced in October 2012).
- Increased the raising of deposits from households, through the bank's branches and/or through the internet.
- Provision of consumer credit to existing and new customers.
- Provision of mortgages which meet the personal needs and preferences of each customer, while focusing on high profitability channels.
- Provision of agency and consulting services regarding securities, as a supplementary product to the provision of deposits.

Increasing the marketing and selling efforts, including through an ongoing improvement of customer service, inter alia, by:

- The continued expansion of the call center which was established in 2011 and expanded in the last two years, and which is intended to provide a solution for most of the banking services.

- Implementation of a CRM system and upgrading the website, while turning it into a site which allows the performance of transactions.

- 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.

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.

Structure of the operating 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 interest tracks which are determined in accordance with the loan type, customer preferences, and the borrower's repayment ability.

- Activities in the mortgage segment also include the provision of associated services involving life insurance for borrowers and property insurance alongside a mortgage, which are provided in accordance with the directives issued by the Insurance Commissioner 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;

- Full management of checking accounts.
- Provision of solo consumer credit for defined time periods to households.
- Raising of deposits and savings from 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.
- Assistance in financing the acquisition of vehicles.
- Provision of credit for defined periods, against collateral.

Capital market:

Following the bank's acquisition, from Clal Finance Ltd., of its entire stake in Clal Batucha (which was a member company on the Tel Aviv Stock Exchange and on the Stock Exchange Clearing House, and which engaged in the provision of trading service on stock exchanges in Israel and in foreign markets), the bank increased its scope of operations in the capital market segment, while entering additional operating segments in areas where the bank had not previously operated.

- 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.

Restrictions on legislation, standardization, circulars issued by the Commissioner of Banks and special constraints

The bank in general, and the household segment in particular, operate within the framework of laws, regulations, regulatory provisions and directives, which are imposed on the banks by various 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 households:

Amendment to the Prohibition on Money Laundering Order (Duties of Identification, Reporting and Record Keeping of banking corporations to Prevent Money Laundering and Financing of Terrorism), 5774 - 2013

On February 2, 2014, an amendment was published to the Prohibition on Money Laundering Order (Duties of Identification, Reporting and Record Keeping of banking corporations to Prevent Money Laundering and Financing of Terrorism), 5774 - 2013, the main provisions of which include:

1. The bank is required to evaluate the reasonability of the declaration made by beneficiaries and controlling shareholders.

2. The bank is required to document details of parties to SWIFT transfers.

3. The bank is required to report any extraordinary activity (and not non-extraordinary actions), and additionally, the definition of such actions was changed to "activity which gives rise to a concern in the bank that it could be associated with prohibited activity, in accordance with the Prohibition on Money Laundering Law or the Prohibition on Terrorist Financing Law".

4. The bank's duties were expanded on the subject of document retention.

Application of the amendment to the order - six months after its publication in the records. The bank is preparing for the implementation the amendment's provisions.

The Easements and Encouragement of Activity in the Capital Market Law (Legislative Amendments), 5774 - 2014

On January 27, 2014, The Easements and Encouragement of Activity in the Capital Market Law (Legislative Amendments), 5774 - 2014 was published, the primary provisions of which include:

1. The option to advise / market a financial asset without a license, regarding financial assets which will be determined by the Minister of Finance.

2. An exemption for banks from the obligation to post signage regarding products for which it provides investment marketing services.

3. Changes in reporting requirements to the Israel Securities Authority.

4. The option to receive benefits for analyses was arranged, subject to conditions which will be determined by the Authority.

The law entered into effect upon its publication.

Team responsible for evaluating increasing competition in the banking system

On March 19, 2013, a report was published which summarized the work of the team responsible for evaluating increasing competition in the banking system, which was appointed by the Governor of the Bank of Israel and by the Minister of Finance following the recommendation of the Committee for Socio-Economic Change - the "Trachtenberg Committee", and specifies its final conclusions and recommendations.

The Banking Supervision Department began implementing the team's recommendations already from the publication date of the committee's interim report (on July 16, 2012). For the purpose of the full implementation of the recommendations, the Bank of Israel and the relevant government offices are continuing to work on appropriate legislative amendments to anchor the team's recommendations in legislation.

Presented below are specific legislative provisions which were amended to date as a result of the team's work:

A. The Banking Rules (Customer Service)(Fees)(Amendment), 5773 - 2012.

On January 1, 2013, the amendment to the aforementioned rules entered into effect, under which management fees will be canceled for securities with respect to short term bills and with respect to monetary funds; Restrictions will be imposed on banking fees with respect to actions with securities, and additional fees for households and small businesses will be canceled.

The implementation of the amendment and the update to the fee schedule, in accordance with the new legislation, is expected to reduce the scope of fees charged from households and from small businesses. However, the implementation of the amendment is not expected to have a significant impact on the bank's income from fees, in light of the bank's policy to provide a broad exemption from checking account fees to individuals.

B. Repricing of fees with respect to actions with securities

On November 28, 2012, the Commissioner of Banks published a circular on the subject of the repricing of fees charged with respect to actions with securities. Further to the findings and recommendations included in the team's interim report in connection with benefit fees, regarding actions with securities, and Further to the amendment to the first addendum to the Banking Rules (Customer Service)(Fees), 5768 - 2008, as specified above, the bank is required to determine the new rate of fees charged for buying, selling and redeeming securities, while taking into account changes which have occurred to the fee structure in the aforementioned amendment, and the need to adapt them, insofar as will be possible, to the actually charged price.

It was further required to notify the Banking Supervision Department regarding the new fee rates, as stated above, by March 1, 2013. Concurrently with the publication of the announcement to the public regarding the change, as required in accordance with the Banking Rules (Customer Service) (Due Disclosure and Delivery of Documents), 5752 - 1992.

Additionally, the bank is required to change the engagement method with customers regarding the provision of fee discounts with respect to actions with securities, in a manner whereby it will be based on the rate or amount of the fee, and not based on a discount rate out of the rate or amount of the tariff fee, with respect to new agreements or the renewal of agreements, beginning on March 1, 2013. The implementation of the circular had no significant impact on the bank's income from fees.

C. Amendments to the Banking Rules (Customer Service)(Fees), 5768-2008

On August 1, 2013, Amendment No. 2 to the Banking Rules (Customer Service)(Fees), 5768-2008 entered into effect (the "Fee Rules"). According to the amendment, the maximum limit for the annual business turnover of a "small business" was changed in the tariff schedule for individual customers, from NIS 1 million to NIS 5 million.

Additionally, it was determined that an individual which is a business will be classified as a small business provided that the banking corporation has not found that the business turnover of that individual in the last year exceeds NIS 5 million. In case the banking corporation has reasonable grounds to believe that the individual's business turnover in the last year exceeds NIS 5 million, it is entitled to demand that individual to submit to it an annual report. In the event that this demand has not been complied with, the banking corporation is authorized to classify it as a business which is not a small business, beginning from the first of the month after the month subsequent to the delivery of the demand.

The bank will notify the corporations in writing that if they submit to the bank an annual report, as defined in the fee rules, according to which their business turnover does not exceed NIS 5 million per year, the bank will work to classify their account as a "small business". The classification is in effect for one year, and its renewal is contingent upon the submission of current documents.

On October 8, 2013, the Banking Supervision Department published an additional amendment to the fee rules, which entered into effect on April 1, 2014. Within the framework of the amendment, the banks are required to offer individual customers and small businesses different tracks for the payment of the fees listed in part 1 of the tariff schedule ("checking account").

The aforementioned amendment has no impact on the bank, due to the fact that the bank provides to its customers (individuals and small businesses) a broad exemption from checking account fees.

On January 29, 2015, the Commissioner of Banks published an additional amendment to the fee rules, in which the amount of various fees was restricted, and the fee titled "Management fees with respect to housing loans" was canceled. As a result of the cancellation of this fee, the bank’s income from credit handling fees is expected to decrease.

D. Proper Bank Management Directive 414 - Disclosure regarding the cost of services involving securities

On April 2, 2014, the Commissioner of Banks published a circular, which applies beginning on January 1, 2015, according to which the banks are required to present to customers who are charged fees with respect to transactions involving the buying, selling and redeeming of securities, or management fees for depositing of securities, comparative information regarding the fee rates which were paid by customers who hold securities deposits of similar value. Additionally, the banks are required to publish this information on their websites. The bank publishes the required information on its website.

E. Proper Bank Management Directive 418 - Opening of accounts through the internet

On July 15, 2014, the Commissioner of Banks published Proper Bank Management Directive 418, on the subject of "Opening of accounts through the internet", with the aim of facilitating the transition between banks in general, and for banks with a limited distribution of branches in particular.

In accordance with the new provision, a banking corporation will be entitled to allow the opening of accounts online, subject to the fulfillment of a number of cumulative conditions, which include:

- The owner of the account must be a resident of Israel aged 18 or older.
- There may be no beneficiaries in the account except for the owner.
- Online accounts must be marked and identified as such in the automated system.
- Unique provisions regarding aspects of the prohibition against money laundering and terrorism financing, including the process "know the customer".
- Activities in online accounts must be restricted in quantitative terms. Thus, for example, activity in cash may not exceed NIS 10,000, and all other activities may not exceed a total of NIS 50 thousand.

Banking corporations which are interested in allowing the opening of accounts online will be required to notify the Commissioner of this in writing at least 60 days before the service is offered to customers. The provision entered into effect upon its publication, and the bank is implementing the provision.

F. Proper Bank Management Directive 422 - Opening and managing a checking account with a credit balance

On May 26, 2014, the Commissioner of Banks published Proper Bank Management Directive 422, which requires a banking corporation to comply with a customer's request to open a checking account with a credit balance, in the cases specified in the directive.

The following are the primary components of the directive:

- A list of cases in which refusal by a banking corporation to open an account will be considered unreasonable: a customer who is restricted, now or in the past, a customer who is undergoing bankruptcy proceedings, now or in the past, a customer upon whose accounts a foreclosure has been imposed, or a customer regarding whom legal proceedings are or were conducted regarding the collection of debts by another banking corporation.

- A list of services which the banking corporation may not unreasonably refuse to provide to customers: account charging permissions, immediate debit cards, cash withdrawal cards, adding customers to information retrieval through public stations, addition adding customers to information retrieval over the internet.

- Imposing on the banking corporation the requirement to provide, to customers who want to open an account, an explanatory page including details regarding the services which the banking corporation is required to provide.

- An obligation was imposed on the banking corporation to publish the services on the bank's website.

The directive entered into effect gradually during the half year following the publication date of the directive. The bank's obligation to open checking accounts with a credit balance is immediate. The bank is implementing this directive.

G. Proper Bank Management Directive 421, on the subject of the decrease or increase of interest rates

On September 9, 2013, the Commissioner of Banks a directive on the subject of the decrease or increase of interest rates. In accordance with the directive, the bank is required, in general (excluding exceptions), to apply on dates of interest changes for loans (regarding loans in which the interest rate is not fixed or known throughout the entire period, or in loans which are performed in parts), the same decrease or increase to the basic interest which applies on the provision date of the loan. The directive applies, respectively, also to deposits in which the interest rate is not fixed or known throughout the entire period and in renewing deposits, except if the customer has withdrawn a part of the deposit amount during the deposit period, or on the renewal date. The application date of the directive on all matters associated with loans is January 1, 2014, and on all matters associated with deposits - July 1, 2014. The implementation of the directive had no significant impact on the bank.

H. Proper Bank Management Directive 425 - on the subject of on the annual reports to customers of banking corporations ("Banking ID Card")

On November 19, 2014, a new directive was published by the Banking Supervision Department, which requires banks to issue to customers, on an annual basis, by February 28, annual reports summarizing the past calendar year (summary report and detailed report) which will include all data pertaining to the customer's account, according to the wording and structure which were determined in the addendum to the directive. The directives provides that the bank is required to notify its customers regarding the delivery of the reports, both on the website and through personal notices.

In accordance with the directive, the date when the bank will first be required to provide annual reports to its customers is by February 28, 2016 (with respect to 2015). Additionally, the bank is required to present to the Bank of Israel details regarding the formulas which are used to calculate the data in the aforementioned reports by July 1, 2015. The bank has begun preparing to implement the directive.

I. Amendment to Proper Bank Management Directive 432 on the subject of closing accounts and transferring customer accounts

On December 15, 2014, an amendment to Proper Bank Management Directive 432 was published, which was intended to simplify for the customer the process of closing an account and transferring it to another bank. For this purpose, the banks were instructed to allow customers to receive information and data through the various communication channels, and to allow the new bank to perform, in place of the customer, the actions required to transfer the customer's account from the old bank, TO allow closing the account with no need to arrive at the bank branch and to ensure the performance of the transfer within 5 days (excluding exceptions which extend this period, with respect to foreign securities), from the submission date of the account transfer request. The bank has begun preparing to implement the directive.

The directive is effective as of July 1, 2015, excluding providing an opportunity to the new bank to perform the account closing process on behalf of the customer, which is effective as of January 1, 2015.

Directive incorporating the restrictions which were imposed on the banks in connection with the provision of housing loans

On July 15, 2014, the Commissioner of Banks published Proper Bank Management Directive 329, which primarily incorporates the various instructions and restrictions established by the Banking Supervision Department in recent years in connection with the provision of housing loans by banks to their customers. In addition to the previous instructions, it was determined in the directive that a loan in an amount exceeding NIS 5 million will be weighted for the purpose of capital adequacy in accordance with a risk weight of 100%, and additionally, a change was published to the definition of the return from income rate. The bank is working in accordance with the existing instructions, and is applying the new directives. The new instructions have no significant impact on the bank.

For details regarding instructions which were published by the Commissioner of Banks on September 28, 2014, on the subject of restrictions regarding the provision of housing loans and increasing the capital target, in accordance with the size of the housing loans portfolio, see the chapter regarding "Events during the reporting period".

Amendment to the Banking Order (Early Repayment Fee)

On August 27, 2014, the Banking Order (Early Repayment Fee)(Amendment), 5774 - 2014, was published in the Official Gazette, according to which banks are required to change the method used to calculate the collection of components of the early repayment fee which is paid by borrowers in CPI-linked loans. The formulate used to calculate the early repayment fee which was set forth in the amendment determines that the existence of an interest margin at the time of repayment will be evaluated in accordance with the average interest rate on the provision date of the loan, as compared with the average interest rate on the repayment date of the loan, and not according to the contractual interest which was actually paid by the specific borrower.

The implications of the amendment to the Order on the bank are for two years. Firstly, it is reasonable to assume that the amendment will increase the scope of early repayments of mortgage loans which were received by the bank's customers. Secondly, the bank's profits from early repayment fees are expected to decrease.

The Securities Regulations (Voting in Writing and Proof of Ownership of Options for Voting in Meetings of Option Holders), 5775 - 2014: Amendment 53 to the Securities Law: Notice regarding the publication of access and recording rules for the electronic voting system, as published on the Authority's website

In December 2014, an amendment to the Securities Law and the supplementary regulations was published which establishes the legal infrastructure for the creation and operation of an internet-based voting system, which will allow holders of the securities of reporting corporations to vote in meetings in which they are entitled to vote, over the internet. The significance of the above is that the bank is required to be prepared, from an IT perspective, for its function as a stock exchange member company which is responsible for issuing authorizations to the holders of securities, for the purpose of voting in meetings of holders through the internet, by June 16, 2015. This amendment also has implications on the bank's function as a public company, and on the function of Jerusalem Finance & Issuance (2005) Ltd. as a reporting corporation, which should be prepared by the aforementioned date, to accept data regarding internet voting in meetings of holders of shareholders / debentures which will be convened in accordance with the determined rules. The bank is preparing to implement the directive.

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, whose is 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 arrange 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 transfer 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 from providing the 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 directives set forth in American legislation on the matter.

The draft of the Commissioner of Banks' letter regarding the banking activities of foreign residents

On November 19, 2014, the Commissioner of Banks published a draft letter on the subject of the banking activities of foreign residents.

The draft 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.

The draft letter includes 2 main sections which are intended to achieve two main objectives:

1. Requiring the Board of Directors of an Israeli corporation to evaluate and update the bank's policy on the subject of "know the customer", as required in accordance with Directive 411, on the subject of the prevention of money laundering and terrorism financing, and knowing the customer, and to ensure that management updates its policies and the applied controls in connection with activities vis-à-vis foreign residents (both new and existing), whereby the Bank of Israel requires placing an emphasis on a number of points, as specified in the draft letter.

2. A positive statement by the Bank of Israel, according to which any refusal to provide banking services which is due to a customer's non-cooperation on subjects addressed in the draft letter, will be considered reasonable refusal for the purpose of the Banking Law (Customer Service).

   The Association of Banks in Israel issued, on December 29, 2014, a letter of remarks to the Bank of Israel regarding the aforementioned draft, in which the Commissioner's attention was drawn to issues pertaining to banking activities for foreign residents, regarding which provisions or clarifications are required from the Commissioner (such as the method for withdrawing funds from an existing account by a refusing customers, clarifications regarding the manner of conduct required of the bank in connection with ascertaining the customer's tax liability, and other issues). The final version of this document has not yet been received. the bank is waiting for the final version, and will adjust its conduct in accordance with the manner of conduct required according to the letter.

Changes in markets of the operating segment and in the characteristics of its customers

The directives issued by the Commissioner of Banks on the subject of restrictions to the financing rates in housing loans beginning on October 10, 2014 did not materially affect the scopes of activity in the mortgage segment, and no decrease was apparent in the rate of demand for apartments in the segment. In 2014, no changes occurred in the characteristics of the bank's customers in this operating segment.

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 great deal of 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 demographics with offers for the provision of credit. Additionally, food retail chains, in collaboration with the credit card companies, issue credit cards to customers by means other than the banking system.

Competition in the operating segment

- Competition is continuously increasing in the checking account segment. After years in which only medium sized banks competed with the large banks, in recent years, competition has been increasing also from the small banks. The small banks offer to households attractive checking accounts in terms of fees and financial margins, thereby attempting to compensate for a deficiency in terms of retail distribution.

- In the mortgage segment, aggressive competition is taking place between the banks. According to the bank's reports, in the financial statements for recent years, the four large banks hold a market share of approximately 85% of all mortgage performance in the segment. The remaining share is divided between the other banks and insurance companies operating in the segment. The bank's share in mortgage performance amounts to approximately 2%. In general, it can be said that the mortgage products offered by the various banks are similar, and therefore, the competition focuses on the quality of service, on financing rates, credit prices and fees paid by customers.

The bank deals with competition in the mortgage segment through its expertise in the evaluation of collateral and in its rapid, high quality customer service, also regarding complex transactions.

In the field of services associated with mortgages, the banks have additional competition from the insurance companies, which offer the bank's customers to obtain life and property insurance through them.

- In the segment involving credit for the financing of vehicle purchases, most of the financing was performed in the past by extra-banking financing companies. In recent years, after the entry of large banks into the segment, profitability in the financing of first hand vehicles gradually decreased, with the aim of increasing loyalty vis-à-vis their customers, the banks (including the bank) reduced prices and engaged in subsidization deals with various importers. The banks (including the bank) reduced prices and engaged in subsidization deals with various importers. In the last two years, the bank has implemented a strategic decision to reduce its activity in the aggressive competition in the vehicle financing segment, and has been providing financing on a selective basis, subject to pricing at a level which is appropriate for the bank.

- In the credit card and consumer credit segment, in addition to the competition between the banks, increased effort of credit card companies has occurred, in collaboration with retail chains, to operate among the household population regarding the issuance of credit cards directly to customers, by means other than the bank, and in offers for the provision of credit.

- In the capital market segment, there is aggressive competition on the part of banking entities, investment houses and institutional entities. As a result of the Bachar Committee, many customers have transitioned to the handling of institutional entities and investment houses, who are trying to attract customers, including all their activities on the capital market. The competition in this segment focuses mainly on long service hours, advanced internet platforms and competitive prices. It should be noted that there are many players in this segment, and the large banks hold significant power. The aggressive competition in the segment has caused a continuous decline in fee rates on the capital market in recent years, and has resulted in a series of mergers and acquisitions in the segment.

The bank leveraged this trend in order to substantiate and expand the capital market segment in the bank, by acquiring Clal Batucha, as described above. This acquisition positions the bank as a significant player in this segment, and the bank currently offers a variety of services which allow it to compete with both the large banks and the investment houses, by offering added value to its customers, in the form of investment consulting services which are based, inter alia, on designated analysis and comprehensive information services, Advanced trading platforms in foreign markets, which benefit from collaborations with leading entities abroad, and a broad basis of brokerage activities which allow customers to enjoy high-quality execution services.

Customers

The customers of this segment are private customers and households which are residents of Israel. The bank's value offer in the checking account 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 have significant weight in raising the bank's sources through the various channels.

Following the acquisition of Clal Batucha, private customers joined the bank who had previously operated through Clal Batucha, and who request premium services; customers who operate independently on the capital market; and customers who receive investment consulting services.

Out of the bank's 23 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 minorities.

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 on various media.

The bank is not dependent on the marketing and distribution channels in this operating segment.

Human capital

In 2014, the average number of positions in the segment directly amounted to approximately 222 positions, as compared with 177 positions in 2013.

In the mortgage segment - 60 positions on average, as compared with 58 in 2013. In the banking and finance segment - 123 positions on average, as compared with 100 positions in 2013, representing an increase of approximately 23%, primarily due to expansion of the retail activity. In the capital market segment - 39 positions on average, as compared with an average of 19 positions in 2013. The increase is primarily due to the acquisition of Clal Batucha. The headquarters and management employees were also loaded onto the segment.

Presented below is a summary of the results of operations in the households segment:

	For the one year period ended December 31							
	2014				2013			
	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	127.5	99.1	-	**226.6**	109.6	88.6	-	198.2
Inter-segmental	3.2	4.0	-	**7.2**	(2.7)	(3.7)	-	(6.4)
Total interest income, net	130.7	103.1	-	**233.8**	106.9	84.9	-	191.8
Non-interest income - from externals	29.2	9.0	35.0	**73.2**	35.9	6.3	11.7	53.9
Total income (before credit losses)	159.9	112.1	35.0	**307.0**	142.8	91.2	11.7	245.7
Expenses with respect to credit losses	0.9	(30.0)	-	**(29.1)**	(20.1)	(32.9)	-	(53.0)
Operating and other expenses, excluding depreciation and amortizations	(62.5)	(126.7)	(50.4)	**(239.6)**	(57.7)	(112.3)	(28.7)	(198.7)
Depreciation and amortizations	(7.8)	(16.0)	(5.2)	**(29.0)**	(6.0)	(11.9)	(2.7)	(20.6)
Profit (loss) before taxes	90.5	(60.6)	(20.6)	**9.3**	59.0	(65.9)	(19.7)	(26.6)
Provision for taxes on income	(28.2)	18.8	6.4	**(3.0)**	(18.6)	24.0	7.2	12.6
Net profit (loss)	62.3	(41.8)	(14.2)	**6.3**	40.4	(41.9)	(12.5)	(14.0)
Return on equity (Percentage of net profit from average capital)				**1.4%**				(3.1%)
Average balance of assets	6,287.3	1,061.3	68.8	**7,417.4**	6,203.6	1,057.1	12.5	7,273.2
Average balance of liabilities	-	7,387.4	-	**7,387.4**	-	7,269.8	-	7,269.8
Average balance of risk assets	3,900.4	937.6	76.1	**4,914.1**	3,780.5	888.0	6.9	4,675.4
Average balance of securities		-	7,969.7	**7,969.7**	-	-	2,369.4	2,369.4
Average balance of other managed assets	1,525.3	-	-	**1,525.3**	1,855.8	-	-	1,855.8
Margin from credit provision activity	103.2	89.8	-	**193.0**	89.1	71.1	-	160.2
Margin from deposits receipt activity	-	18.3	-	**18.3**	-	16.1	-	16.1
Other	27.5	(5.0)	-	**22.5**	17.8	(2.3)	-	15.5
Total interest income, net	**130.7**	**103.1**	-	**233.8**	**106.9**	**84.9**	-	**191.8**

The income from this segment constitutes approximately 66% of the bank's total income, and the expenses in this segment constitute approximately 77% of the bank's total expenses.

In 2014, profit was recorded in this operating segment in the amount of NIS 6.3 million, as compared with loss in the amount of NIS 14.0 million n the corresponding period last year.The change is primarily due to a non-recurring provision in the amount of NIS 19.2 million, in accordance with the directives issued by the Bank of Israel, which was performed in the corresponding period last year.

Regarding mortgage operations, an increase was recorded in net interest income, due to an increase in margins. Additionally, a decrease was recorded in this activity, with respect to credit losses as compared with the corresponding period last year, primarily due to a non-recurring provision which was recorded in the corresponding period last year, as described above.

In the banking and financial activities as well, an increase in interest income was recorded, due to an increase in margin and in balances of consumer credit. During the reporting period, a decrease was recorded in expenses with respect to credit losses in this activity, primarily due to the decrease in accounting write-offs.

In the capital market activity, an increase was recorded in non-interest income, due to the acquisition of the Clal Batucha operation.

For details regarding the macro-economic business environment, see the chapter "Primary Developments".

Material agreements and collaboration agreements

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 is working 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 of Decembers 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 2014, and were extended until March 31, 2015, 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, 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.

Agreements with credit card companies

The bank has agreements with Israel Credit Cards Ltd. dated August 8, 2002, and with Poalim Express Ltd. dated February 25, 2010. These agreements represent the relationship within the framework of collaborations between the bank and the aforementioned credit card companies, including as regards the division of responsibilities between the credit card companies and the bank, as well as the commercial terms between the parties.

Private banking segment

General

The banking activity in the private banking segment provides services and products which are given within the framework of the household segment, to a demographic 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.

Goals and business strategy

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.
- Expanding the variety of financial services and products which are relevant to this market segment.

Structure of the operating segment

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 within the framework of private banking services.

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 transaction 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.

Restrictions on legislation, standardization, directives 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 is 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 this segment's 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.

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 long term, 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.

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 distribution of credit risks and raising of distributed sources. The services are given through a private banking branch, where asset the majority of assets purchased within the framework of this segment, through the bank's financing, are in the Jerusalem region.

Marketing and distribution

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.

Competition

All of the banks compete over 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, and who have the ability to create personal connections with customers in the segment.

Human capital

In 2014, the average number of positions in the segment amounted to approximately 28 direct positions, as compared with 25 positions in 2013. In the mortgage segment - an average of 14 positions, as compared with an average of 11 in 2013.

In the banking and finance segment - an average of 13 positions, similarly to 2013. In the capital market segment - an average of 1 position, similarly to 2013. The headquarters and management employees were also loaded onto the segment. Permanent employees are employed in the segment, who have undergone appropriate training on the provision of service specifically tailored to the needs of customers in this segment.

Presented below are the summary results of operations in the private banking segment:

	For the one year period ended December 31							
	2014				2013			
	Mortgages	Banking and finance	Capital market	Total	Mortgages	Banking and finance	Capital market	Total
	Millions of NIS							
Interest income, net								
From externals	16.0	2.9	-	**18.9**	15.1	4.9	-	20.0
Inter-segmental	0.6	0.5	-	**1.1**	(0.5)	(0.5)	-	(1.0)
Total interest income, net	16.6	3.4	-	**20.0**	14.6	4.4	-	19.0
Non-interest income - from externals	0.4	6.5	3.0	**9.9**	0.5	7.4	3.1	11.0
Total income (before credit losses)	17.0	9.9	3.0	**29.9**	15.1	11.8	3.1	30.0
Expenses with respect to credit losses	0.3	-	-	**0.3**	(0.7)	0.2	-	(0.5)
Operating and other expenses, excluding depreciation and amortizations	(10.0)	(13.8)	(1.4)	**(25.2)**	(10.2)	(15.6)	(1.9)	(27.7)
Depreciation and amortizations	(1.8)	(1.6)	(0.1)	**(3.5)**	(1.3)	(1.8)	(0.1)	(3.2)
Profit (loss) before taxes	5.5	(5.5)	1.5	**1.5**	2.9	(5.4)	1.1	(1.4)
Provision for taxes on income	(1.7)	1.7	(0.5)	**(0.5)**	(1.0)	2.0	(0.4)	0.6
Net profit (loss)	3.8	(3.8)	1.0	**1.0**	1.9	(3.4)	0.7	(0.8)
Return on equity (Percentage of net profit from average capital)				**1.6%**				(1.4%)
Average balance of assets	1,135.3	18.5	-	**1,153.8**	1,135.9	24.4	-	1,160.3
Average balance of liabilities	-	1,043.7	-	**1,043.7**	-	1,016.6	-	1,016.6
Average balance of risk assets	627.7	35.3	-	**663.0**	608.5	45.5	-	654.0
Average balance of mutual funds	-	-	-	-	-	-	-	-
Average balance of securities	-	-	294.2	**294.2**	-	-	271.8	271.8
Average balance of other managed assets	-	-	-	-	-	-	-	-
Margin from credit provision activity	16.6	0.5	-	**17.1**	14.6	0.6	-	15.2
Margin from deposits receipt activity	-	2.9	-	**2.9**	-	3.8	-	3.8
Other	-	-	-	-	-	-	-	-
Total interest income, net	**16.6**	**3.4**	-	**20.0**	**14.6**	**4.4**	-	**19.0**

Changes in the scope of operations and profitability in the segment

The income from this segment constitutes approximately 6% of the bank's total income. The expenses in this segment constitutes approximately 8% of the bank's total expenses.

Net profit in this operating segment during the reporting period amounted to NIS 1.0 million, as compared with loss of NIS 0.8 million in the corresponding period last year.

Business segment

General

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, including accompaniment of residential construction projects, primarily in accordance with the closed accompaniment method, inter alia, financing of projects in accordance with the various types of National Outline Plan 38, and financing of acquisition groups. The bank also provides funding for companies which performs projects in the solar energy segment, and commercial loans.

Goals and business strategy

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 growth potential, without increasing the current risk level. For this purpose, the bank works 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) or to finance transactions which require capital allocation in as low a level as possible, while reducing the scope of commercial credit to finance the current operations of companies and small businesses, insofar as is possible.

The bank also works to finance and manage transactions in the solar energy segment, which have a long term agreement vis-à-vis the Electric Corporation, both through full financing by the bank and through collaborations between the bank and insurance companies and other institutional entities for the purpose of providing credit. These collaborations, similarly to the above with respect to the financing of projects (operator model) allow engagement in large transactions in the segment, while distributing risk.

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 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, aspects associated with the bank's image, technological developments and human resource issues.

Structure of the operating 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 are 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 different 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:

The project is evaluated and approved by the institutions of the financial partner; The collateral in the project is provided pari-passu, where the distribution ratio in case of realization of the collateral was predetermined between the bank and the financial partner; The ratio of credit provision amounts is maintained throughout the lifetime of the project. The release of surpluses which are received with respect to the project to the entrepreneur is performed by the bank in accordance with the surplus release formula which is approved by the bank, and included in the collaboration agreement.

Management of the project according to this model is performed by the bank in its independent judgment, and in accordance with conventional banking standards; Monitoring reports regarding the project are submitted by the supervisor to the bank and to the additional entity, whereby the bank reports to the additional entity regarding extraordinary events in the project.

Banking and finance

Credit given to finance the operating activities of companies - the bank reached a decision to reduce the scope of credit given in this operating segment relative to the credit which was given in previous years, due to the allocation of considerable capital and the ongoing operation required for this purpose. The financing of commercial activities, including the financing of income-generating properties and operating activities, is generally performed against material collateral. The operating activities of companies are financed, inter alia, against the pledging of current assets.

Credit for the solar energy segment - financing of the acquisition and operation of solar energy systems is performed against a contract with the Electric Corporation for a period of 20 years, according to a defined and fixed electricity purchasing tariff for the entire operating period. Additionally, the bank pledges the equipment for the system and the entire set of contracts in the transaction, and, as required, accumulates various reserves during the financing period. In this segment, the bank cooperates with financial entities, similarly to the real estate segment, in accordance with the operator model.

The operator model in the solar energy credit segment is implemented in accordance with the following principles:

A collaboration agreement between the bank and the financial entity is formulated and signed before any financing is given by the bank for the project. The collateral in the project is provided pari-passu, where the distribution ratio in case of realization of the collateral was predetermined between the bank and the financial partner; The ratio of the scopes of credit provision between the bank and the financial partner is also determined in advance, and is maintained throughout the lifetime of the project.

Projects according to this model are managed by the bank as the representative of the lenders, in its discretion, and in accordance with the financing agreements and the collaboration agreement between the bank and the financial entity, and in accordance with conventional banking standards; An engineering report with respect to the project is submitted by the supervisor to the bank and to the additional entity before the provision of financing. Throughout the lifetime of the project, the bank reports to the additional financial entity regarding the current data of the project, and regarding any extraordinary events in the project.

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.

Changes in markets of the operating segment and 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. 2014 was characterized by an average rate of residential unit sales, and a similar price level to the prices of the previous year, despite the expectation for price declines, following the steps which were announced by policymakers, such including a target price and "Zero VAT", which in the end was 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 on the real estate market with respect to price levels which is affected, inter alia, by a shortage of lands available for construction and a decrease in the scope of construction started in high demand areas (the marketing of properties of the Ministry of Housing and the Israel Land Administration focuses mostly on the periphery areas), and increased burden on mortgage takers, along with expectations of governmental intervention which will result in decreased prices.

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.

Banking and finance:

- Strict management of credit, including the continuous aplication of controls.

- Comprehensive, in-depth analysis of the new transactions, including understanding the risks associated with financing.

- Determination of the obligo structure and adjusting the financing amount to cash flows with respect to the transactions and the company's activity.

- Reliable and ongoing assessment of the bank's current set of collateral and tracking the company's current reports.

- Developing expertise in the solar energy financing segment and accessibility to entities which operate in the segment.

- Legal evaluations regarding the provision of financing for solar energy transactions, including evaluating the rights to the projects on which the solar systems are installed, evaluating the rental agreement between the entrepreneur and the property owner (insofar as the transaction is of the relevant kind), evaluating the financial model of the financial, etc.

Main barriers to entry and exit in the operating segment and changed 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 debentures 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 220 projects, in the average scope 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).

Credit which is given for commercial activity and for the solar energy segment is distributed between a large number of customers, throughout the entire country. There are two types of customers in the solar energy segment: 1) owners of properties who own solar energy systems on rooftops which are owned by them; and 2) the greater part - entrepreneurs who rent rooftops on which solar energy systems are installed.

As stated above, in light of the exhaustion of all quotas which were approved in the past by the electricity Authority, in favor of small and medium sized solar facilities, most of the transactions are performed vis-à-vis entrepreneur customers who buy existing solar facilities, and not transactions involving the construction of new facilities.

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.

Marketing and distribution

Marketing and distribution are performed through the managers and employees in the bank's real estate segment, and in commercial departments of the bank's branches in Tel Aviv, Jerusalem 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 organized by the National Association of Contractors and Builders, and by the local contractor organizations and by participating in various conferences, including the participation of professionals on behalf of the bank, lecturers and/or participants in professional panels at these events.

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 also plan to enter the project financing segment; one of them effectively entered the segment in 2014.

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 operates 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 project, thereby reducing the risk level in these projects.

Most of the banks compete over financing of the solar energy segment. Additionally, in large scale transactions, institutional entities and insurance companies also take part in financing. The level of professionalism, know-how and in-depth familiarity with the segment allow the bank to expand, in a controlled manner, its activities in the branch, vis-à-vis existing customers and new customers.

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 2014, the bank's relative share in the accompaniment of new residential units segment amounted to approximately 10% of all residential units built in 2014. Additionally, the bank's share in the small and medium sized solar energy segment is higher than the bank's share in the banking system.

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. The engagements of 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.

Human capital

In 2014, the average number of positions in the segment amounted to 42 direct positions, as compared with 28 positions in 2013.

The increase primarily occurred in the capital market segment, following the acquisition of Clal Batucha

- 15 positions on average, as compared with 2 positions in 2013. In the construction and real estate segment - an average of 19 positions, similarly to 2013.

In the banking and finance segment - an average of 8 positions, similarly to 2013. The headquarters and management employees were also loaded onto the segment.

Presented below are the summary results of operations of the business segment:

	For the one year period ended December 31							
	2014				2013			
	Banking and finance	Construction and real estate	Capital market	Total	Banking and finance	Construction and real estate	Capital market	Total
	Millions of NIS							
Interest income, net								
From externals	8.7	25.8	-	**34.5**	13.5	26.4	-	39.9
Inter-segmental	1.5	0.6	-	**2.1**	(1.6)	(0.6)	-	(2.2)
Total interest income, net	10.2	26.4	-	**36.6**	11.9	25.8	-	37.7
Non-interest income - from externals	3.8	22.0	20.9	**46.7**	4.1	22.2	1.1	27.4
Total income (before credit losses)	14.0	48.4	20.9	**83.3**	16.0	48.0	1.1	65.1
Expenses with respect to credit losses	1.0	9.3	-	**10.3**	(1.3)	0.1	-	(1.2)
Operating and other expenses, excluding depreciation and amortizations	(9.2)	(19.1)	(13.2)	**(41.5)**	(8.6)	(16.3)	(1.7)	(26.6)
Depreciation and amortizations	(1.3)	(2.5)	(1.5)	**(5.3)**	(1.0)	(1.8)	(0.1)	(2.9)
Profit (loss) before taxes	4.5	36.1	6.2	**46.8**	5.1	30.0	(0.7)	34.4
Provision for taxes on income	(1.4)	(11.0)	(1.9)	**(14.3)**	(1.9)	(11.1)	0.3	(12.7)
Net profit (loss)	3.1	25.1	4.3	**32.5**	3.2	18.9	(0.4)	21.7
Return on equity (Percentage of net profit from average capital)				**22.0%**				15.6%
Average balance of assets	407.7	851.0	29.5	**1,288.2**	502.2	895.0	-	1,397.2
Average balance of liabilities	2,823.9	448.3	-	**3,272.2**	3,033.3	452.6	-	3,485.9
Average balance of risk assets (Basel II)	257.5	1,181.6	105.1	**1,544.2**	275.8	1,178.7	-	1,454.5
Average balance of mutual funds	-	-	-	-	-	-	-	-
Average balance of securities	-	-	6,431.3	**6,431.3**	-	-	251.5	251.5
Average balance of other managed assets	-	-	-	-	-	-	-	-
Margin from credit provision activity	6.7	23.0	-	**29.7**	8.3	23.7	-	32.0
Margin from deposits receipt activity	2.9	1.3	-	**4.2**	3.3	2.4	-	5.7
Other	0.6	2.1	-	**2.7**	0.3	(0.3)	-	-
Total interest income, net	**10.2**	**26.4**	-	**36.6**	**11.9**	**25.8**	-	**37.7**

Changes in the scope of operations and profitability in the segment

Income in this segment constitutes approximately 18% of the bank's total income; expenses in this segment constitute approximately 13% of the bank's total expenses.

Net profit during the year amounted to NIS 32.5 million, as compared with NIS 21.7 million in the corresponding period last year, an increase of approximately 50%. The increase in profit was mostly due to income with respect to credit losses, following income upon the conclusion of the debt collection process which was recorded in the reporting period, and the increase in income from capital market activities in this segment, following the acquisition of the Clal Batucha operation.

Financial management segment

General

Activities in this segment are not performed vis-à-vis customers, and include the bank's financial management, including:

- 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.

Business objectives and strategy

The purpose of this activity is the management of exposures in the banking portfolio and in the trading portfolios, in accordance with the bank's risk appetite, and opportunities on the capital markets, with the aim of increasing the bank's returns.

Structure of the operating segment

The activities in this segment are focused on the financial division. The bank manages, on an ongoing basis, its positions in the various linkage segments, through the variety of financial tools which are available to it. This management is performed in accordance with the risk management policy determined by the bank's Board of Directors, in consideration of the changes which occur in the relevant economic indicators, and ongoing monitoring of the risks arising from such exposure.

The main financial exposures are managed are created in the banking portfolio as an inseparable part of the bank's business operations. Additionally, the bank initiates actions involving investment in and hedging of nostro portfolios, which are used for the following activity types:

- Trading activity, which is characterized by short-term investments, primarily in governmental securities, both in the primary market and in the secondary market.
- 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 debentures, primarily with the aim of achieving high returns on the bank's liquid balances.
- Activity involving investments in non-governmental securities, primarily banking debentures, in accordance with the bank's credit policy.

The investment portfolio 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. Analysis of this kind is critical for the creation of appropriate pricing for financial products, and also for investment decisions which pertain to the nostro portfolio.

As part of liquidity management and in consideration of the restrictions determined by the Board of Directors, the liquid surplus is deposited in the Bank of Israel and in various banks in Israel and around the world. The bank has credit facilities from banks in Israel, which it uses from time to time in accordance with its current requirements.

For details regarding the liquidity model and restrictions of management and Board of Directors, see the chapter regarding risks and risk management methods.

Market making with government debentures

As part of the as part of acquisition of Clal Batucha and its merger into the bank, in 2013, the bank was appointed a primary market maker with government debentures, in accordance with a letter of appointment from the Accountant General in the Ministry of Finance (in place of Clal Batucha, which had served as primary market maker until December 15, 2013), 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 debentures is to ensure an optimal allocation of government debentures to investors, and to increase the transparency and liquidity with respect to trading of government debentures. This activity is performed by virtue of the State Lending Law, 5739-1979, which regulates the appointment of primary market makers for government debentures, and the engagement therewith. The terms of the appointment establish the obligation to acquire from the government debentures in a minimum amount, on a periodic basis, an obligation to publish the buying and selling prices of the debentures in the trading system of the primary market makers, the right to participate in the acquisition of debentures from the government, the right to receive options for the acquisition of debentures from the government, the right to borrow debentures from the government, and the right to trade debentures in the trading system of the primary market makers. The conditions for qualification as a primary market maker regarding government debentures 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 debenture 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, as conventional in the market for government debentures, and from benefits which are reserved for market markers, and provided by the Ministry of Finance.

Restrictions on legislation, standardization, supervisory provisions and special constraints

The bank, and the financial management segment in particular, operate within the framework of law, 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, and subject to the policies of the Ministry of Finance with respect to market making with government debentures.

Critical success factors in the operating segment

The critical success factors in this segment include the ability to correctly identify the market conditions and the expected timing of changes to such rules; the ability to understand and to analyze the possible effect of macro-economic factors on market conditions, and to predict their intensity, and the ability to act quickly and to change 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.

Human capital

In 2014, the number of direct positions in the segment was 3, similarly to the number of positions in 2013.

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

Presented below are the summary results of operations in the financial management segment:

	For the one year period ended December 31	
	2014	2013
	Millions of NIS	
Interest income, net		
From externals	37.0	(0.9)
Inter-segmental	(10.4)	9.6
Total interest income, net	26.6	8.7
Non-interest income - from externals	18.1	14.2
Total income (before credit losses)	44.7	22.9
Expenses with respect to credit losses	0.1	-
Operating and other expenses, excluding depreciation and amortizations	(6.0)	(6.4)
Depreciation and amortizations	(0.3)	(0.3)
Profit before taxes	38.5	16.2
Provision for taxes on income	(12.0)	(5.9)
Net profit	26.5	10.3
Return on equity (percentage of net profit from average capital)	58.8%	25.2%
Average balance of assets	3,502.6	2,745.8
Average balance of liabilities	937.2	109.5
Average balance of risk assets	477.6	412.3
Average balance of securities	-	-
Average balance of other managed assets	-	-
Margin from credit provision activity	20.6	(4.6)
Margin from deposits receipt activity	-	-
Other	6.0	13.3
Total interest income, net	**26.6**	**8.7**

Changes in the scope of operations and profitability in the segment

The income from this segment constitutes approximately 10% of the bank's total income. The expenses in this segment constitutes approximately 2% of the bank's total expenses.

The profitability of this segment amounted this year to profit of NIS 26.5 million, as compared with profit of NIS 10.3 million in the corresponding period last year. The increase was primarily due to the reduction of the decreased cost of sources and assets management, in comparison to the corresponding period last year.

Presented below are details regarding the decreased value of available-for-sale debentures (government, banking and corporate) which was recorded to the capital reserve, distributed by lifetime ranges and rates of decline:

Rate of impairment as of the financial statements date	Impairment amount (Millions of NIS)					
	Time period in which the asset's fair value was lower than its cost				Total impairment as of December 31	
	Up to 6 months	6-9 months	9-12 months	Over 12 months	2014	2013
Up to 20%	1.0	-	-	-	1.0	0.5
20%-40%	-	-	-	-	-	-
Over 40%	-	-	-	-	-	-
Total	**1.0**	**-**	**-**	**-**	**1.0**	**0.5**
Of which: government debentures	0.9	-	-	-	0.9	0.5

Raising of financing sources

General information

The bank has adopted, for years, a policy which strives to expand operations vis-à-vis households, with the aim of expanding the basis for the raising of sources. This policy has contributed in these years to a significant increase in the weight of households out of the total public deposits, in parallel to a decrease in the weight of deposits from institutional entities. The balance of public deposits amounted as of December 31, 2014 to NIS 10,977 million, as compared with NIS 11,071 million at the end of 2013.

The bank's activity in the public source raising segment is managed in the financial division.

Goals and business strategy

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 views with importance the need to maintain contact and collaboration with institutional customers, as part of the management of sources and liquidity on an ongoing basis.

Structure of the segment

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.

On December 4, 2014, Jerusalem Finance & Issuance Ltd. issued NIS 292.5 million par value as a series extension (Series I) in consideration of NIS 317.4 million, in accordance with a shelf offering report dated December 2, 2014. For additional details, see the company's immediate report dated December

4, 2014, the contents of which are included herein by way of reference.

Presented below is the composition of the bank's financing sources, which include public deposits, debentures and deferred liability notes:

	Balances as of December 31		
	2014	2013	Change in percent
	Millions of NIS		
1. NIS deposits and checking accounts	**6,662**	6,858	(3%)
2. Savings plans and CPI-linked deposits	**2,453**	2,603	(6%)
3. Deposits in foreign currency and linked to foreign currency	**1,862**	1,610	16%
Total public deposits	**10,977**	11,071	(1%)
4. Debentures and deferred liability notes	**1,503**	1,406	(6%)
Total financing sources	**12,480**	12,477	-

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 debentures and deferred liability notes. The issuance is performed by a wholly controlled subsidiary, Jerusalem Finance & Issuance Ltd., which is responsible for raising on behalf of the bank, and therefore, the bank has undertaken to fulfill all of the conditions of the liability certificates, to bear the payment of all amounts which will be required to repay the liability certificates to their holders, as well as the interest with respect thereto, in accordance with the terms set forth 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 id 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 enterprise 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 Bank 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 are intensively active 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 provisions of the Bank of Israel require the banks to maintain liquid resource balances with respect to public deposits, at various rats, 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 August 17, 2014, 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 to the local rating, the rating would be updated for three deferred liability notes which had been 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".

Fixed assets and facilities

The amortized cost of buildings and equipment amounted, as of December 31, 2014, to NIS 160.8 million, as compared with NIS 150.4 million as of December 31, 2013. The increase was primarily due to investments in software costs.

Most of the areas in which the bank's business operations are managed are rented areas. As of December 31, 2014, the bank has available to it areas amounting to approximately 12,000 square meters, similarly to the total areas which were available to it as of December 31, 2013.

As at the end of 2014, the area of the headquarters in Airport City amount 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 2014, the bank owns real estate with a total area of approximately 1,000 square meters, similarly to the total as of December 31, 2013.

The rental agreement of 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 are 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 8 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.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 contains data in connection with the bank's business operations and customers.

Customer relations - as part of the acquisition of Clal Batucha, a 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, 2014, this asset is estimated at a total of approximately NIS 1,6 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.

Within the framework of the operational merger of Clal Finance Batucha and the establishment of a unique capital market ranch, a designated IT room was established for the central capital market system in the Rubinstein House in Tel Aviv.

DR (data recovery) site - the bank operates a DR site in Jerusalem.

DR site for main capital market system - established in Airport City; a recovery exercise was conducted in combination with the business entities.

Information systems

Support for the bank's business operations is provided through 3 core systems:

Commercial system (BankWare) - used to manage the commercial activities; HaSefer HaRashi, the mortgage system - used to manage mortgage activities; the central capital market System - used to manage activities on the capital market.

In addition to the core systems, additional software / hardware systems are also used in the bank:

CRM system - used to manage cal center and branch activities, marketing website and transaction website, DWH/BI systems for comprehensive managerial information, ATM system, various organizational systems such as the risk management, data management system, computerized archives, suppliers and payments management system and a video infrastructure for conversations with customers to support the bank's activities.

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.

In 2014, a comprehensive BIA (business impact analysis) process was performed. As part of the process, the bank's critical business services were identified, including documentation of the effect over the time axis of loss / disruption in the availability of services, the systems / infrastructures which support the critical business services, and the recovery time required for each service.

During the reporting year, stage B of the installation of IT systems in the backup site was completed, and a summary exercise was performed. Additionally, a BCP exercise was performed on the level of the bank.

Information security

The bank invests a great deal of resources into the implementation of new information security products, and to implement ongoing improvement on the level of information security. In light of the considerable importance with which the bank regards this issue, the bank's information security policy was determined by the bank's Board of Directors, which implements controls over the actual implementation of the policy. The policy is implemented by the bank's Information Security and IT Department Manager. The policy was validated and approved in November 2014.

During 2014, 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 against attacks and vulnerabilities on the banking operations website. Additionally, the bank's central tools for the monitoring and control of information security and cyber activities were significantly upgraded.

IT infrastructure

The bank's IT infrastructure fully supports the various systems. In 2014, the bank completed the implementation of organizational timing systems, a monitoring and control system was implemented which includes infrastructure-based and application-based monitoring and control, The Oracle database storage array was replaced, the Siebel infrastructure was upgraded, the infrastructure for the mortgage system was upgraded, and the installation of ATM's in all of the bank's branches was completed.

Management of suppliers

The bank relies on various systems, including the core systems which were developed and are maintained by various companies. The bank maintains appropriate contact with all external information technology suppliers, In order to ensure the systems' proper operation, continuity of operations and technological and functional upgrades.

The bank periodically verifies the condition of the companies and their financial stability, primarily regarding systems which support critical business services.

The bank's relationships are set forth in detailed agreements vis-à-vis each and every supplier, which set out 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 and Microsoft.

Scope of investment

The scope of the investment in software costs amounted in 2014 to approximately NIS 39.8 million.

IT costs for 2014 (Millions of NIS)

Expenses which were recorded in the statement of income	
Expenses with respect to payroll and associated expenses	18.2
Expenses with respect to depreciation	33.0
IT (other expenses)	42.3
Total	**93.5**

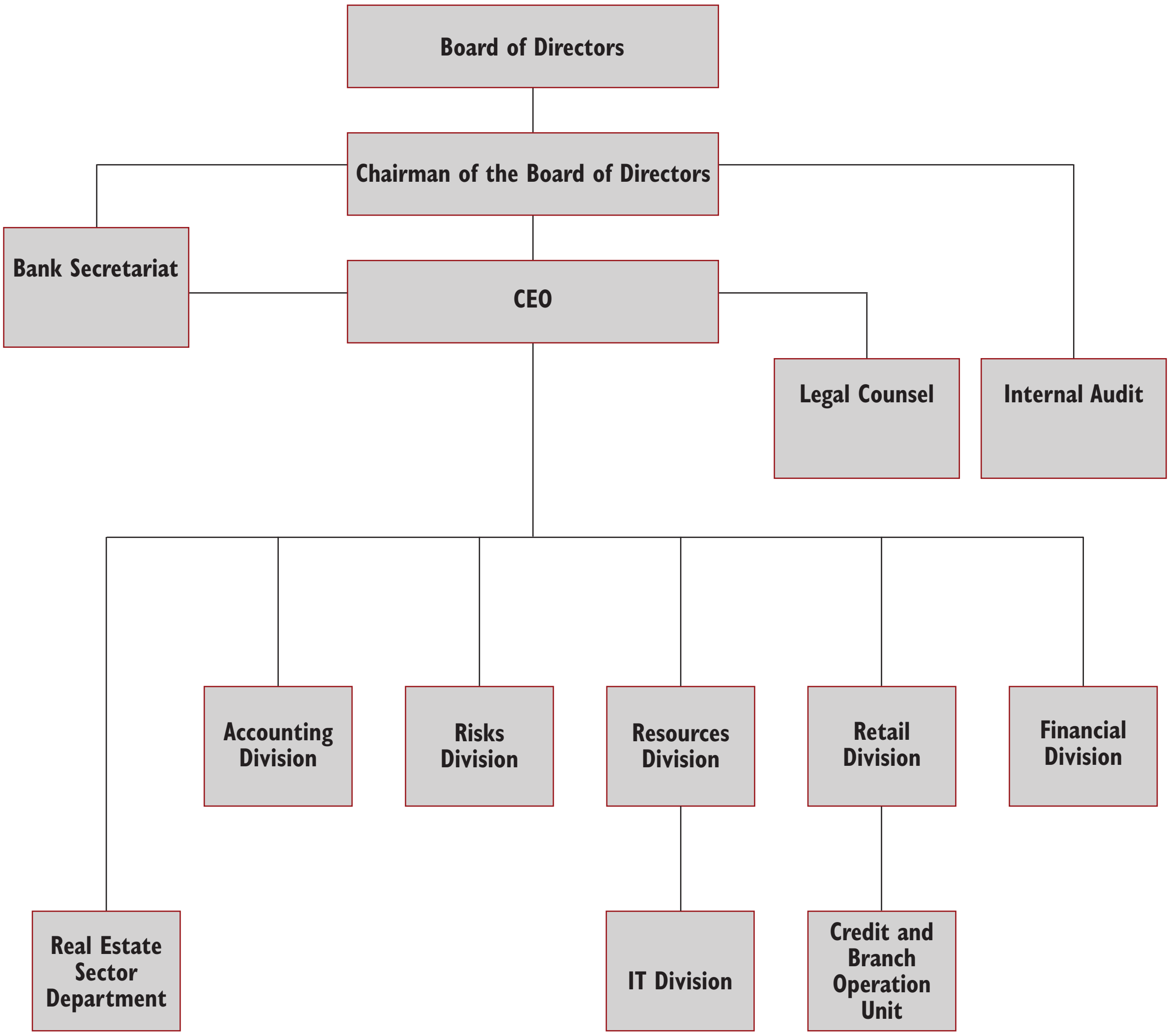
Costs recorded as assets	
Discounting with respect to payroll and associated expenses	5.3
Additional software costs	4.5
Discounting with respect to outsourcing	30.0
IT equipment	7.8
Total	**47.5**

Balance of assets with respect to information technology system	
Depreciated cost (software costs)	116.3
Depreciated cost (IT equipment)	11.1
Total	**127.4**

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 at the end of		Annual average	
	2014	2013	2014	2013
Number of employees:	597	550	586	542
Of which, through outsourcing	84	68	71	67
Number of positions:				
Ordinary work hours	591	541	579	528
Overtime	19	21	21	21

Presented below are details regarding payroll expenses, by the different salary levels:

	Number of positions(3)		Total expenses
In thousands of NIS per year (4)	**Bank employees**	**Outsourcing**	**Millions of NIS**
Less than 100	8	19	1
100 to 300	341	52	77
More than 300	151	22	81
Total salaries	**500**	**93**	**159**
With the addition of expenses which were not included in salaries			13
Less discounted payroll and associated expenses			(4)
Total salary and associated expenses			**168**

(1) In this report, the item for bank employees also includes managers who provide services through a management company under their control. The item for outsourcing includes employees who are employed through manpower companies, software houses and other companies which provide services to the bank, from which certain employees are hired for specific positions.
(2) The reporting does not include the bank's call center, which is operated through an external supplier.
(3) Includes employees who are employed in a full time (100%) position. Those employed in part time positions were unified (annual average).
(4) The division into groups was performed according to the annual cost, assuming a 100% position.

For details regarding the positions in the different operating segments, see the chapter regarding operating segments in this report.

Further to the acquisition of the Clal Batucha activity at the end of 2013, in 2014, 52 employees were added to the financial division and to the IT division, some of whom are directly employed by the bank, while others are employed by an external supplier which provides services to the bank. Additionally, in accordance with the bank's strategic plan, the bank's set of employees increased, primarily due to the acceptance of IT employees who were hired by project-based suppliers (without additional cost).

Rotation and vacations

The bank operates in accordance with the Proper Bank Management Directive regarding rotation, and regards the rotation of sensitive senior 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 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 2014, 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 employees' position and the bank's requirements.

In 2014, 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 field of service and sales. In addition to the above, training sessions were provided in the risk management channel (in the area regarding money laundering, operational risks, management of controls and arrears, compliance and administrative enforcement).

In 2014, 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 2014, the bank conducted 1,195 training days, as compared with 1,861 training days in 2013. The decrease was due to the expansion of the training units through a remote learning system, training provided by training supervisors in the branches and in the back end, and reduction of training sessions in the sales segment, after four years in which the employees underwent intensive training sessions on the subject, and sales and marketing routines were implemented.

Remuneration policy

General:

- **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 Bank Management Directive 301A, regarding the remuneration policy in the banking corporation (hereinafter: "Directive 301A") (for details regarding the remuneration policy, see the immediate report dated June 12, 2014, reference number 2014-01-89982, the provisions of which are provided herein by way of reference, as well as Note 15 to the financial statements below). (Hereinafter: the "Remuneration Policy for Corporate Officers").

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. It is further noted, for the sake of order, and regarding the terms of tenure and employment of the current Chairman of the Board, that the terms which apply to him are those set forth in an existing agreement signed with him, which is paid through a corporation under his full control, which was approved by the bank's competent organs, prior to the entry into effect of Amendment 20 to the Companies Law, and therefore, they will continue to apply to the Chairman of the Board until the end of the engagement with him, and subject to the transitional provisions of Directive 301A (for details regarding the terms and tenure and employment of the current Chairman of the Board, see the immediate report dated April 3, 2012 (Reference Number 2012-01-092463)).

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 as of 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 restrictions, or from the bank's capital policy. Additionally, the Remuneration Committee will ensure that, once per year, the remuneration mechanism and its operation will be evaluated, including, inter alia, an evaluation of the degree to which the remuneration mechanism corresponds to the policy which was determined 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 of the remuneration policy for employees and for key employees who are not corporate officers, in accordance with Directive 301A. A detailed policy document which is based on the aforementioned principles was approved by the bank's Board of Directors on November 11, 2014, following the recommendation by the 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 (and including the salary components and associated benefits) and variable remuneration, as well as 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 according to the provisions of Amendment 20 and Directive 301A, and will verify that the current remuneration agreements and remuneration mechanism are applied appropriately in accordance with the policy and policies. 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 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 set forth by the Board of Directors.

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 and in Directive 301A. The members of the Remuneration Committee include A. Baruch (chairman) (outside director), S. Eshel (outside director), A. Sobel (independent director and outside director in accordance with Directive 301), O. Ben Ozer.

  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 the 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.

Additionally, and in accordance with the remuneration policy documents, the Board of Directors appointed the accounting firm KPMG (Somekh Chaikin & Co.) as an external expert for the purpose of evaluating the calculations of variable bonuses for 2014.

- The remuneration policy for corporate officers also applies to the directors in the bank (as of the reporting date, eleven 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 also applies, as of the date of this report, 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 list 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, 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.

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 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 consideration 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 compensate 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 associated 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 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 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 creating an identity of interests between them and 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 indicators, personal KPI's (key performance indicators) and qualitative indicators.

The remuneration policy for corporate officers includes the determination of the maximum limit for the variable annual bonus: for the Chairman; for the CEO; and for management members. 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, remuneration 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 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.

- The remuneration policy includes a stipulation according to which 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 erroneous and were restated in the bank's financial statements.

- In the reporting year, 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; After their approval, as specified above, no changes were implemented during the reporting year.

- 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 reference 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 key employees who are not corporate officers, who are responsible for control and monitoring functions.

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 determined between the variable remuneration and the fixed remuneration, in a manner whereby, in any case, the variable remuneration for corporate officers and key employees who are not corporate officers will not exceed 100% of the salary cost of each corporate officer, excluding in exceptional cases, as specified in the remuneration policy with reference to the CEO only.

  (c) In accordance with the remuneration policy for corporate officers, upon the calculation of the maximum limit for the variable annual bonus which can be provided to the Chairman 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 main performance indicators for the bank and personal KPI's, are as follows:

  (a) Payment of the variable annual bonus is contingent upon the fulfillment of two cumulative preconditions:

    - 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, 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 indicators.

- 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 to corporate officers will be in accordance with 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.

Goals	Chairman of the Board of Directors	CEO	Corporate officers who are not responsible for control and monitoring	Corporate officers who are responsible for control and monitoring
Reported returns goals, as required by the bank	80%	80%	40%	20%
KPI's	-	-	40%	60%
Qualitative indicators	20%	20%	20%	20%
Total	100%	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 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 rate of actual reported returns is lower than the required reported returns, but at least at a rate of 5%, to key employees who are not corporate officers, in an amount which will not exceed one monthly salary per aforementioned employee, 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 postponed 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 postponed variable remuneration will not harm the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks. 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.

- Additionally, a stipulation was added to the remuneration policy documents specifying that the corporate officers and key employees who are not corporate officers will repay to the bank, in accordance with the conditions specified in the policy, amounts which have been paid to them as part of the terms of tenure and employment, if these were paid to them based on data which were found to be erroneous, and which were restated in the bank's financial statements (clawback).

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 certain conditions and maximum 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.

In 2014, the Remuneration Committee convened 20 times, and the remuneration which was paid to its members during the year amounted to approximately NIS 234 thousand.

During the reporting year, one corporate officer received variable remuneration (guaranteed bonus) in the amount of NIS 5 thousand. No bonuses were granted at the time of singing, and no severance pay was paid during the reporting year. Additionally, in the reporting year, no postponed remuneration was paid, and there is not balance of unpaid postponed remuneration with respect to bonuses which were provided with respect to previous years.

Presented below are details regarding the amounts of remuneration to corporate officers with respect to the reporting year (in thousands of NIS):

	Total value of remuneration with respect to the reporting year	
	Non-deferred	**Deferred**
Fixed remuneration		
A. Cash-based	12,789	-
B. Stocks and stock-based instruments	17	-
Total fixed remuneration	**12,806**	-
Variable remuneration		
Cash-based	1,502	751
Total variable remuneration	**1,502**	**751**

The total unpaid amount of the balance of postponed remuneration and remuneration held with respect to the reporting year, which is exposed to retrospective adjustments, either explicit and/or implicit, amounts to NIS 751 thousand.

For details regarding the remuneration plan for the CEO and the Chairman of the Board, see Note 21 to the financial statements.

Description of employment agreements

Approximately 53% of the bank's employees are employed through personal employment agreements which define the terms of their employment in the bank. 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 was specifically agreed with them when they joined the bank.

The employment terms of approximately 47% 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). This agreement has the status of a collective agreement. 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. The aforementioned arrangement also applies to some of the employees who are authorized signatories in the bank, and who are included in the group of ranked employees, excluding the fact that they are also entitled to salary bonuses with respect to the signature authorization.

Retirement arrangements - the retirement terms of employees with personal agreements are included in their employment agreements.

Employees of the subsidiary are employed in accordance with the employment terms of the bank.

Additionally, the bank and its subsidiary acquire the services of manpower companies and software houses ("outsourcing" employees).

Development of human resources

The bank focuses in value-based investment in its employees, as part of 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. During 2013, middle managers in the branches underwent a training process for leading teams. A training program for acting unit managers is planned for 2015.

The bank is currently accepting primarily academic employees, and as of the end of 2014, the bank employees 64.5% 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 funded a joint foundation between the bank and its employees, to support employees who are in financial distress situations.

Corporate officers and authorized signatories

As of December 31, 2014, 10 corporate officers are serving in the bank (who are not directors), through personal contracts. There are 211 authorized signatories in the bank: 114 in the branches, and 97 at headquarters. For details regarding the retirement of corporate officers during the reporting period, see the chapter regarding corporate officers, below.

Taxation

General

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.

In accordance with the Value Added Tax Ordinance (Tax Rate for NPO's and Financial Institutions) (Amendment), 5773-2013, which was approved by the Knesset in May 2013, the payroll tax rate and capital gains tax rate applicable to financial institutions will amount to 18%, beginning in June 2013.

On August 8, 2013, the Change in the Tax Burden Law (Legislative Amendments), 5772-2013 (hereinafter: the "Law") was passed by the Knesset. Under the law, the corporate tax rate was increased to 26.5%, beginning from 2014 and thereafter.

Presented below are the statutory tax rates which apply to financial institutions, including the bank:

Year	Corporate tax rate	Capital gains tax rate	Total tax rate in financial institutions
		%	
2010	25.0	16.00	35.34
2011	24.0	16.00	34.48
2012	25.0	16.33(*)	35.53
2013	25.0	17.58(*)	36.22
2014 and thereafter	26.5	18.00	37.71

(*) Weighted rate

Merger of Clal Batucha into Bank of Jerusalem

On March 12, 2014, a taxation decision to implemented a structural change was received from the Israel Tax Authority, according to which approval was given for the merger plan as of December 31, 2013, of Clal Batucha into Bank of Jerusalem (the "Merger"), subject to the fulfillment of the conditions specified in section 103C of the Ordinance (which stipulates, inter alia, that the bank will continue the primary economic activity of each of the acquired companies, Batucha and Brokerage , for a period of two years, and that controlling shareholders in the bank will hold their shares for a period of at least Batucha and Brokerage, for two years, and that the controlling shareholders in the bank will hold their shares for a period of at least two years after the date of the merger, which entered into effect in December 2013).

The aforementioned decision is conditional upon the fulfillment of the conditions specified in the directive and in the taxation decision. It is noted that it was determined, within the framework of the taxation decision, that notwithstanding the provisions of the directive, business losses which have accrued in the acquired companies, Batucha and Brokerage, by the end of 2013, may be deducted beginning from 2014, equally over 9 years, so long as this amount does not exceed 50% of the taxable income of Bank of Jerusalem in the same tax year. Additionally, it was determined that the bank will not be permitted to set off capital losses which were accumulated by Clal Batucha until the end of 2013.

Tax assessments

Final assessment 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 for the bank and its subsidiaries up to and including 2010 are considered final. Current taxes and deferred taxes were calculated in accordance with the new tax rates.

Within the framework of a dispute between Clal Batucha with the Tax Authority, orders were issued for the years 2007 - 2008, and assessments were determined to the best of its judgment for the years 2009 - 2010, according to which Clal Batucha is required to pay to the tax authorities a total of approximately NIS 18 million, including fines, interest and linkage differentials as of the issuance date of the assessments.

On November 27, 2014, a settlement agreement was signed between the bank and the tax authorities, according to which the bank paid a total of NIS 4.4 million, as full payment with respect to the tax assessment which is the subject of the dispute. In accordance with the undertaking by Clal Finance to indemnify the bank for these proceedings, Clal Finance paid all of the bank's costs in connection with the aforementioned arrangement with the tax authorities.

Restrictions on and control over the banking corporation's activities

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 subsidiary wholly owned and controlled by 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 Insurance Commissioner 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 restriction (this restriction does not apply with respect to insurance which was prepared before January 1, 2006).

General

The bank constitutes 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 company 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 are not unique, as stated above, affect significant segments of its operations. The Banking Ordinance, various banking laws and Proper Bank 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.

In addition to the above, the bank is subject to broad legislation which defines its activities on the capital market, both for its customers and for itself (for example, in the field of investment consulting and management of customer portfolios, securities laws and restrictions on activities in the insurance segment), and also to guidelines issued by the Ministry of Finance, which regulate the bank's activities as a market maker with government debentures.

The fees charged by banks, including 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, the legislation on the subject of the prohibition against money laundering and terrorism financing; The Credit Data Law, legislation on the subject of housing loans, laws regarding guarantees, etc.

In addition to the above, there is also legislation with, due to its connection to the bank's activities, has a significant impact on its 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 applies 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).

Directives issued by the Bank of Israel on the subject of remuneration policy

On November 19, 2013, the Banking Supervision Department published a Proper Bank Management Directive on the subject of the remuneration policy in banking corporations (the "Directive"). The directive specifies rules which are intended to ensure that remuneration arrangements in banking corporations in Israel are consistent with the risk management framework and with the banking corporation's long term goals.

In accordance with the directive, a banking corporation is required to adopt a remuneration policy which will apply to all of the employees of the banking corporation, and which will refer to all types of remuneration given to employees. The remuneration policy will be prepared on a multi-annual basis, will take into account considerations which apply to the entire organization, and will require the approval of the Board of Directors, at least once every three years.

It was further determined that the banking corporation will be required to define the "key employees" in the banking corporation, including any person whose activities may have a significant impact on the risk profile of the banking corporation, including corporate officers in the banking corporation. The directives includes requirements which will apply to all of the employees in the banking corporations, as well as requirements which will apply specifically to "key employees".

The directive provides that the variable remuneration to key employees must be dependent upon the fulfillment of predefined criteria, and must be based on a combination of the employee's performance, the business unit and the banking corporation in its entirety. The maximum variable remuneration will not exceed 100% of the fixed remuneration for each employee, subject to an exception which was set forth in the directive. The variable remuneration is also subject to the postponement arrangements which were determined in the directive. The directive also includes rules regarding the provision of stocks and stock-based instruments, including a requirement stipulating that at least 50% of the total variable remuneration with respect to a certain calendar year will be provided in the form of stock-based instruments, as well as a prohibition against the provision of non-performance-dependent variable remuneration, excluding a signing bonus. It was further determined that payments to key employees (excluding directors) will be paid directly, and not through the corporation or any other entity.

The directive establishes rules regarding the control, documentation and monitoring of the policy, the arrangements and the mechanisms for remuneration in the banking corporation, as well as provisions regarding the remuneration of employees responsible for the risk management, auditing and control functions in the bank.

The directive also sets forth transitional provisions, according to which the requirements specified in the directive will apply to remuneration policy which will be determined beginning on the publication date of the directive, and no later than June 30, 2014, as well as provisions regarding existing remuneration agreements. The bank is implementing this directive. For additional details, see the chapter regarding human capital in this report.

Directive issued by the Bank of Israel on the subject of 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 of American banks.

The circular cancels the temporary order which established the discount rate used to calculate reserves to cover employee rights, and determines that the discount rate will be based on the market yields of government debentures in Israel, and that the banking corporation will determine a policy and procedures which specify the method by which government debentures should be chosen, which will be used to calculate the discount rate.

The adoption date of the directive was set as January 1, 2015, and will include a retrospective amendment to the comparative figures for periods beginning on January 1, 2013 and thereafter.

For details regarding the impact of the directive, see Note 15 to the financial statements.

Proper Bank Management Directive 308A, on the subject of the handling of public complaints

On September 30, 2014, the Commissioner of Banks published a new Proper Bank Management Directive, regarding the handling of public complaints. The following are the primary components of the new directive:

1. A banking corporation will be obligated to create a designated unit to handle public complaints, and to appoint a public complaints ombudsman to head the unit.

2. The public complaints ombudsman will be a senior member of management, or will be subordinate to a senior member of management.

3. The public complaints ombudsman and his subordinate employees will not fulfill any other position, except with the Commissioner's approval.

4. The bank's Board of Directors will approve a policy document regarding the handling of public complaints and a service charter.

5. The public complaints ombudsman will be obligated to submit semi-annual reports to bank management and to the bank's Board of Directors, and will be obligated to submit a semi-annual report to the Banking Supervision Department.

6. A precondition for the submission of complaints to the Banking Supervision Department will be the hearing of a complaint in the banking corporation regarding which the complaint was submitted, excluding in exceptional cases.

7. A banking corporation will publish on its website a report, in the framework which will be determined by the Commissioner, and which will present summary data regarding the handling of public complaints whose handling concluded throughout the calendar year, within 90 days after the end of the year.

The directive enters into effect beginning on April 1, 2015. The bank is preparing to implement the directive.

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 corporation in general, including the bank. Additionally, from time to time various regulators (sch 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.

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 in the reporting year, see the details provided regarding each operating segment.

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 indemnification, see the bank's immediate report dated September 3, 2013 (reference number 2013-01-136176).

Legal proceedings

For details regarding legal proceedings, see Note 19C. to the financial statements.

Risks and risk management methods

Discussion regarding risk factors

The bank's activities as a financial intermediary expose it to a variety of financial risks, including credit risks, market risks and liquidity risks. The bank is also exposed to auxiliary risks, which are not financial risks that are primarily due to operational risks, legal risks, and strategic risks. The risk management policy in the various segments is used to support the achievement of business goals, while increasing exposure to the risks involved in the various activities.

The bank's activities and profitability are exposed to changes in the business environment, and are affected by the economic situation, by developments in real estate and capital markets, by technological developments and by changes in regulation. An economic downturn or possible crisis in the real estate market and/or in the capital market may affect the bank's activities in general, and its activities in the mortgage and real estate market in particular.

Presented below is a description of the changes in the business environment which may affect the bank's activities and profitability:

1. The development of a financial crisis in Israel, and exacerbation of the economic deceleration, could affect the repayment ability of the bank's borrowers, the increase in the scope of arrears of borrowers, due to the worsening of the repayment ability, the bank's raising abilities, and the margins of its banking activities.

2. Incorrect forecasts and erroneous estimates, unexpected response by entities (customers, competitors, and others) which operate in the bank's business environment, late identification of market trends, changes in the preferences and/or conduct of consumers, changes in the banking system and/or in regulation, and an increase in the aforementioned effects on the structure of competition in the segment, absence of the ability to monitor the fulfillment of multi-annual goals - the realization of any of the above in a manner which is different from the estimates underlying the bank's strategic plan could harm the bank's profitability and its business plan.

3. Material changes in the residential real estate market which could cause a decrease in the value of collateral for credit which was provided by the bank, an increase in the provision for credit losses, and the scopes of provision of credit to households, which involve the pledging of a residential home. These changes may also affect the credit which was given to projects which are accompanied by the bank.

4. Tangible harm to the real estate assets which are used by the bank as collateral for securities which it has provided, such as harm to towns as a result of war or destruction of buildings, due to a natural disaster, may, in case of lack of full insurance coverage, harm the repayment ability and result in an increase in the scope of bad debt. Such extensive harm may result in the development of an economic crisis and a worsening of the recession.

5. Change in the recovery outline from the crisis affecting financial markets around the world and/or a worsening thereof may affect the repayment ability of foreign resident borrowers, may cause a reduction in demand for new credit to finance the acquisition of residential properties in Israel, and may affect eh ability to raise financing sources for activities in foreign currency.

6. A downturn on the capital market could affect the possibility of raising sources for the bank through marketable issuances. Additionally, a downturn in this market could affect the bank's business operations in the capital market segment.

7. Increased interest rates could increase the repayments of borrowers who have taken loans at variable interest, and thereby affect the probability of defaults on those loans.

8. The future realization of macro-economic forecasts regarding the market in a manner which differs from the bank's estimates regarding those forecasts (such as an exceptional and unexpected rise in the real interest rate) may affect the results of the financial management segment, and the fair value of the bank's securities portfolio.

9. Any significant, sudden and unexpected deviation in macro data (such as uncontrolled inflationary rise, extraordinary rise of the USD exchange rate) may result in an unplanned increase of risk assets, and prevent the bank from implementing its work plans.

10. Changes in regulatory provisions and the possible results of legal proceedings may affect the scope of operations in the banking system, the scope of competition therein and/or the bank's profitability.

11. Harm to the bank's reputation and a reduction of the bank's credit rating could harm the bank's profitability, due to the reduction of its scope of activity, and the increased cost of capital raising and liquidity, due to the reduced rating.

12. Operational risk, which could be expressed, inter alia, in a failure of information systems which do not implement adequate monitoring, or events involving embezzlement and fraud, due to the increase in the scope of e-trading, advancement of financial activities, and the complexity of products and technologies.

13. Increased information security threats in connection with computer technologies, primarily cybernetic incidents which could take place due to intentional attacks or unintended events.

The information provided in this chapter constitutes forward looking information which may not be realized, in whole or in part, or which may be realized differently from expected. This information is based on estimates prepared by bank management regarding the future realization of segmental forecasts and of macro-economic forecasts, in accordance with the bank's advance estimates. It is possible that these estimates will not be realized, inter alia, as a result of economic events, political / security events, changes in the preferences of customers, and increased competition.

Risk management in the bank is implemented on an ongoing basis, in accordance with the directives issued by the Bank of Israel, and in accordance with the rules which were determined in Pillar 2 of the Basel Accords. As part of the above, the bank appointed risk managers for each of the following significant risks, as well as a Chief Risk Officer (CRO), who serves as a VP and Risk Division Manager.

The Commissioner of Banks published, within the framework of Proper Bank Management Directives, various provisions regarding risk management in banks, including the Basel Accords. The bank has created a work arrangement for the management and control of risks, and adjusts the bank's policy regarding the management of various risk s to the principles set forth in the Basel Accords.

Entities involved in risk management

The field of risk management in the bank is led by the Chief Risk Officer, who is a member of management and the bank's Risk Division Manager. A management unit was established for each of the various risks, which includes a supervisory circuit and three lines of defense, in accordance with the following details regarding these entities:

The supervisory circuit is comprised of the supervisory entities - the Board of Directors, designated committees of the Board of Directors and senior management.

The Board of Directors - is responsible for determining the bank's business strategy, including as regards risk management and securing the bank's capital. The Board of Directors is responsible for determining the risk tolerance and risk appetite of the bank, inter alia, by defining the scope of the bank's exposure limits to risks, and the risk management policy. The Board of Directors is also responsible for ensuring the adequacy of the risk management functions in the bank; for approving primary internal methodologies for the identification, estimation and management of risks, and for the calculation of capital requirements; for implementing monitoring and control over the implementation of the implementation which was determined by it.

The bank's Board of Directors discusses, once per quarter, the risks document presented by the bank's Chief Risk Officer, which includes details regarding exposures to the main changes. The purpose of the document is to assist the Board of Directors in monitoring the risk profile and ensuring that the bank does not deviate from the established risk appetite.

The Board of Directors has appointed a Board of Directors risk management committee, whose functions including discussing and recommending to the Board of Directors on all matters associated with the outline and approval of the bank's risk management policy; evaluating the risk management processes and their degree of correspondence to the policy framework which was approved by the Board of Directors; supervising the implementation of the risk management policy which was determined by the bank's Board of Directors, including the receipt of reports regarding deviations from the policy or restrictions which were determined by the bank's Board of Directors. additionally, the Board of Directors committee discusses and approves new and significant products and/or processes in the bank, in accordance with the recommendations of the relevant internal forums, led by the bank's CEO.

Management - is responsible for risk management in accordance with the policy, the risk appetite and the restrictions established by the Board of Directors. Management, led by the CEO, is responsible for realizing the risk management policy, upholding monitoring and control over the quality of risk management and the adequacy of risk assessment and measurement. Additionally, management is responsible for the creation of an effective system of risk management and control. Management operates by means of designated committees which are responsible for managing the various risks, and by means of the risk department, led by the Chief Risk Officer.

Description of lines of defense

First line of defense - this line includes risk takers and risk managers, which constitute the business and operational function that reaches decisions which involve risk taking. The controls which are prepared within the framework of routine activities by the business entities include a variety of activities, including compliance with the policies and procedures, compliance with restrictions and reporting to senior management and to the Board of Directors.

Second line of defense - this line includes the risk management function, which serves as the entity which monitors management, and is independent of the risk creators, as well as the credit risk and financial risk controls, led by the Chief Risk Officer. The processes implemented under this line of defense include, inter alia: the establishment of a risk management policy (in collaboration with the business function), independent identification and measurement of the levels of exposure to risks, evaluation of the existence of adequate work processes, validation of models, evaluation of the fulfillment of the restrictions which were established in the various policy documents, and reporting regarding the exposure levels and the deviations from the bank's policy, and from the policies to the relevant entities.

Chief Risk Officer - in accordance with the directives issued by the Bank of Israel, and in accordance with the framework which was set forth in the second layer of Basel II, the bank appointed a Chief Risk Officer (CRO) for the bank. Beginning on August 1, 2011, Mr. Michael Ben Yishai, VP and member of management, has served as the bank's Risk Division Manager and Chief Risk Officer. The function of the risk management department is to reinforce the bank's ability to understand the entire array of risks faced by the bank, and to ensure the cautious management of such risks. The directives issued by the Bank of Israel define the principles governing the activities of the Chief Risk Officer and of the risk management function, and specify their positions, functions and areas of responsibility.

The function of the CRO is essentially to create a broad, cross-organizational perspective on the entire array of risks associated with the bank's activities, including, inter alia, by creating a risk management culture which affects all of the bank's activities.

The risk management function and its leader are responsible for directly providing the bank's Board of Directors and senior management with all relevant information required to implement adequate supervision over the bank's risk profile, in a manner which will assist it in directing its activities.

Third line of defense - this line includes internal auditing, which evaluates the adequacy of actions and processes which are performed by the bank, its subsidiaries and auxiliary corporations, including the evaluation and assessment of the adequacy and effectiveness of the internal control framework and of the manner in which the senior position holders and authority holders are fulfilling their positions. Evaluation of transactions and evaluation of the actions and functioning of the specific processes involved in internal control. Evaluation of the implementation and effectiveness of policies for risk management and the risk assessment methodology. Evaluation of the means used to preserve the bank's assets. Evaluation of the various information systems, including business and operational information systems, information systems which are used for managerial and financial purposes, and reporting systems. Electronic information systems and banking systems in communications. Evaluation of the adequacy of the internal control framework in the financial report generation process. Evaluation of the precision and reliability of the accounting records and of financial reports. Evaluation of the reliability and timing of reports to supervisory authorities and to other authorities. Evaluation of systems intended to ensure compliance with the laws, regulatory requirements and rules for conduct, and implementation of the bank's policies and procedures. Monitoring of the routine implementation of the decisions reached by the Board of Directors and management, and the activities of senior management. Evaluation of the capital evaluation process with respect to the assessment of risks inherent in the activities of the banking corporation. Performance of special tests and investigations.

Presented below are details regarding the risks and members of management and department managers who function as risk managers:

Risk type	Risk Manager
Credit (except in the real estate segment)	Retail Division Manager
Business credit in the real estate segment	Real estate sector administration
Market	Financial Division Manager
Liquidity	Financial Division Manager
Operational	Risk Division Manager
Operational - information systems, including information security Operational - Business Continuity / Resource Division Manager	Resource Division Manager
Strategic	CEO
Legal	Legal advisor
Regulatory	Legal advisor
Reputation	Retail Division Manager
Compliance and prohibition on money laundering and terrorist financing	Compliance officer
Clearing and counterparty	Financial Division Manager
Environmental	Real estate sector administration
Human resources	Resource Division Manager
Administrative enforcement	Risk Division Manager

Capital adequacy

General background

The Bank of Israel published, on June 20, 2010, a Proper Bank Management Directive on the subject of measurement and capital adequacy. The directive defines the method used to calculate capital adequacy, and is based on the recommendations of the Basel Committee, regarding the international Convergence of Capital Measurement and Capital Standards (Basel II), which were published in June 2006.

The recommendations of Basel II are divided into three pillars:

Pillar 1 - minimum capital requirements with respect to credit risk, market risk and, for the first time, also operational risk.

Pillar 2 - the ICAAP process and SREP process.

Pillar 3 - market discipline.

Pillar 1 allows, for the purpose of calculating capital requirements, the use of several approaches to the measurement of risk components with respect to credit risks, market risks and operational risks: The standardized approach, or more advanced approaches, which are based on internal models for customer rating and the assessment of operational risks. The advanced approaches require explicit approval from the Commissioner of Banks. In these reports, similarly to the entire the banking system, the capital adequacy data was reported in accordance with the standard access principles of Basel II, as incorporated under Proper Bank Management Directive 201-211.

Pillar 2 places an emphasis on integrated risk management. As part of the above, banks are required to determine methodologies, processes and policies which re intended to ensure capital adequacy over the long term, while evaluating the significant risks to which the bank is exposed. The banks are required to prove the implementation of the methodologies required to ensure capital adequacy. The Banking Supervision Department is required to assess these processes and to impose supervisory measures according to needs and to the results of the assessment.

Pillar 3 refers to the level of transparency and disclosure requirements which will be applied to the public reports of banking corporations, as a supplementary part of Pillar 2. These requirements are intended to assist users of financial statements in evaluating the bank's capital adequacy and the additional information included in these reports regarding the bank's capital, exposure to various risks, and processes of evaluation.

In June 2011, the Basel Committee implemented updates to the recommendation on the subject of the "A global regulatory framework for more resilient banks and banking systems", known as Basel III. The recommendations include, inter alia, a requirement to gradually increase the ratio of minimum Tier 1 capital (core capital) from 2% to 7% (minimum capital ratio of 4.5%, plus an additional 2.5% as a capital conservation buffer) in 2019. The recommendations also include new requirements with respect to the liquidity risk management (in January 2013, the Basel Committee updated it recommendations on the subject of liquidity), definition of additional capital buffers (counter-cyclical buffers and a specific buffer against systemic risk), a requirement for the management of a leveraging ratio, and more. The committee also recommended that capital instruments on Tier 1 will be required to include a loss absorption mechanism, and that instruments which do not comply with the new conditions will be gradually written off from capital.

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

The Proper Bank 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 maintain a minimum 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, are equal to 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.

Additionally, criteria were determined regarding the validity of Tier 1 capital, additional Tier 1 capital, and Tier 2 capital. Additionally, transitional provisions were established which refer to the supervisory adjustments and capital deductions, as well as to capital instruments which are not suitable for inclusion under supervised capital, in accordance with the new criteria which were determined.

The main adjustments implemented by the bank following the transition to the provisions of Basel III include:

- Deferred tax receivable which was created due to timing differences - a risk weight of 250% will be applied instead of 100%, which was implemented under Basel II.

- Collective provision for credit losses - suitable for inclusion under Tier 2 capital, up to a maximum of 1.25% of total credit risk assets. In parallel, the provision will not be recognized regarding the deduction of calculated risk assets.

Deferred liability notes - the balance recognized for inclusion as Tier 2 capital as of January 1, 2014 will be restricted to a maximum limit of 80% (first year, in accordance with the transitional provisions) of the balance of recognized liability notes for the purpose of the provisions of Basel II and will be subjected a maximum limit in the coming years, in accordance with the transitional provisions.

The bank's Board of Directors instructed management to maintain a core capital ratio of no less than 9.5%, which is higher than the minimum capital ratio required by the Bank of Israel.

On September 28, 2014, the Commissioner of Banks published directives on the subject of restrictions regarding the provision of housing loans. According to the instructions, 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 target minimum capital 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 current balance sheet data, the bank is expected to gradually add a requirement for additional capital in the amount of approximately NIS 9 million, which constitutes an addition of approximately 0.1% to the minimum capital ratio established by the Commissioner of Banks, in each quarter, until the target date. According to the above, the cumulative calculation as of January 1, 2017 will amount to a total of approximately NIS 71 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.

The data from the bank's financial statements, the calculation of the risk assets and the capital adequacy ratio as of December 31, 2014 are calculated and presented in accordance with the required directives, according to the standard approach rules specified in Basel III. A capital adequacy to risk components ratio of 14.4%, and a core capital to risk components ratio of 9.7% (Basel III), which are presented in the report as of December 31, 2014, suffice to cover, in the bank's assessment, the capital required with respect to Pillar 1 and Pillar 2, including extreme scenarios, which are used by the bank in its internal assessments. This ratio is higher than the minimum capital ratio required by the Commissioner of Banks.

As part of the instructions specified in Basel III, to increase the resiliency of the banking system, the Basel Committee published, on January 14, 2014, the final instructions regarding the "framework and disclosure requirements for leveraging ratios", including instructions regarding measurement and disclosure.

In order to assist the Banking Supervision Department in determining the minimum leveraging ratio required of banking corporations, the Banking Supervision Department requested the banking corporations to perform a quantitative impact survey regarding the assessment of the leveraging ratio in the banking corporation, and to submit it to the Banking Supervision Department by December 30, 2014. The bank conducted the survey and submitted its results to the control office, as required.

Additionally, in advance of the update to Annex C of Proper Bank Management Directive 203, with the new capital requirements applicable to banking corporation which are exposed to main counterparties, the Banking Supervision Department required the banking corporations to perform a survey assessing the quantitative impact of the fulfillment of these requirements, and to submit it to the Banking Supervision Department by December 31, 2014. The bank conducted the survey and submitted its results to the control office, as required.

ICAAP and SREP processes

On May 13, 2014, the bank's Board of Directors approved the internal capital assessment adequacy process (ICAAP) as of December 31, 2013 (hereinafter: the "ICAAP for 2013"). (It is noted that the ICAAP is a routine process by which the bank identifies risks which are inherent in its activities, evaluates the capital required to support these risks, and ensures that the capital available to it complies with this requirement.)

In parallel to the ICAAP process, the Commissioner of Banks also performs a supervisory review and evaluation process (SREP), in which it is required to express its opinion regarding the capital adequacy of a banking corporation and the adequacy of its capital adequacy assessment (ICAAP) process, with respect to its risk exposures (risk profile), in consideration of the bank's corporate governance framework. This process will assist the Commissioner in formulating an opinion regarding the appropriate capital level, the supervisory steps and additional risk-reducing steps with respect to the bank's capital adequacy. The bank will continue to evaluate, on an ongoing basis, as part of the ICAAP and SREP processes, vis-à-vis the Bank of Israel, the aforementioned capital ratio, with reference to developments in the relevant risk environment.

The Commissioner of Banks published a temporary order regarding the implementation of the disclosure requirements set forth in Pillar 3 of the Basel Accords. Presented below is a table illustrating the connection between the disclosure requirements in the aforementioned directive and in the sections of the Board of Directors' report, or the notes to the financial statements, which include the required information, excluding requirements which are not relevant to the bank (such as the subject of securitization):

Table number	Subject	Location	Page numbers
Table 1	Scope of application	Capital adequacy	115-119
Table 2	Capital structure (including reference table to balance sheet items)	Capital adequacy Note 13B The bank's website (1)	121-123 317-318
Table 3	Capital adequacy	Capital adequacy Note 13B The bank's website (1)	121-123 317-318
Table 4	Credit risk - general disclosure requirements	Credit risks Addendum E to the Management Review Note 5 Note 7	123-143 214-216 292-305 307-308
Table 5	Credit risk - disclosure regarding portfolios handled in accordance with the general approach	Capital adequacy Credit exposures to foreign financial institutions	122-123 138
Table 7	Reduction of credit risks	Capital adequacy	122-123
Table 8	Counterparty credit risk	Note 19C Settlement risk and counterparty risk	352 143
Table 10	Market risk	Market risks	143-153
Table 12	Operational risk	Operational risks	153-156
Table 13	Stock positions in the banking portfolio	Note 4	287-291
Table 14	Interest rate risk in the banking portfolio	Interest rate risk	146-148
Table 15	Remuneration	Human capital	91-101

(1) www.bankjerusalem.co.il > Financial information > financial statements

Presented below is the calculation of the capital ratio, in accordance with the provisions of Basel III:

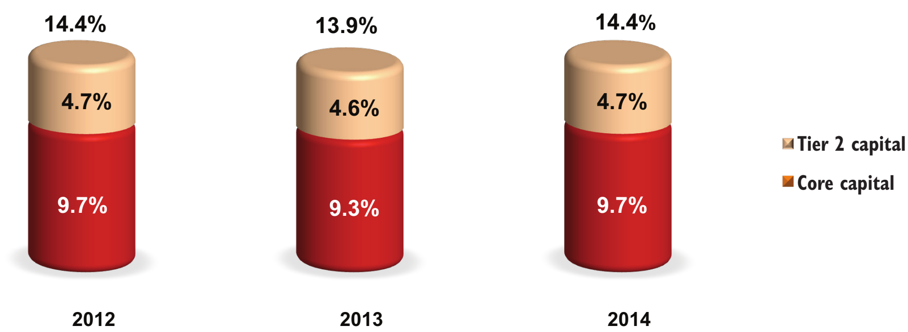
	December 31	January 1	December 31
	2014		2013
	Basel III		Basel II
	Millions of NIS		
A - Capital for the calculation of capital ratio			
Tier I capital, after control adjustments and deductions	742.5	694.8	694.5
Additional Tier I capital, after deductions	-	-	-
Tier 2 capital, after deductions	359.6	357.7	341.4
Total capital	**1,102.1**	**1,052.5**	**1,035.9**
B. Weighted balances of risk assets			
Credit risk	6,918.9	6,831.5	6,674.1
Market risks	33.2	55.1	49.3
Operational risk	698.7	705.5	705.5
Total weighted balances of capital assets	**7,650.8**	**7,592.1**	**7,428.9**
C. Ratio of capital to risk components			
			In percent
Ratio of Tier I capital to risk components	9.7	9.2	9.3
Ratio of total capital to risk components	14.4	13.9	13.9
Ratio of minimum Tier I capital required by the Commissioner of Banks (3),(4)	9.0	9.0	-
Ratio of minimum total capital required by the Commissioner of Banks	13.0	13.0	13.0

(1) Calculated in accordance with Proper Bank Management Directives 201-211, 299, regarding "Measurement and capital adequacy", effective as of January 1, 2014

(2) Calculated in accordance with Proper Bank Management Directive 201-211, 299, regarding "Measurement and capital adequacy", effective as of January 1, 2014

(3) Beginning on January 1, 2015.

(4) Beginning on April 1, 2015, a capital requirement will be added at a rate which reflects 1% of the balance of the housing loans as of the reporting date. This requirement is being applied gradually until January 1, 2017. Accordingly, the ratio of the minimum Tier I capital and the total minimum capital ratio which will be required by the Commissioner of Banks as of January 1, 2017, on a consolidated basis, according to the data of the reporting date, are 9.9% and 13.4%, respectively.



Presented below are the balances of the bank's risk assets as of December 31, 2014, according to Pillar 1 (Millions of NIS):

Credit risk	Risk assets	Minimum capital required by the Commissioner of Banks
Autonomy exposures	24.0	2.2
Public sector exposures	0.6	0.1
Banking corporation exposures	78.7	7.1
Corporation exposures	1,432.1	128.9
Exposures regarding securities for commercial real estate	30.5	2.7
Retail to exposure to individuals	974.0	87.7
Small business exposures	139.8	12.6
Exposures with respect to housing mortgages	3,914.3	352.3
Exposures with respect to other assets	319.9	28.8
Exposures with respect to CVA risk	5.0	0.5
Total credit risks	**6,918.9**	**622.9**
Market risk	**33.2**	**3.0**
Operational risk	**698.7**	**62.9**
Total	**7,650.8**	**688.8**

Presented below is the composition of exposures (before conversion to credit of off-balance sheet exposures) according to risk weights, in accordance with Pillar 1 (Millions of NIS):

Risk weight	Before the amortization of qualified financial securities and guarantees	After the amortization of qualified financial securities and guarantees
0%	3,646.1	3,646.1
20%	218.5	218.5
35%	3,453.1	3,451.5
50%	713.9	720.6
75%	4,540.3	4,431.2
100%	2,594.6	2,449.8
150%	99.1	97.1
250%	51.4	51.4
Total	**15,317.0**	**15,066.2**

Presented below is the composition of exposures and balances covered with collateral and guarantees as of December 31, 2014, according to Pillar 1 (Millions of NIS):

	Gross credit exposure	Risk exposure covered by qualified financial security	Amounts written off with respect to guarantees	Amounts added with respect to guarantees	Net credit exposure
Debts of autonomies	3,558.5	-	-	-	3,558.5
Debts of public sector entities	1.2	-	-	-	1.2
Debts of banking corporations	248.5	-	-	6.8	255.3
Debts of corporations	1,934.4	(139.9)	(6.8)	-	1,787.7
Debts in securities for real estate commercial	30.5	-	-	-	30.5
Retail to exposure to individuals	1,526.3	(41.0)	-	-	1,485.3
Loans to small businesses	255.6	(66.5)	-	-	189.1
Housing mortgages	7,384.6	(3.4)	-	-	7,381.2
Securitization	-	-	-	-	-
Other assets	377.4	-	-	-	377.4
Total	**15,317.0**	**(250.8)**	**(6.8)**	**6.8**	**15,066.2**

Credit risks

General

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, but also vis-à-vis business customers and in the bank's 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, the principles governing the management and mitigation of 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.

An additional document is the credit policy document, which is approved by the bank’s Board of Directors, which 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, both on the level of the individual customer and groups of borrowers, and on the level 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, international activity customers and commercial customers are under the responsibility of the retail division.

- Business customers, primarily in the real estate 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 trasnaction 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 until 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 over 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 computerized systems to monitor and control credit risk. The computer systems provide control tools for the first line of defense, as well as to 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 requests for credit. The model is integrated into the consumer credit underwriting system. In the mortgage segment, the bank has an expert model, and in 2014, a statistical request model was developed. This model will be implemented in 2015, and will be integrated into the mortgage underwriting and pricing strategy.

Additionally, the bank has behavioral models 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 reporting an infrastructure for reporting in accordance with an 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 type of collateral given to the bank is pledged real estate. Additional types of collateral are also accepted by the bank, including pledges on vehicles, checks, deposits and securities, bank guarantees from third parties, 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 evaluation units in the second line of defense, credit control, and the internal audit department, evaluate the collaterals, in addition to the business entities in the first line of defense.

In its calculation of the bank, the bank operates in accordance with the provisions of Proper Bank Management Directives 201-211 issued by the Commissioner of Banks regarding measurement and capital adequacy, and sets off, from credit to the public, the collaterals which ware permitted for deduction in accordance with the aforementioned directives.

In this calculation, according to Directive 203, the bank refers to two main CRM instruments, in accordance with the provision of Basel II, clarifications issued by the Bank of Israel and legal opinions. The first includes deposits and savings which were created and are managed in the bank; the second includes third party guarantees which secure exposures of the bank's customers.

The deposits and savings which could be used to secure credit include savings 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 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 activities 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 supervising entities

Board of Directors - the Board of Directors and its committees are ultimately responsible for determining the bank's business strategy, including in the risk management segment and to secure the bank's capital. The Board of Directors also approves the bank's business policy and work plan for each year, and evaluates the allocation of risk assets of to business entities. The Board of Directors approves the credit risk exposure restrictions, the credit risk management policy document; conducts periodic monitoring of the development of the exposure to credit risk; and discusses the changes which are required to the restrictions, in order to ensure that the restrictions which it has determined allow ongoing operations in a manner which complies with the determined risk appetite. The Board of Directors evaluates the characteristics of the credit risk which are inherent in the activity or in new relevant products.

The Board of Directors' risk management committee is responsible for evaluating the risk management processes in the bank, and their degree of correspondence to the policy framework which was approved by the Board of Directors, the reporting systems, and the lines of responsibility and authority. Its functions and authorities include, inter alia, the following: discussing the bank's exposure policy to various risks and within the framework of the exposures and recommendation according to the Board of Directors, discussing suggestions regarding new products or activities, and issuing recommendations to the Board of Directors accordingly.

The Board of Directors' Credit Committee - The board's Credit Committee conducts preliminary and specific discussions on subjects involving the determination of the bank's credit policy, and on additional subjects which require in-depth evaluation, according to the Board of Directors' decisions, from time to time, and issues recommendations to the Board of Directors accordingly.

Audit Committee - The Audit Committee's functions include, inter alia, serving as the Board of Directors' committee regarding troubled debts, including discussing troubled borrowers and reaching decisions for handling regarding them, as well as discussing issues pertaining to classification and provisions. The committee receives routine reports regarding the progress of handling these debts.

Management is responsible, inter alia, through its committees, for implementing an effective system for the management and control of risks, including formulating the bank's annual work plan and credit policy, formulating the bank's annual risk management policy, defining the levels of exposure to credit risks and defining the desired actual levels, determining policies which are associated with identification and measurement, monitoring and control of the exposure to credit risk and ensuring the effectiveness of this risk management process, through established processes and the control entities in the risk division.

Risk takers and managers - first line of defense

Internal Credit Committee - led by the CEO; exists due to the need to dedicate time to manging the bank's (nostro) investments. The committee monitors the fulfillment of the risk exposure restrictions which were established by the Board of Directors; additionally, the committee discusses and decides regarding the profitability of new investments and changes in the nostro portfolio, within the framework of the approved policy.

Nostro unit - the nostro unit identifies non-government debentures for investment, and is responsible for initiating the process of approving the investment in them. The investment in government securities is performed in accordance with the framework and conditions which were determined in the policy regarding the management of financial risks.

Authorized credit officers - are responsible for approving credit requests, in accordance with criteria which were determined in the credit policy which was approved by management and Board of Directors, and in accordance with the bank's policies.

The Retail Division Manager - is responsible for implementing the bank's policy, for formulating a comprehensive framework for managing retail and commercial credit risk, and for approving it in the bank's institutions. The Retail Division Manager ensures that activities are performed in accordance with an established credit provision process, inter alia, by establishing well-founded and well-defined criteria for the provision of credit. The retail division includes the retail and commercial credit provision activity, which is handled by the credit and branch operation department, the sales department, collection department, call center, marketing department, as well as the business process planning department and current account products.

The credit and branch operation department - operates as part of the retail division, and is responsible for the underwriting of retail and commercial credit, including establishing the credit policy and procedures regarding the underwriting segment, as well as managing the operation of branches.

The collection units - operate as part of the retail division, and are responsible for enforcing the collection of troubled debts. The collection units are engaged in the classification, settlement, collection and measurement of provisions for doubtful debts in the retail, commercial and business credit segments, including real estate.

The real estate sector department - the manager of the real estate sector department is responsible for implementing the bank's policy and for formulating a comprehensive framework regarding the management of business credit risk, and for approving it in the bank's institutions. The real estate sector uses the financial accompaniment method (closed accompaniment); this method reduces the exposure to risks regarding credit provision, due to the fact that it includes ongoing monitoring of the financed projects, while disconnecting the financed project from the business risks inherent in the other activities of the entrepreneur-borrower.

The Retail Division Manager and the Real Estate Sector Manager are responsible for management of market concentration risk in the bank. Within the framework of their positions, they are responsible for the effectiveness and fulfillment of the market concentration restrictions which were determined in the credit policy. The Chief Risk Officer is responsible for monitoring, on a quarterly basis, the compliance with these restrictions.

Risk management functions - second line of defense

Chief Risk Officer - The Chief Risk Officer is the individual responsible for the independent lines of defense, and is responsible for ensuring the overall effectiveness of the risk management and control system. It also ensures the continuous, reliable and relevant reporting of risks, and periodically evaluates compliance with the division of authorities and with the determined exposure restrictions.

Risk control unit - the risk control unit operates independently, and is responsible, inter alia, for providing information to management and Board of Directors regarding credit risks, and for issuing an independent and comprehensive opinion regarding the exposures to credit risks, in order to allow an assessment of the business entities in the credit segment, and the condition of the credit portfolio in its entirety. This unit's tasks are performed in coordination and collaboration with the risk takers in the credit segment, with the main objective being to ensure that the credit provision function is managed properly, and that the credit exposures do not exceed the standard levels set forth by management and Board of Directors. Credit controllers work in this unit, who are responsible for several areas:

Monitoring the credit portfolios, with the aim of independently evaluating the quality of the borrower, and the judgment applied by the business entities; evaluating the adequacy of the classification of customers and of provisions; analyzing trends in the credit portfolio - this analysis includes monitoring the credit risk indicators, both by comparing between periods, and by comparing to other banks.

The credit risk management forum - is responsible for reviewing the reports which are received from risk takers and managers, relative to the bank's position regarding the exposure to credit risks. The forum discusses the retail credit activity, including the development of arrears and provisions. It also receives reports regarding controls in the retail credit segment, including controls regarding credit underwriting. The forum also discusses issues which arise as part of the risk managers' work on the first and second lines of defense. Additionally, the forum holds preliminary discussions regarding proposed changes to policies and procedures.

The central evaluation unit - evaluates mortgage portfolios according to criteria which were established by bank management prior to their actual implementation, and also evaluates vehicle loans before they are issued. The evaluation unit operates in the back-end department of the resources division; in this way, managerial separation is created between the process of approving and transferring the documents, and evaluating them.

Credit risk evaluation and analysis (CRA) unit - The unit was established as part of the preparation for the implementation of Basel II, for the purpose of separating the level which creates credit risk (which provides the transaction to the bank), the level which prepares the credit request, and the unit which approves it. The unit has two main functions:

1. Evaluating credit portfolios and analyzing credit risks. As part of the second line of defense, the unit is engaged in the evaluation of credit portfolios and collateral of borrowers (from the real estate sector and the commercial banking unit), both before the provision of credit and during the lifetime of current credit.

2. Receiving credit requests before they are submitted for approval, and evaluating whether the structure of the transaction, as specified in the credit request, complies with the bank's credit policy and risk appetite policy. The CRA unit is subordinate to the Risk Division Manager, and reports to him directly regarding its activities.

The manager of the credit risk evaluation and analysis unit provides his opinion regarding the credit transaction which is brought before the bank's institutions for approval in a separate and independent document (hereinafter: the "CRA document").

Credit requests are not discussed by the Credit Committees without the corresponding submission of the CRA document.

The CRA unit is subordinate to the Risk Division Manager, and reports to him directly regarding its activities.

The credit and securities collateral controller - is responsible for supervising the compliance with the provisions of the TASE Regulations regarding the provision of credit (within the framework of securities activities), collateral requirements and short sales, and for compliance with the Board of Directors' instructions on the matter. This control function includes evaluating barriers and alerts, custodian actions, monitoring of special accounts, and additional evaluations. In case of exceptions, the controller informs the relevant entities in the bank, in accordance with the amount of the exception, and, as needed, also reports to the Chairmen of the Board of Directors. The controller also routinely monitors credit and collateral exceptions - short transactions with securities.

Extreme scenario team - the team determines the various extreme scenarios which involve extreme holistic scenarios, including the occurrence of overlapping effects between markets, and in accordance with the provisions of Basel II, and evaluates their results. When needed, the team recommends to management regarding preparations which are required regarding the realization of extreme scenarios.

Accounting division - the division is responsible for accounting functions, and as part of this role, is responsible for the financial information used in risk management. The division also provides specific data regarding the composition of capital, capital items and capital forecast, and risk assets for the next 3 years. The division is also responsible for the creation of reports on the subject of Pillar 1, and for monitoring the ongoing fulfillment of the capital adequacy outline which was determined in the annual work plan, including the allocation of risk assets to the operating segments.

The internal impaired debt committee - holds preliminary discussions regarding borrowers / groups of borrowers, in the amounts which were determined in the policy, before a discussion is held in the Board of Directors' committees.

The external auditors - perform auditing and review tasks with reference to the bank's financial statements.

Control entities - third line of defense

Internal auditor / internal audit unit - the internal audit unit is responsible for auditing activities and processes which are performed by the bank, which primarily include the adequacy of activities performed by the bank and its employees, the bank's compliance with regulatory provisions and internal policies, implementation of the decisions of the Board of Directors and management, management of assets and liabilities, correction of deficiencies that were discovered in the audit reports, and evaluation of the risk management processes in the bank.

Concentration

Concentration risk is the risk which arises from 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 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 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 there is no group of borrowers the bank (as defined in Proper Bank 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 which 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 demographic.

Out of the bank's 23 branches, 5 branches are located in areas whose population is characterized as mostly ultra orthodox, while 3 branches are located in areas associated with minorities.

The bank evaluates its exposure to these population demographics 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

The majority of the bank's credit portfolio is managed by the retail division, credit in the project accompaniment and construction financing segment, by the real estate construction sector, which is directly subordinate to the CEO. In both units there is a clear division between credit authorities, credit types, customer types and credit amounts. The credit underwriting process is also defined, and each credit request is evaluated and approved 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 exceeds from 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's creation process, reducing the exposure to operational risk in mortgage operations, and brining the entire bank in line with an operating process which accords with uniform, controlled standards. The evaluation unit is subordinate to the resources division, thereby implementing managerial separation between the credit approval and submission of documents process, and the evaluation thereof.

In the real estate sector department, credit requests are prepared by the auditing staff, and not by the referents (risk creators). The credit requests are evaluated by the CRA unit (which is subordinate to the Risk Division Manager), before being submitted for approval to the relevant Credit Committees, in accordance with the determined 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 the completion of 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 submitted for renewal at least once per year. 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 (in the credit and branch operation 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 the loan's payments are delayed, the collection center handles the collection of late payments, up to a delay level of 3. Loans with a delay 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 transfer of the portfolio by the branch to the collection department is performed immediately, independently of the amount of the arrears.

The collection department concentrates all of the proceedings 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, assets receivership proceedings will be taken 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 ssytem 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 committee receive periodic reports regarding the distribution and segmentation of credit, large borrowers and additional parameters to measure credit risk.

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 Bank Management Directive 314 issued by the Commissioner of Banks. Additionally, in accordance with the instructions which were issued by the Control of Banks Authority, a collective provision for credit losses was 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 degree of the delay 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 lvel 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 identified, for the purpose of a specific evaluation, each debt whose contractual balance (without the deduction of accounting write-offs which do not involve accounting waiver, unrecognized interest, provisions for credit losses and collateral) amounts to NIS 1 million or more. The banks 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 will be 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 loan 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"), 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 historical loss rates (until 2010), and on the rate of net accounting write-offs which were actually recorded (in 2011) in the various market segments, while separating non-troubled credit from troubled credit. According to the specific directives issued by the Bank of Israel, the rate of the provision for troubled consumer credit is determined according to the "credit roaming" model, which evaluates credit roaming during the last year, to a depth of 5 or more, distributed by arrear groups.

On January 19, 2015, a circular of the Bank of Israel was published regarding "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 for private individuals, and relevant entities 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 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. Upon classification as impaired, the expected realization rate is 100%. Additionally, various definitions and classifications were determined in the directive with respect to off-balance sheet and balance sheet credit risk, rules for recognition of interest income from impaired debt, and rules regarding the writing off of troubled debt. 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 evaluated on a collective basis, write off rules were determined based on their period of arrears (in general, where the arrears exceeds 150 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 adjusts the reporting rules which apply to banking corporations in Israel on the subject, to those 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 Department and the Securities Exchange Commission in the United States.

This directive has been applied in 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, 2014			December 31, 2013		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
1. Troubled credit risk [1]						
Impaired credit risk	40.9	6.3	47.2	66.4	6.3	72.7
Subordinated credit risk	32.1	1.3	33.4	27.4	1.6	29.0
Credit risk under special supervision [2]	204.0	-	204.0	265.8	2.9	268.7
Total troubled credit risk *	**277.0**	**7.6**	**284.6**	**359.6**	**10.8**	**370.4**
* Of which: non-impaired debt, in arrears of 90 days or more (primarily housing)[2]	214.8	-	214.8	260.3	-	260.3
2. Non-operating assets:						
Impaired debt which does not accrue interest income[4]	30.2	6.3	36.5	38.3	6.3	44.6
Total non-operating assets	**30.2**	**6.3**	**36.5**	**38.3**	**6.3**	**44.6**

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.

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

As at December 31, 2014								
Extent of the arrears (Millions of NIS)								
		Arrears of 90 days or more						
(Thousands of NIS)	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	Balances with respect to refinanced loans in arrears(3)	Total
Amount in arrears	**1.2**	3.3	2.5	2.2	15.2	**23.2**	**-**	**24.4**
Of which: balance of the provision for interest (1)	**-**	-	-	0.1	5.5	**5.6**	**-**	**5.6**
Recorded debit balance	**55.4**	97.3	50.6	17.4	18.7	**184.0**	**13.9**	**253.3**
Balance of the provision for credit losses (2)	**-**	-	9.6	12.0	15.5	**37.1**	**2.0**	**39.1**
Net debt balance	**55.4**	**97.3**	**41.0**	**5.4**	**3.2**	**146.9**	**11.9**	**214.2**

1. With respect to interest on amounts in arrears.
2. Not including the balance of the provision for interest.
3. Loans regarding 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, 2014	December 31, 2013
Rate of the balance of impaired credit to the public which does not accrue interest income, to the balance of credit to the public	0.31%	0.66%
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	2.22%	2.67%
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	357%	169%
Rate of troubled credit to the public risk to total credit to the public risk	2.56%	3.31%
Rate of expenses with respect to credit losses to from the average balance of credit to the public (1), (2)	0.19%	0.56%
Rate of net write-offs with respect to credit to the public to the average balance of credit to the public (2)	0.20%	0.37%
Rate of net write-offs with respect to credit to the public to the balance of the provision for credit losses with respect to credit to the public (2)	17.7%	33.2%

1. The provision as of December 31, 2013 and December 31, 2014 includes a non-recurring expense for credit losses with respect to debts which were evaluated on a collective basis in the amount of approximately NIS 19.2 million, following the directive issued by the Bank of Israel dated March 21, 2013, as specified in the periodic reports for 2013.
2. 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.

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

	Total credit exposure [(3)]	
	As of December 31	
External credit rating	**2014**	**2013**
AA- to AAA	32	98
A- to A+	105	14
BBB- to BBB+	22	-
Unrated	2	-
Total exposure	**161**	**112**

(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) Foreign financial institutions include banks, holding companies of banks, investment banks and brokers.
(3) There are no financial institutions which are classified as debt which is impaired, subordinate or subject to special supervision, and there is no provision for credit losses.

The balances presented in the above table primarily include institutions operating in the United States, Germany and Denmark.

At the start of the financial crisis in 2008, the bank reduced its deposits in foreign financial institutions, established restrictions on the concentration of deposits, and established policies and evaluations which were required for implementation prior to the depositing of funds in foreign banks/ the bank relies on ratings provided by the rating companies Standard & Poor's and Moody's. These ratings are relevant to deposits which were deposited in foreign banks only.

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 expanded 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, asses 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 environment 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.

Housing loans

The bank's activities in the housing loan segment are generally performed with population groups from the middle decile or higher. As part of the above, customers with the following characteristics are preferred: Regarding customers residing in towns in Central Israel, the property is pledged through loans pledged by the property located within an area defined by the bank as a preferred area, and the family's gross income is now lower than the average income in the economy. Beginning from 2011, the financing rate for housing loans given by the bank decreased significantly, and in 2014, approximately 87% of loans were given at a financing rate which does not exceed 60% of the value of the property.

Average financing rate at the bank - the balance of the loan divided by the revalued value of the assets, as evaluated relative to the bank's existing credit portfolio, is very low, and amounts to approximately 30% (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).

Presented below are the developments in the performance of the residential credit segment (Millions of NIS):

	2014	2013	2012	2011	2010	2009
Total performance	1,169	1,364	1,476	1,489	1,996	1,179
Of which:						
Variable interest, at a frequency of less than 5 years	330	360	328	731	1,198	743
In foreign currency	105	158	252	243	482	247

Presented below are general data regarding the performance of mortgages given in NIS:

	2014	2013	2012	2011	2010	2009
Average loan period in months	208	215	221	226	217	203
Average income per capita (NIS)	4,708	4,450	4,136	3,740	3,716	3,322
Distribution of performance amount by LTV ratio						
0%-60%	87%	85%	92%	87%	60%	61%
61%-75%	12%	14%	7%	12%	37%	36%
Over 75%	1%	1%	1%	1%	3%	3%
Distribution of number of agreements by performance amount						
0-500	68%	70%	74%	72%	75%	82%
500-1,000	21%	21%	18%	19%	18%	14%
Over 1,000 (1)	10%	9%	8%	9%	7%	4%
Average loan amount	426	450	510	458	447	324

(1) In 2014, 30 loans were given, in a total amount exceeding NIS 2 million per loan, and in a total amount of NIS 107 million.

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

Balance as of December 31, 2014								
		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%	195.8	589.9	612.2	1,471.7	566.9	441.3	3,877.8
	40%-50%	22.2	100.5	130.5	279.5	105.7	49.7	688.1
	50%-80%	11.9	62.5	149.8	322.3	124.7	47.4	718.6
	Over 80%	0.6	4.3	39.7	153.3	61.9	8.7	268.5
	Total	230.5	757.2	932.2	2,226.8	859.2	547.1	5,553.0
60%-75%	Up to 40%	33.6	81.0	114.6	352.7	306.6	37.7	926.2
	40%-50%	3.4	11.9	21.9	42.2	44.7	9.1	133.2
	50%-80%	0.8	5.8	26.2	60.6	53.9	8.6	155.9
	Over 80%	-	0.2	13.4	27.0	20.1	1.4	62.1
	Total	37.8	98.9	176.1	482.5	425.3	56.8	1,277.4
Over 75%	Up to 40%	2.9	15.9	27.7	20.8	39.1	30.8	137.2
	40%-50%	1.1	2.0	4.9	4.3	8.3	8.0	28.6
	50%-80%	-	1.3	5.8	12.5	16.1	4.1	39.8
	Over 80%	-	-	9.7	5.5	7.4	0.3	22.9
	Total	4.0	19.2	48.1	43.1	70.9	43.2	228.5
Other pledges	Up to 40%	1.1	1.3	2.7	2.8	6.0	11.7	25.6
	40%-50%	-	0.4	0.3	1.6	1.7	0.3	4.3
	50%-80%	-	-	0.3	5.6	1.3	0.1	7.3
	Over 80%	-	0.8	0.6	1.9	-	-	3.3
	Total	1.1	2.5	3.9	11.9	9.0	12.1	40.5
Total		273.4	877.8	1,160.3	2,764.3	1,364.4	659.2	7,099.4

Customer quality:

The population groups of mortgage customers primarily include customers in their forties, in the 6th or decile or higher, with higher incomes than the average income in the economy. The average ratio of repayment to income is lower than the minimum requirements defined in the bank's credit policy.

Rate of repayment from fixed income:

The rate of repayment from fixed income in a housing loan serves as an indicator of the customer's ability to repay the loan which they have taken. In general, the bank ensures that the monthly repayment amount of the requested loan does not exceed 35% of the household's income. In loans where the repayment rate is higher, the credit is given ti borrowers with a high scope of assets, and whose repayment ability is not only based on the applicants' current income, or borrowers with a high average available income per capita. Approximately 6% of the residential credit portfolio is given to customers who have a repayment to income ratio higher than 40%, and whose financing ratio is higher than 60%.

In 2014, the average repayment to income ratio amounted to approximately 28%.

On August 29, 2013, the Commissioner of Banks published a directive 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.

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, generally to 75% of the value of the pledged asset, following the directives which were published by the Commissioner of Banks. Beginning from November 2012, the bank began implementing the directives of the Commissioner of Banks on the subject of restricting the financing rate in housing loans, according to which a significant part of the loans' performance would be restricted to a financing rate of 50% from the value of the pledged asset.

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.

During the year, approximately 12% of the total residential credit (NIS 148 million) was given for periods exceeding 25 years. The period of the original loan for 91% of the residential credit portfolio is lower than 25 years.

Distribution of the portfolio by geographical areas:

The bank's residential credit portfolio is distributed between many borrowers, most of whom acquired properties and are concentrated in Central Israel. 53.7% of the portfolio applies to properties in the Gush Dan and Greater Jerusalem areas.

Residential credit provision process:

The mortgage activity primarily includes the provision of housing loans against he 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 outside 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 closed supported through legal accompaniment by attorneys from the bank's legal department, which evaluate, inter alia, the legal adequacy of agreements and types of collateral.

Clearing risks and counterparty risks

Clearing risk is the risk that a counterparty to an agreement will not fulfill its part, and will not submit 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 submitted 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 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 be created throughout the entire lifetime of the transaction.

Until September 2007, the banking system used relay-based settlement, 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. 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 (OTC) transactions. The bank does not operate vis-à-vis its customers in 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-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 (OTC) transactions, and vis-à-vis brokers and providers of custodian service for securities, with respect to the clearing 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.

Market risks

General

Market risks are the group of risks which essentially constitute the exposure to losses due to changes in various market parameters (exogenic parameters). This risk group includes several specific types of risks which are managed by the bank in a similar fashion, based on a similar framework, and by means of the same main entities.

Management of market risks

The Board of Directors - is ultimately responsible for the management and supervision of market and liquidity risks, and for creation of an adequate risk environment. The Board of Directors' role as the entity determining the bank's policy is to establish the risk management method and the required corporate governance structure.

The Board of Directors' risk management - committee is responsible for evaluating the risk management processes in the bank, and their degree of correspondence to the policy framework which was approved by the Board of Directors, the reporting systems, and the lines of responsibility and authority. The committee holds a preliminary discussion to the Board of Directors' discussions on all matters associated with the exposure to market and liquidity risks (including the nostro policy). The committee also discusses the organizational preparation for the management and control of these risks. The committee also discusses each offer of new financial activity or exceptional activity of the bank, and each initiated investment with a new financial instrument, and submits its recommendation, if necessary, to the Board of Directors.

Senior management - convenes frequently to discuss current matters. Several committees were established by senior management, whose members include the members of senior management who are relevant to the discussed subjects, and which handle, inter alia, the bank's risk management.

The assets and liabilities management committee - convenes twice per week, led by the CEO, and reviews reports regarding the entire array of subjects associated with the management of the bank's assets and liabilities. The committee monitors the bank's fulfillment of its targets, as defined in the work plan, and the fulfillment of the restrictions regarding the exposure to market risks, as approved by the Board of Directors. The committee reaches operational decision on various subjects, and determines prices and quantitative targets for each of the business operations.

In each meeting, the committee reviews several parameters, including quantities and prices for all segments. These parameters constitute central indicators regarding the condition of exposures and liquidity. This review includes data regarding credit performance and execution prices, raisings in the current month and raising prices, balances and compositions of liquid assets, activities in the nostro portfolio, index and foreign currency positions, profit or loss from index and foreign currency positions, financial forecasts and more.

The committee is responsible for routinely monitoring all of the reports which are associated with risk and liquidity management in the bank, and management of the bank's nostro portfolio.

The financial risk management forum - convenes on a monthly basis in order to review the reports regarding the status of the bank's exposure to market risks. The forum also discusses the monthly exposure estimates and the risk document (on a quarterly basis), and issues which came up as part of the work performed by the financial division, the risk management department or the risk controller, as well as additional issues, as required. In each meeting, the forum reviews the status of exposures to various risks, and the liquidity position, including, inter alia, by monitoring all of the parameters included in the risk document, including model results and extreme scenarios. The forum also monitors events which could affect the bank's various exposures and liquidity.

The Finance Division Manager - serves as the manager of market and liquidity risks, and is responsible for implementing the bank's policy and for formulating a comprehensive framework for the management of such risk, and for obtaining approval for it through the bank's institutions. The division managed by him is responsible for the ongoing management of the exposures to market risks, under the instruction of the various units which are responsible for managing the bank's financial instruments and for creating exposures in the various operating segments. The Finance Division Manager also issues recommendations to management, to the Board of Directors and to the Board of Directors' committees, regarding the profitability of the creation of risks through the financial instruments which are permitted to create and hedge risks, and regarding the oher issues which are associated with the creation and management of exposures. He is also responsible for the management of the nostro portfolio, including evaluating the implications of nostro activities on total exposures.

The risk division, led by the Chief Risk Officer - is responsible for formulating models to estimate the exposure to market and liquidity risks, developing techniques to manage risks and to support the ongoing management of exposures to market risks. The division also issues recommendations to the internal committee on issues associated with the profitability of the management of exposures, in consideration of the income components which are expected to arise from such exposures, the costs of hedging the exposures and evaluating the profitability and feasibility of new and existing financial products.

The division is responsible for routinely monitoring the fulfillment of the restrictions which were determined for the various exposures.

Method and scope of the reporting systems

The bank manages its risks, inter alia, 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 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 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 the models for the quantification of risks.

The bank has determined a restriction regarding the total economic VaR, in the amount of NIS 20 million. As of December 31, 2014, VaR amounted to NIS 11.3 million, as compared with NIS 4.1 million as of December 31, 2013.

The maximum economic VaR (end of month) in 2014 amounted to NIS 13.8 million, as compared with a maximum VaR of NIS 7.0 million in 2013.

Hedging and/or risk mitigation policy

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

Interest risk

Interest risk is due to the difference between the sensitivity of assets to unexpected changes in interest rates and the same sensitivity of the liabilities - changes which may result in erosion of the bank's capital. 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 CPI-linked segment, since in this segment, the majority of assets and liabilities are at fixed interest and long term. Additionally, the following areas should also be noted: the exposure in the unlinked NIS segment, due to the increase in the scope of operations, in the credit segment, in the nostro portfolio and in the raising of sources. This is despite the fact that most of the activity in this segment, excluding the activities in the nostro portfolio, is performed for an average lifetime (interest) of up to one year. The bank monitors the development of the average lifetime of the loans, against the deposits, in order to implement measures intended to mitigate the effect of a possible change in the interest rates on the value of its net financial cash flows. For this purpose, it routinely measures the average lifetime as derived from the new operating activity, and also monitors the scope of early repayments in loans which have a significant impact on the effective average lifetime.

The bank's policy in its management of interest rate risk is interest rate risk in consideration of expectations regarding developments in various interest rates, while evaluating costs to reduce the exposure to tis 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 past 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 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 exposures in all linkage segments, the exposure to risk due to an unexpected change of 1% in the interest rate is low, relative to the value of the bank's net discounted 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.

Additionally, the bank is exposed to risk which is due to the reduction of margins in the mortgage segment, in light of the intense competition in this segment. One of the goals of the bank's strategic plan is to mitigate this risk and to reduce the bank's dependence on this segment.

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

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 at December 31, 2014				
	Israeli currency		Foreign currency (2)		Total
	Unlinked	CPI-linked	USD	Other	
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	7,849.5	3,584.8	1,629.9	256.9	13,321.1
Amounts payable with respect to derivative financial instruments (3)	723.4	-	442.9	69.8	1,236.1
Fair value, net	452.7	72.7	27.8	4.4	557.6

	As at December 31, 2013				
	Israeli currency		Foreign currency (2)		Total
	Unlinked	CPI-linked	USD	Other	
Financial assets (1)	8,301.2	3,718.0	1,126.6	118.1	13,263.9
Amounts receivable with respect to derivative financial instruments (3)	269.7	51.4	814.5	85.4	1,221.0
Financial liabilities	7,533.4	3,536.1	1,462.0	153.2	12,684.7
Amounts payable with respect to derivative financial instruments (3)	678.8	51.2	435.9	45.7	1,211.6
Fair value, net	358.7	182.1	43.2	4.6	588.6

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 at December 31, 2014					
	Net fair value of financial instruments, after impact of changes in interest rates (Millions of NIS)				Change in fair value	
	Israeli currency		Foreign currency (2)		Millions of NIS	In percent
Change in interest rates	**Unlinked**	**CPI-linked**	**USD**	**Other**	**Total**	**Total**
Corresponding immediate increase of one percent	425.5	88.2	31.9	4.1	(7.9)	(1.42%)
Corresponding immediate increase of 0.1 percent	449.2	73.3	27.8	4.7	(2.6)	(0.47%)
Corresponding immediate decrease of one percent	484.2	56.2	23.6	4.5	10.9	1.95%

	As at December 31, 2013					
	Net fair value of financial instruments, after impact of changes in interest rates (Millions of NIS)				Change in fair value	
	Israeli currency		Foreign currency (2)		Millions of NIS	In percent
Change in interest rates	**Unlinked**	**CPI-linked**	**USD**	**Other**	**Total**	**Total**
Corresponding immediate increase of one percent	346.6	186.8	46.4	**6.6**	**(2.2)**	**(0.37%)**
Corresponding immediate increase of 0.1 percent	357.5	182.6	41.9	**6.4**	**(0.2)**	**(0.03%)**
Corresponding immediate decrease of one percent	371.5	176.8	36.2	**6.2**	**2.1**	**0.35%**

C. Presented below is the summary of unexpected changes in interest (Millions of NIS):

	Potential change in economic value - Profit (loss)				Potential change in annual profit - Profit (loss)	
	As of December 31					
	2014		2013		2014	2013
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	(27.2)	31.5	(12.1)	12.8	20.5	4.7
Linked	15.5	(16.5)	4.7	(5.3)	(5.2)	(1.8)
Foreign currency	3.8	(4.1)	5.2	(5.4)	8.9	7.2
Total	(7.9)	10.9	(2.2)	2.1	24.2	10.1
Restriction	(60.0)	(60.0)	(50.0)	(50.0)	(20.0)	12.5
Maximum during the period	(31.1)	36.6	(21.2)	22.8	24.2	15.6
Minimum during the period	(3.7)	3.8	(3.1)	3.8	1.9	6.7

(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.

Basis risk

The exposure to basis risk may result from changes in interest rates, exchange rates and the rate of inflation. The bank's policy is to manage the risks which are due to the base exposure in a controlled manner, within the framework of the restrictions established by the Board of Directors,

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 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 accounting exposure). Restrictions are on the surplus (deficit) amounts of the assets and liabilities in each segment:

	As at December 31, 2014			
	Percent of financial capital (1)		Millions of NIS	
	Maximum amount	Minimum amount	Maximum amount	Minimum amount
Linkage to index	66%	(50%)	389	(295)
In foreign currency or linked to foreign currency	6.6%	(6.6%)	39	(39)
Unlinked	150%	34%	884	201

(1) 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 restrictions which apply to it. 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 does not necessarily constitute accounting exposure) in each linkage segment (Millions of NIS):

	Exposure as of December 31, 2014	Exposure during the report period (1)		
		Maximum	Minimum	Average
Linkage to index	11	329	11	213
In foreign currency or linked to foreign currency	2	8	(10)	-

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

Presented below are details regarding the sensitivity of 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 millions of NIS):

Scenario	As at December 31, 2014	Maximum for 2014	Minimum for 2014
CPI increase of 5%	0.3	18.8	0.3

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 the 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 at December 31, 2014		Maximum for 2014		Minimum for 2014	
	US Dollar	Other	US Dollar	Other	US Dollar	Other
Scenario						
Increase of 10%	1.2	0.1	5.1	0.1	0.3	(3.7)
Increase of 5%	0.6	-	2.5	-	0.1	(1.9)
Decrease of 10%	(1.2)	(0.1)	(0.3)	3.7	(5.1)	(0.1)
Decrease of 5%	(0.6)	0.0	(0.1)	1.9	(2.5)	(0.0)

As part of the bank's comprehensive strategy to manage the exposure level to market risk, 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 into 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 was approved by the bank's Board of Directors.

Liquidity risks

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 regarding this risk.

In accordance with the directives issued by the Bank of Israel, each banking corporation is required to establish a comprehensive policy for the management of its liquidity, and to maintain an information system responsible for the monitoring, control, reporting and measurement of the liquidity position. It was further determined that the ratio between the high-quality liquid assets and the net outgoing cash flows in a repayment period of up to one month (hereinafter: the "Minimum Liquidity Ratio"), based on a series of extreme scenarios, will not fall below 1. The measurement of the exposure to liquidity risk and the minimum liquidity ratio is implemented according to an internal model.

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 buffer 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 refinancing rate of deposits and savings. The minimum liquidity ratio is evaluated according to four scenarios: an ordinary business scenario, a specific scenario for the bank, a systemic stress scenario and a combined scenario including specifically for the bank and systemic pressure. The various scenarios are differentiated from one another primarily by the refinancing rate of deposits, and by the ability to realize liquid assets. As part of the implementation of the updated version of Proper Bank Management Directive 342, the bank updated the liquidity model to the principles of the minimum liquidity ratio which are specified in the aforementioned Directive, and to the principles of the CLR (liquidity coverage ratio) model specified in Basel III. The minimum liquidity ratio, according to the aforementioned scenarios, amounted to 1.6 as of December 31, 2014. The bank also monitors its long term liquidity using the stable funding ratio model, as specified in Basel III, and in accordance with Proper Bank Management Directive 342. The net stable funding ratio as of December 31, 2014 amounted to 1.3.

The bank's Board of Directors established the principles for liquidity management, the hierarchy of authorities and responsibilities, and the alerts and handling system regarding exceptions from the determined restrictions. The determination of the aforementioned restrictions takes into account both the expected occurrence of events in the bank and in its business environment, and the possibilities available to the bank regarding the raising of alternative sources, and the costs of such sources.

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 buffer, 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 477 million.

As part of the preparation for the implementation of Basel III, the Banking Supervision Department published Proper Bank Management Directive 221, on the subject of the "liquidity coverage ratio". The directive is in effect as of April 1, 2015. The bank is preparing to implement the directive. According to the results of the preliminary calculations regarding the liquidity coverage ratio, the bank has the ability to comply with the provisions of Basel III, without requiring any significant adjustments.

Presented below are the capital requirements with respect to market risk, according to Pillar I (in millions of NIS):

Risk type	Capital requirement
Interest risk	- *
Exchange rate risk	3.0
Total	**3.0**

* Represents an amount which is lower than NIS 0.1 million

Operational risks

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 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.

In December 2014, 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 to mitigate risks.

The management of operational risks in the bank is based on three lines of defense:

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, legal advisor, and the SOX process which is implemented in the accounting division, 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 identification, assessment, monitoring, measurement, reporting and control / mitigation of risks.

Organizational structure for the management of operational risks:

The Board of Directors - is ultimately responsible for the management and supervision of operational risk, and established and approves the operational risks policy.

The Board of Directors risk management committee - holds preliminary discussions to the

Board of Directors' discussions on all matters associated with operational risks. Discusses the new process / product / system / activity whose introduction exposes the bank to significant operational risks, the risk management policy and restrictions, risk assessment, the quality of risk managements and of controls, capital adequacy and risk tolerance.

Bank management - through the risk division, evaluates, on a routine and consistent basis, the operational risks which are inherent in the bank's activities, as well as loss or near-loss events which have occurred.

The operational risks management forum - a committee led by the bank's CEO, which discusses the banks operational risk management policy, before submitting it to management and to the Board of Directors, the approval of significant new products and processes, the approval of relevant work policies which pertain to operational risk, the monitoring of the application of various audit findings regarding embezzlement and fraud, the risk profile, the risk tolerance, the methods and quality of risk management and controls, and capital adequacy.

IT Manager - the manager of the resources division is defined as the bank's IT Manager. As part of his management of the division, the Division Manager is responsible for the management of information systems, information security, human resources, logistics, back end, and OCIO.

Business Continuity Manager - defined as a manager in the OCIO unit of the resources division

Information security - information security in the bank is managed by the Resources Division Manager and the Information Security Manager, who are responsible for updating the policy and controls regarding the matter. Once every two years, the Information Security Manager evaluates the evaluates an update to the information security policy, which is presented to management and the Board of Directors for approval.

Operational risk management unit - The unit is a part of the risk division, and constitutes an independent function for the management of operational risks. The unit is responsible for the formulation of a comprehensive framework for the management of operational risks, for the planning, performance and update of the operational risk management methodology, writing work policies to implement the framework for operational risk management, issuing recommendations to management and the Board of Directors regarding the operational risk appetite, the performance of operational risk surveys, challenging the operational risk management methods implemented in the bank's units, receiving reports regarding failure events and partnership in the process of learning lessons regarding significant and system-wide failure events, creating a framework for reporting regarding the operational risk profile to the Board of Directors and management, and involvement in the process of evaluating the operational risks which are inherent in new products and processes.

The bank allocated capital with respect to operational risks, in accordance with the directives issued by the Bank of Israel. Until March 31, 2014, the bank operated in accordance with the basic indicator approach. Beginning on June 30, 2014, and with the approval of the Bank of Israel, the bank began allocating capital in accordance with the standard method, according to which capital should be allocated for operational risk by multiplying the average gross positive income of the bank's business lines in the 12 quarters, by a variable factor between 12% and 18%.

In February 2012, the Bank of Israel published Proper Bank Management Directive 350, on the subject of operational risk management. The bank implemented and applied the primary components of the operational risk management directive in the bank.

Mitigation of operational risk:

In recent years, the bank has prepared for the creation of 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:

- Reducing the operational exposure, through 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.

- The implementation of the 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 for monitoring, improvement and learning of lessons. The bank's management and Board of Directors receive reports regarding operational events in which losses were incurred, and regarding events which involved the potential for loss, performance of investigations and learning of lessons regarding loss or near loss events.

- 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,

The bank completed, in early 2014, a new operational risk survey, which involved mapping out, identification and assessment of the risk level and effectiveness of the controls with reference to the significant business and operating processes. The bank is working to implement a plan to mitigate residual risks (the risks which remain after the implementation of controls) with a high risk level. The program includes, inter alia, treatment of the reduction of risks associated with embezzlement and fraud risks.

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, 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. These insurance policies provide solutions for the following main issues: external and internal fraud risks (embezzlement), cases involving the theft of funds and expense equipment, financial damage due to counterfeit documents, such as checks, bills of exchange, certificates of deposit, letters of credit, letters of guarantee, mortgage deeds, etc., as well as damages due to IT crimes, including penetration by a hostile entity into the bank's IT systems, and damage to physical assets. Financial damages which were incurred by customers or third parties due to hardware or software failures. The general liability limit of the banking policy amounts to USD 25.0 million.

Business continuity

In order to maintain business continuity, resiliency and continuity of the bank's activity 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 new activities (projects and systems). Information technology risks also include 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.

At the end of 2013, the bank's information technology management policy was updated and approved, and additionally, the IT risk management policy was approved.

The bank has finished implementing most of the IT infrastructure improvement project, including the development of infrastructures and automated devices. In 2014, the bank concluded the distribution of ATM's in branches, in accordance with the plan. Following the acquisition of Clal Finance at the end of 2013, a project was implemented in the bank to effect an operational merger with Clal. The merger was completed successfully in the second quarter of 2014. Within the framework of the bank's preparations for the implementation of FATCA, several developments were implemented in the bank's systems, and the bank is implementing the directives.

The bank's operational risk with respect to information technology projects decreased this year, relative to last year, due to the going live of the ATM project, and the completion of the Clal Batucha merger. 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 Bank 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.

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 defective or erroneous legal infrastructure, which the bank has relied upon in its provision of customer service, or where the bank has received services from a supplier and/or has received collateral from a customer or from a third party, such as an engagement which is not backed by an adequate sum, a collateral which cannot be realized, due to a defect in its creation or recording, or if 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 provisions of the law, regulations, or various supervisory 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 judgments by the Court, according to which the bank is required to act on a certain issue in a manner which is different than that its manner of operation prior to the issuance of said judgment.

Legal risks comprise a part of the entire array of operational risks to which the bank is exposed. Sarit Weisstuch, 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 suit 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. Such risk may be caused as a result of factors inside the bank, such as: Operational failure of systems in the bank, failure to prevent events associated with money laundering, embezzlement and fraud by employees, etc., or as a result of factors which are external to the bank, such as an economic crisis in Israel or around the world, failures in other banks, class actions, 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 realization itself 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, customers 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 responsibility 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 investigating failures in handling any materializing or potential event, and for concentrating handling of the event and reporting it to the Retail Division Manager. Additional units which are involved in 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 operational risks manager, 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 financial 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, within the framework of the duties which apply to the bank towards its customer public, including the Prohibition on Money Laundering Law, 5760-2000, the Prohibition on Money Laundering Order (Duties Regarding Identification, Reporting and Record Keeping of banking corporations to Prevent Money Laundering and Financing of Terrorism), 5761-2001, directives issued by the Banking Supervision Department, and directives issued by the Israel Securities Authority.

Compliance risks are managed in the bank throughout all levels of the organization, including branches and product management departments. For this purpose, the bank bases its operations on work processes which include the double control principle involving and editor and an examiner (“four eyes”). There is also a structured process according to which any change in the consumer directives which affects the bank will be implemented in the bank through policies, work processes, forms and training. The process is supported by the individual and the organization and methods unit.

The compliance officer is responsible for the implementation of the bank’ policy, and for formulating a comprehensive framework for the management and authorization of compliance risk in the bank’s institutions. This framework includes: Planning, performing and updating of the compliance risks management methodology, implementation of routine compliance surveys, creating a risk mitigation plan in order to close the gaps and defining reporting processes to the various management entities.

The complexity and development of the bank's activities requires the bank to strictly ensure the fulfillment of all duties which apply to the banking corporation in its relationships with customers, by virtue of primary legislation, regulations, ordinances, permits, and guidelines and directives issued by the Bank of Israel.

Proper Bank Management Directive 308, Compliance officer, requires the banks to enforce consumer directives, i.e.: laws, regulations, and directives which regulate banking activity on all matters associated with the relationship between the bank and its customers, including the prohibition on money laundering and the prohibition on terrorist financing. In accordance with the directive, an infrastructure survey is performed, which involves mapping out the consumer directives, the risks of occurrence of events which deviate from the directives, along with the definition of controls to prevent their occurrence.

In order to ensure that the bank is adequately prepared for the implementation of its duties, as derived from the consumer provisions, the bank prepared, in 2014, a compliance infrastructure survey, through external surveyors from the accounting firm PwC. The survey results were entered into a designated system which allows dynamic management and monitoring of compliance risks, and a plan to mitigate the risks was created.

The routine work of the compliance officer includes the routine preparation of tests to evaluate the compliance of the bank's policies and forms to the consumer directives, as these are updated from time to time.

Administrative enforcement risk

On January 27, 2011, the Increased Efficiency of Enforcement Procedures in the Israel Securities Authority (Legislative Amendments) Law, 5771-2011 was published, which created, for the first time, a legal mechanism for initiating administrative enforcement procedures by the Israel Securities Authority (alongside criminal enforcement, which until that time was primarily implemented regarding securities laws) both against public companies and against individuals, with respect to a breach of securities laws.

The Law prescribes that the adoption of an effective internal enforcement program by the corporation will be one of the considerations taken into account by the Israel Securities Authority in its implementation of administrative enforcement procedures, and may be used, in the appropriate cases, to protect the corporation, as well as the CEO, within the framework of the imposition of supervisory responsibility on it. The Israel Securities Authority also published, in August 2011, a document specifying criteria for the recognition of internal enforcement programs. In the document, the Board of Directors was defined as the entity bearing ultimate responsibility for supervising the practical implementation of the plan, and as the entity responsible for ensuring that the corporation will formulate, adopt and implement this enforcement program.

Following the publication of the law, 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 use of employees in 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, with respect 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, through the preparation of a comprehensive enforcement survey to evaluate work processes in the bank, and existing processes, to identify, map out and close the gaps, the creation of appropriate controls to ensure compliance with the policies, development of a training system for the bank's employees and creation of a unit responsible for the intake and handling of employee reports 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. The internal enforcement framework includes the management of risks involving FATCA ("Foreign Account Tax Compliance Act"), a law which was enacted in the United States on March 18, 2010. The basic purpose of the law is to identify funds owned by citizens or residents of the United States, who may be evading taxes through the performance of financial investments outside of the United States, and to allow the American tax authorities to collect the tax which applies to those funds, under American tax laws.

On January 17, 2013, the American Department of the Treasury published regulations regarding the implementation of the provisions of the law, effective as of July 1, 2014. As part of the regulations, financial institutions which operate financial institutions outside of (including the bank) are required to report to the American tax authorities regarding the balances of American customers.

On April 6, 2014, shaft published a banking corporation circular which refers to the need to prepare for the implementation of the provisions of FATCA, in which it was determined that in light of the possible implications on the local banking system, the banking corporations are required to continue preparing for the implementation of the provisions of FATCA, including appointing a designated supervisor and work team to concentrate the implementation of the directive, which will be directly subordinate to a member of management. The banking corporations are also required to determine a policy which will be approved by the bank's Board of Directors, and policies regarding the manner of implementation of FATCA.

On May 1, 2014, the Ministry of Finance announced that an agreement had been reached, and on July 2, it announced that a comprehensive FATCA agreement was signed with the American tax authorities which regulates the implementation of the FATCA provisions, through the signing of a national agreement which is expected to be backed by appropriate Israeli legislation, which will regulate the required implementation of reporting.

As part of its activities, the bank is subject to exposure by virtue of the provisions of FATCA. The exposure is focused both on the account opening stage and on the account management stage, where American entities may not declare their status and may attempt to conceal funds originating from the United States, in order to evade their tax reporting and payment duties.

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 responsibilities of the RO will include the issuance of guidelines, implementation of and training regarding instructions which pertain to FATCA in the bank and among its employees, performance of training for FATCA supervisors in branches, actions involving control over the branches' activities in order to ensure the fulfillment of the bank's instructions on the matter, and concentration and supervision over the reports which will be submitted to the tax authority. The RO will have access to all information systems and to all information in the bank as required for the fulfillment of his position on the subject of controls and information regarding the activities of customers in branches.

Risks involving money laundering and terrorist financing

General

Risks involving money laundering and terrorist financing (hereinafter: "Money Laundering") constitute the risk of the imposition of significant financial sanctions on the bank, in light of the non-fulfillment of the provisions of the law regarding the prohibition on money laundering and the prohibition on the terrorist 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 terrorist 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 terrorist 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 provisions with respect to the prevention of money laundering and terrorist financing, including, inter alia, the Prohibition on Money Laundering Law, The Prohibition on Terrorist Financing Law, the Prohibition on Money Laundering Order, the Prohibition on Terrorist Financing Regulations, Proper Bank Management Directive 411, various circulars, and others.

Management of money laundering and terrorist financing risks

In the last quarter of 2014, the responsible officer regarding the prohibition on money laundering resigned, and responsibility for the subject was transferred to the compliance officer. 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. Her 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 Terrorist Financing Authority, submitting reports regarding irregular activities to the

Prohibition on Money Laundering and Terrorist 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 issuing reports about them accordingly. The compliance officer is updated on an ongoing basis regarding the new legislation, ordinances and norms which are associated with the prohibition on money laundering, inter alia, through the participation of meetings and one-day seminars on the subject. She is responsible for ensuring the implementation of all implications which apply to the bank's activities due to these updates.

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 supervisors are chosen among the bank's employees, following a recommendation by the branch manager / headquarters division manager. 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 the employees of the branch or unit, on the subject of the prevention of money laundering and terrorism financing.

The supervisors attends increased training sessions and one-day seminars in order to increase their 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, provides training at branch manager conventions, 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.

On February 14 2013, the bank was issued an audit report which had been prepared by the Banking Supervision Department on the subject of the prohibition on money laundering, following an audit which was performed in the bank between the months May - November 2011 and August - December 2012, and which addressed the bank's activities in the years 2008-2010. The report included details regarding the findings and requirements for the performance of measures to correct deficiencies and improve processes on the subject of the prohibition on money laundering and terrorism financing. On November 27, 2013, a meeting of the sanctions committee in the Bank of Israel was held, with the participation of representatives of the bank, and their legal counsel.

On March 25, 2014, the committee decided to impose financial sanctions on the bank in the amount of NIS 0.8 million (in place of NIS 1.15 million), in consideration of the fact that, during the audit, the bank cooperated in the process of disclosing the breaches and the results thereof, and implemented effective actions to correct the breaches and to prevent their recurrence, shortly after receiving the draft audit report.

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 table below 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. Management of the risk exposure is performed, 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 collateral 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 part 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 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**
1.3	**Risk with respect 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. Management of the exposure to this risk is performed, inter alia, by 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. The fulfillment of 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 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 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**

	Risk factor	Risk impact
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 changes which apply to the relevant economic data in accordance with market condition. The exposure restrictions are monitored on a routine basis.	**Low**
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 condition. 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 debentures price risk** Risk which is due to the loss of value of stocks and debentures held by the bank The bank has a securities portfolio which is mostly comprised of government debentures, and to a lesser degree, corporate debentures. 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 id 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**
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 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. The bank is currently in the advanced stages of implementing a project involving an improvement to its IT systems, within the framework of a project named "New World". The risks associated with the project are managed through orderly project risk management forums, and with the assistance of external consultants who accompany the Information Technology Division Manager and the Chief Risk Officer. Additionally, an orderly risk mitigation plan is being created to manage the project risks, and the implementation of the risk mitigation measures specified in the plan is being routinely monitored.	**Medium**

	Risk factor	Risk impact
6	**Information security risks** Risk of harm to information in the organization, primarily through harm to the technological assets and the physical environment of IT systems. Management of information security risks in the bank supports the response to threats and risks, and protection of the bank's information assets and IT systems. The bank does not currently allow its customers to perform transaction by digital means - i.e., the bank's website, or by smartphone - and therefore, the exposure to this risk is not high.	**Medium**
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 legal instances which 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 create 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 legal 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.	**Low**
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**
10	**Strategy risk** Strategy risk is due to wrong business decisions, inadequate implementation of decisions, or lack of response to segmental, 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 crating 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 Bank 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, 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**

	Risk factor	Risk impact
12	**Risk associated with the prohibition on money laundering and terrorist financing** Risk associated with the prohibition no money laundering and terrorist 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 on the subject of the prohibition on money laundering and terror financing, and the risk of the creation of criminal responsibility of the corporation and its employees. Additionally, the realization of an offense in breach of the provisions of the law regarding the prohibition on money laundering and terrorist financing may cause the realization of reputation risk. With the aim of reducing the exposure to this risk, a 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, and for conducting training sessions on the subject for the bank's employees. Additionally, compliance supervisors have been appointed, who also serves 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**

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 segment. 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 will not serve in any there position outside of the bank which creates or which may create a conflict of interests with his position as internal auditor.

The employees of the internal audit unit comply with the provisions of section 8 of the Banking Rules (Internal Audit), 5753 - 1992 and with Proper Bank 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 2014 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 2014 to 1.5 positions.

Audit plan

Internal auditing in the bank is implemented in accordance with an annual work plan, which is based on the multi-annual audit work plan, which is comprised of the work plan for the current year and the work plan for the next 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, the bank's CEO and Audit Committee members.

The annual and multi-annual work plans are prepared in accordance with the Internal Audit Law, 5752 - 1992, the Banking Rules (Internal Audit), 5753 - 1992, and Proper Bank Management Directives.

The annual work plan and multi-annual work plan are derived from a structured methodology for the assessment of risks and controls, which was used to determine the frequency of audits on each subject.

In the second half of 2013, a comprehensive current risk survey was performed, with the assistance of an external company, using an updated methodology. The results of the survey were used to create the multi-annual work plan of the internal audit unit for the years 2014 to 2017. As part of the survey, the map of controlled entities was updated, and an updated frequency was established for evaluating those entities, in accordance with the assessment of risks, business and operational developments, and in accordance with regulatory guidelines. 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 auditing will be once every two or four years. Regarding information systems, auditing frequency was determined as appropriate for the system's risk.

The Audit Committee and Board of Directors approved the work plan for 2014, 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 survey document includes a survey of the risk management system which is implemented by the bank, the ratio between the risk and the capital level of the banking corporation, and the methodology which was developed in 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 annual and multi-annual work plan for 2014 was discussed and approved by the Audit Committee on October 22, 2013, and subsequently by the Chairman of the Board and by the Board of Directors, in its meeting on November 14, 2013.

During 2014, 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 plan provide the internal auditor with the option 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, stating that the bank's internal audit unit is performing 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 the Internal Audit Law, 5752 - 1992, and in accordance with section 30 of Proper Bank Management Directive 307 and the internal auditing function, including continuous, direct access to the bank's information systems, including to encrypted financial data in those systems, and data regarding 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, 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 his 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.

The summary of work performed by the internal audit unit in the first half of 2014 was discussed in the meetings of the Audit Committee on July 24, 2014, and of the Board of Directors on July 31, 2014.

A summary annual report regarding the activities of the internal audit unit in all of 2014, which also includes monitoring the performance of the annual work plan, was discussed in the meeting of the Audit Committee which was held on January 22, 2015, and in the meeting of the Board of Directors which was held on February 16, 2015.

The internal audit unit also reports to the Audit Committee, on a quarterly basis, regarding the method and degree of application of the findings of the internal audit unit which arose from the audit plans regarding the bank's operating segments.

In case 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.

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 1,069 thousand.

Assessment by the Board of Directors

Once per year, the Audit Committee holds a meeting with the internal auditor only. This meeting was held on December 11, 2014.

Based on the routine reports which are submitted by the internal auditor, and inter alia 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 works of the internal audit unit which were performed by an external entity, in accordance with Proper Bank Management Directive 307, internal auditing.

The Audit Committee and Board of Directors believe that the fees and payments given to the internal auditor have no impact on auditor's professional judgment.

The Board of Directors and the Audit Committee also believe that the scope, manner 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 approval process of the financial statements

The organ in the bank which is responsible for oversight (as defined in Proper Bank Management Directive 303) is the bank's Board of Directors. The names of Board members, and 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 account department manager and the financial statements unit manager. The meeting is also attended, as observers, by the internal auditor and the external auditor. 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.

Before approval is given for the financial statements by the Board of Directors, the draft financial statements, draft Board of Directors' report and draft periodic annual report are submitted to the Audit Committee and, in parallel, to the Board members who are not members of the Audit Committee. The bank authorized the Audit Committee to serve also as the Financial Statements Review Committee. The committee is comprised of the following Board members: Committee Chairman, Mr. Shmuel Eshel (outside director), Mr. Adiv Baruch (outside director), Ms. Ira Sobel (outside director, in accordance with Directive 301, and independent director) and Mr. Ram Harmelech.

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 recommendation regarding the approval of the financial statements has been received, updates are submitted regarding the draft financial statements, the draft Board of Directors' report and draft periodic annual 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 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.

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. At the end of the discussion, the Board of Directors decides regarding the approval of the financial statements.

Miscellaneous

Controls and policies regarding disclosure in the financial statements

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 determine 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 COSO1992 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 crating 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.

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, 2014, 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, 2014, 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, 2014 was audited by the bank's auditors, Kost Forer Gabbay & Kasierer, as noted in their report, in page 157 of the annual report, which includes an unqualified opinion regarding the effectiveness of the bank's internal controls over financial reporting as of December 31, 2014.

Evaluation of controls and policies with respect to disclosure in the financial statements

Bank management, in collaboration with the CEO and the chief accountant, evaluated, as of the end of the period covered in this report, the effectiveness of controls and policies regarding disclosure in the bank. 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 quarterly report, in accordance with the public reporting directives issued by the Commissioner of Banks, and on the date specified in those directives.

Changes in internal control

During the quarter ended December 31, 2014, no change occurred in the bank's internal control over financial reporting which significantly affected, or which is likely to significantly affect, the bank's internal control over financial reporting.

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 professional ethics, and to establish the ethical criteria 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, are the above are established 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

The bank's contributions are performed in accordance with the donations policy, and within the framework of the bank's budget. The policy includes criteria for the selection of institutions and/or associations. In 2014, the bank donated NIS 500 thousand (2013 - NIS 446 thousand) to associations which provide assistance, and to public institutions.

Transactions with controlling shareholders

1 In accordance with the Securities Regulations (Periodic and Immediate Reports), 5730 - 1970, a reporting corporation under these regulations is required to submit, in an immediate report and in a periodic report, details "regarding any transaction with the controlling shareholder, or regarding which the controlling shareholder has a personal interest in its approval, in which the corporation has engaged". A reporting corporation is required to include, inter alia, "details regarding the identity of the parties to the transaction, is contents and qualitative and quantitative characteristics, the controlling shareholder's personal interest in it, the date of its approval and the organ which approved the transaction ".

2 The above will not apply in case of an "insignificant transaction", as this term is defined in Regulation 64(3)(d)(1) of the Securities Regulations (Preparation of Financial Statements), 5753 - 1993, i.e., any transaction which meets the "types and characteristics of transactions" which the corporation considers to be insignificant. The Association of Banks in Israel contacted the Israel Securities Authority for the purpose of determining a reporting framework which will apply to banks in this regard. Further to the aforementioned request by The Association of Banks in Israel, and to discussions which were held between the bank and the Israel Securities Authority on this issue, it was determined that a reporting framework for the bank's transactions with its controlling shareholder or with another person in which the controlling shareholder has a personal interest, distributed between banking transactions and non-banking transactions, will be as follows:

A. Regarding banking transactions - the bank will establish criteria regarding extraordinary banking transactions regarding which the bank will publish a report, immediately upon their occurrence. However, non-extraordinary banking transactions will be specified in the annual statements, on a cumulative basis (see the table below), despite the fact that according to the Securities Regulations (Periodic and Immediate Reports), 5730 - 1970, the bank is required to submit an immediate report also regarding non-extraordinary transactions.

B. Regarding non-banking transactions - the bank will establish criteria for the classification of such transactions which are "insignificant", to which will be subject to the provisions regarding the reporting of transactions with the controlling shareholder, which apply to the other reporting corporations (i.e., which are not banks).

Proper Bank Management Directive 312 issued by the Commissioner of Banks (hereinafter: "Directive 312") determines that, in general, the bank may not perform a transaction with a "related party" (as this term is defined in the aforementioned directive) under conditions which are preferable to conventional terms in transactions performed with other parties, excluding a "related party" which is a corporation in which the bank holds 95% or more of the means of control, which does not provide credit or any other service to a person outside of the bank's group.

3. Presented below are details regarding the criteria which were determined, as stated above, in the meeting of the Board of Directors' Audit Committee, on February 18, 2010, and which were ratified

in the meeting of the Audit Committee on January 22, 2015, distributed into banking transactions and non-banking transactions:

"Extraordinary" banking transactions:

Banking transactions which meet the following criteria will be considered extraordinary transactions:

A. Regarding "liability" transactions - a liability transaction will be considered extraordinary if, following its implementation, the total liability of the controlling shareholder's group exceeds 5% of the bank's capital, as this term is defined in Annex A to Proper Bank Management Directive 311, as reported in the financial statements last published before the date of the transaction (hereinafter: "Regulatory Capital"), or if the increase in the liability of a single borrower out of the controlling shareholder group, following the transaction, rises above 2% of regulatory capital on the performance date of the transaction.

   If the bank becomes aware of liability transactions in which the controlling shareholder has a personal interest, and to which does not apply 312 does not apply, since they are not performed with a "related party", as this term is defined in Proper Bank Management Directive 312, the bank will present them for approval in accordance with the provisions of the aforementioned Directive 312. Regarding these transactions, the bank will submit information within the framework of its annual statements, on a cumulative basis, according to the framework specified in the following tables (a separate table for these transactions, and for the aforementioned transactions to which Proper Bank Management Directive 312 applies). In this context, it should be clarified that the effective criterion regarding an extraordinary liability transaction with the controlling shareholder, or in which the controlling shareholder has a personal interest, will apply regardless of whether Directive 312 applies to the aforementioned transaction or not.

   Additionally, each specific provision for credit losses or write-off of a certain amount with respect to a liability of the controlling shareholder or of a corporation related to him will be considered a significant transaction.

B. Regarding "deposit" transactions - the depositing of funds in a deposit, of any kind whatsoever, will be considered an extraordinary transaction if as a result, the total deposits of the controlling shareholder group exceed 2% of total public deposits, as reported in the last financial statements which will be published by will be published before the transaction date. Receipt of a deposit from a company which is a "related party" to the controlling shareholder (as this term is defined in Proper Bank Management Directive 312), which is not included among the companies which are under the control of the controlling shareholder, will be considered extraordinary, if as a result, the total deposits of that "related party" exceed 2% of total public deposits, as reported in the last financial statements which will be published by the bank before the date of the transaction;

C. Regarding a transaction with securities, or a transaction in foreign currency (which is not a debt transaction, or a deposit transaction, as specified above) - a transaction with securities or in foreign currency will be considered extraordinary if the total annual commission charged for it is equal to, or exceeds, 4% of the bank's total operating income (less income from investments in stocks), according to the bank's annual financial statements.

D. Any other banking transaction, of the types of transactions which the bank generally performs with the public, provided that it does not involve the provision of credit by the bank, where the amount of such transaction exceeds 0.1% of the regulatory capital on the performance date of the transaction.

A negligible temporarily deviation from the scopes specified in sections (a) to (d) above, and for a period which does not exceed 30 days, will not suffice to change the classification of the transaction as a "non-extraordinary transaction", and disclosure will be given regarding those exceptions within the framework of the annual report. It is hereby clarified that any change to an extraordinary transaction constitutes, in itself, an extraordinary transaction, and an immediate report will be given regarding it.

Non-banking transactions:

The following transactions will be considered insignificant transactions:

A. Transactions for the acquisition of services from the controlling shareholder or in which the controlling shareholder has a personal interest, provided that they do not constitute an engagement with the controlling shareholder or a relative of his, regarding the terms of his tenure and employment, which are performed in the ordinary course of business and under market conditions, and whose scope does not exceed a total of NIS 250,000, provided that the total sum of transactions of this type for a single calendar year does not exceed 0.1% of regulatory capital. The above total will not take into account individual transactions, the scope of each will be less than NIS 25,000.

B. Transactions involving the rental of areas from the controlling shareholder, or in which the controlling shareholder has a personal interest, which were approved in a single calendar year, in the ordinary course of business, and under market conditions, and whose total scope does not exceed 0.1% of regulatory capital.

C. Bearing the controlling shareholder's expenses, in the ordinary course of business and under market conditions, for the purpose of participating in representative events and in customer conferences of the bank and its subsidiaries, upon their request - expenses up to a total of NIS 250,000 per year.

D. Any other transaction which is performed in the ordinary course of business and under market condition, whose scope amounts to a maximum total of NIS 250,000, provided that the total sum of transactions of this type for a single calendar year does not exceed 0.1% of regulatory capital. The above total will not take into account individual transactions, the scope of each will be less than NIS 25,000.

Definitions:

(1) "Debt" - as this term is defined in Proper Bank Management Directive 312 of the Commissioner of Banks.

(2) "Market conditions" - terms which are not preferable to the terms of similar transactions of the same type as the transaction, which are performed by the bank with individuals or corporations who are not controlling shareholders in the bank, or transactions with individuals in which the controlling shareholder does into have a personal interest. Market conditions with respect to banking transactions are evaluated relative to the terms under which transactions of the same type, and in similar scopes, are performed according to the conventional practice regarding the evaluation of transactions with related parties, in accordance with Proper Bank Management Directive 312, with customers of the bank who are not related parties or entities regarding which the controlling shareholders have a personal interest in the transaction with them; Market conditions with respect to transactions which are not banking transactions will be evaluated with respect to transactions of the same type as the bank engages with suppliers and/or with respect to offers of other suppliers, which were evaluated before a decision was reached to enter the engagement. In cases where the bank does not have transactions of the same type, the market conditions will be evaluated with respect to transactions of the same type which are performed on the market, and provided that the transaction is in the ordinary course of business, and that there is a market for transactions of this kind in which similar transactions are performed.

(3) "Controlling shareholder group" - the controlling shareholder, together with the private companies which are related to him, according to the definition of the term "related party" in Proper Bank Management Directive 312, and together with his relatives and private companies related to them, including his family members who live with him, or whose livelihood is dependent on him; the definition of a "relative" in accordance with the provisions of the Banking Law (Licensing) includes a sibling, parent, child, spouse's child and spouse of any of the above.

Presented below are details regarding the balances of the controlling shareholder group and of other parties in which the controlling shareholder has a personal interest in their dealings with the bank (in thousands of NIS):

	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)	(717.2)	(68.8)	(107,716.7)	(916.8)	(331.2)

Balance type	Balance as of December 31, 2013			Highest balance in 2013		
	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	298.3	0.1	-	597.7	0.2	0.1
Unused facility	134.7	-	-	137.2	-	-
Deposits	(8,367.0)	(687.4)	(78.9)	(10,323.0)	(712.0)	(2,988.3)

Presented below are details regarding the 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 other parties regarding which the controlling shareholder has a personal interest in their dealings with the bank (in thousands of NIS):

	For 2014			For 2013		
	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	2,087.4	0.9	6.9	618.4	0.9	1.3

(4) In the year ended December 31, 2014, the bank did not engage in any non-banking transactions with the controlling shareholders, or in which the controlling shareholder has a personal interest, and which constitute insignificant transactions, as defined above.

Board of Directors, management and salaries of corporate officers

Names and positions of Board members*:

Name of director	Main position
Zeev Gutman	Chairman of the bank's Board of Directors
Dr. Zalman Shoval	Chairman of the Board of Export Investment Co. Ltd. (the parent company); Joint Chairman of the Faire Fund
Shmuel Ashel	Consulting and business accompaniment
Moshe Bauer	CEO and Director of C.F.C. Comprehensive Financing Co. Ltd.
Ovad Ben-Ozer	Manager of companies
Adiv Baruch	Managing Partner and Director of Signum Ltd.
Ram Harmelech	CEO and Owner of Manor Marang Ltd. and director on the boards of companies
Pinchas Volovelsky	Attorney, partner of law firm
Ira Sobel	C.P.A., economic advisor to companies and director in public companies.
Esther Friedman (tenure discontinued on December 10, 2014)	Financial accompaniment and consulting
Dr. Nurit Kraus	CEO and founder of Redstart Modeling Services and Consulting Ltd.
Gideon Shoval	CEO of Export Investment Co. Ltd.

* 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 2014.

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 must will have accounting and financial expertise, as this term is defined in the aforementioned Companies Law (hereinafter: the "Directors with Accounting and Financial Expertise") and at least two of the outside directors must have accounting and financial expertise; In accordance with Proper Bank 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, which have been determined by the bank as fit 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 Board of Directors' report must specify the number of directors with accounting and financial expertise on the reporting date.

In accordance with the decision by 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 Bank 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 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 for the preparation of 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 of the members of the bank's Board of Directors, and all members of the Audit Committee, have accounting and financial expertise, in accordance with their education, qualifications and experience, as specified below:

Zeev Gutman

Education: Accounting studies, College of Management Academic Studies (without degree), B.A. in Business Management, Heriot Watt Edinburgh.

Qualifications and experience:

- Current position - Chairman of the bank's Board of Directors; Director, manager and controlling shareholder in Zeev Gutman Management and Consulting Ltd. Member of associations, as specified in the bank's periodic report for 2014.

- Formerly held various management positions in The First International Bank of Israel, as follows: member of management, Deputy CEO, Chief Risk Officer of the group, Risk Management Division Manager (from October 2010 to August 18, 2011); Chief Financial Risk Manager; Financial Management and Risk Management Division Manager (from March 2007 to October 2010); head of the capital markets and foreign currency division (from 2000 to March 2007); served as a director on the boards of the following companies: Magal Issuance Co. Ltd.; Panka Ltd., FIBI Bank Switzerland Ltd.; First International Issues Ltd.; Stokopin (Israel) Ltd. Hightrade; The Tel Aviv Stock Exchange Ltd.; Maof Clearing House; Chairman of the Board of Bank Otsar Ha-Hayal; "Maalot"; International Insurance Agency (2005) Ltd.; Ubank Ltd.

Dr. 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 2014.

- Formerly served as the CEO of Export Bank and as the Israel's Ambassador to the United States, Chairman of Bank of Jerusalem, member of the Knesset Finance Committee, and member of the Knesset Foreign Affairs and Defense Committee.

Shmuel Ashel

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 2014.

- 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 of the 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 on the corporations specified in the bank's periodic report for 2014.

- Formerly served as Foreign Currency Department Manager in Ellern Bank, as the bank's secretary, and subsequently as the bank's export secretary.

Ovad Ben-Ozer

Education: B.A. and M.A. in Political Science from Paddington School of Political Science.

Qualifications and experience:

- Current position - Manager of companies. Director on the boards of corporations specified in the bank's periodic report for 2014.

- Formerly served as the CEO of Unitrust Investment Company Ltd. and as Chairman of the Association of Member Companies of the Tel Aviv Stock Exchange Ltd. Served as a member of the Board of Directors and rating committee of Maalot, and served as director in Jerusalem Investment Portfolio Management Ltd. (until 2010).

Adiv Baruch

Education: B.A. in Industrial Engineering and Management, Haifa Technion.

Qualifications and experience:

- Current position: managing partner and director at Signum Ltd., a company engaged in investment management and company recovery in the following sectors: Information systems, communication, software, internet and civil defense technological systems; Director on the boards of corporations specified in the bank's periodic report for 2014.

- Formerly served as venture partner in Infinity China; Served as President and CEO of BOS; Served as Senior VP Business Development and as President of Ness Ventures in Ness Technologies Ltd.

Ram Harmelech

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 2014.

- Served as Deputy CEO, Business Division Manager and Credit Risk Manager in Mercantile Discount Bank (from 1998 to May 2012); Served as CEO of Maalot The Israeli Securities Rating Co. Ltd. from 1994 to 1998.

Pinchas Volovelsky, Adv.

Education: B.A. in Economics and International Relations from The Hebrew University of Jerusalem; M.Jur in Law from The Hebrew University of Jerusalem.

Qualifications and experience:

- Current position - Attorney, partner of law firm. Member of boards of directors, as specified in the bank's periodic report for 2014.
- Formerly served as Chairman of the bank's Board of Directors.

Ira Sobel, C.P.A.

Education: Certified C.P.A., B.A. in Business Management / Accounting, The College of Management Academic Studies, Rishon Letzion; Executive M.B.A., 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 and director in public companies. Serves as a director on the boards of corporations specified in the bank's periodic report for 2014.
- From 1994 to 2002, Senior Audit Manager for the Banking Segment at KMPG Somekh Chaikin; Deputy CEO of the firm.

Esther Friedman (tenure discontinued on December 10, 2014)

Education: B.A. in Economics, The Hebrew University of Jerusalem; M.B.A., The Hebrew University of Jerusalem.

Qualifications and experience:

- Current position: financial accompaniment and consulting; Director on the boards of corporations specified in the bank's periodic report for 2013;
- Served as the CEO of Clal Credit and Finance Ltd. (from 2005 to 2013).

Dr. Nurit Kraus

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.

- 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.

Qualifications and experience:

- Current position - CEO of Export Investment Co. Ltd.

Board of Directors

During 2014 and until the publication date of the report, the following changes took place in the composition of the Board of Directors:

On December 10, 2014, Ms. Esther Friedman discontinued her tenure as an outside director in the bank, upon her resignation from the bank's Board of Directors (as specified in the immediate report dated December 11, 2014, reference number: 2014-01-219573). Her resignation took place in light of the fact that she intends to commence activities in a business corporation, where there is a concern that her aforementioned new engagement may give rise to a conflict of interests with her positions as an outside director in the bank, and therefore, the terms for qualification regarding her tenure will not be fulfilled in accordance with section 240(C) of the Companies Law, 5759 - 1999.

In the general meeting of the bank's shareholders, which was held on December 10, 2014, a decision was reached to select and appoint, for an additional period of tenure, the directors who are serving in the bank (who are not outside directors) - Messrs. Zeev Gutman (Chairman); Zalman Shoval; Gideon Shoval; Pinchas Volovelsky; Moshe Bauer; Ovad Ben Ozer and Ram Harmelech.

A decision was also reached in the aforementioned general shareholders' meeting to appoint Ms. Nurit Kraus as an independent director in accordance with the Companies Law, and as an outside director in accordance with Proper Bank Management Directive 301, for an additional tenure period of three years, beginning on the conclusion date of her first period of tenure in the bank, i.e., January 29, 2015.

As of the publication date of the report, the bank's Board of Directors includes 11 directors, of which 4 are outside directors, as defined in Proper Bank Management Directive 301 (2 outside directors in accordance with the Companies Law and 2 outside directors in accordance with Proper Bank Management Directive 301, as well as independent directors in accordance with the Companies Law).

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. Further to the above, the composition of the bank's Board of Directors amounted in 2014, and until Ms. Friedman's resignation as an outside director in the bank, to the ratio between outside directors and other directors, as agreed vis-à-vis the Banking Supervision Department (5 outside directors out of 12-13 total directors). Notice was submitted to the Bank of Israel regarding Ms. Friedman's resignation.

During 2014 and until the publication date of the report, changes took place in the compositions of Board of Directors committees, as follows:

On December 10, 2014, upon the conclusion of Ms. Esther Friedman's tenure as an outside director in the bank, she discontinued serving as a member of the Audit Committee, Remuneration Committee and Capital and Strategy Planning Committee.

Mr. Gideon Shoval discontinued his service as the Planning and Strategy Committee Chairman (he will continue serving as a member of the 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), Adiv Baruch (outside director), Ms. Ira Sobel (outside director in accordance with Directive 301, and independent director in accordance with the Companies Law) and Mr. Ram Harmelech.

Risk Management Committee: Messrs. Zeev Gutman (Chairman), Shmuel Eshel (outside director), Nurit Kraus (outside director in accordance with Directive 301, and independent director in accordance with the Companies Law) and Ram Harmelech.

Capital Planning and Strategy Committee: Messrs. Gideon Shoval, Zeev Gutman, Nurit Kraus (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law) and Ram Harmelech.

Remuneration Committee: Messrs. Adiv Baruch (Chairman)(outside director), Shmuel Eshel (outside director), Ira Sobel (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law) and Ovad Ben Ozer.

Board of Directors Credit Committee: Messrs. Moshe Bauer (Chairman), Ovad Ben Ozer, Pinchas Volovelsky, Ira Sobel (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law) and Shmuel Eshel (outside director).

In 2014, 22 meetings of the Board of Directors took place, and 48 meetings of the Board of Directors committees took place.

Corporate officers

Mr. Arnon Zayit concluded his tenure as Accounting Division Manager and Chief Accountant on January 15, 2014.

Mr. Alexander Saltzman commenced his tenure as Accounting Division Manager and Chief Accountant on January 16, 2014.

On March 9, 2014, the bank's Board of Directors resolved to approve the continued tenure of the bank's CEO, Uriel Paz. On April 10, 2014, the bank received a notice from the Bank of Israel, stating that the Bank of Israel does not object to the extension of his tenure. For details regarding the employment terms of the bank's CEO, see Note 21 to the financial statements.

Members of bank management as of December 31, 2014

Uriel Paz	CEO
Israel Boker	Deputy CEO, Retail Division Manager
Michael Tayer	Deputy CEO, Resource Division Manager
Michael Ben Yishai	VP, CRO, Risk Division Manager
Alex Saltzman	VP, Accounting Division Manager
Moshe Omer	VP, Financial Department Manager
Sarit Weisstuch	VP, legal advisor
Ron Sagi	VP, internal auditor with the status of management member

Corporate officers who are not management members:

Carmel Florenz	Bank secretary
Ayelet Rusk	Real Estate Sector Department Manager

Additional details regarding the bank's corporate officers are presented in the bank's periodic report for 2014, and on the MAGNA system of the Israel Securities Authority at http//www.magna.isa.gov.il.

Salaries of corporate officers

See below in Annex A.

Auditor's professional fees

See below in Annex A.

The bank's Board of Directors would like to thank the bank's management and employees for their dedicated work and contributions towards the advancement of the bank's business operations.

February 25, 2015

Zeev Gutman
Chairman of the Board of Directors

Uriel Paz
CEO

Main data from the consolidated financial statements for the year ended December 31, 2014

Reported amounts

Annex A to the Board of Directors' Report

	Rate of change in percent	For the year ended December 31	
		2014	**2013**
A. Profit and profitability			
		In percent	
1. Net profit returns to average capital		**9.2%**	2.5%
		Millions of NIS	
2. Interest income, net	23%	**317.0**	257.2
3. Expenses with respect to credit losses	(66%)	**(18.4)**	(54.7)
4. Interest income, net, after expenses with respect to credit losses	47%	**298.6**	202.5
5. Non-interest income	39%	**147.9**	106.5
6. Operating and other expenses	22%	**(350.4)**	(286.4)
7. Profit before taxes	325%	**96.1**	22.6
8. Provision for taxes	452%	**(29.8)**	(5.4)
9. Net profit (loss)	285%	**66.3**	17.2
B. Main financial ratios			
		In percent	
10. Expenses with respect to credit losses for the period to total net credit to the public (including weighted off-balance sheet credit risk)(1), (2)		**0.19%**	0.57%
11. Ratio of core capital to risk components (Basel 3)(II)		**9.7%**	9.2%
12. Ratio of capital to risk components (Basel 3)(II)		**14.4%**	13.9%

	Rate of change in percent	Balances as of	
		31.12.14	**31.12.13**
		Millions of NIS	
C. Balance sheet - main items			
13. Total balance sheet	5%	14,077	13,469
14. Cash and deposits in banks	16%	3,278	2,833
15. The securities	30%	880	677
16. Credit to the public	(1%)	9,567	9,627
17. Public deposits	(1%)	10,977	11,071
18. Debentures and deferred liability notes	7%	1,503	1,406
19. Equity	7%	745	697
20. Capital for the purpose of the ratio of capital to risk components (Basel 3)(II)	5%	1,102	1,053
D. Off-balance sheet items			
21. Balance of loans from deposits, by collection rate	(17%)	1,418	1,703
22. Balance of guarantees	15%	190	165

(1) During 2013, a non-recurring expense was included following the application of a collective housing provision at a rate of 0.35%, in accordance with the directives issued by the Bank of Israel on the subject on March 21, 2013, in the amount of NIS 19.2 million. The ratio of expenses with respect to credit losses in 2014 to total net credit to the public, after neutralizing the aforementioned non-recurring expense, was 0.37%.

(2) In 2014, income was recorded upon the conclusion of the past debt collection process in the amount of NIS 8.0 million. The ratio of expenses with respect to credit losses in 2014 to total net credit to the public, neutralized by this income, was 0.27%.

(3) The comparative figures relative to the Basel III figures are current as of January 1, 2014.

Annex A to the Board of Directors' Report (Cont.)

E. Details regarding the remuneration of corporate officers (thousands of NIS)

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)	
Zeev Gutman(6)	Chairman of the Board of Directors	Partial	-	-	1,484	143	-	-	1,627
Uri Paz (7)	CEO	Full	-	1,843	582	753	67	2	3,247
Israel Boker (8)	Deputy CEO, Retail Division Manager	Full	-	1,314	-	347	-	1	1,662
Michael Tayer (9)	Deputy CEO, Resource Division Manager	Full	-	1,121	-	223	(28)	-	1,316
Michael Ben Yishai (10)	VP, Risk Division Manager	Full	-	989	-	102	-	4	1,095
Moshe Omer(11)	VP, Financial Division Manager	Full	-	910	-	179	-	-	1,089

Annex A to the Board of Directors' Report (Cont.)

E. Details regarding the remuneration of corporate officers (thousands of NIS) (Cont.)

For the year ended December 31, 2013									
Details of remuneration recipient				Remuneration for services				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)	
Zeev Gutman(6)	Chairman of the Board of Directors	Partial	-	-	1,492	-	-	-	1,492
Uri Paz (7)	CEO	Full	-	-	2,157	-	349	2	2,508
Dina Promovitz (12)	VP, Branching Division Manager	Full	-	924	-	873	(12)	1	1,786
Arnon Zayit (13)	Deputy CEO, Accounting Division Manager	Full	-	1,213	-	266	(16)	4	1,467
Michael Tayer (9)	Deputy CEO, Resource Division Manager	Full	-	1,147	-	-	81	-	1,228
Nissan Levy (14)	Deputy CEO, Finance Division Manager	Full	-	1,059	-	177	(24)	3	1,215

Annex A to the Board of Directors' Report (Cont.)

(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 the item for salaries and related expenses.

(2) Includes a payment of monthly management fees and associated benefits, but does not include VAT. Included in the statement of income, under the item for salaries 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). Included in the statement of income under the item for salaries and related expenses. It is noted that the payment of the bonus is subject to the approval of the general shareholders' meeting.

(4) For details, see Note 21A to the financial statements. Included in the statement of income under the item for salaries and related expenses.

(5) Includes an interest benefit with respect to loans given under benefit conditions. Included in the statement of income under the item for financing activities before expenses for credit losses

(6) Mr. Zeev Gutman - Chairman of the bank's Board of Directors - is employed in the bank at a scope of 4 days per week on average, since October 18, 2011, in accordance with an agreement dated November 6, 2011, through a company under his control, Zeev Gutman Management and Consulting Ltd., for an undefined period. For additional details, see Note 21. The monthly salary of Mr. Zeev Gutman is linked to the consumer price index. Each of the parties is entitled to terminate the agreement, by providing notice three months in advance, subject to the terms which were determined in the agreement.

Subject to the approval of the general shareholders' meeting, a bonus of NIS 128 thousand will be paid to Mr. Gutman. A total of approximately NIS 10 thousand will be deferred and distributed over an additional two years. For details, see Note 21 to the financial statements.

(7) Mr. Uriel Paz - the bank's CEO - in April 13, 2010, began serving as the bank's CEO, in accordance with an agreement for the provision of management services, through a management company under his control, which terminated on April 13, 2014. On March 9, 2014, the bank's Board of Directors resolved to approve the extension of the CEO's tenure for an additional tenure period of three years, which began on April 14, 2014. For additional details regarding the CEO's employment terms, see Note 21.

Annex A to the Board of Directors' Report (Cont.)

Subject to the approval of the general shareholders' meeting, a bonus of NIS 753 thousand will be paid to the CEO. Half of the bonus will be paid after the approval of the aforementioned meeting while the other half will be postponed and distributed over 3 years, and will be made contingent on the fulfillment of targets, as specified in the chapter regarding human resources above, regarding the banks remuneration policy.

Mr. Paz has a credit balance regarding the bonus terms as of December 31, 2014, in the amount of NIS 31 thousand.

(8) 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.

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 the stipulation that upon the conclusion of his employment, the bank will release to him all sums which were accumulated to his credit in the various funds.

Subject to the approval of the general shareholders' meeting, a bonus of approximately NIS 347 thousand will be paid to Mr. Israel Boker. Half of the above amount will be paid after the aforementioned approval of the meeting while the other half will be postponed and distributed over 3 years, and will be made contingent on the fulfillment of targets, as specified in the chapter regarding human resources above, regarding the banks remuneration policy.

Mr. Boker has a credit balance in bonus terms as of December 31, 2014 in the amount of NIS 8 thousand.

Annex A to the Board of Directors' Report (Cont.)

(9) 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, in favor 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 21A).

Subject to the approval of the general shareholders' meeting, a bonus of approximately NIS 223 thousand will be paid to Mr. Michael Tayer. Half of the amount will be paid after approval has been received from the meeting, as stated above, while the other half will be postponed and distributed over 3 years, and will be made contingent on the fulfillment of targets, as specified in the chapter regarding human resources above, regarding the bank's remuneration policy.

(10) Mr. Micheal 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 Yishai will be 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 Yishai 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.

Subject to the approval of the general shareholders' meeting, a bonus of approximately NIS 102 thousand will be paid to Mr. Michael Ben Yishai, after approval has been received from the meeting, as stated above.

Mr. Michael Ben Yishai has a balance of credit, under preferred conditions, as of December 31, 2014 which amounts to NIS 65 thousand.

(11) 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.

Annex A to the Board of Directors' Report (Cont.)

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 finds.

Subject to the approval of the general shareholders' meeting, a bonus of approximately NIS 179 thousand will be paid to Mr. Moshe Omer. Half of the amount will be paid after approval has been received from the meeting, as stated above, while the other half will be postponed and distributed over 3 years, and will be made contingent on the fulfillment of targets, as specified in the chapter regarding human resources above, regarding the bank's remuneration policy.

(12) Ms. Dina Promovitz - served as Branching Division Manager until September 30, 2013. Ms. Promovitz was employed in the bank since July 23, 1989, in accordance with a personal employment agreement, for an undefined period, and her salary was linked to the consumer price index.

The bank's Board of Directors approved a payment in the amount of NIS 873 thousand with respect to increased severance pay beyond the accrued amount with respect to severance pay, which had accumulated in insurance policies / pension funds under her name, as well as an adjustment bonus.

(13) Mr. Arnon Zayit - served as Accounting Division Manager until January 15, 2014. Mr. Zayit was employed in the bank since April 2, 2000, in accordance with a personal employment agreement, for an undefined period. The monthly salary of Mr. Arnon Zayit was linked to the consumer price index.

On July 20, 2014, the general shareholders' meeting approved the payment of a retirement bonus to Mr. Arnon Zayit in the amount of NIS 109 thousand, as well as an adjustment bonus of NIS 54 thousand.

(14) Mr. Nissan Levy - served as Finance Division Manager until November 30, 2013. Mr. Levy was employed in the bank since July 1, 1999, in accordance with a personal employment agreement, for an undefined period, and his monthly salary was linked to the consumer price index.

On July 20, 2014, the general shareholders' meeting approved the payment of a retirement bonus to Mr. Nissan Levy in the amount of NIS 118 thousand, as well as an adjustment bonus in the amount of NIS 59 thousand.

Annex A to the Board of Directors' Report (Cont.)

	For the year ended December 31	
	2014	**2013**
F. Details regarding the organizational structure		
1. Number of branches in the bank	**22**	21
2. Number of employees, including subsidiaries (including human resources through outsourcing)	**597**	550
3. Number of overtime positions (monthly average)	**21**	21
4. Number of Board of Directors meetings	**22**	22
5. Number of Board of Directors committee meetings	**48**	43

G. Auditors' fees (1, 2, 3), in thousands of New Israeli Shekels

	Consolidated		The bank	
	For the year ended December 31			
	2014	**2013**	**2014**	**2013**
For auditing activities(4)				
Auditor	**1,357**	1,445	**1,224**	1,279
For services associated with auditing (5)				
Auditor	**35**	289	**-**	265
For tax services (6)				
Auditor	**334**	424	**334**	424
For other services				
Auditor	**361**	352	**361**	352
Total auditors' fees	**2,087**	2,510	**1,919**	2,320

(1) A 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 and audits of business operations which were acquired during the year.
(6) Current tax services and preparation of reports to tax authorities.

Management Review

Report for 2014

Bank of Jerusalem Ltd. and its Consolidated Companies

Management Review Regarding the Bank's Business Condition and the Results of its Operations

Presented below are multi-periodic data and various details regarding the financial statements, which enable the provision of a broader picture regarding the bank's financial position and the results of its operations. This information is provided in the following addenda:

Consolidated Balance Sheets - Multi-Periodic Data as of the End of the Years 2010 - 2014

Reported amounts, in millions of NIS

Addendum A

	December 31				
	2014	**2013**	**2012**	**2011**	**2010**
Assets					
Cash and deposits in banks	**3,278.0**	2,833.4	1,360.6	792.3	652.3
Securities	**880.4**	676.6	1,163.0	1,490.7	1,314.9
Credit to the public (1)	**9,674.4**	9,735.5	9,672.1	9,148.8	8,158.4
Provision for credit losses (1)	**(107.9)**	(108.9)	(90.7)	(91.0)	(121.5)
Credit to the public, net	**9,566.5**	9,626.6	9,581.4	9,057.8	8,036.9
Buildings and equipment	**160.8**	150.4	117.9	79.7	56.7
Intangible assets	**1.6**	2.0 (3)	-	-	-
Assets with respect to derivative instruments	**40.4**	21.7	20.9	7.2	23.9 (2)
Other assets	**149.6**	158.0 (3)	47.7	54.9	41.0 (2)
Total assets	**14,077.3**	13,468.7	12,291.5	11,482.6	10,125.7
Liabilities and capital					
Public deposits	**10,977.2**	11,071.1	9,813.7	9,064.6	7,407.8
Deposits from banks	**42.5**	51.5	63.3	76.2	86.5
Government deposits	**5.0**	0.7	-	0.8	4.9
Securities which were lent or sold within the framework of a repurchasing agreement	**582.7**	27.5	-	-	-
Debentures and deferred liability notes	**1,503.1**	1,406.0	1,581.0	1,611.9	1,921.1
Liabilities in respect of derivative instruments	**39.0**	12.3	16.4	15.0	10.7 (2)
Other liabilities	**182.6**	202.4 (3)	123.0	69.5	61.5 (2)
Total liabilities	**13,332.1**	12,771.5	11,597.4	10,838.0	9,492.5
Equity	**745.2**	697.2	694.1	644.6	633.2
Total liabilities and assets	**14,077.3**	13,468.7	12,291.5	11,482.6	10,125.7

(1) On January 1, 2011, the bank adopted, for the first time, the directives issued by the Commissioner of Banks regarding the "Measurement and disclosure of impaired debts, credit risk and provision for credit losses". The comparative figures with respect to previous periods were not restated, and therefore, the data for the years ended December 31, 2014, 2013, 2012 and 2011 are not comparable to the data for the year ended December 31, 2010. For additional details regarding the effect of the initial adoption of the provision, see the note regarding the accounting policy.
(2) Reclassified.
(3) Restated. For details, see the note regarding significant events during the reporting period.

Consolidated Statements of Income - Multi-Periodic Data for the Years 2010 - 2014

Reported amounts, in millions of NIS

Addendum B

	For the year ended December 31				
	2014	**2013**	**2012**	**2011[(1)]**	**2010[(1)]**
Interest income	458.4	543.2	555.7	559.0	426.7
Interest expenses	141.4	286.0	324.8	384.2	302.1
Interest income, net	317.0	257.2	230.9	174.8	124.6
Expenses with respect to credit losses [(2)]	18.4	54.7	36.0	15.1	(2.6)
Interest income, net, after expenses with respect to credit losses	**298.6**	**202.5**	**194.9**	**159.7**	**127.2**
Non-interest income					
Non-interest financing income	18.1	14.2	22.6	6.1	24.5
Fees	118.3	91.4	90.2	91.9	98.9
Other income	11.5	0.9	0.6	25.5	0.6
Total non-interest income	**147.9**	**106.5**	**113.4**	**123.5**	**124.0**
Operating and other expenses					
Salaries and associated expenses	167.7	146.1	137.8	134.1	120.7
Maintenance and depreciation of buildings and equipment	72.7	58.2	46.9	37.6	29.4
Other expenses	110.0	82.1	69.8	51.4	53.0
Total operating and other expenses	**350.4**	**286.4**	**254.5**	**223.1**	**203.1**
Profit before taxes	96.1	22.6	53.8	60.1	48.1
Provision for taxes	29.8	5.4	17.7	14.6	14.0
Net profit	**66.3**	**17.2**	**36.1**	**45.5**	**34.1**
Earnings per share (in NIS)					
Basic and diluted net earnings per share (NIS)	**0.94**	**0.24**	**0.51**	**0.65**	**0.48**

(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. For details, see the note regarding the accounting policy.
It is noted that the bank's management building was sold in 2011. Under the item for other income, income was recorded in the amount of NIS 25.4 million; and under the item for tax expenses, an expense was recorded in the amount of NIS 4.6 million.

(2) On January 1, 2011, the bank adopted, for the first time, the directives issued by the Commissioner of Banks regarding the "Measurement and disclosure of impaired debts, credit risk and provision for credit losses". The comparative figures with respect to previous periods were not restated, and therefore, the data for the years ended December 31, 2014, 2013, 2012 and 2011 are not comparable to the data for the year ended December 31, 2010. For additional details regarding the effect of the initial adoption of the provision, see the note regarding the accounting policy.

Rates of interest income and expenses - of the bank and its consolidated companies (1) and analysis of changes in interest income and expenses

Addition C

Part A - Average Balances and Interest Rates - Assets

Reported amounts

	For the year ended December 31								
	2014			2013			2012		
	Average balance (2)	Interest income	Income rates	Average balance (2)	Interest income	Income rates	Average balance (2)	Interest income	Income rates
	Millions of NIS		Percent	Millions of NIS		Percent	Millions of NIS		Percent
Interest bearing assets									
Credit to the public (3)	9,635.5	433.4	4.50	9,695.2	509.4	5.25	9,384.9	510.1	5.44
Deposits in banks	162.2	0.2	0.12	190.5	0.6	0.31	88.5	0.7	0.79
Deposits in central banks	1,658.6	10.3	0.62	1,302.0	16.8	1.29	363.7	8.2	2.25
Available for sale debentures (4)	550.1	12.1	2.20	701.5	11.6	1.65	1,227.0	29.9	2.44
Marketable debentures (4)	470.4	1.8	0.38	299.5	4.8	1.60	230.4	6.1	2.65
Other assets	29.6	0.6	2.03	-	-	-	4.5	0.7	15.56
Total interest bearing assets	**12,506.4**	**458.4**	**3.67**	12,188.7	543.2	4.46	11,299.0	555.7	4.92
Receivables with respect to non-interest bearing credit cards	32.9	-	-	30.5	-	-	26.3	-	-
Other non-interest bearing assets (5)	822.7	-	-	357.3	-	-	340.5	-	-
Total assets	**13,362.0**	**458.4**	**3.43**	12,576.5	543.2	4.32	11,665.8	555.7	4.76

Notes at the end of Addendum C

Rates of interest income and expenses - of the bank and its consolidated companies (1) and analysis of changes in interest income and expenses (Cont.)

Addition C

Part B, Average balances and interest rates - liabilities and capital

Reported amounts

	For the year ended December 31								
	2014			2013			2012		
	Average balance (2)	Interest expenses	Expense rates	Average balance (2)	Interest expenses	Expense rates	Average balance (2)	Interest expenses	Expense rates
	Millions of NIS		Percent	Millions of NIS		Percent	Millions of NIS		Percent
Interest bearing liabilities									
Public deposits									
On demand	348.5	3.5	1.00	231.8	1.8	0.78	50.2	0.7	1.48
For fixed periods	9,412.0	100.8	1.07	9,461.8	202.6	2.14	8,528.7	240.3	2.82
Total public deposits	9,760.5	104.3	1.07	9,693.6	204.4	2.11	8,578.9	241.0	2.81
Deposits from banks	**51.1**	**2.2**	**4.31**	60.8	3.4	5.59	76.4	3.8	4.97
Securities which were lent or sold within the framework of a repurchasing agreement	349.8	1.1	0.31	-	-	-	-	-	-
Debentures	1,318.4	33.8	2.56	1,484.2	78.2	5.27	1,484.6	80.0	5.39
Total interest bearing liabilities	**11,479.8**	**141.4**	**1.23**	11,238.6	286.0	2.54	10,139.9	324.8	3.20
Non-interest bearing public deposits	**1,053.3**	**-**	**-**	531.4	-	-	772.4	-	-
Other non-interest bearing liabilities (7)	**107.4**	**-**	**-**	111.8	-	-	81.4	-	-
Total liabilities	**12,640.5**	**141.4**	**1.12**	11,881.8	286.0	2.41	10,993.7	324.8	2.95
Total capital resources	**721.5**			694.7			672.1		
Total liabilities and capital resources	**13,362.0**		**-**	12,576.5		-	11,665.8		-
Interest margin			**2.44**			1.92			1.72
Net returns (8) on interest bearing assets	**12,506.4**	**317.0**	**2.53**	12,188.7	257.2	2.11	11,299.0	230.9	2.04

Notes at the end of Addendum C

Rates of interest income and expenses - of the bank and its consolidated companies (1) and analysis of changes in interest income and expenses (Cont.)

Addition C

Part C - average balances and interest rates - additional information regarding interest bearing assets and liabilities which are attributed to the activity in Israel

	For the year ended December 31								
	2014			2013			2012		
	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
	Millions of NIS		Percent	Millions of NIS		Percent	Millions of NIS		Percent
Unlinked Israeli currency									
Total interest bearing assets	7,582.5	269.6	3.56	7,077.5	286.4	4.05	6,350.2	316.3	4.98
Total interest bearing liabilities	6,901.7	(66.9)	(0.97)	6,251.7	(106.00)	(1.70)	5,590.9	(147.70)	(2.64)
Interest margin			**2.59**			**2.35**			**2.34**
CPI-linked Israeli currency									
Total interest bearing assets	3,629.8	154.2	4.25	3,701.5	219.6	5.93	3,543.1	197.4	5.57
Total interest bearing liabilities	3,381.3	(68.5)	(2.03)	3,759.7	(172.6)	(4.59)	3,559.1	(165.8)	(4.66)
Interest margin			**2.22**			**1.34**			**0.91**
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest bearing assets	1,294.1	34.6	2.67	1,409.7	37.2	2.64	1,405.7	42.0	2.99
Total interest bearing liabilities	1,196.8	(6.00)	(0.50)	1,227.2	(7.40)	(0.60)	989.9	(11.3)	(1.14)
Interest margin			**2.17**			**2.04**			**1.85**
Total activities in Israel									
Total interest bearing assets	12,506.4	458.4	3.67	12,188.7	543.2	4.46	11,299.0	555.7	4.92
Total interest bearing liabilities	11,479.8	(141.4)	(1.23)	11,238.6	(286.0)	(2.54)	10,139.9	(324.8)	(3.20)
Interest margin			**2.44**			**1.92**			**1.72**

Notes at the end of Addendum C

Rates of interest income and expenses - of the bank and its consolidated companies (1) and analysis of changes in interest income and expenses (Cont.)

Addition C

Part D - Analysis of Changes in Interest Income and Expenses

Reported amounts in millions of USD

	For the year ended December 31, 2014, as compared with the year ended December 31, 2013			For the year ended December 31, 2013, as compared with the year ended December 31, 2012		
	Increase (decrease) due to change (9)			Increase (decrease) due to change (9)		
	Amount	Price	Net change	Amount	Price	Net change
Interest bearing assets						
Credit to the public in Israel	(2.7)	(73.3)	(76.0)	16.3	(17.0)	(0.7)
Other interest bearing assets in Israel	0.1	(8.9)	(8.8)	4.7	(16.5)	(11.8)
Total interest income	**(2.6)**	**(82.2)**	**(84.8)**	**21.0**	**(33.5)**	**(12.5)**
Interest bearing liabilities						
Public deposits in Israel	0.7	(100.8)	(100.1)	23.5	(60.2)	(36.7)
Other interest bearing liabilities	(3.6)	(40.9)	(44.5)	(0.9)	(1.2)	(2.1)
Total interest expenses	**(2.9)**	**(141.7)**	**(144.6)**	**22.6**	**(61.4)**	**(38.8)**

(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 non-linked Israeli currency segment - based on daily balances).
(3) Before deducting the average balance-sheet balance of provisions for credit losses. Including impaired debt, which does not accrue interest income.
(4) The average balance of unrealized profits/losses from adjustments to fair value of marketable debentures was deducted from / added to the average balance of marketable debentures and of available for sale debentures, as well as profit/loss with respect to available for sale debentures, which are included in equity, within the framework of other comprehensive income, under the item for "Adjustments with respect to the presentation of available for sale securities at fair value" for the years 2014, 2013 and 2012, in the amount of (1.0), (1.2), and 19.3, respectively
(5) Including derivative instruments and other non-interest bearing assets, less the provision for credit losses.
(6) Fees in the amount of NIS 21.1, 12.3 and 13.9 million were included under interest income in the years 2014, 2013 and 2012, 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.

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

Addendum D

Reported amounts	December 31, 2014				
	On demand Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years
	Millions of NIS				
Unlinked Israeli currency					
Financial assets	6,478.6	257.1	1,126.6	232.8	249.0
Derivative financial instruments (excluding options)	60.3	18.7	159.2	-	-
Total fair value	6,538.9	275.8	1,285.8	232.8	249.0
Financial liabilities	(5,934.7)	(349.6)	(522.9)	(656.2)	(207.6)
Derivative financial instruments (excluding options)	(517.0)	(199.6)	(6.8)	-	-
Total fair value	(6,451.7)	(549.2)	(529.7)	(656.2)	(207.6)
Financial instruments, net					
Exposure to interest rate changes in the segment	87.2	(273.4)	756.1	(423.4)	41.4
Cumulative exposure in the segment	**87.2**	**(186.2)**	**569.9**	**146.5**	**187.9**
CPI-linked Israeli currency					
Financial assets	63.8	138.7	677.6	1,437.1	784.5
Derivative financial instruments (excluding options)	-	-	-	-	-
Total fair value	63.8	138.7	677.6	1,437.1	784.5
Financial liabilities	(106.4)	(319.4)	(624.7)	(1,210.2)	(579.2)
Derivative financial instruments (excluding options)	-	-	-	-	-
Total fair value	(106.4)	(319.4)	(624.7)	(1,210.2)	(579.2)
Financial instruments, net					
Exposure to interest rate changes in the segment	(42.6)	(180.7)	52.9	226.9	205.3
Cumulative exposure in the segment	**(42.6)**	**(223.3)**	**(170.4)**	**56.5**	**261.8**
Foreign currency (2)					
Financial assets	1,066.4	26.7	89.2	128.9	92.4
Derivative financial instruments (excluding options)	640.2	325.5	32.9	0.7	-
Total fair value	1,706.6	352.2	122.1	129.6	92.4
Financial liabilities	(1,167.9)	(336.4)	(381.0)	(0.5)	(0.2)
Derivative financial instruments (excluding options)	(177.1)	(143.9)	(188.0)	(0.6)	(1.4)
Total fair value	(1,345.0)	(480.3)	(569.0)	(1.1)	(1.6)
Financial instruments, net					
Exposure to interest rate changes in the segment	361.6	(128.1)	(446.9)	128.5	90.8
Cumulative exposure in the segment	**361.6**	**233.5**	**(213.4)**	**(84.9)**	**5.9**
Total exposure to changes in interest rates					
Total assets	7,608.8	422.5	1,893.4	1,798.8	1,125.9
Derivative financial instruments (excluding options)	700.5	344.2	192.1	0.7	-
Total fair value	8,309.3	766.7	2,085.5	1,799.5	1,125.9
Total liabilities	(7,209.0)	(1,005.4)	(1,528.6)	(1,866.9)	(787.0)
Derivative financial instruments (excluding options)	(694.1)	(343.5)	(194.8)	(0.6)	(1.4)
Total fair value	(7,903.1)	(1,348.9)	(1,723.4)	(1,867.5)	(788.4)
Financial instruments, net					
Exposure to interest rate changes in the segment	406.2	(582.2)	362.1	(68.0)	337.5
Cumulative exposure in the segment	**406.2**	**(176.0)**	**186.1**	**118.1**	**455.6**

Exposure of the bank and its consolidated companies to changes in interest rates (Cont.)

December 31, 2014							December 31, 2013		
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 Fair value	Internal rate of return	Average lifetime
Millions of NIS					%	Years	Millions of NIS	%	Years
372.9	34.1	31.8	4.5	8,787.4	3.29	0.72	8,301.2	3.50	0.28
-	-	-	-	238.2		0.42	269.7		0.90
372.9	34.1	31.8	4.5	9,025.6	3.29	0.71	8,570.9	3.50	0.30
(178.5)	-	-	-	(7,849.5)	0.83	0.50	(7,533.4)	1.79	0.18
-	-	-	-	(723.4)		0.11	(678.8)		0.13
(178.5)	-	-	-	(8,572.9)	0.83	0.47	(8,212.2)	1.79	0.18
194.4	34.1	31.8	4.5	452.7	2.46	0.24	358.7	1.71	0.12
382.3	**416.4**	**448.2**	**452.7**	**452.7**			358.7		
364.1	177.1	14.6	-	3,657.5	3.45	3.06	3,718.0	3.60	2.92
-	-	-	-	-		-	51.4		0.62
364.1	177.1	14.6	-	3,657.5	3.45	3.06	3,769.4	3.60	2.89
(738.1)	(6.8)	-	-	(3,584.8)	1.05	2.72	(3,536.1)	1.60	2.57
-	-	-	-	-		0.13	(51.2)		0.32
(738.1)	(6.8)	-	-	(3,584.8)	1.05	2.72	(3,587.3)	1.60	2.54
(374.0)	170.3	14.6	-	72.7	2.40	0.34	182.1	2.00	0.35
(112.2)	**58.1**	**72.7**	**72.7**	**72.7**			**182.1**		
21.0	7.8	-	-	1,432.4	3.09	0.70	1,244.7	3.40	0.87
-	-	-	-	999.3		0.13	899.9		0.11
21.0	7.8	-	-	2,431.7	3.09	0.70	2,144.6	3.40	0.87
(0.6)	(0.2)	-	-	(1,886.8)	0.26	0.15	(1,615.2)	1.00	0.24
(1.7)	-	-	-	(512.7)	-	0.33	(481.6)	-	0.49
(2.3)	(0.2)	-	-	(2,399.5)	0.26	0.19	(2,096.8)	1.00	0.30
18.7	7.6	-	-	32.2	2.83	0.51	47.8	2.40	0.57
24.6	**32.2**	**32.2**	**32.2**	**32.2**			47.8		
758.0	219.0	46.4	4.5	13,877.3	**3.31**	1.34	13,263.9	3.52	1.07
-	-	-	-	1,237.5		0.19	1,221.0		0.31
758.0	219.0	46.4	4.5	15,114.8	**3.31**	1.24	14,484.9	3.52	1.01
(917.2)	(7.0)	-	-	(13,321.1)	**0.81**	1.05	(12,684.7)	1.64	0.85
(1.7)	-	-	-	(1,236.1)		0.20	(1,211.6)		0.28
(918.9)	(7.0)	-	-	(14,557.2)	**0.81**	0.98	(13,896.3)	1.64	0.80
(160.9)	212.0	46.4	4.5	557.6	**2.50**	0.26	588.6	1.88	0.21
294.7	**506.7**	**553.1**	**557.6**	**557.6**			588.6		

Exposure of the bank and its consolidated companies to changes in interest rates (Cont.)

(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.

B. In this table, the periodic data presents the present value of future flows, discounted by interest rates which reduce them to the included fair value with respect to the financial instrument in the note regarding items measured at fair value on a repeated basis, in a manner which is consistent with the assumptions which were used to calculate the fair value of the financial instrument. For additional details regarding the assumptions which were used to calculate fair value, see the note regarding items measured at fair value on a repeated basis.

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 the note regarding items measured at fair value on a repeated basis.

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.

Total risk involving credit to the public by market segments - consolidated

Reported amounts, in millions of NIS

Addendum E

	December 31, 2014									
	Total credit risk [1]			Debts [2] and off-balance sheet credit risks (excluding derivatives) [3]						
								Credit losses [4]		
					Of which					
	Total	Credit performance rating [7]	Troubled [5]	Total	Debts [2]	Troubled [5]	Impaired	Expenses with respect to credit losses	Write-offs In accounting terms, net	Balance of the provision for credit losses
Public - commercial										
Agriculture	1.0	1.0	-	1.0	0.6	-	-	-	-	-
Industry	16.6	16.6	-	5.0	2.9	-	-	-	0.1	-
Construction and real estate - construction [6]	1,705.2	1,635.4	38.9	1,705.2	1,073.9	38.9	22.7	(10.0)	(9.3)	6.4
Construction and real estate - real estate activities	415.8	407.8	8.0	415.8	389.9	8.0	1.5	0.5	0.3	2.6
Electricity and water	0.4	0.4	-	0.4	0.4	-	-	-	-	-
Commercial	19.8	16.3	3.5	19.8	19.0	3.5	3.5	0.1	0.2	0.4
Lodging, hosting services and food	7.9	7.9	-	7.9	7.8	-	-	-	-	-
Transportation and storage	21.4	21.1	0.3	21.4	21.0	0.3	0.3	(0.2)	-	0.2
Communication and computer services	2.4	2.4	-	2.4	2.4	-	-	-	-	-
Financial services	112.1	112.1	-	92.7	91.1	-	-	0.1	-	0.3
Business and other services	91.1	90.1	1.0	91.1	75.9	0.3	0.1	(0.1)	(0.1)	0.2
Public and community services	23.4	23.4	-	22.3	20.2	-	-	-	-	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	-	-	-	-	-	-	-	-
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**

Notes at the end of addendum E

Total risk of credit to the public by market segments - consolidated (Cont.)

Reported amounts, in millions of NIS

Addendum E (Cont.)

	December 31, 2013								
	Total credit risk (1)		Debts (2) and off-balance sheet credit risks (excluding derivatives) (3)						
							Credit losses (4)		
				Of which					
	Total	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	1.2	0.1	1.2	0.7	0.1	-	-	-	-
Industry	5.9	0.5	5.9	4.5	0.5	-	-	-	0.1
Construction and real estate - construction (6)	1,633.2	67.8	1,633.2	1,026.8	67.8	42.9	(0.6)	0.2	7.1
Construction and real estate - real estate activities	418.3	15.3	418.3	398.4	15.3	4.0	2.6	0.3	2.4
Electricity and water	0.9	-	0.9	0.9	-	-	-	-	-
Commercial	22.3	6.9	22.3	21.5	6.9	6.9	1.3	1.4	0.5
Lodging, hosting services and food	1.3	-	1.3	1.2	-	-	(1.3)	(1.3)	-
Transportation and storage	36.8	0.6	36.8	36.4	0.6	0.3	-	-	0.4
Communication and computer services	0.5	-	0.5	0.5	-	-	-	-	-
Financial services	37.4	-	32.6	31.0	-	-	-	-	0.2
Business and other services	55.6	1.1	55.5	37.0	0.4	0.1	0.1	0.1	0.2
Public and community services	14.2	0.1	13.0	10.9	0.1	0.1	-	-	0.1
Total commercial	**2,227.6**	**92.4**	**2,221.5**	**1,569.8**	**91.7**	**54.3**	**2.1**	**0.7**	**11.0**
Private individuals - housing loans	7,458.7	244.6	7,458.7	6,990.3	244.6	1.4	21.1	11.7	69.9
Private individuals - other	1,502.4	33.4	1,502.4	1,175.4	33.4	10.7	31.5	23.8	30.5
Total public - activities in Israel	**11,188.7**	**370.4**	**11,182.6**	**9,735.5**	**369.7**	**66.4**	**54.7**	**36.2**	**111.4**
Banks in Israel	23.5	-	-	-	-	-	-	-	-
Government of Israel	660.8	-	-	-	-	-	-	-	-
Total activities in Israel	**11,873.0**	**370.4**	**11,182.6**	**9,735.5**	**369.7**	**66.4**	**54.7**	**36.2**	**111.4**
Foreign banks	4.2	-	-	-	-	-	-	-	-
Total	**11,877.2**	**370.4**	**11,182.6**	**9,735.5**	**369.7**	**66.4**	**54.7**	**36.2**	**111.4**

Total risk of credit to the public by market segments - consolidated (Cont.)

Reported amounts, in millions of NIS

Addendum E (Cont.)

(1) Credit risk and off-balance sheet credit risk, including derivative instruments. Including: debts - NIS 9,713.3 million, debentures - NIS 876.7 million, assets with respect to derivative instruments - NIS 40.4 million and off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits - NIS 1,414.6 million. (As of December 31, 2013 - NIS 9,735.5 million, debentures - NIS 672.9 million, assets with respect to derivative instruments - NIS 21.7 million, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits - NIS 1,447.1 million).

(2) Credit to the public, government credit, deposits in banks and other debts, excluding debentures 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 122.2 million and facilities which were provided to those groups, in the amount of NIS 151.9 million (as of December 31, 2013: NIS 133.4 million and NIS 157.0 million, respectively).

(7) Balances lower than NIS 0.1 million are not presented in this addendum.

Consolidated balance sheets - multi-quarter data for the end of each quarter in the years 2013 and 2014

Reported amounts, in millions of NIS

Addendum F

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Assets								
Cash and deposits in banks	3,278.0	2,499.2	2,226.4	2,497.7	2,833.4	1,909.8	2,109.9	1,140.1
Securities	880.4	1,068.5	983.3	1,119.3	676.6	910.1	782.8	1,353.3
Credit to the public, net	9,566.5	9,567.6	9,574.7	9,593.4	9,626.6	9,683.2	9,608.1	9,650.4
Buildings and equipment	160.8	151.7	148.8	149.1	150.4	129.6	123.2	116.5
Intangible assets	1.6	1.7	1.8	1.9	2.0*	-	-	-
Assets with respect to derivative instruments	40.4	39.1	22.5	16.5	21.7	19.4	19.3	15.4
Other assets	149.6	162.3	203.8	145.4	158.0*	68.2	66.2	76.7
Total assets	**14,077.3**	**13,490.1**	**13,161.3**	**13,523.3**	**13,468.7**	**12,720.3**	**12,709.5**	**12,352.4**
Liabilities and capital								
Public deposits	10,977.2	10,748.1	10,775.3	10,855.0	11,071.1	10,402.2	10,348.9	9,958.9
Deposits from banks	42.5	47.0	47.9	52.1	51.5	58.2	59.6	61.1
Government deposits	5.0	-	0.7	-	0.7	-	2.2	0.3
Lent securities	582.7	459.4	144.9	401.2	27.5	-	-	-
Debentures and deferred liability notes	1,503.1	1,284.4	1,285.7	1,315.7	1,406.0	1,434.1	1,485.5	1,509.2
Liabilities in respect of derivative instruments	39.0	30.5	16.8	6.6	12.3	14.0	11.7	21.5
Other liabilities	182.6	185.3	163.7	176.0	202.4*	120.9	107.9	102.9
Total liabilities	13,332.1	12,754.7	12,435.0	12,806.6	12,771.5	12,029.4	12,015.8	11,653.9
Equity	745.2	735.4	726.3	716.7	697.2	690.9	693.7	698.5
Total liabilities and assets	**14,077.3**	**13,490.1**	**13,161.3**	**13,523.3**	**13,468.7**	**12,720.3**	**12,709.5**	**12,352.4**

* Restated - for details, see Note 32.1, significant events during the reporting period

Consolidated Statements of Income - Data Regarding Multiple Quarters for 2013 and 2014

Reported amounts, in millions of NIS

Addendum G(1)

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	**105.1**	**125.4**	**133.1**	**94.8**	112.9 *	165.1 *	143.6 *	121.6
Interest expenses	**22.9**	**42.9**	**55.9**	**19.7**	46.8	98.1	78.9	62.2
Interest income, net	**82.2**	**82.5**	**77.2**	**75.1**	66.1	67.0	64.7	59.4
Expenses with respect to credit losses	**5.6**	**8.3**	**5.2**	**(0.7)**	7.6 *	9.3 *	29.2 *	8.6
Interest income, net, after expenses with respect to credit losses	**76.6**	**74.2**	**72.0**	**75.8**	**58.5**	**57.7**	**35.5**	**50.8**
Non-interest income								
Non-interest financing income	**3.7**	**5.3**	**5.6**	**3.5**	4.1	(0.4)	8.5	2.0
Fees	**32.9**	**29.4**	**26.4**	**29.6**	24.7	22.1	22.3	22.3
Other income	**2.9**	**2.9**	**2.8**	**2.9**	0.1 *	0.1 *	-	0.7
Total non-interest income	**39.5**	**37.6**	**34.8**	**36.0**	28.9	21.8 *	30.8	25.0
Operating and other expenses								
Salaries and associated expenses	**46.4**	**41.7**	**40.7**	**38.9**	35.3 *	36.6	36.8 *	37.4
Maintenance and depreciation of buildings and equipment	**19.5**	**18.4**	**18.3**	**16.5**	15.8	15.0	14.2	13.2
Other expenses	**30.9**	**27.8**	**25.3**	**26.0**	23.4 *	20.4	21.0 *	17.3
Total operating and other expenses	**96.8**	**87.9**	**84.3**	**81.4**	74.5	72.0	72.0	67.9
Profit before taxes	**19.3**	**23.9**	**22.5**	**30.4**	12.9	7.5	(5.7) *	7.9
Provision for taxes	**4.2**	**7.6**	**7.7**	**10.3**	4.6	1.0	(2.5)	2.3
Net profit	**15.1**	**16.3**	**14.8**	**20.1**	8.3	6.5	(3.2)	5.6
Earnings per share (in NIS)								
Basic and diluted net earnings per share (NIS)	**0.2**	**0.23**	**0.21**	**0.29**	**0.12**	**0.09**	**(0.05)**	**0.08**

* Reclassified.

Certification

I, Uriel Paz, hereby certify the following statements:

1. I have reviewed the annual report of Bank of Jerusalem Ltd. (hereinafter: the "Bank") for 2014 (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, to not 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.

אורי פז

Uriel Paz

CEO

February 25, 2015

Certification

I, Alexander Zaltzman, hereby certify the following statements:

1. I have reviewed the annual report of Bank of Jerusalem Ltd. (hereinafter: the "Bank") for 2014 (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, to not 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 which pertain to 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

Vice CEO, Manager of Financial Department
and Chief Accountant

February 25, 2015

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, regarding 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 adequate 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.

The bank's management, under the supervision of the Board of Directors, has evaluated the effectiveness of the bank's internal control over financial reporting as of December 31, 2014, 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, 2014, 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, 2014 was audited by the bank's auditors, Kost Forer Gabbay & Kasierer, as noted in their report, on page 157, which includes an unqualified opinion regarding the effectiveness of the bank's internal controls over financial reporting as of December 31, 2014.

Zeev Gutman	Uriel Paz	Alexander Zaltsman
Chairman of the Board of Directors	CEO	Vice CEO, Manager of Financial Department and Chief Accountant

February 25, 2015

Financial Statements

Report for 2014

Bank of Jerusalem Ltd. and its Consolidated Companies

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Independent Auditor's Report to Shareholders of Bank of Jerusalem Ltd. Pursuant to Public Reporting Regulations of the Supervisor of Banks Concerning Internal Controls over financial Reporting

We have audited the internal controls over financial reporting at Bank of Jerusalem Ltd. and subsidiaries (hereinafter jointly: "the Bank") as of December 31, 2014, based on criteria set forth in the integrated framework for internal control published by the Committee Of Sponsoring Organisation of the Treadway Commission, 1992 (hereinafter: "**COSO**"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of said internal controls over financial reporting which is included in the attached report of the Board of Directors and management with regard to internal controls over financial reporting, enclosed herewith. We are responsible for expressing our opinion of the Bank's internal control over financial reporting, based on our audit.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. These standards require us to design and conduct the audit so as to achieve a reasonable degree of certainty as to whether effective internal control over financial reporting has been maintained in all material aspects. Our audit consisted of an understanding of internal control over financial reporting, assessment of the risk of material weakness, as well as review and assessment of the effectiveness of design and operation of internal control, based on the assessed risk. Our audit also consisted of other procedures we deemed necessary under the circumstances. We believe that our audit provides an appropriate basis for our opinion.

A bank's internal controls over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, directives and guidelines of the Supervisor of Banks. Internal control over financial reporting at a bank includes policies and procedures which: (1) refer to record keeping which, with reasonable detail, accurately and properly reflects transactions and transfers of Bank assets (including removal there of from Bank ownership); (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are made exclusively in line with authorizations of the Bank's management and Board members; and (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of Bank assets (including removal from Bank ownership) which may materially impact the financial statements.

Due to inherent limitations, internal control over financial reporting may not prevent or detect a misrepresentation. Also, drawing conclusions about the future on the basis of any evaluation of current effectiveness is subject to the risk that controls may become inappropriate due to changes in circumstances or due to negative change in the extent to which policies or procedures are adhered to.

We believe that the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2014 based on criteria set forth in the integrated framework for internal controls published by COSO.

We have also audited, in conformity with generally accepted audit standards in Israel and certain auditing standards, the application of which was mandated by the directives of the Supervisor of Banks, the balance sheets of the Bank and consolidated as of December 31, 2014 and 2013 and the statements of profit nad loss, statements of comprehensive income, statements of changes in equity and statements of cash flows - of the Bank and consolidated - for each of the three years ended December 31, 2014 and our report dated February 25, 2015 included our un-qualified opinion of said financial statements.

Kost, Forer, Gabbay & Kasierer
CPAs

Tel Aviv, February 25, 2015

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

We have audited the enclosed balance sheets of Bank of Jerusalem Ltd. (hereinafter: "the **Bank**") as of December 31, 2014 and 2013 and the consolidated balance sheets as of said dates and the statements of profit and loss, statements of comprehensive income, statements of changes to equity and statements of cash flows - of the Bank and consolidated - for each of the three years in the period ended December 31, 2014. The Bank Board of Directors and management are responsible for these financial statements. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Mode of Performance), 1973 and certain auditing standards, the application of which was mandated by the directives of the Supervisor of Banks. According to these standards, we are required to plan and execute the audit in order to achieve reasonable confidence that the financial statements do not include any material misrepresentation. The audit includes testing a sample of evidence in support of figures and information included on the financial statements. The audit also includes a review of the accounting rules implemented, and any significant estimates made by the Bank's Board of Directors and management, as well as an evaluation of the overall appropriateness of the representations of the financial statements. We believe that our audit provides an appropriate basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank and consolidated as of December 31, 2014 and 2013, and the operating results, changes to equity and cash flows - of the Bank and consolidated - for each of the three years in the period ended December 31, 2014 in conformity with Israeli GAAP. Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

We have also audited, in conformity with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting at the Bank as of December 31, 2014, based on criteria specified in the integrated framework for internal control published by the Committee of sponsoring Organizations of the Treadway Commission (Coso) (1992), and our report dated February 25, 2015 included an unqualified opinion of the effectiveness of internal controls over financial reporting at the Bank.

Tel Aviv, February 25, 2015

Kost, Forer, Gabbay & Kasierer
CPAs

Balance Sheets

Reported amounts, in millions of NIS

		Consolidated		The bank	
		December 31			
	Note	2014	2013	2014	2013
Assets					
Cash and deposits in banks	3	**3,278.0**	2,833.4	**3,278.0**	2,833.4
Securities (1)	4	**880.4**	676.6	**864.5**	680.5
Credit to the public		**9,674.4**	9,735.5	**9,674.4**	9,735.5
Provision for credit losses		**(107.9)**	(108.9)	**(107.9)**	(108.9)
Credit to the public, net	5	**9,566.5**	9,626.6	**9,566.5**	9,626.6
Investments in investee companies	7	**-**	-	**389.5**	380.6
Buildings and equipment	8	**160.8**	150.4	**16.1**	18.2
Intangible assets	8A	**1.6**	2.0(3)	**1.6**	2.0(3)
Assets with respect to derivative instruments	19	**40.4**	21.7	**40.4**	21.7
Other assets	9	**149.6**	158.0(3)	**159.5**	148.5(3)
Total assets		**14,077.3**	13,468.7	**14,316.1**	13,711.5
Liabilities and capital					
Public deposits	10	**10,977.2**	11,071.1	**12,248.0**	12,196.8
Deposits from banks	11	**42.5**	51.5	**42.5**	51.5
Government deposits		**5.0**	0.7	**5.0**	0.7
Lent securities		**582.7**	27.5	**582.7**	27.5
Debentures and deferred liability notes	12	**1,503.1**	1,406.0	**485.2**	541.8
Liabilities in respect of derivative instruments	19	**39.0**	12.3	**39.0**	12.3
Other liabilities (2)	13	**182.6**	202.4(3)	**168.5**	183.7(3)
Total liabilities		**13,332.1**	12,771.5	**13,570.9**	13,014.3
Equity	13A	**745.2**	697.2	**745.2**	697.2
Total liabilities and assets		**14,077.3**	13,468.7	**14,316.1**	13,711.5

Approval date
of the financial statements:
February 25, 2015

Zeev Gutman
Chairman of the Board of Directors

Uriel Paz
CEO

Alexander Zaltsman
Vice CEO, Manager of Financial Department and Chief Accountant

(1) Of which, a total of NIS 261.4 million and NIS 164.0 million were pledged to lenders of the bank and in consolidated form, as of December 31, 2014 and December 31, 2013, 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, 2014 and December 31, 2013, in the amount of NIS 2.8 million and NIS 2.5 million, respectively.

(3) Restated. For details, see note 32.1 regarding significant events in the reporting period.

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

Statements of Income

Reported amounts in millions of NIS

		Consolidated			The bank		
		For the year ended December 31					
		2014	2013	2012	2014	2013	2012
Interest income	22	**458.4**	543.2	555.7	**459.4**	546.4	562.0
Interest expenses	22	**141.4**	286.0	324.8	**145.7**	293.1	337.8
Interest income, net		**317.0**	257.2	230.9	**313.7**	253.3	224.2
Expenses with respect to credit losses	5	**18.4**	54.7	36.0	**18.4**	54.7	36.0
Interest income, net, after expenses with respect to credit losses		**298.6**	202.5	194.9	**295.3**	198.6	188.2
Non-interest income							
Non-interest financing income	23	**18.1**	14.2	22.6	**18.1**	13.7	22.1
Fees	24	**118.3**	91.4	90.2	**111.6**	82.3	81.3
Other income	25	**11.5**	0.9	0.6	**11.5**	-	0.1
Total non-interest income		**147.9**	106.5	113.4	**141.2**	96.0	103.5
Operating and other expenses							
Salaries and associated expenses	26	**167.7**	146.1	137.8	**148.1**	131.0	123.2
Maintenance and depreciation of buildings and equipment		**72.7**	58.2	46.9	**40.0**	35.7	33.6
Other expenses	27	**110.0**	82.1	69.8	**160.1**	119.1	98.8
Total operating and other expenses		**350.4**	286.4	254.5	**348.2**	285.8	255.6
Profit before taxes		**96.1**	22.6	53.8	**88.3**	8.8	36.1
Provision for taxes	28	**29.8**	5.4	17.7	**28.4**	2.9	15.0
Profit after tax		**66.3**	17.2	36.1	**59.9**	5.9	21.1
The bank's share in the profits of investee companies after tax impact		**-**	-	-	**6.4**	11.3	15.0
Net profit		**66.3**	17.2	36.1	**66.3**	17.2	36.1
Earnings per share (in NIS)							
Basic and diluted net earnings per share (NIS)		**0.94**	**0.24**	**0.51**	**0.94**	**0.24**	**0.51**

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

Consolidated Statement of Comprehensive Income

Reported amounts in millions of NIS

	For the year ended December 31		
	2014	**2013**	**2012**
Net profit	**66.3**	17.2	36.1
Other comprehensive income:			
Adjustments with respect to presentation of available for sale securities at fair value, net	**(1.0)**	(1.2)	19.3
Attributable tax impact	**0.4**	0.4	(6.6)
Other comprehensive income (loss) after taxes	**(0.6)**	(0.8)	12.7
Total comprehensive income	**65.7**	16.4	48.8

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

Statement of Changes in Equity

Reported amounts in millions of NIS

	Paid up share capital	Capital reserves: From premiums	Capital reserves: From benefit due to Share based payment transactions	Total Paid up share capital and capital reserves	Cumulative other comprehensive income (loss)	Accumulated surplus	Total Equity
Balance as of January 1, 2012	127.3	95.3	3.1	225.7	(11.6)	430.5	644.6
Net profit for the period	-	-	-	-	-	36.1	36.1
Adjustments and resulting changes:							
Benefits with respect to share-based payment transactions	-	-	0.7	0.7	-	-	0.7
Other comprehensive income, net, after tax impact	-	-	-	-	12.7	-	12.7
Balance as of January 1, 2013	127.3	95.3	3.8	226.4	1.1	466.6	694.1
Net profit for the period	-	-	-	-	-	17.2	17.2
Dividend	-	-	-	-	-	(13.7)	(13.7)
Adjustments and resulting changes:							
Benefits with respect to share-based payment transactions	-	-	0.4	0.4	-	-	0.4
Other comprehensive income, net, after tax impact	-	-	-	-	(0.8)	-	(0.8)
Balance as of January 1, 2014	**127.3**	**95.3**	**4.2**	**226.8**	**0.3**	**470.1**	**697.2**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**66.3**	**66.3**
Dividend	**-**	**-**	**-**	**-**	**-**	**(17.7)**	**(17.7)**
Adjustments and resulting changes:							
Benefits with respect to share-based payment transactions	**-**	**-**	**- ***	**-***	**-**	**-**	**- ***
Other comprehensive income, net, after tax impact	**-**	**-**	**-**	**-**	**(0.6)**	**-**	**(0.6)**
Balance as of December 31, 2014	**127.3**	**95.3**	**4.2**	**226.8**	**(0.3)**	**518.7**	**745.2**

* Amount lower than NIS 0.1 million.

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

Statements of Cash Flows

Reported amounts in millions of NIS

	Consolidated			The bank		
	For the year ended December 31					
	2014	2013	2012	2014	2013	2012
Cash flows from operating activities						
Net profit for the year	66.3	17.2	36.1	66.3	17.2	36.1
Adjustments:						
The banking corporation's share in undistributed profits of investee companies	-	-	-	(8.9)	(11.3)	(15.0)
Depreciation of buildings and equipment	38.3	26.8	17.7	2.5	2.1	2.3
Expenses with respect to credit losses	18.4	54.7	36.0	18.4	54.7	36.0
Loss (profit) from the sale of available for sale securities	(10.3)	(8.2)	(41.3)*	(8.9)	(4.7)	2.2*
Realized and unrealized profit from adjustments to the fair value of marketable securities	(19.2)	(9.2)	(8.4)	(19.1)	(9.4)	(10.0)
Profit from the realization of buildings and equipment	-	-	-		-	-
Expenses due to share-based payment transactions	-	0.4	0.7	-	0.4	0.7
Deferred taxes, net	1.7	(11.3)	(18.4)	1.1	(11.3)	(17.6)
Retirement pay - increase in the surplus of reserves over funds (increase in the surplus of funds over reserves)	(2.3)	0.5	(5.7)	(2.3)	1.0	(5.8)
Accrual differences which were included under investing and financing activities	(12.2)	(10.8)	(11.8)*	(11.6)	(10.8)	(11.8)*
Net change in current assets:						
Credit to the public	41.7	(90.3)	(559.6)	41.7	(90.3)	(559.6)
Assets with respect to derivative instruments	(18.7)	(0.8)	(13.7)	(18.7)	(0.8)	(13.7)
Marketable securities	(63.5)	199.2	(72.0)	(71.3)	205.1	(72.0)
Other assets	7.4	(17.8)	19.0	(11.4)	(17.6)	5.9
Net change in current liabilities:						
Deposits from banks	(9.0)	(11.8)	(12.9)	(9.0)	(11.8)	(12.9)
Public deposits	(93.9)	1,249.8	749.1	51.2	1,000.0	672.2
Government deposits	4.3	0.7	(0.8)	4.3	0.7	(0.8)
Lent securities	555.2	13.4	-	555.2	13.4	-
Liabilities in respect of derivative instruments	26.7	(4.1)	1.4	26.7	(4.1)	1.4
Other liabilities	7.0	57.2	92.2	(8.4)	11.1	37.1
Net cash from operating activities	537.9	1,455.6	207.6	597.8	1,133.6	74.7

* Reclassified.

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

Statements of Cash Flows (Cont.)

Reported amounts in millions of NIS

	Consolidated			The bank		
	For the year ended December 31					
	2014	2013	2012	2014	2013	2012
Cash flows from investing activities						
Acquisition of debentures held to redemption	**(200.6)**	-		**(200.6)**	-	
Acquisition of available for sale securities	**(2,555.6)**	(2,417.5)	(2,423.4)	**(1,755.1)**	(2,023.5)	(2,205.0)
Consideration from the sale of available for sale securities	**2,600.7**	2,408.2	2,877.3	**1,807.8**	2,003.2	2,676.4
Consideration from the redemption of available for sale securities	**55.9**	337.4	26.6	**73.8**	357.0	26.6
Acquisition of the Clal Batucha operation (Annex A)	**-**	(12.4)	-	**-**	(12.4)	-
Acquisition of buildings and equipment	**(37.9)**	(44.4)	(48.7)	**-**	-	-
Net cash from investing activities	**(137.5)**	271.3	431.8	**(74.1)**	324.3	498.0
Cash flows from financing activities						
Issuance of debentures and deferred liability notes	**317.4**	60.6	296.9	**-**	60.6	78.7
Redemption of debentures and deferred liability notes	**(255.5)**	(301.0)	(368.0)	**(61.4)**	(31.3)	(83.3)
Dividend pay to shareholders	**(17.7)**	(13.7)	-	**(17.7)**	(13.7)	-
Net cash from financing activities	**44.2**	(254.1)	(71.1)	**(79.1)**	15.6	(4.6)
Impact of movements in exchange rate on cash balance	**21.7**	5.3	(7.4)		5.3	(7.4)
Increase in cash and deposits in banks	**422.9**	1,467.5	575.7	**444.6**	1,468.2	575.5
Balance of cash and deposits in banks at start of year	**2,833.4**	1,360.6	792.3	**2,833.4**	1,359.9	791.8
Balance of cash and deposits in banks at end of year	**3,278.0**	2,833.4	1,360.6	**3,278.0**	2,833.4	1,359.9
Interest and taxes paid and/or received:						
Interest received	**690.0**	784.5	833.4	**690.0**	784.5	833.4
Interest paid	**302.0**	441.0	329.2	**302.0**	441.0	329.2
Taxes on income paid	**43.8**	14.8	10.3	**40.8**	10.9	10.3
Taxes received	**8.7**	10.2	7.7	**7.4**	9.0	7.7

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

Statements of Cash Flows (Cont.)

Reported amounts in millions of NIS

	Consolidated			The bank		
	For the year ended December 31					
	2014	2013	2012	2014	2013	2012
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)	-
Identified assets (excluding cash and cash equivalents)	-	(156.7)*	-	-	(156.7)*	-
Liabilities		87.2	-	-	87.2	-
Identified assets and liabilities	**-**	(314.0)	**-**	**-**	**(314.0)**	**-**
Goodwill		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	-
Total cash flows which were added with respect to 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	**10.3**	14.4	7.2	**-**	-	-

* Restated - for details, see Note 32.1, significant events during the reporting period.

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

Notes to the Financial Statements

Report for 2014

Bank of Jerusalem Ltd. and its Consolidated Companies

Note 1 - General

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 on 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 registered 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 directives and guidelines issued by the Commissioner of Banks, regarding the preparation of a bank's annual financial statements.

Note 2 - Accounting Policy

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 beginning on that date, 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 31.

Note 2 - Accounting Policy (Cont.)

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 to 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.

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, excluding in cases where otherwise specified 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		
	2014	**2013**	**2012**	**2014**	**2013**	**2012**
					In percent	
Exchange rate of the USD (NIS)	3.889	3.471	3.733	12.0	-7.0	-2.3
Consumer price index - 1993 base (points):						
Month of November	223.4	223.6	219.4	-0.1	1.9	1.6
Month of December	223.4	223.8	219.8	-0.2	1.8	1.4

Note 2 - Accounting Policy (Cont.)

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

A. Transaction denominated in foreign currency were recorded, at the time of initial recognition, in the functional currency, using the immediate exchange rate between the functional currency and the foreign currency on the date of the transaction. On each balance sheet date, monetary items in foreign currency are translated using 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 interim reports

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.

Note 2 - Accounting Policy (Cont.)

Additionally, banking corporations will apply 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 of American banks (US GAAP) which specifically apply to this issue.

See sections B16 and G2 below, regarding directives issued by instructions regarding the adoption of US GAAP, and regarding the directives issued by the Banking Supervision Department on the subject of the adoption of US GAAP on the subject of employee rights.

5.2 Regarding subjects which are at the core of the banking business - the banking corporation will apply the directives and guidelines issued by the Commissioner of Banks, including, inter alia, regarding certain subjects, also the generally accepted accounting principles of American banks.

6. Use of estimates in the preparation of financial statements The preparation of the financial statements in accordance with Israeli GAAP and in accordance with directives and guidelines issued by the Commissioner of Banks, requires management to use estimates, assessments and judgment, which affect the reported amounts of assets and liabilities, the disclosure with respect to contingent assets and contingent liabilities, and the income and expense amounts 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 are associated with 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 2 - Accounting Policy (Cont.)

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

B.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 treats business combination a total of the acquisition method. According to this method, the bank identifies the buyer, determines the acquisition date and recognized the recognizable assets which were acquired and the liabilities which were accepted, according to fair value, excluding exceptions. 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 on the net amount, as of the acquisition date, of 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 should be 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.

In accordance with the provisions of Note 7E to the financial statements as of December 31, 2013, the bank recognized the fair value of the assets which were acquired and the liabilities which were accepted within the framework of the business combination according to temporary measurement, in light of the fact that the bank did not receive preliminary approval from the Tax Authority regarding the tax implications of the merger until the approval date of the financial statements for 2013. The fair value of assets and liabilities which were acquired may be subject to a final adjustment up to 12 months after the acquisition date. In accordance with IFRS 3, Business Combinations, on the final measurement date, the adjustments are performed by way of restatement of the comparative figures which were reported in the past, according to the temporary measurement.

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 below.

In accordance with the standard (IFRS 3), the balance sheet data as of December 31, 2013, which constitute comparative figures in the financial statements, were restated in order to reflect the correspondence of accounting treatment with respect to the presentation of the deferred tax asset with respect to the aforementioned transfered losses. As a result, retained earnings are created from the 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. There was no significant influence on the bank's results for the year ended December 31, 2013 due to this restatement.

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 as stated above, at the end of each reporting period.

B.2. Recognition basis 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 2(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 2(B)(4) and Note 2(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 remuneration 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 to 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.

B.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 different 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 n agreement between the three parties which clearly establishes the bank's right to those liabilities for setting off.

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. However, the directives specify that in certain cases, the 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 collateral in cash (receivable) or the obligation to repay a collateral in cash (payable), which are due to derivative instruments which were performed with the same counterparty, in accordance with a master netting arrangement.

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 assets 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 not risk of loss from the credit. The margin in the aforementioned activity is included under the item for "Fees".

B.4. Securities

1. Debentures held to redemption - debentures regarding which the bank has the intent and ability to hold them until the redemption date, excluding debentures 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. Debentures 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 debentures held to maturity or as marketable securities. Available for sale securities are presented in the balance sheet

Note 2 - Accounting Policy (Cont.)

according to their fair value on the reporting date. The fair value is based on a quoted price for securities which have a quoted price, or based on revaluation data which are received from external sources, regarding debentures without a 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 fair value on the reporting date. Profit or loss from adjustments to fair value are carried to the statement of income, under the item for non-interest financing income.

4. Classification of income (expenses) in the statement of income:

    - Interest income based on accrual on debentures 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 debentures 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 debentures 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 redemption portfolio below cost (amortized cost) is non-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 non-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 debenture regarding which significant impairment has occurred in the debenture rating on the date of its acquisition by the banking corporation, and the debenture rating on the publication date of the report for this period.
- A debenture which, after its acquisition, was classified by the banking corporation as troubled.
- A debenture 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.

If the decrease in fair value is considered as being of a non-temporary nature, the cost (amortized cost) of the security will be amortized to fair value, in a manner whereby the loss amounts which were accumulated to capital 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.

B.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 assets receivership; (2) Any recipient (or, if the recipient is an entity which is entirely intended 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 will be recognized as a liability of the bank.

The securities which were sold are 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 demands for collateral are performed in the 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 sale 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.

Note 2 - Accounting Policy (Cont.)

B.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 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 debt balances, including deposits in banks, debentures, securities which were borrowed or acquired within the framework of agreements for resale, credit to the public, credit to the government, etc. Credit to the public and other debt 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 debt balances, for which specific rules on the subject of measurement and recognition of the provision for impairment (such as debentures), 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:

- Credit under special supervision - credit under special balance sheet supervision, regarding which potential weaknesses exists 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.

Note 2 - Accounting Policy (Cont.)

- 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 be applied also 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 banks 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 assets 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, in accordance with the current standards, an insignificant postponement of payments will not constitute a concession. The ASU provides a list of indicators which on the matter 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.

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 of receipt of possession. 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 with respect to balance sheet credit and with respect to off-balance sheet credit instruments is performed based on an estimate of the rate of credit losses from the past with respect to each of the homogeneous groups of debts with similar risk characteristics. The collective provision rates for credit losses are evaluated based on historical loss rates from 2008 to 2010 and the rate of accounting write-offs in 2011, which were actually recorded in the various market branches, distributed between troubled and non-troubled debt. 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 - see section F(4) below.**

- **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**
  Since 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 loan" (hereinafter: the "Directives Issued by the Commissioner"). The directives issued by the Commissioner 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 uniform 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 between 8% and 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")**

On March 21, 2013, in light of the accelerated increase in the banking system of housing credit in recent years, in parallel with the increase in apartment prices, the Commissioner of Banks published updated guidelines regarding residential and real estate credit, on the subject of the allocation of capital and the provision for doubtful debts with respect to housing loans, and changes to the risk weight of guarantees under the Sales Law.

The main guidelines are as follows:

A. For the purpose of calculating the capital adequacy ratios, a housing loan will be weighted at a rate of 35%, excluding a leveraged housing loan with a variable interest component, which, as of October 2010, is weighted at 100%. According to the new guideline, the capital allocation with respect to housing loans will be made according to the following weighing rates:

- Housing loans whose financing rates are up to 45% will be weighted at 35% - remains unchanged.

- Housing loans where the financing rate is 45% to 60%, will be weighted at 50%, instead of 35%.

- Housing loans where the financing rate is higher than 60%, will be weighted at 75% for capital requirements purposes, instead of 35% or 100%.

- In parallel, the requirement (from October 2010) to weigh at 100% loans in which the financing rate exceeds 60% and in the amount of over NIS 800 thousand, and where their variable interest rate exceeds 25%, will be canceled, instead of which, as stated above, a weighing rate of 75% will apply.

B. The guidelines determine that the balance of the collective provision for credit losses held with respect to housing loans will not fall below a rate of 0.35% of the balance of the aforementioned loans, beginning with the public reports for the second quarter of 2013. The above will not apply to housing loans with respect to which a provision is held according to the extent of the arrears, or a specific provision.

C. Additionally, the guidelines determine a depreciation regarding the capital allocations required with respect to sale law guarantees, in case the apartment has already been transferred to the tenant. These guarantees will be weighted according to a credit conversion factor of 10% instead of 20%. This process constitutes an easement in capital allocation requirements, and may increase the scope of banking credit available to the construction and real estate segment.

The bank has been applying these guidelines beginning with the reports for the second quarter of 2013. As a result of the adoption of the guidelines, the provision for credit losses increased in the second quarter of 2013, with respect to debts which were evaluated on a collective basis, in the amount of approximately NIS 19 million before tax, and approximately NIS 12 million net after tax.

Additionally, as a result of the update to the risk weights of the housing loans, in 2013, the ratio of Tier 1 capital to risk components decreased at a rate of approximately 0.1%.

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

On August 29, 2013, a circular was published on the subject of restrictions on the provision of housing loans. The circular imposes restrictions on the provision of housing loans by banking corporations. The circular is intended to reduce the risk to banking corporations as a result of the acceptance of mortgages by the public, in accordance with the conditions which could risk its ability to repay the mortgage in the future.

The following are the primary components of the guidelines included in the circular:

- A banking corporation will not approve and will not extend a housing loan at a rate of repayment to income exceeding 50%.

- Housing loans in which the rate of monthly repayment to income exceeds 40% will be weighted at 100% for the purpose of calculating the capital adequacy ratio.

- A banking corporation will only approve and extend a housing loan upon the fulfillment of the following two conditions:

- The ratio between the housing loan at variable interest and the total amount of the loan must not exceed 66.66%.

- The ratio between the interest bearing part of the loan at variable interest which may change during a period shorter than five years from the approval date of the loan and the total amount of the loan must not exceed 33.33%.

- A banking corporation will not approve and will not extend a housing loan with a final repayment period exceeding 30 years.

- A banking corporation will not approve and will not refinance a housing loan if as a result of the refinancing, a deviation from any of the aforementioned restrictions was created, or in case of an increase to a deviation which existed prior to the refinancing.

The bank is implementing the guidelines regarding loans for which approval in principle was given beginning on September 1, 2013.

For details regarding the Commissioner's circular dated July 15, 2014, on the subject of restrictions on the provision of housing loans, see section F5 below.

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 performs 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 performed. 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.

It should be 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 on 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 refinanced. 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 continue the accrual of interest income. These debts are subject to methods for the evaluation 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.

B.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

Costs of replacing a part of a fixed asset item are 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.

Note 2 - Accounting Policy (Cont.)

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 for the preparation of the software and 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 intangible assets only when they increase the intangible asset embodied in the asset for which they were spent. All other costs are charged to the statement of income upon their materialization.

Depreciation

Depreciation is calculated from cost and charged to the statement of income (only if it was included in the book value of another asset), according to the estimated periods of use, according to 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 lifetimes, whichever 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	15-33	
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 additional details regarding this subject, see Note 8 below.

B.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 amortized 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 2(B)(1) above.

For details regarding software development costs for self use, and the amortization thereof, see Note 2(B)(7) below.

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 as of 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 2(B)(7) above.

B.9. Impairment of non-monetary 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) where 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 recognized 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.

B.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 G4 below.

Note 2 - Accounting Policy (Cont.)

For a detailed reference to the subject, see Note 29 below.

B.11. Issuance expenses

Debenture issuance expenses and transaction costs which are directly attributable, liability certificates and deferred liability notes, and amortized relative to the outstanding balances of principal, according to the effective interest method.

B.12. Deferred expenses

Results of the issuance and distribution of debentures 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.

B.13. Taxes on income

Taxes on income presented in the statement of income include current and deferred taxes. CURRENT and deferred taxes and 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, include capital gains tax which is imposed on the income in accordance with the Value Added Tax Law. Value added tax which is imposed on 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 ere in effect on the balance sheet date.

Deferred taxes with respect to transferred loss 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, its 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 a detailed reference on the subject, see Note 28 below.

B.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 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 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 is not 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 the bank 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 were included in the statement of income under the item for non-interest financing income.

B.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 other risks of the bank in the measurement of the debt's fair value, including derivatives, which were issued by it and which are measured at fair value.

ASC 820-10 applies as of January 1, 2011 and thereafter, excluding a number of financial instruments regarding which the implementation will be in a limited framework of retrospective adoption, from the date of initial application. The difference between the balance-sheet balances of certain financial instruments and the fair values of those instruments is recognized as a cumulative effect to the opening balance of retained earnings as of January 1, 2011, which is presented separately.

The banking corporation is required to re-evaluate the valuation methods which are applied by it for 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.

B.16. Employee rights

With respect to all of the liabilities of an employer - employee relationship, there are appropriate provisions in accordance with the law, agreement, conventional practice and the expectations of management. Future liabilities with respect to jubilee bonuses are calculated by an expert actuary using the cumulative benefits valuation method, 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.

The reserve for retirement pay is calculated based on the last salary and period of employment of the employees, and in accordance with the law, the terms of the employment agreement, conventional practice and the expectations of management. The amount of the reserve for severance pay in the balance sheet includes accumulated profits.

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 with respect to the evaluation of a liability with respect to employee rights, and guidelines regarding the internal control over the internal control 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 require in order to pay for the benefits beyond the contractual terms, upon early retirement of employees.

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 G2 below.
For a detailed reference on the matter, see Note 15 below.

B.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 in 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, no provision is 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 detailed reference on the subject, see Note 18 below.

B.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 are settled using capital instruments, and 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 21A. 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.

B.19. Earnings per share

Earnings per share are calculated according to a distribution of the net profit attributed to shareholders in the company, by the number of weighted ordinary shares in the period. Basic earnings per share include only shares which actually exist during the period.

Potential ordinary shares (convertible securities, such as convertible debentures, warrants and options to employees) are included only 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 increased loss per share from continuing operations. Additionally, potential ordinary shares which were converted during the period are were 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 in IAS 7, regarding the statement of cash flows. Cash flows from operations in assets and liabilities are presented net, excluding the operations involving housing credit, Movement in non-monetary items, non-tradeable securities, and debentures and deferred liability notes. Cash also includes deposits in banks whose original period from their deposit date was up to three months.

D. Directives issued by the Commissioner of Banks on the subject of a framework for the statement of income for a banking corporation, and the adoption of GAAP for American banks, on the subject of the measurement of interest income

In December 2011, the Commissioner of Banks published a directive on the subject of the adoption of a new framework for the statement of income, which is intended to adapt the presentation method of the statement of income to the presentation method practiced by banking corporations around the world and in the United States, while maintaining the current level of detail in the public reporting regulations.

As a result of the adoption of the new framework for the statement of income, the item "profit from financing activities" was replaced with three items: "interest income", "interest expenses" and "non-interest financing income". Additionally, the item for "profit from extraordinary activities after tax" was canceled.

Additionally, in accordance with the directives issued by the Banking Supervision Department, the definition of the term "interest" was amended in order to clarify that interest also includes CPI linkage differentials on principal.

For details regarding the implementation of the directive on the subject of "measurement and disclosure of impaired debts, credit risk and the provision for credit losses", the banking corporation is required to discontinue is accumulation of CPI linkage differentials beginning on January 1, 2012, with respect to the entire inventory of impaired debts, and to cancel CPI linkage differentials which were accumulate in the past on principal, and which have not yet been paid, only with respect to debts which were classified as impaired, beginning on January 1, 2012.

The bank retrospectively adopted the directives with respect to the framework of the statement of income beginning on January 1, 2012.

E. Directives issued by the Banking Supervision Department on the subject of transactions between a banking corporation and its controlling shareholder, and between a company under the control of the banking corporation

In December 2006, the Israeli Accounting Standard Board published Accounting Standard 23, on the subject of "Accounting for transactions between an entity and its controlling shareholder" (hereinafter: the "Standard 23"). In accordance with Standard 23, assets and liabilities regarding which a transaction was performed between the entity and its controlling shareholder will be measured on the date of the transaction according to the fair value of the transaction, where the difference between the fair value and he consideration will be charged to equity. A negative difference essentially constitutes a dividend, and therefore will be recognized as a decrease in retained earnings. A positive difference essentially constitutes an owner's investment, and therefore will be presented under a separate item in equity, to be called "capital reserve from transaction between an entity and its controlling shareholder". The standard deals with the following three issues which pertain to transactions between an entity and its controlling shareholder:

Transfer of an asset from the controlling shareholder to the entity, or alternatively, transfer of an asset from the entity to the controlling shareholder.

Acceptance of a liability by the entity towards a third party, in whole or in part, by the controlling shareholder, indemnification of the entity by the controlling shareholder with respect to expenses, concession by the controlling shareholder regarding a debt which it is owed by the entity, in whole or in part.

Loans given to the controlling shareholder, or loans received from the controlling shareholder.

Additionally, the Standard defines the disclosure which is required in financial statements regarding transactions between an entity and its controlling shareholder. Therefore, the accounting treatment which was specified in the public reporting regulations regarding transactions with controlling shareholders or with a company under the control of the banking corporation was canceled. However, the guideline regarding continuing engagements for consideration was changed.

F. Initial application of accounting standards, updates to accounting standards and directives issued by the Banking Supervision Department:

With respect to reporting periods beginning on January 1, 2014 or thereafter, the bank initially applies accounting standards and directives in the manner specified below:

1. Directives issued by the Banking Supervision Department, on the subject of the framework of the statement of income for a banking corporation, and the adoption of generally accepted accounting principles for American banks on the subject of interest measurement.

2. Directives issued by the Banking Supervision Department on the subject of Basel disclosure requirements which pertain to the composition of capital.

3. Directives issued by the Banking Supervision Department on the subject of reporting regarding amounts which were reclassified outside of cumulative other comprehensive income.

4. Collective provision with respect to credit to private individuals.

5. Directives issued by the Commissioner of Banks on the subject of restrictions on the provision of housing loans.

6. Amendment to IAS 36 - Impairment of Assets - disclosures regarding the recoverable value of non-financial assets.

Presented below is a description of the changes which were implemented to the accounting policy, in these consolidated annual financial statements, and the impact of their initial application:

1. **Directives issued by the Banking Supervision Department on the subject of the framework of the statement of income for banking corporations, and adoption**

of generally accepted accounting principles for banks in the United States, on the subject interest measurement:

Adoption of ASC 310-20 on the subject of "non-repayable fees and other costs":

On December 29, 2011, a circular issued by the Commissioner of Banks which was intended to adjust the public reporting regulations for the purpose of adoption of the rules which were determined within the framework of US GAAP, on the subject of non-repayable fees and other costs. The directive specifies rules for the treatment of fees arising due to the creation of loans and direct costs for the creation of loans. The qualifying fees and costs in accordance with the criteria which were determined in the directive will not be recognized immediately in the statement of income, but rather, will be taken into account in the calculation of the loan's effective interest rate. Additionally, the directive changes the treatment of fees and costs which are associated with credit allocation liabilities, including credit card transactions. The directive also specifies rules regarding the treatment of changes in the terms of the debt, which do not constitute troubled debt restructuring, treatment of early repayments of debts, and treatment of other credit provision transactions, such as syndication transactions.

The amendments which are associated with the subject of the measurement of interest income have been applied beginning on January 1, 2014 and thereafter.

Presented below are details regarding the impact on the items in the financial statements which would have been caused had the previous accounting treatment been implemented:

For the year ended December 31, 2014;

Item in the financial statements.	Explanation	Estimated data in accordance with previous accounting treatment method	Impact of the change	Data in the financial statements following the application of the provisions of ASC 310-20 (FAS 91)
Interest income / (expenses), net	A, B	307.2	9.8	317.0
Fees:				
Credit handling fees	A, B	15.7	(4.0)	11.7
Net profit		62.7	3.6	66.3

A. Loan creation fees, including deferred credit handling fees, are recognized as an adjustment of returns throughout the lifetime of the loan. in the past, such fees were declared immediately.

B. Fees due to early repayment, which were created due to transactions before January 1, 2014, are still subject to the previous treatment, in other words, are included as part of interest income and are distributed in the statement of income at equal rates, according to the balance of the credit repayment period, or within three years after the repayment date - whichever period is shorter.

Early repayment fees which were created after January 1, 2014 are immediately recognized or treated according to the other fees which have not yet been amortized.

2. Directives issued by the Banking Supervision Department on the subject of Basel disclosure requirements which pertain to the composition of capital

On August 29, 2013, a circular was published by the Commissioner of Banks on the subject of Basel requirements composition of capital the composition of capital and various disclosure requirements. Further to the adoption of the provisions of Basel III by the Banking Supervision Department, the public reporting regulations were amended. The primary changes are as follows:

- The definition of Tier 1 capital was changed.
- New deductions from capital were established.
- The criteria for qualification of recognized capital instruments were changed.
- The disclosure regarding the main characteristics of capital instruments which were issued, and of components of supervisory capital, was expanded.
- A framework for the presentation of the link between the balance sheet in the published financial statements and the component of supervisory capital was established.

The directives are in effect as of January 1, 2014. However, within the framework of the audited note regarding within the framework of, in accordance with the directives issued by the Commissioner of Banks on December 31, 2013, disclosure was given for the impact of the adoption of the provisions of Basel III. Additionally, the Board of Directors' report as of December 31, 2013 includes quantitative and qualitative reference to the main factors with respect to which a change is expected to occur due to the adoption of Basel III, in capital for capital adequacy purposes and in the weighted balances of risk assets.

As a result of the transition to the provisions of Basel III, as of January 1, 2014, risk assets increased buy approximately NIS 163 million, Tier 1 capital increased by approximately NIS 0.3 million, and Tier 2 capital increased by approximately NIS 16.6 million.

3. **Directives issued by the Banking Supervision Department on the subject of reporting regarding amounts which were reclassified outside of cumulative other comprehensive income**

   On September 30, 2013, a circular was published will be the Commissioner of Banks on the subject of the reporting of amounts which were reclassified outside of cumulative other comprehensive income. The circular is intended to adjust the disclosure requirements for amounts which were reclassified outside of cumulative other comprehensive income, to the requirements of the update and the conventional disclosure method for such amounts in the financial statements of banking corporations in the United States. The changes primarily include:

   1. In the note regarding cumulative other comprehensive income (loss), a disclosure requirement was added for the items in the statement of income which include amounts which were reclassified from cumulative other comprehensive income to the statement of income.

   2. In the note regarding non-interest financing income, a footnote was added clarifying which sections in the note were reclassified from cumulative other comprehensive income.

      The provisions specified in the circular are being applied beginning with the public report for the first quarter of 2014 and thereafter.

      There is no significant impact on the bank's financial statements and results due to the adoption of these disclosure requirements.

4. **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 sets forth 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 relevant factors to the collection chances of credit to private individuals (hereinafter: the "Qualitative Adjustments"). Banks are required to verify that, beginning with the public reports for 2014, the rate of qualitative adjustments to the collective provision for credit losses with respect to non-troubled credit to private individuals will 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 for which the Banking Supervision Department has issued specific instructions. The bank is implementing the directives of the Banking Supervision Department on this subject.

5. Directives issued by the Commissioner of Banks on the subject of 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. The directive specifies that a loan whose amounts exceeds NIS 5 million will be weighted for the purpose of capital adequacy according to a risk weight of 100%. Additionally, the directive redefines the term "repayment from income rate". These amendments will apply 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 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 71 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%.

6. Amendment to IAS 36 - Impairment of Assets - disclosures regarding the recoverable value of non-financial assets

The amendment includes new disclosure requirements for situations in which impairment is recognized and the recoverable value is determined as the fair value net of selling costs. Additionally, the amendment cancels the requirements to provide disclosure regarding the recoverable value of significant cash generating unit, unless no impairment has been recognized for them.

The amendment is being adopted retrospectively beginning on January 1, 2014.

There is no significant impact on the bank's financial statements and results due to the adoption of these disclosure requirements.

G. 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.

A target date has not yet been determined for the transition to full reporting.

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.

The banking corporation evaluates the expected impact of the adoption of the rules on the financial statements. At this stage, it is not possible to estimate its impact.

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.

The circular cancels the temporary order in existing directives, which established the discount rate used to calculate reserves to cover employee rights. In accordance with generally accepted accounting principles for banks in the United States, the discount rate will be based on the market yields of government debentures in Israel. A banking corporation will determine a policy and procedures specifying the method by which government debentures should be chosen, which will be used to calculate the discount rate.

On September 1, 2014, the Israel Securities Authority published a draft Staff Accounting Bulletin on the subject of the existence of a deep market for high quality corporate debentures in Israel, and the method of its implementation in accordance with IFRS.

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. The circular specified that the Commissioner of Banks had reached the conclusion that a deep market for high quality corporate debentures does not exist in Israel. Accordingly, it was determined in the directive that the discount rate for employee benefits will be calculated based on the yields of governmental debentures in Israel, with the addition of the average margin on corporate debentures with a rating of AA (international) or higher. For practical reasons, it was determined that the calculation of the aforementioned margin will be based on margins of corporate debentures in the United States. A bank which believes that changes in the margin calculated as specified above for a certain period is due to exception market volatility, such that the margins calculated according to them are not appropriate for discounting use, as stated above, will contact the Banking Supervision Department for the purpose of receiving advance instructions.

The adoption date of the directive was set as January 1, 2015, and will include a retrospective amendment to the comparative figures for periods beginning on January 1, 2013 and thereafter.

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 had been calculated on an actuarial basis (in the bank - jubilee bonus) were based on a discount rate of 4%, and the liability in the balance sheet was presented according to the higher amount of either the liability amount as calculated on an actuarial basis, or the liability amount as calculated according to Audit Statement 20 of the Institute of Certified Public Accountants in Israel (see Note 15 below).

After the date of the change, the discount rate for the calculation of liabilities with respect to employee rights will be based on the market yields of government debentures, by repayment periods, with the addition of the average margin of corporate debentures with a rating of AA (international) or higher on the reporting date.

B) The net cost of the benefit for the period also includes the following components: cost of service, cost of interest, projected returns on plan assets, amortization of any previous service or credit with respect to previous service, amortization of net actuarial profit or loss, and amortization of any net asset or liability with respect to the transition, which existed as of January 1, 2013, and which remain under other comprehensive income.

Actuarial profit or loss which is 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 which is due to a change in the actuarial assumption (hereinafter: "Actuarial Profit or Loss"), is recognized for the first time under cumulative 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 employees who are expected to receive benefits over the plan (excluding in certain exceptional circumstances).

The treatment of the difference as of January 1, 2013 which is due to the discount rate the discount rate of 4%, as determined in accordance with the temporary order in the public reporting regulations, and the discount rates as of that date, of liabilities to employees, which will be determined in accordance with GAAP in the United States, was specified in the draft transitional provision. The aforementioned difference will be offset against the actuarial profit which will result from current changes in discount rates in subsequent reporting periods, until it has been canceled out.

The bank believes that the expected effect as of January 1, 2015 due to the implementation of the new rules will be an increase in assets in the amount of approximately NIS 2 million, and an increase in liabilities in the amount of approximately NIS 3 million, and a decrease in equity in the amount of approximately NIS 1 million, after tax. Despite the effect on the bank's capital, for the purpose of calculating capital requirements in accordance with the provisions of Basel III, in accordance with the transitional provisions which were set forth in Proper Banking Management Directive No. 299, cumulative profit or loss balances with respect to the re-measurement of net liabilities or net assets, with respect to defined employee benefits, will not be taken into account immediately, but rather will be subject to transitional provisions, such that their effect will be distributed in equal parts of 20% beginning on January 1, 2014, 40% beginning on January 1, 2015, and until its complete adoption on January 1, 2018. For disclosure regarding the estimated expected effect on the Tier 1 capital ratio as of December 31, 2014, see Note 13b, Capital Adequacy.

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 directive subject 480 in the codification, regarding the "distinction between liability 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 will include a retrospective amendment to the comparative figures, if required.

The bank is evaluating the expected impact of the adoption of the principles on the financial statements, and the bank believes that the implementation of the circular is to have any significant impact.

4. **Directives issued by the Commissioner of Banks on 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 to 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 preparing to implement the directive.

5. Directives issued by the Commissioner of Banks on the subject of "income 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 "income from contracts with customers". The amendments were intended to adjust the public reporting regulations to US GAAP on the subject of "income from contracts with customers".

Note 2 - Accounting Policy (Cont.)

In accordance with transitional provisions, banking corporations will implement the update using one of two methods:

A. Retrospective adoption; according to this method, the banking corporation will receive the following easements:

- Regarding completed contracts - retrospective adoption is not required if the contracts began and ended in the same reporting year.

- Regarding completed contracts which involve variable consideration, a banking corporation may make use of the transaction price on the date when the contract was completed, instead of preparing an estimate regarding the amounts of variable consideration in the data of reporting periods, as presented for comparison purposes.

- In all of the presented reporting periods which are prior to the date of initial application, a banking corporation is not required to provide disclosure regarding the price of the transaction which was allocated to the balance of obligations for performance, and is not obligated to provide an explanation regarding the timing according to which the banking corporation expects to recognize the resulting income.

B. Retrospective adoption by recording of the cumulative effect of the initial application of the standard, as a result of this update, which will be recognized on the date of initial application. If this method is chosen, the banking corporation will be required to provide additional disclosures which include the date of initial application, as follows:

- The amount of the impact on each item in the financial statements in the current reporting period, as a result of the application of the update, relative to the instructions which had applied before the change.

- Explanations of significant changes.

The amendments in the public reporting regulations will be applied for the first time beginning on January 1, 2017.

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.

Note 3 - Cash and Deposits in Banks

Reported amounts, in millions of NIS

	Consolidated		The bank	
	December 31			
	2014	2013	2014	2013
Cash and deposits in central banks	**3,015.2**	2,701.5	**3,015.2**	2,701.5
Cash and deposits from central banks	**262.8**	131.9	**262.8**	131.9
Total cash and deposits in banks	**3,278.0**	2,833.4	**3,278.0**	2,833.4
Of which: cash, deposits in banks and deposits at the Bank of Israel, for an original period of up to 3 months	**3,278.0**	2,833.4	**3,278.0**	2,833.4

Note 4 - Securities - Consolidated

Reported amounts, in millions of NIS

	December 31, 2014				
	Book value	Amortized cost (in shares - cost)	Profits which have not yet been recognized from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value (1)
Debentures held to maturity -					
of the Government of Israel	207.4	207.4	22.0	-	229.4
Total debentures held to maturity	207.4	207.4	22.0	-	229.4

	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value (1)
Available for sale securities -					
Debentures					
of the Government of Israel	380.5	381.1	0.3	0.9	380.5
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 debentures	**403.3**	**403.8**	**0.5**	**1.0**	**403.3**
Stocks	3.7	3.7	-	-	3.7(2)
Total available for sale securities	**407.0**	**407.5**	**0.5** (3)	**1.0** (3)	**407.0**(2)

	Book value	Amortized cost (in shares - cost)	Profits which have not yet been recognized from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value (1)
Marketable securities -					
Debentures					
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	880.4	883.1	23.2	3.9	902.4

(1) Fair value data 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.

For details regarding the results of debenture investment activities, see the notes regarding interest income and expenses, and non-interest financing income.

Note 4 - Securities - Consolidated (Cont.)

Reported amounts, in millions of NIS

	December 31, 2013				
			Cumulative other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value (1)
Available for sale securities -					
Debentures					
of the Government of Israel	477.8	477.3	1.0	0.5	477.8
of financial institutions in Israel	10.1	10.0	0.1	-	10.1
of others in Israel	1.7	1.5	0.2	-	1.7
Total debentures	**489.6**	**488.8**	**1.3**	**0.5**	**489.6**
Shares	3.7	3.7	-	-	3.7(2)
Total available for sale securities	**493.3**	**492.5**	**1.3(3)**	**0.5(3)**	**493.3(2)**

	Book value	Amortized cost (in shares - cost)	Profits not yet realized from adjustments to fair value	Losses which were not yet realized from adjustments to fair value	Fair value (1)
Marketable securities -					
Debentures					
of the Government of Israel	183.0	181.9	1.3	0.2	183.0
of financial institutions in Israel	0.3	0.3		-	0.3
Total marketable securities	183.3	182.2	1.3(4)	0.2(4)	183.3
Total securities	**676.6**	**674.7**	**2.6**	**0.7**	**676.6**

(1) Fair value data 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.

For details regarding the results of debenture investment activities, see the notes regarding interest income and expenses, and non-interest financing income.

Note 4 - Securities - The Bank (Cont.)

Reported amounts, in millions of NIS

Fair value and losses which have not yet been realized, by time period and rate of impairment, of available for sale securities which are held in unrealized losing positions

	December 31, 2014							
	Less than 12 months [1]				12 months or more [2]			
	Value	Unrealized losses			Value	Unrealized losses		
	Fair	[3]0-20%	[4]20-40%	Total	Fair	[3]0-20%	[4]20-40%	Total
Debentures								
of the Government of Israel	56.7	0.9	-	0.9	-	-	-	-
Other Israel	11.9	0.1	-	0.1	-	-	-	-
Total debentures	68.6	1.0	-	1.0	-	-	-	-
Total available for sale securities	**68.6**	**1.0**	**-**	**1.0**	**-**	**-**	**-**	**-**

	December 31, 2013							
	Less than 12 months [1]				12 months or more [2]			
	Value	Unrealized losses			Value	Unrealized losses		
	Fair	[3]0-20%	[4]20-40%	Total	Fair	[3]0-20%	[4]20-40%	Total
Debentures								
of the Government of Israel	-	-	-	-	123.1	0.5	-	0.5
Total debentures	-	-	-	-	123.1	0.5	-	0.5
Total available for sale securities	**-**	**-**	**-**	**-**	**123.1**	**0.5**	**-**	**0.5**

(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.

In the bank's estimate, the impairments are of a temporary nature, and therefore, there is no need to record impairment

Note 4 - Securities - The Bank

Reported amounts, in millions of NIS

	December 31, 2014				
	Book value	Amortized cost (in shares - cost)	Profits which have not yet been recognized from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value (1)
Debentures held to maturity - of the Government of Israel	207.4	207.4	22.0	-	229.4
Total debentures held to maturity	**207.4**	**207.4**	**22.0**	-	**229.4**

	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value (1)
Available for sale securities -					
Debentures					
of the Government of Israel	179.2	179.8	0.3	0.9	179.2
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 debentures	387.4	387.9	0.5	1.0	387.4
Stocks	3.7	3.7	-	-	3.7 (2)
Total available for sale securities	**391.1**	**391.6**	**0.5** (3)	**1.0** (3)	**391.1** (2)

	Book value	Amortized cost (in shares - cost)	Profits not yet realized from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
Marketable securities -					
Debentures					
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	864.5	867.2	23.2	3.9	886.5

(1) Fair value data 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 balance sheet value as of 2014 amounted to NIS 185.4 million (in 2013 - NIS 203.3 million) with respect to the debentures of consolidated companies.

For details regarding the results of debenture investment activities, see the notes regarding interest income and expenses, and non-interest financing income.

Note 4 - Securities - The bank (Cont.)

Reported amounts, in millions of NIS

	December 31, 2013				
			Cumulative other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value [1]
Available for sale securities -					
Debentures					
of the Government of Israel	286.1	286.0	0.6	0.5	286.1
of financial institutions in Israel [5]	213.4	213.3	0.1	-	213.4
of others in Israel	1.7	1.5	0.2	-	1.7
Total debentures	501.2	500.8	0.9	0.5	501.2
Stocks	3.7	3.7	-	-	3.7 [2]
Total available for sale securities	**504.9**	**504.5**	**0.9** [3]	**0.5** [3]	**504.9** [2]

	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments	Unrecognized losses from adjustments	Fair value [1]
Marketable securities -					
Debentures					
of the Government of Israel	175.3	174.2	1.3	0.2	175.3
of financial institutions in Israel	0.3	0.3	-	-	0.3
Total debentures	175.6	174.5	1.3	0.2	175.6
Total marketable securities	175.6	174.5	1.3 [4]	0.2 [4]	175.6
Total securities	**680.5**	**679.0**	**2.2**	**0.7**	**680.5**

(1) Fair value data 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 "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 balance sheet value as of 2014 amounted to NIS 185.4 million (in 2013 - NIS 203.3 million) with respect to the debentures of consolidated companies.

For details regarding the results of debenture investment activities, see the notes regarding interest income and expenses, and non-interest financing income.

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank)

Reported amounts, in millions of NIS

A. Debts (1) and off-balance sheet credit instruments

	December 31, 2014					
	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 as of the start of the 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)
Other	-	-	-	-	-	-
Balance of the provision for credit losses as of the end of the 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

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

	December 31, 2014					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
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	-	6,771.8	-	6,771.8	-	6,771.8
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	-	39.1	-	39.1	-	39.1

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank)

Reported amounts, in millions of NIS

A. Debts [(1)] and off-balance sheet credit instruments

(1) Credit to the public, government credit, deposits in banks and other debts, excluding debentures 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.

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

A. Debts [(1)] and off-balance sheet credit instruments (Cont.)

	December 31, 2013					
	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 as of the start of the 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 as of the end of the 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

2. Additional information regarding the method used to calculate the provision for credit losses with respect to debts[(1)], and regarding the debts[(1)] for which it was calculated:

	December 31, 2013					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
Recorded debit balance of debts[(1)]:						
Evaluated on an individual basis	1,183.4	1.4	236.2	1,421.0	-	1,421.0
Evaluated on a collective basis [(**)]	386.4	6,988.9	939.2	8,314.5	-	8,314.5
Total debts [(1)]	**1,569.8**	**6,990.3**	**1,175.4**	**9,735.5**	**-**	**9,735.5**
[(**)] Of which: where the provision with respect to them was calculated according to the extent of the arrears	-	6,805.8	-	6,805.8	-	6,805.8
Provision for credit losses with respect to debts						
Evaluated on an individual basis	7.9	0.1	1.2	9.2	-	9.2
Evaluated on a collective basis [(***)]	1.7	69.1 [(2)]	28.9	99.7	-	99.7
Total provision for credit losses	**9.6**	**69.2**	**30.1**	**108.9**	**-**	**108.9**
[(***)] Of which: where the provision with respect to them was calculated according to the extent of the arrears	-	44.6	-	44.6	-	44.6

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

A. Debts [(1)] and off-balance sheet credit instruments (Cont.)

(1) Credit to the public, government credit, deposits in banks and other debts, excluding debentures 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, calculated on an individual basis in the amount of NIS 0.3 million, and which was calculated on a collective basis, in the amount of NIS 24.5 million

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

A. Debts [(1)] and off-balance sheet credit instruments (Cont.)

	December 31, 2012					
	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 as of the start of the year	8.9	69.9	13.9	92.7	-	92.7
Expenses with respect to credit losses	3.3	(1.8)	34.5	36.0	-	36.0
Accounting write-offs	(3.4)	(7.6)	(31.3)	(42.3)	-	(42.3)
Collection of debts which were written off in previous years	0.8	-	5.4	6.2	-	6.2
Net accounting write-offs	(2.6)	(7.6)	(25.9)	(36.1)	-	(36.1)
Other					-	-
Balance of the provision for credit losses as of the end of the year (*)	**9.6**	**60.5**	**22.5**	**92.6**	**-**	**92.6**
(*) Of which: with respect to off-balance sheet credit instruments	1.7	-	0.2	1.9	-	1.9

(1) Credit to the public, government credit, deposits in banks and other debts, excluding debentures 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, calculated on a collective basis in the amount of NIS 7.4 million

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

B. Debts [(1)]

1. Credit quality and arrears

	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	1,041.7	9.5	22.7	1,073.9	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	146.0	0.3	3.9	150.2	-	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**

1) Credit to the public, government credit, deposits in banks and other debts, excluding debentures 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 a 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 8.1 million, were classified as non-impaired troubled debts
(6) Including the balance of housing loans in the amount of NIS 13.9 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.

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

B.Debts [1](Cont.)

1. Credit quality and arrears

	December 31, 2013					
		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	968.6	15.3	42.9	1,026.8	2.8	0.2
Construction and real estate - real estate activities	383.1	11.3	4.0	398.4	3.6	2.5
Financial services	31.0	-	-	31.0	-	-
Commercial - other	105.1	1.1	7.4	113.6	0.4	0.4
Total commercial	**1,487.8**	**27.7**	**54.3**	**1,569.8**	**6.8**	**3.1**
Private individuals - housing loans	6,745.7	243.2 [6]	1.4	6,990.3	243.2	59.7
Private individuals - other	1,142.4	22.3	10.7	1,175.4	10.3	14.1
Total public - activities in Israel	**9,375.9**	**293.2**	**66.4**	**9,735.5**	**260.3**	**76.9**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-		-	-
Total activities in Israel	**9,375.9**	**293.2**	**66.4**	**9,735.5**	**260.3**	**76.9**
Foreign banks	-	-	-	-	-	-
Total	**9,375.9**	**293.2**	**66.4**	**9,735.5**	**260.3**	**76.9**

(1) Credit to the public, government credit, deposits in banks and other debts, excluding debentures 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 9.0 million, were classified as non-impaired troubled debts.
(6) Including the balance of housing loans in the amount of NIS 24.2 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.

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

B.Debts [1] (Cont.)

2.Additional information regarding impaired debts

A. Impaired debts and specific provision for activities of borrowers in Israel

	December 31, 2014				
	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 of impaired debts [2]	Balance of contractual principal of impaired debts
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	17.8
Debts in troubled debt restructuring	16.6	4.7	3.3	19.9	35.3

(1) Credit to the public, government credit, deposits in banks and other debts, excluding debentures 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 lower than NIS 0.1 million.

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

B.Debts [(1)](Cont.)

2.Additional information regarding impaired debt

A. Impaired debts and specific provision for activities of borrowers in Israel (Cont.)

	December 31, 2013				
	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
Public - commercial					
Construction and real estate - construction	35.5	1.9	7.4	42.9	51.2
Construction and real estate - real estate activities	-	-	4.0	4.0	5.1
Financial services	-	-	-	-	-
Commercial - other	2.8	0.5	4.6	7.4	7.8
Total commercial	**38.3**	**2.4**	**16.0**	**54.3**	**64.1**
Private individuals - housing loans	1.4	0.1	-	1.4	1.4
Private individuals - other	10.7	2.4	-	10.7	14.8
Total public - activities in Israel	**50.4**	**4.9**	**16.0**	**66.4**	**80.3**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activities in Israel	**50.4**	**4.9**	**16.0**	**66.4**	**80.3**
Foreign banks	-	-	-	-	-
Total	**50.4**	**4.9**	**16.0**	**66.4**	**80.3**
Of which:					
Measured according to the present value of cash flows	30.2	1.7	9.2	39.4	49.3
Debts in troubled debt restructuring	40.8	1.8	11.8	52.6	53.7

(1) Credit to the public, government credit, deposits in banks and other debts, excluding debentures and securities which were borrowed or purchased within the framework of a resale agreement.
(2) Recorded debit balance.
(3) Specific provision for credit losses.

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses, on a Consolidated Basis (Cont.)

Reported amounts, in millions of NIS

B. Debts [1] (Cont.)

2. Additional information regarding impaired debt.

B. Average balance and interest income from activities of borrowers in Israel

	December 31, 2014		
	Average balance of impaired debts	Interest income which were recorded [2][3]	Of which, recorded on a cash basis
Public - commercial			
Construction and real estate - construction	30.4	0.7	0.7
Construction and real estate - real estate activities	2.7	[4]	-
Commercial - other	5.4	0.1	0.1
Total commercial	38.5	0.8	0.8
Private individuals - housing loans	0.9	-	-
Private individuals - other	11.1	0.5	0.5
Total	50.5	1.3	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	2.1

(1) Credit to the public, government credit, deposits in banks and other debts, excluding debentures.
(2) 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.
(3) Had the debts accrued interest in accordance with their original terms, interest income would have been recorded in the amount of NIS 2.4 million, for the year ended December 31, 2014 (for the year ended December 31, 2013 - NIS 4.7 million).
(4) Balance of less than NIS 0.1 million

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

B.Debts [1](Cont.)

2.Additional information regarding impaired debt.

C.Troubled debts in the restructuring of borrowers' activities in Israel

	December 31, 2014				
	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
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**

	December 31, 2013				
	Recorded debit balance				
Public - commercial					
Construction and real estate - construction	34.5	-	-	-	34.5
Construction and real estate - real estate activities	3.4	-	-	-	3.4
Financial services	-	-	-	-	-
Commercial - other	4.6	-	-	0.1	4.7
Total commercial	**42.5**	**-**	**-**	**0.1**	**42.6**
Private individuals - housing loans	0.8	-	-	-	**0.8**
Private individuals - other	7.5	-	-	1.7	**9.2**
Total	**50.8**	**-**	**-**	**1.8**	**52.6**

(1) Credit to the public, government credit, deposits in banks and other debts, excluding debentures.
(2) Accrues interest income
(3) Included as impaired debts

As of December 31, 2014, 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 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

B. Debts [1] (Cont.)

2. Additional information regarding impaired debts

C. Troubled debts in the restructuring of borrowers' activities in Israel

	Restructurings which were performed in the reporting year					
	December 31, 2014			December 31, 2013		
	Recorded debit balance			Recorded debit balance		
	Number of contracts	Debt balance recorded before restructuring	Debt balance recorded after restructuring	Number of contracts	Debt balance recorded before restructuring	Debt balance recorded after restructuring
Public - commercial						
Construction and real estate - construction	-	-	-	-	-	-
Construction and real estate - real estate activities	-	-	-	-	-	-
Commercial - other	-	-	-	6	3.4	3.4
Total commercial	-	-	-	**6**	**3.4**	**3.4**
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	293	6.4	6.4	250	7.4	7.4
Total	**293**	**6.4**	**6.4**	**256**	**10.8**	**10.8**

2. Additional information regarding impaired debts	Failed restructurings [2]			
	December 31, 2014		December 31, 2013	
	Number of contracts	Debt balance recorded before restructuring	Number of contracts	Debt balance recorded before restructuring
Public - commercial				
Construction and real estate - construction	-	-	-	-
Construction and real estate - real estate activities	-	-	-	-
Commercial - other	-	-	2	-
Total commercial	**-**	**-**	2	-
Private individuals - housing loans	-	-	-	-
Private individuals - other	50	1.1	72	1.6
Total	**50**	**1.1**	**74**	**1.6**

(1) Credit to the public, government credit, deposits in banks and other debts, excluding debentures.
(2) Debts which during the reporting year became 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.

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

B. Debts

3. Additional information regarding housing loans

Balances as of the end of the year, by financing rate (1) (LTV), repayment type and interest type

		December 31, 2014			
		Balance of housing loans			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: variable interest	Total
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
Other pledges		40.5	1.6	27.1	3.4
Total		**7,099.4**	**208.9**	**5,856.8**	**590.4**

		December 31, 2013			
First priority pledge: financing rate	Up to 60%	5,490.2	149.0	4,593.9	552.4
	Over 60%	1,590.7	34.8	1,421.8	69.2
Other pledges		42.8	1.6	23.0	3.8
Total		**7,123.7**	**185.4**	**6,038.7**	**625.4**

(1) 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.

Note 5 - Credit Risk, Credit to the Public and Provision for Credit Losses (Consolidated and in the Bank) (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, 2014			December 31, 2013		
		Number of borrowers [1]	Credit [2]	Off-balance sheet credit risk [2] [3]	Number of borrowers [1]	Credit [2]	Off-balance sheet credit risk [2] [3]
Maximum credit limit, in thousands of NIS			Millions of NIS			Millions of NIS	
Credit to borrower	Up to 10	9,398	25.5	9.8	9,429	26.8	17.3
Credit to borrower - over 10	Up to 20	6,955	77.8	19.3	6,070	82.2	11.3
Credit to borrower - over 20	Up to 40	10,236	255.8	36.8	10,439	301.6	15.9
Credit to borrower - over 40	Up to 80	10,962	515.3	44.8	8,920	466.1	21.6
Credit to borrower - over 80	Less than 150	3,699	362.1	29.2	4,257	427.0	42.3
Credit to borrower - over 150	Less than 300	4,222	877.9	20.0	4,901	1,013.3	50.9
Credit to borrower - over 300	Less than 600	4,648	1,876.1	67.6	4,716	1,840.3	135.4
Credit to borrower - over 600	Up to 1,200	2,637	1,912.5	168.4	2,391	1,744.9	179.1
Credit to borrower - over 1,200	Up to 2,000	787	1,028.2	108.3	733	958.4	124.1
Credit to borrower - over 2,000	Up to 4,000	395	873.4	160.0	393	956.9	103.6
Credit to borrower - over 4,000	Up to 8,000	147	615.0	150.4	133	590.0	156.4
Credit to borrower - over 8,000	Up to 20,000	65	520.8	200.5	71	599.9	247.9
Credit to borrower - over 20,000	Up to 40,000	18	269.1	224.9	22	461.8	192.3
Credit to borrower - over 40,000	Up to 60,000	12	464.9	174.6	8	266.3	149.0
		54,181	9,674.4	1,414.6	52,483	9,735.5	1,447.1

(1) Number of borrowers, by total credit and off-balance sheet credit risk.
(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 6 - Credit to the Government (Consolidated and in the Bank)

Reported amounts, in millions of NIS

	Consolidated		Bank	
	December 31			
	2014	**2013**	**2014**	**2013**
Credit within the framework of arrangements for the supplementation of interest to entitled individuals of the Ministry of Construction & Housing(1)	**0.7**	1.1	**0.7**	1.1
Less - supplementation interest in advance from the government	**(0.7)**	(1.1)	**(0.7)**	(1.1)
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 7 - Investment in Investee Companies

Reported amounts, in millions of NIS

A - Composition of the investment

	Consolidated		The bank	
	December 31			
	2014	2013	2014	2013
Consolidated companies				
Investment in shares, according to the equity method	-	-	389.5	380.6
Of which: Profit which has accumulated from the acquisition date	-	-	294.3	285.2
Items accumulated in equity after the acquisition date				
Adjustments with respect to presentation of available for sale securities at fair value, net	-	-	-	0.2

B - The bank's share in the profit or loss of investee companies

	Consolidated			The bank		
	2014	2013	2012	2014	2013	2012
	Millions of NIS					
The bank's share in the profits of investee companies	-	-	-	7.9	14.0	18.6
Provision for taxes						
Current taxes	-	-	-	2.0	2.2	3.3
Deferred taxes	-	-	-	(0.5)	0.5	0.3
Total provision for taxes	-	-	-	1.5	2.7	3.6
The bank's share in the profits of investee companies, after tax impact	-	-	-	6.4	11.3	15.0

Reported amounts, in millions of NIS

C - Details of main investee companies [9]

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	
			2014	**2013**	**2014**	**2013**
		%	Millions of NIS			
Tomer Jerusalem Ltd.	(1)	100	**159.1**	159.9	**(0.8)**	2.6
Ir Shalem International Insurance Agency (1996) Ltd.	(2)	100	**161.6**	155.5	**6.1**	7.4
Jerusalem Investment Portfolio Management Ltd.	(3)	100	**35.2**	35.0	**0.2**	0.3
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**	21.6	**0.9**	0.4
Clal Finance Batucha Investment Management Ltd.	(8)		**-**	-	**-**	0.6

(1) The majority of the activities of Tomer Jerusalem Ltd. (hereinafter: "Tomer") are to serve as the bank's asset company, and to provide IT services to the bank.

(2) Ir Shalem International Insurance Agency (1996) Ltd. operates as an insurance agency which provides insurance-related services 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.

(4) Jerusalem Capital Markets Fund Management (1980) Ltd. was engaged in mutual fund management. In 2006, the mutual fund operation was sold.

(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 Trust Company of Bank of Jerusalem Ltd. is engaged in the holding in escrow 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 resources through the issuance of debentures and deferred liability notes to the public. In 2014, the company raised approximately NIS 293 million par value, through the issuance of liability certificates, and in 2013 - approximately NIS 59 million par value. For details, see the note regarding debentures and deferred liability notes.

(8) Clal Finance Batucha Investment Management Ltd. (hereinafter: "Clal Batucha") - On December 15, 2013, the transaction involving the acquisition of the company was completed, and on December 22, 2013, the company was merged into the bank.

(9) 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 Markets Ltd.; Magen T.A. 25 Trade Ltd. Magen Financial Products Ltd.; Tsuot Mutual Funds Management (1993) Ltd.; Moment Investment Products Ltd.; Batucha Mutual Funds Management Ltd. Ilanot-Batucha Capital Markets Ltd. Moment Investment and 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.

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, with a total par value of NIS 187.5 million (Series A, G, and H). Regarding Series A - the bank is entitled to receive interest according to certificates, but is entitled to waive this right. Regarding Series G and H - the bank is not entitled to receive interest.

Note 8 - Buildings and Equipment

Reported amounts, in millions of NIS

	Consolidated				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, 2012	65.9	48.7	121.9	236.5	45.6	29.7	-	75.3
Additions	3.3	1.1	54.1	58.5	-	-	-	-
Additions with respect to business combinations	-	-	0.8	0.8	-	-	0.8	0.8
Write-offs	0.3	2.0	-	2.3	-	-	-	-
Balance as of December 31, 2013	**68.9**	**47.8**	**176.8**	**293.5**	**45.6**	**29.7**	**0.8**	**76.1**
Additions	2.1	6.4	39.8	48.3	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Balance as of December 31, 2014	**71.0**	**54.2**	**216.6**	**341.8**	**45.6**	**29.7**	**0.8**	**76.1**
Depreciation								
Balance as of December 31, 2012	34.3	33.2	51.1	118.6	30.6	25.2	-	55.8
Depreciation for the year	2.9	4.4	19.5	26.8	1.2	0.9	-	2.1
Write-offs	**0.3**	**2.0**	**-**	**2.3**			**-**	**-**
Balance as of December 31, 2013	36.9	35.6	70.6	143.1	31.8	26.1	-	57.9
Depreciation for the year	2.7	5.5	29.7	37.9	1.1	0.8	0.2	2.1
Write-offs	-	-	-	-	-	-	-	-
Balance as of December 31, 2014	**39.6**	**41.1**	**100.3**	**181.0**	**32.9**	**26.9**	**0.2**	**60.0**
Balance for amortization								
As at December 31, 2014	**31.4**	**13.1**	**116.3**	**160.8**	**12.7**	**2.8**	**0.6**	**16.1**
As at December 31, 2013	32.0	12.2	106.2	150.4	13.8	3.6	0.8	18.2
As at December 31, 2012	31.6	15.5	70.8	117.9	15.0	4.5	-	19.5
Average weighted depreciation rate in percent as of December 31, 2014	**7.73**	**15.96**	**21.54**		**5.87**	**10.36**	**25.00**	
Average weighted depreciation rate in percent as of December 31, 2013	7.42	15.27	23.54		5.71	8.78	-	

(1) Includes leasehold improvements.
(2) The bank and the subsidiaries own property, the cost of which amounts to NIS 81.6 million (consolidated) and NIS 26.6 million (in the bank) (in 2013 - NIS 88.1 million and NIS 39.9 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 34.4 million (as of December 31, 2013 - NIS 24.5 million).
(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 Real Estate Registry.

Note 8A - Intangible Assets (1) and Goodwill (Consolidated and in the Bank)

Reported amounts, in millions of NIS

	Customer relations (2)	Total
Cost		
Balance as of December 31, 2012	-	-
Acquisitions within the framework of a business combination	2.0	2.0
Balance as of December 31, 2013	**2.0**	**2.0**
Additions during the year	-	-
Balance as of December 31, 2014	**2.0**	**2.0**
Amortizations		
Balance as of December 31, 2012	-	-
Depreciation for the year	-	-
Balance as of December 31, 2013	-	-
Depreciation for the year	(0.4)	(0.4)
Balance as of December 31, 2014	**(0.4)**	**(0.4)**
Book value		
As at December 31, 2012	-	-
As at December 31, 2013	2.0	2.0
As at December 31, 2014	**1.6**	**1.6**

(1) Restated. For details, see note 32.1 regarding significant events in the reporting period.
(2) The fair value of customer relations purchased in this transaction 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 9 - Other Assets

Reported amounts, in millions of NIS

	Consolidated		The bank	
	December 31			
	2014	**2013**	**2014**	**2013**
Deferred tax receivable, net (see Note 28)	**103.1**	103.8[(1)]	**104.4**	105.1[(1)]
Surplus of advance payments over the provision	**15.5**	2.3	**12.5**	-
Payroll tax receivable	**7.3**	14.2	**7.3**	14.2
Prepaid expenses	**6.4**	5.4	**5.1**	4.3
Debenture issuance expenses [(2)]	**5.3**	5.2	**-**	-
Indemnification asset	**5.0**	2.3	**5.0**	2.3
Income receivable	**2.6**	1.3	**1.7**	0.4
Surplus of the fund for severance pay over the reserve (see Note 15)	**0.3**	-	**0.3**	-
Receivables with respect to subsidiaries	**-**	-	**19.0**	-
Funds deposited in trust	**-**	8.4	**-**	8.4
Receivables with respect to securities	**-**	7.6	**-**	7.6
Other receivables and debit balances	**4.1**	7.5	**4.2**	6.2
Total other assets	**149.6**	158.0	**159.5**	148.5

(1) Restated. For details, see note 32.1 regarding significant events in the reporting period.
(2) Debenture issuance expenses are amortized according to the effective interest method.

Note 10 - Public Deposits

Reported amounts, in millions of NIS

A. Type of deposits by type of position (in Israel)

	Consolidated		The bank	
	December 31			
	2014	2013[1]	2014	2013[1]
In Israel				
On demand				
Non-interest bearing	1,321.0	864.3	1,370.7	917.6
Interest bearing	638.6	184.4	638.6	184.4
Total on demand	1,959.6	1,048.7	2,009.3	1,102.0
For fixed periods	9,017.6	10,022.4	10,238.7	11,094.8
Total deposits in Israel [2]	**10,977.2**	**11,071.1**	**12,248.0**	**12,196.8**
Total public deposits	**10,977.2**	**11,071.1**	**12,248.0**	**12,196.8**

(1) Reclassified

(2) Of which:

Deposits of private individuals	8,715.7	8,888.4	8,715.7	8,888.4
Deposits of institutional entities	989.7	785.7	989.7	785.7
Deposits of corporations and others	1,271.8	1,397.0	2,542.6	2,522.7

B. Public deposits by size, on a consolidated basis

Maximum deposit in millions of NIS	December 31	
	2014	2013
Up to 1	**6,672.1**	7,243.0
1 to 5	**2,592.2**	2,436.6
5 to 10	**518.6**	542.2
10 to 15	**230.7**	331.0
15 to 20	**119.8**	184.2
20 to 50	**448.6**	279.4
50 to 100	**98.6**	54.7
100 to 300	**296.6**	-
Total	**10,977.2**	**11,071.1**

Note 11 - Deposits from Banks

Reported amounts, in millions of NIS

	Consolidated		The bank	
	December 31			
	2014	2013	2014	2013
Deposits for defined periods from commercial banks	**42.5**	51.5	**42.5**	51.5

Note 12 - Debentures and Deferred Liability Notes

Reported amounts, in millions of NIS

A - Composition

	Average lifetime *	Internal rate of return *	Consolidated		Bank	
			December 31			
			2014	2013	2014	2013
	Years	%				
Debentures and deferred liability notes which are not convertible to shares:						
In unlinked Israeli currency	2.52	1.38%	**499.3**	589.5	**117.6**	118.0
In CPI-linked Israeli currency	3.40	3.02%	**1,003.5**	816.3	**367.3**	423.6
In USD-linked Israeli currency	2.28	5.05%	**0.3**	0.2	**0.3**	0.2
Total debentures and deferred liability notes			**1,503.1**	1,406.0	**485.2**	541.8
Of which: deferred liability notes			**482.0**	536.7	**483.0**	537.6

* 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. Average lifetime is the average of weighted payment periods in the discounted flow, according to the internal rate of return.

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 debentures and deferred liability notes.

   B. On December 24, 2013, Jerusalem Finance & Issuance Ltd. issued, in a private issuance to classified investors, deferred liability notes (Series 10), from the series traded on the stock exchange, at a par value of NIS 58,790 thousand, at a price of NIS 1,031 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.

   The liability notes will be registered for trading on the stock exchange, but will be subject to the blocking restrictions specified in section 15C of the Securities Law, 5728-1968, and regulations enacted by virtue thereof.

   The deferred liability notes were issued through a shelf offering report without deduction. The adjusted value of the liability notes as of December 24, 2013, was NIS 1,019 to NIS 1,000 par value, and therefore, the liability notes are issued in a private issuance at a premium, and without deduction.

   C. On December 4, 2014, Jerusalem Finance & Issuance Ltd. issued, in a private issuance to classified investors, deferred liability notes (Series I), from the series which is traded on the stock exchange, at a par value of NIS 292,526 thousand, at a price of NIS 1,085 to NIS 1,000

Reported amounts, in millions of NIS

B - Additional details (Cont.)

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 has an agreement with the bank, according to which it was determined that the issuance consideration of the deposit certificates under the prospectus will be deposited in the ban, through an interest bearing deposit, which will have identical terms of repayment to the terms of the deposit certificates, and 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 for use, in accordance with its considerations, and with a repayment rating equal to the bank's other deposits.

E. On August 17, 2014, 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 to the local rating, the rating would be updated for three deferred liability notes which had been 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".

(2) For details regarding the bank's acquisitions of liability certificates which were issued by Jerusalem Finance & Issuance (2005) Ltd., see Note 7D.

(3) Within the framework of the public issuances of liability certificates by Finance & Issuances, the bank undertook, towards Finance & Issuances, and the trustees 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.

Note 13 - Other Liabilities

Reported amounts, in millions of NIS

	Consolidated		The bank	
	December 31			
	2014	2013	2014	2013
Deferred income	**45.7**	57.1 *	**45.7**	57.1 *
Accrued income	**26.6**	39.0	**26.6**	39.0
Payables with respect to credit card activities	**35.6**	34.4	**35.6**	34.4
Payables with respect to fixed assets	**10.3**	14.4	**-**	-
Salaries and associated payables	**17.2**	14.3	**16.7**	13.5
Contingent liabilities	**4.6**	4.6	**4.6**	4.6
Provision for credit losses with respect to off-balance sheet items (see Note 18A)	**2.8**	2.5	**2.8**	2.5
Surplus of the reserve for retirement pay over the fund (see Note 15)	**-**	2.0	**-**	2.1
Other payables and credit balances	**39.8**	34.1	**36.5**	30.5
Total other liabilities	**182.6**	202.4	**168.5**	183.7

* Restated - for details, see Note 32.1, significant events during the reporting period.

Note 13A - Equity

A. The bank's registered share capital as of December 31, 2014 is comprised of 100,250,000 ordinary shares with a value of NIS 1 each (as of December 31, 2013 - similar). Issued and paid-up capital as of December 31, 2014 - 70,517,741 shares registered for trading on the Tel Aviv Stock Exchange (as of December 31, 2013 - similar).

B. **Dividend distributions in 2014**

On April 3, 2014, the bank's Board of Directors resolved to perform an interim cash dividend distribution in the amount of NIS 2.5 million (gross), based on the balance of the bank's retained earnings. The dividend was paid on April 27, 2014, to shareholders who held the bank's shares as of April 10, 2014 (the effective date). On May 20, 2014, the bank's Board of Directors resolved to perform an interim dividend distribution in cash, in the amount of NIS 3 million (gross), based on the balance of the bank's retained earnings. The dividend was paid on June 11, 2014, to shareholders who held the bank's shares as of May 29, 2014 (the effective date).

On July 31, 2014, the bank's Board of Directors resolved to perform an interim cash dividend distribution in the amount of NIS 3 million (gross), based on the balance of the bank's retained earnings. The dividend was paid on August 24, 2014, to shareholders who held the bank's shares as of August 11, 2014 (the effective date).

Note 13A - Equity (Cont.)

On August 14, 2014, the bank's Board of Directors resolved to perform an interim cash dividend distribution in the amount of NIS 4.4 million (gross), based on the balance of the bank's retained earnings. The dividend was paid on September 7, 2014, to shareholders who held the bank's shares as of August 25, 2014 (the effective date).

On November 20, 2014, the bank's Board of Directors resolved to perform an interim cash dividend distribution in the amount of NIS 4.8 million (gross), based on the balance of the bank's retained earnings. The dividend was paid on December 14, 2014, to shareholders who held the bank's shares as of November 30, 2014 (the effective date).

Dividend distributions in 2013

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.

On August 29, 2013, the bank's Board of Directors resolved to perform a dividend distribution in the amount of NIS 11 million. These dividends were distributed on September 23, 2013.

On November 28, 2013, the bank's Board of Directors resolved to distribute dividends in the amount of NIS 2.7 million. These dividends were distributed on December 17, 2013.

Dividends are distributed in accordance with the provisions of the Companies Law, 5759 - 1999, and the directives issued by the Commissioner of Banks.

Note 13B - Equity - Capital Adequacy in Accordance with Directives Issued by the Commissioner of Banks

Reported amounts, in millions of NIS

Calculated in accordance with Proper Bank Management Directives 201-211 and Directive 299, regarding "Measurement and capital adequacy".

	December 31	January 1	December 31
	2014		2013
	Basel III (1)		Basel II (2)
A. Consolidated data			
1 - Capital for the calculation of capital ratio			
Tier 1 capital, after supervisory adjustments and deductions	742.5	694.8	694.5
Additional Tier 1 capital, after deductions	742.5	694.8	694.5
Tier 2 capital, after deductions	359.6	357.7	341.4
Total capital	**1,102.1**	**1,052.5**	**1,035.9**
2 - Weighted balances of risk assets			
Credit risk	6,918.9	6,831.5	6,674.1
Market risks	33.2	55.1	49.3
Operational risk (3)	698.7	705.5	705.5
Total weighted balances of capital assets	**7,650.8**	**7,592.1**	**7,428.9**
B. Ratio of capital to risk components (in percent)			
		In percent	
Ratio of Tier 1 capital to risk components	9.7	9.2	9.3
Ratio of total capital to risk components	14.4	13.9	13.9
Ratio of minimum Tier 1 capital required by the Commissioner of Banks (4)	9.0	9.0	-
Ratio of minimum total capital required by the Commissioner of Banks (4)	**13.0**	**13.0**	**13.0**
C. Capital components for the purpose of calculating the capital ratio (in consolidated figures)			
1 - Tier 1 capital			
Equity	745.2	697.2	697.2
Differences between equity and Tier 1 capital	-	-	-
Total Tier 1 capital, before supervisory adjustments and deductions	**745.2**	**697.2**	**697.2**
Supervisory adjustments and deductions:			
Goodwill and intangible assets	1.6	2.4	2.4
Deferred taxes receivable	1.1	-	-
After supervisory adjustments and deductions - Tier 1 capital	-	-	0.3
Total supervisory adjustments and other deductions - Tier 1 capital	**2.7**	**2.4**	**2.7**
Tier 1 capital, after supervisory adjustments and deductions	**742.5**	**694.8**	**694.5**
2 - Tier 2 capital			
Tier 2 capital: instruments, before deductions	273.0	273.0	341.2
Tier 2 capital: provisions, before deductions	86.6	84.7	-
Others	-	-	0.2
Total Tier 2 capital, before deductions	**359.6**	**357.7**	**341.4**
Deductions - Tier 2 capital	-	-	-
Total Tier 2 capital	**359.6**	**357.7**	**341.4**

Note 13B - Equity - Capital Adequacy in Accordance with Directives Issued by the Commissioner of Banks (Cont.)

D. Impact of the transitional provisions on Tier 1 capital

	As of December 31	As at January 1
	2014	
	Basel III (1)	
	In percent	
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 in Directive 299	9.6 (5)	9.2
Impact of the transitional provisions	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	9.2

On May 30, 2013, the Bank of Israel published updated Proper Bank Management Directives, which adopt the recommendations of Basel II and Basel III regarding the banking system in Israel (Proper Bank Management Directives 201 - 211).

The main adjustments implemented by the bank following the transition to the provisions of Basel III include:

A. Deferred taxes receivable which were created due to timing differences - a risk weight of 250% will be applied instead of 100%, which was implemented under Basel II.
B. Collective provision for credit losses - qualified for inclusion under Tier 2 capital. In parallel, the provision will not be recognized for deduction in the calculation of risk assets.
C. Deferred liability notes - the balance recognized for inclusion as Tier 2 capital as of January 1, 2014 will be restricted to a maximum limit of 80% (first year, in accordance with the transitional provisions) of the balance of recognized liability notes for the purpose of the provisions of Basel II and will subsequently be subjected a maximum limit, in accordance with the transitional provisions.

Presented below is a table summarizing the quantitative impact of the main adjustments as of January 1, 2014:

Section	Risk assets	Core capital	Tier 2 capital
Deferred tax receivable which was created as a result of the timing differences	69.5	-	-
Collective provision	77.9	-	84.7
Deferred liability notes	-	-	(68.2)

1. Calculated in accordance with Proper Bank Management Directives 201-211 and 299, regarding "Measurement and capital adequacy", effective as of January 1, 2014.
2. Calculated in accordance with Proper Bank Management Directive 201-211, regarding "Measurement and capital adequacy", effective as of January 1, 2014.
3. During 2014, the bank applied the standard method for the calculation of operational risk for the first time. The comparative figures were calculated in accordance with the basic indicator method.
4. The capital ratios which were required by the Commissioner of Banks as of January 1, 2015.
   Beginning on April 1, 2015, a capital requirement will be added to these ratios, at a rate which reflects 1% of the balance of the housing loans as of the reporting date. This requirement is being applied gradually until January 1, 2017. Accordingly, the ratio of the minimum Tier 1 capital and the total minimum 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, are 9.9% and 13.4%, respectively.
5. Including the expected impact of the initial adoption of US GAAP regarding employee rights, according to observable inputs as of January 1, 2015.

Note 14 - Pledges and Restrictive Terms

A. In accordance with the bylaws of the Maof Clearing House Ltd. (hereinafter: the "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 debentures with a value equal to the entire 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 debentures which were deposited as of December 31, 2014 amounted to a total of NIS 137.3 million.

2. An account in Bank Leumi le-Israel Ltd., under the name of the Maof Clearing House, in which will be deposited cash 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, 2014, funds had been deposited in this account in the amount of 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 its name, and which is managed on behalf of the bank, in which are deposited government debentures 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 debentures which were deposited as of December 31, 2014 amounted to a total of 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, 2014, funds had been deposited in this account in the amount of NIS 11.9 million.

Note 14 - Pledges and Restrictive Terms (Cont.)

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, debentures 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 has no restriction as to amount. The value of the debentures which were deposited as of December 31, 2014 amounted to a total of NIS 117.8 million.

As of December 31, 2014, securities had been deposited to lenders in the amount of NIS 261.4 million, as compared with NIS 164.0 million as of December 31, 2013.

Note 15 - Employee Rights

Reported amounts, in millions of NIS

A - Retirement pay

The retirement pay reserve included in the balance sheet, together with payments with respect to insurance policies, covers the liability for the payment of retirement pay to employees, based on their last salary and period of employment in the bank and in its subsidiaries. Amounts which were deposited by the bank and its subsidiaries 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. Withdrawals of amounts from the fund are conditional upon the fulfillment of the provisions of the Severance Pay Law. Presented below are the amounts of the reserve and fund:

	Consolidated		The bank	
	December 31			
	2014	2013	2014	2013
Amount of the reserve	**55.7**	61.0	**52.6**	58.3
Amount of the fund	**56.0**	59.0	**52.9**	56.2
Surplus of the reserve (fund) for severance pay over the fund (reserve) [included under the item for other liabilities (other assets)]	**(0.3)**	2.0	**(0.3)**	2.1

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"). In accordance with the directives issued by the Commissioner of Banks, the reserve for this liability has been calculated since 2007 on an actuarial basis, and is presented according to present value. The discount rate was determined by the Commissioner of Banks as 4%, and includes taking into account the future salary rise factor. The financial statements included provisions for jubilee bonuses, the balance of which is: consolidated - NIS 2.3 million (2013 - NIS 2.7 million), in the bank - NIS 2.0 million (2013 - NIS 2.4 million), under the item for "salaries 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 provision for vacation days is calculated based on the last salary of the employees and vacation days which were accumulated for them, with the addition of the associated expenses, as required. The balance of the provision for vacation days as of the balance sheet date amounts to NIS 3.3 million, consolidated and in the bank, in the amount of NIS 3.1 million (2013 - NIS 5.1 million consolidated, and NIS 4.6 million in the bank) and is included in the financial statements under the item for "salaries and associated payables", within the framework of "other liabilities".

Note 15 - Employee Rights (Cont.)

D - Remuneration policy

- Remuneration policy for corporate officers

  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 Bank Management Directive 301A, regarding the remuneration policy of a banking corporation (hereinafter: "Directive 301A"). (hereinafter: "Officer Remuneration Policy"). 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. It is further noted, for the sake of order, and regarding the terms of tenure and employment of the current Chairman of the Board, that the terms which apply to him are those set forth in an existing agreement signed with him, which is paid through a corporation under his full control, which was approved by the bank's competent organs, prior to the entry into effect of Amendment 20 to the Companies Law, and therefore, will continue to apply to the Chairman of the Board until the end of the engagement with him, and subject to the transitional provisions of Directive 301A.

  The remuneration policy for corporate officers refers to the remuneration terms of corporate officers, including fixed remuneration (including the salary component and fringe 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 set forth 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

Note 15 - Employee Rights (Cont.)

of Directors on November 11, 2014, following the recommendation of the Remuneration Committee (hereinafter: the "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, of 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.

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 and in Directive 301A. The members of the Remuneration Committee include A. Baruch (chairman) (outside director), S. Eshel (outside director), A. Sobel (independent director and outside director in accordance with Directive 301), O. Ben Ozer.

- The remuneration policy for corporate officers also applies to the directors in the bank (as of the reporting date, eleven 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 list 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, 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.

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 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 creating an identity of interests between them and 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 indicators, personal KPI's (key performance indicators) and qualitative indicators. The remuneration policy for corporate officers includes the determination of the maximum limit for the variable annual bonus: for the Chairman; for the CEO; 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

Note 15 - Employee Rights (Cont.)

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, remuneration 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 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.

- 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.

- In the reporting year, 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; After their approval, as specified above, no changes were implemented during the reporting year.

- The bank ensures that employees who are employed in the risk and compliance departments are remunerated independently of the business areas which they oversee, in the following manner:

  (a) With reference 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.

Note 15 - Employee Rights (Cont.)

(b) Additionally, the remuneration policy documents include the option to provide an additional variable annual bonus to corporate officers and key employees who are not corporate officers, who are responsible for the monitoring and reporting function.

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 of risks beyond the risk appetite, several methods were established in the remuneration policy documents according to 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 to 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 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 remuneration 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 case 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 main performance indicators for the bank, and the personal KPI's, are as follows:

  (a) Payment of the variable annual bonus is contingent upon the fulfillment of two cumulative preconditions:

    - 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

Note 15 - Employee Rights (Cont.)

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, 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 indicators.

- 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 to corporate officers will be in accordance with 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.

Goals	Chairman of the Board of Directors	CEO	Corporate officers who are not responsible for control and monitoring	Corporate officers who are responsible for control and monitoring
Reported returns goals, as required by the bank	80%	80%	40%	20%
Key performance indicators (KPI's)	-	-	40%	60%
Qualitative indicators	20%	20%	20%	20%
Total	**100%**	**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 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.

Note 15 - Employee Rights (Cont.)

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 were 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.

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 postponed 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 postponed variable remuneration will not harm the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks. 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 includes 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).

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.

Note 15 - Employee Rights (Cont.)

- 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 certain conditions and maximum 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 - And 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 on the subject of employee rights. The circular updates the requirements for recognition, measurement and disclosure on the subject 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. On July 10, 2014, a draft batch of questions and answers on the subject was published, which includes, inter alia, examples of the accounting method for common benefits in the banking system, in accordance with generally accepted accounting principles in the United States.

Additionally, on December 15, 2014, a draft amendment to the public reporting regulations was published on the subject of employee rights, including the disclosure framework and transitional provisions. In the draft, it was stated that the Bank of Israel has reached the conclusion that a deep market for high quality corporate debentures does not exist in Israel. Accordingly, the discount rate regarding employee benefits will be calculated based on the yields of government debentures in Israel, with the addition of the average margin of corporate debentures with a rating of AA (international) or higher as of the reporting date. Due to practical considerations, it was specified that the margin will be determined according to the difference between the yield to maturity rates, by repayment periods, on corporate debentures with a rating of AA or higher in the United States, and yield to maturity rates for those repayment periods, on US government debentures, as of the reporting date. A bank which believes that the changes in the margin which was obtained, as above, in a certain period, are due to irregular market volatility, in a manner whereby the margins on them are not appropriate for discounting use, as stated above, will request advance instruction from the Banking Supervision Department. In accordance with the draft, examples of such situations may include, inter alia, changes with respect to which the obtained margin will be higher than the margin on corporate debentures with a rating of AA (local) in Israel.

The bank is required to retrospectively correct the comparative figures for periods beginning on January 1, 2013 and thereafter. Regarding the accounting treatment of actuarial profits and losses which were recorded under other comprehensive income as a result of changes in discount rates, the following was determined:

- Actuarial loss as of January 1, 2013, which is due to the difference between the discount rate for the calculation of employee rights linked to the consumer price index, which was determined according to the temporary order in the public reporting regulations (4%) and the discounting rates as of that date of CPI-linked liabilities to employees, in accordance with the new principles, as stated above (hereinafter: "Loss"), will be included within the framework of cumulative 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 cumulative 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 discounting 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

Note 15 - Employee Rights (Cont.)

straight line method over the average remaining service period of employees who are expected to receive benefits according to the plan.

In the bank's estimate, the expected impact as of January 1, 2015 with respect to the implementation of the new rules is an increase of assets in the amount of approximately NIS 2 million, and increase of liabilities in the amount of approximately NIS 3 million, and a decrease of equity in the amount of approximately NIS 1 million, after tax. Despite the effect on the bank's capital, for the purpose of calculating capital requirements in accordance with the provisions of Basel III, in accordance with the transitional provisions which were set forth in Proper Banking Management Directive No. 299, cumulative profit or loss balances with respect to the re-measurement of net liabilities or net assets, with respect to defined employee benefits, will not be taken into account immediately, but rather will be subject to transitional provisions, such that their effect will be distributed in equal parts of 20% beginning on January 1, 2014, 40% beginning on January 1, 2015, and until its complete adoption on January 1, 2018. For disclosure regarding the estimated expected effect on the Tier 1 capital ratio as of December 31, 2014, see Note 13b, Capital Adequacy.

Note 16 - Assets and Liabilities by Linkage Bases - Consolidated

Reported amounts, in millions of NIS

	December 31, 2014					
	Israeli currency		Foreign currency [1]			
	Unlinked	Linked To the CPI	USD	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	3,007.3	-	196.9	73.8	-	3,278.0
Securities	799.7	66.3	11.7	-	2.7	880.4
Credit to the public, net	4,930.2	3,492.9	1,019.4	124.0	-	9,566.5
Buildings and equipment	-	-	-	-	160.8	160.8
Intangible assets	-	-	-	-	1.6	1.6
Assets with respect to derivative instruments	13.6	-	26.8	-	-	40.4
Other assets	84.2	3.9	-	-	61.5	149.6
Total assets	**8,835.0**	**3,563.1**	**1,254.8**	**197.8**	**226.6**	**14,077.3**
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
Debentures 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	84.1	-	20.3	1.6	76.6	182.6
Total liabilities	**7,839.2**	**3,509.5**	**1,556.9**	**349.9**	**76.6**	**13,332.1**
Difference	995.8	53.6	(302.1)	(152.1)	150.0	745.2
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(482.5)	-	328.5	154.0	-	-
Total general	**513.3**	**53.6**	**26.4**	**1.9**	**150.0**	**745.2**

(1) Including linkage to foreign currency.

Note 16 - Assets and Liabilities by Linkage Bases - Consolidated (Cont.)

Reported amounts, in millions of NIS

	December 31, 2013					
	Israeli currency		Foreign currency [1]			
	Unlinked	Linked To the CPI	USD	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	2,702.4	-	90.1	40.9	-	2,833.4
Securities	583.5	89.0	0.4	-	3.7	676.6
Credit to the public, net	4,939.0	3,582.9	981.7	123.0	-	9,626.6
Buildings and equipment	-	-	-	-	150.4	150.4
Intangible assets[2]	-	-	-	-	2.0	2.0
Assets with respect to derivative instruments	14.6	0.5	4.1	2.5	-	21.7
Other assets [2]	90.1	2.3	-	-	65.6	158.0
Total assets	**8,329.6**	**3,674.7**	**1,076.3**	**166.4**	**221.7**	**13,468.7**
Liabilities						
Public deposits	6,856.6	2,603.3	1,219.4	391.8	-	11,071.1
Deposits from banks	-	47.2	4.3	-	-	51.5
Government deposits	0.5	0.2	-	-	-	0.7
Lent securities	27.5	-	-	-	-	27.5
Debentures and deferred liability notes	589.5	816.3	0.2	-	-	1,406.0
Liabilities in respect of derivative instruments	10.3	-	1.9	0.1	-	12.3
Other liabilities [2]	101.7	-	-	-	100.7	202.4
Total liabilities	**7,586.1**	**3,467.0**	**1,225.8**	**391.9**	**100.7**	**12,771.5**
Difference	743.5	207.7	(149.5)	(225.5)	121.0	697.2
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(413.4)	(0.4)	263.3	150.5	-	-
Total general	**330.1**	**207.3**	**113.8**	**(75.0)**	**121.0**	**697.2**

(1) Including linkage to foreign currency.
(2) Restated. For details, see note 32.1 regarding significant events in the reporting period.

Note 16 - Assets and Liabilities by Linkage Bases - Consolidated (Cont.)

Reported amounts, in millions of NIS

	December 31, 2014					
	Israeli currency		Foreign currency [1]			
	Unlinked	Linked To the CPI	USD	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	3,007.3	-	196.9	73.8	-	3,278.0
Securities	783.8	66.3	11.7	-	2.7	864.5
Credit to the public, net	4,930.3	3,492.8	1,019.4	124.0	-	9,566.5
Investment in investee companies	21.7	-	-	-	367.8	389.5
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	99.5	-	-	-	60.0	159.5
Total assets	**8,856.2**	**3,559.1**	**1,254.8**	**197.8**	**448.2**	**14,316.1**
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
Debentures 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	70.2	-	20.3	1.6	76.4	168.5
Total liabilities	**8,082.8**	**3,504.8**	**1,556.9**	**350.0**	**76.4**	**13,570.9**
Difference	773.4	54.3	(302.1)	(152.2)	371.8	745.2
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(482.5)	-	328.5	154.0	-	-
Total general	**290.9**	**54.3**	**26.4**	**1.8**	**371.8**	**745.2**

(1) Including linkage to foreign currency.

Note 16 - Assets and Liabilities by Linkage Bases - Consolidated (Cont.)

Reported amounts, in millions of NIS

	December 31, 2013					
	Israeli currency		Foreign currency [1]			
	Unlinked	Linked To the CPI	USD	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	2,702.4	-	90.1	40.9	-	2,833.4
Securities	585.3	91.1	0.4	-	3.7	680.5
Credit to the public, net	4,939.0	3,582.9	981.7	123.0	-	9,626.6
Investment in investee companies	22.0	-	-	-	358.6	380.6
Buildings and equipment	-	-	-	-	18.2	18.2
Intangible assets *	-	-	-	-	2.0	2.0
Assets with respect to derivative instruments	14.6	0.5	4.1	2.5	-	21.7
Other assets *	83.9	-	-	-	64.6	148.5
Total assets	**8,347.2**	**3,674.5**	**1,076.3**	**166.4**	**447.1**	**13,711.5**
Liabilities						
Public deposits	7,586.2	2,999.4	1,219.4	391.8	-	12,196.8
Deposits from banks	-	47.2	4.3	-	-	51.5
Government deposits	0.5	0.2	-	-	-	0.7
Lent securities	27.5	-	-	-	-	27.5
Debentures and deferred liability notes	118.0	423.6	0.2	-	-	541.8
Liabilities in respect of derivative instruments	10.3	-	1.9	0.1	-	12.3
Other liabilities *	83.0	-	-	-	100.7	183.7
Total liabilities	**7,825.5**	**3,470.4**	**1,225.8**	**391.9**	**100.7**	**13,014.3**
Difference	521.7	204.1	(149.5)	(225.5)	346.4	697.2
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(413.4)	(0.4)	263.3	150.5	-	-
Total general	**108.3**	**203.7**	**113.8**	**(75.0)**	**346.4**	**697.2**

* Restated - for details, see Note 32.1, significant events during the reporting period.
(1) Including linkage to foreign currency.

Note 17 - Assets and Liabilities by Linkage Bases and Repayment Periods - Consolidated (1)

Expected future contractual cash flows

Reported amounts, in millions of NIS

	On demand Up to one month	One to three months	Three months to one year	One year to two years	Two years to three years
As at December 31, 2014					
Israeli currency (including foreign currency-linked)					
Assets*	3,509.9	387.5	1,582.0	1,211.9	941.7
Liabilities **	3,040.7	576.7	2,318.4	2,637.2	749.0
Difference	469.2	(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	101.8	(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*	**3,805.6**	**395.4**	**1,699.1**	**1,330.1**	**1,046.7**
Liabilities **	**4,197.3**	**902.1**	**2,679.1**	**2,641.1**	**749.0**
Difference	**(391.7)**	**(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
As at December 31, 2013					
Israeli currency (including foreign currency-linked)					
Assets*	3,129.8	370.5	1,639.7	1,179.7	975.0
Liabilities **	2,776.5	837.7	2,149.9	3,095.3	1,057.4
Difference	353.3	(467.2)	(510.2)	(1,915.6)	(82.4)
Derivative instruments (excluding options)	(479.1)	(55.5)	34.7	86.1	-
Difference after the effect of derivative instruments	(125.8)	(522.7)	(475.5)	(1,829.5)	(82.4)
Foreign currency (3)					
Assets*	123.1	0.3	105.7	98.8	100.3
Liabilities **	901.4	147.6	476.1	38.9	-
Difference	(778.3)	(147.3)	(370.4)	59.9	100.3
Of which: difference - in USD	(665.2)	(121.9)	(311.6)	48.5	88.7
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	479.1	55.5	(34.7)	(86.1)	-
Difference after the effect of derivative instruments	(299.2)	(91.8)	(405.1)	(26.2)	100.3
Total					
Assets*	**3,252.9**	**370.8**	**1,745.4**	**1,278.5**	**1,075.3**
Liabilities **	**3,677.9**	**985.3**	**2,626.0**	**3,134.2**	**1,057.4**
Difference	**(425.0)**	**(614.5)**	**(880.6)**	**(1,855.7)**	**17.9**
* Of which: credit to the public	333.7	362.4	1,501.8	1,223.3	1,042.7
** Of which: public deposits	3,518.0	914.3	2,457.0	2,822.2	772.1

(1) In this note, the projected future 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 4.5 million whose maturity date has passed (NIS 6.3 million as of December 31, 2013).

Note 17 - Assets and Liabilities by Linkage Bases and Repayment Periods - Consolidated (1) (Cont.)

Expected future contractual cash flows

Reported amounts, in millions of NIS

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	Balance sheet balances (4) No repayment period(2)	Balance sheet balances (4) Total	Contractual rate of return (5)
808.9	654.4	2,861.8	2,491.8	504.3	14,954.1	231.1	12,687.4	3.27%
561.1	392.5	1,209.5	288.4	-	11,773.6	76.6	11,488.9	1.10%
247.8	261.9	1,652.3	2,203.4	504.3	3,180.6	154.5	1,198.5	
-	-	-	-	-	(482.6)	-	-	
247.8	261.9	1,652.3	2,203.4	504.3	2,698.0	154.5	1,198.5	
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**	**16,546.6**	**231.1**	**14,077.3**	**3.22%**
561.3	**392.5**	**1,210.1**	**288.6**	**-**	**13,621.2**	**76.6**	**13,332.1**	**1.02%**
349.7	**359.6**	**2,059.4**	**2,542.8**	**505.7**	**2,925.4**	**154.5**	**745.2**	
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%
759.0	758.8	2,687.0	2,530.7	411.6	14,441.8	170.9	12,377.1	3.92%
705.6	494.3	780.5	14.0	-	11,911.2	43.6	11,151.0	1.73%
53.4	264.5	1,906.5	2,516.7	411.6	2,530.6	127.3	1,226.1	
-	-	-	-	-	(413.8)	-	-	
53.4	264.5	1,906.5	2,516.7	411.6	2,116.8	127.3	1,226.1	
100.5	96.3	405.5	360.0	0.5	1,391.0	-	1,034.5	3.46%
-	0.2	0.2	-	-	1,564.4	-	1,563.4	0.82%
100.5	96.1	405.3	360.0	0.5	(173.4)	-	(528.9)	
88.1	85.4	359.5	327.7	0.5	(100.3)	-	-	
-	-	-	-	-	-	-	-	
1.0	-	(0.2)	-	-	414.6	-	-	
101.5	96.1	405.1	360.0	0.5	241.2	-	(528.9)	
859.5	**855.1**	**3,092.5**	**2,890.7**	**412.1**	**15,832.8**	**170.9**	**13,411.6**	**3.88%**
705.6	**494.5**	**780.7**	**14.0**	**-**	**13,475.6**	**43.6**	**12,714.4**	**1.80%**
153.9	**360.6**	**2,311.8**	**2,876.7**	**412.1**	**2,357.2**	**127.3**	**697.2**	
846.9	738.3	2,843.4	2,890.7	412.1	12,195.3	6.3	9,626.6	3.96%
516.0	374.6	376.5	-	-	11,750.7	-	11,071.1	1.73%

(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 17 - Assets and Liabilities by Linkage Bases and Repayment Periods - Bank (1) (Cont.)

Expected future contractual cash flows

Reported amounts, in millions of NIS

	On demand Up to one month	One to three months	Three months to one year	One year to two years	Two years to three years
As at December 31, 2014					
Israeli currency (including foreign currency-linked)					
Assets*	3,546.3	384.7	1,428.5	1,240.5	972.6
Liabilities **	3,132.5	743.1	2,732.8	2,725.2	719.9
Difference	413.8	(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	46.4	(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*	**3,842.0**	**392.6**	**1,545.7**	**1,358.8**	**1,077.6**
Liabilities **	**4,289.1**	**1,068.6**	**3,093.5**	**2,729.0**	**719.9**
Difference	**(447.1)**	**(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
As at December 31, 2013					
Israeli currency (including foreign currency-linked)					
Assets*	3,135.9	371.4	1,445.8	1,232.9	1,026.1
Liabilities **	2,788.6	706.8	2,133.1	2,994.1	990.0
Difference	347.3	(335.4)	(687.3)	(1,761.2)	36.1
Derivative instruments (excluding options)	(479.1)	(55.5)	34.7	86.1	-
Difference after the effect of derivative instruments	(131.8)	(390.9)	(652.6)	(1,675.1)	36.1
Foreign currency (3)					
Assets*	123.1	0.3	105.7	98.8	100.3
Liabilities **	901.4	147.6	476.1	38.9	-
Difference	(778.3)	(147.3)	(370.4)	59.9	100.3
Of which: difference - in USD	(665.2)	(121.9)	(311.6)	48.5	88.7
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	479.1	55.5	(34.7)	(86.1)	-
Difference after the effect of derivative instruments	(299.2)	(91.8)	(405.1)	(26.2)	100.3
Total					
Assets*	**3,259.0**	**371.7**	**1,551.5**	**1,331.7**	**1,126.4**
Liabilities **	**3,690.0**	**854.4**	**2,609.2**	**3,033.0**	**990.0**
Difference	**(431.0)**	**(482.7)**	**(1,057.7)**	**(1,701.3)**	**136.4**
* Of which: credit to the public	333.7	362.4	1,501.8	1,223.3	1,042.7
** Of which: public deposits	3,551.3	851.5	2,552.9	3,080.6	1,101.5

(1) In this note, the projected future 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 4.5 million whose maturity date has passed (NIS 6.3 million as of December 31, 2013).

Note 17 - Assets and Liabilities by Linkage Bases and Repayment Periods - Bank (1) (Cont.)

Expected future contractual cash flows

Reported amounts, in millions of NIS

3 years to 4 years	4 years to 5 years	5 years to 10 years	10 years to 20 years	Over 20 Year	Total Cash flows	Balance sheet balances [4] No repayment period[2]	Balance sheet balances [4] Total	Contractual rate of return [5]
839.3	684.5	2,863.3	2,490.5	521.9	14,972.1	452.7	12,926.2	3.27%
571.9	399.9	1,076.5	10.4	-	12,112.3	76.4	11,727.6	1.13%
267.4	284.5	1,786.7	2,480.1	521.9	2,859.7	376.3	1,198.6	2.14%
-	-	-	-	-	(482.6)	-	-	
267.4	284.5	1,786.7	2,480.1	521.9	2,377.1	376.3	1,198.6	
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)	2.33%
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**	**16,564.5**	**452.7**	**14,316.1**	**3.22%**
572.1	**399.9**	**1,077.2**	**10.6**	**-**	**13,959.9**	**76.4**	**13,570.9**	**1.04%**
369.3	**382.2**	**2,193.9**	**2,819.6**	**523.2**	**2,604.6**	**376.3**	**745.2**	
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	-	12,248.6	0.90%
791.3	802.6	2,716.4	2,530.7	411.6	14,464.7	396.3	12,619.9	3.93%
612.9	468.9	601.4	14.0	-	11,309.8	-	11,393.8	1.83%
178.4	333.7	2,115.0	2,516.7	411.6	3,154.9	396.3	1,226.1	
-	-	-	-	-	(413.8)	-	-	
178.4	333.7	2,115.0	2,516.7	411.6	2,741.1	396.3	1,226.1	
100.5	96.3	405.5	360.0	0.5	1,391.0	-	1,034.5	3.46%
-	0.2	0.2	-	-	1,564.4	-	1,563.4	0.82%
100.5	96.1	405.3	360.0	0.5	(173.4)	-	(528.9)	
88.1	85.4	359.5	327.7	0.5	(100.3)	-	-	
-	-	-	-	-	-	-	-	
-	-	-	-	-	413.8	-	-	
100.5	96.1	405.3	360.0	0.5	240.4	-	(528.9)	
891.8	**898.9**	**3,121.9**	**2,890.7**	**412.1**	**15,855.7**	**396.3**	**13,654.4**	**3.89%**
612.9	**469.1**	**601.6**	**14.0**	**-**	**12,874.2**	**-**	**12,957.2**	**1.71%**
278.9	**429.8**	**2,520.3**	**2,876.7**	**412.1**	**2,981.5**	**396.3**	**697.2**	
846.9	738.3	2,843.4	2,890.7	412.1	12,195.3	6.3	9,626.6	3.96%
527.9	419.9	344.6	-	-	12,430.2	-	12,196.8	1.87%

(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 18 - Contingent Liabilities and Special Engagements

Reported amounts, in millions of NIS

A - Off-balance sheet financial instruments (consolidated and in the bank)
(Contract balances or specified amounts at end of year)

	Balances of contracts [1]		Balance of the provision for credit losses	
	December 31			
	2014	2013	2014	2013
Transactions in which the balance represents credit risk:				
Irrevocable undertakings to provide credit which have been approved and not yet provided	**1,001.1**	1,066.4	**1.7**	1.3
Guarantees to apartment buyers	**9.4**	16.8	**0.1**	0.2
Guarantees to secure credit	**78.8**	65.8	**0.2**	0.2
Other guarantees	**101.7**	82.4	**0.4**	0.5
Unused credit facilities of credit cards	**187.4**	156.2	**0.4**	0.3
Unused revolving debitory account facilities and other credit facilities in accounts on demand	**48.5**	71.2	**-**	-
Total	**1,426.9**	1,458.8	**2.8**	2.5

(1) Balances or specified amounts of contracts at year end, before the effect of the provision for credit losses.

B - Off-balance sheet engagement with respect to activity, by collection rate [1]
At year end (consolidated and in the bank)

	December 31	
	2014	2013
Balance of credit from deposits by collection rate [2]		
Unlinked Israeli currency	**1,372.5**	1,651.5
CPI-linked Israeli currency	**45.4**	51.2
Foreign currency	**0.3**	0.3
Total	**1,418.2**	1,703.0

	For the year ended December 31	
	2014	2013
Information regarding the provision of loans during the year		
Loans from deposits by collection rate	**2.1**	2.6
Current loans	**1.8**	3.5

(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 148.4 million (2013 - NIS 219 million) were not included in this note.

Note 18 - Contingent Liabilities and Special Engagements (Cont.)

Reported amounts, in millions of NIS

B - off-balance sheet engagement with respect to activity according to collection rate (1) At end of year (Cont.)

	December 31						
	2014						2013
	Up to one year	1 year to 3 years	3 years to 5 years	5 years to 10 years	10 years to 20 years	Total	Total
Flows with respect to fee collection and interest margins, with respect to activity by collection rate (2)							
Future contractual cash flows	12.4	24.3	23.5	29.5	4.0	**93.7**	115.3
Discounted expected flows (3)(4)	12.1	23.0	21.3	25.2	3.1	**84.7**	101.8

(1) Credits and deposits from deposits whose repayment to the depositor is conditional upon the collection of credits with a collection fee.
(2) Includes the foreign currency segment and the non-linked NIS segment, which does not exceed 10% of the total deposits, according to collection degree.
(3) Discounting was performed according to a rate of 2.19% (2013 - 2.51%).
(4) These data do not take into account the estimate of early repayments.

C - Claims

1. General

In the ordinary course of business, various legal claims were filed against the bank. Based on the opinion of its legal counsel regarding the chances of the claims, including motions to approve class actions, adequate provisions were included in the financial statements, in accordance with generally accepted accounting principles, with respect to expected losses due to pending claims against the bank.

2. There are pending motions to approve class actions against the bank, as specified below:

A. On July 12, 2010, a claim was filed in 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 remove 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 the plaintiff to withdraw its claim. The plaintiff's legal counsel has not yet responded to the recommendation, and a decision has not yet been reached by the Court.

In the opinion of bank management, based on the opinion of its legal counsel, the chances that the bank will be required to execute payments within the framework of the claim (excluding professional fees to the plaintiff's legal counsel) are low.

B. On September 17, 2013, a claim against the bank was filed with the Jerusalem District Court (inter alia), as well as a motion to approve the claim as a class action, contending that the bank is deceiving its customers who are disabled (at a rate of 40% or higher) and is breaching the law, by not notifying 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. As part of the hearing, it was clear that in light of the Court's remarks with reference to some of the claims in the motion, the motion's chances of being accepted were low, and the Court suggested 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 regarding the bank the aforementioned arrangement is apparently irrelevant, 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 June 17, 2014, a claim and a motion to approve it as a class action was filed with the Central District Court against the bank, in an amount which was estimated by the plaintiff at a total of NIS 3 million, alleging that the bank had breached its statutory duty, as set forth in the Public Buildings Law (Cool Water Drinking Facilities), 5747 - 1986 (the "Law"), and was performing unjust enrichment, by not placing cool water drinking facilities in its branches.

The remedies requested in the motion to approve the claim as a class action include repayment of the full amounts with respect to the acquisition of drinking water bottles by visitors to the bank's branches, which were purchased following the non-implementation of the provisions of the law by the bank. In accordance with a settlement agreement which was signed between the parties, the bank paid to the plaintiff a total of NIS 8,500, the plaintiff withdrew its motion, and the motion and claim were erased.

D. 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 are "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, on behalf of 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, 5774-1994. 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, in 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 ordering all of the defendants to repay the fees which were allegedly overcollected since the beginning of 2004, as well as issuing a mandamus order ordering 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 deadlines for the filing of summaries were established until February 2015.

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, insofar as one will be given, and insofar as the total amount of such damages will exceed NIS 2.5 million (discounted as of the acquisition date - NIS 2.3 million).

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.

E. Within the framework of a dispute between Clal Batucha with the Tax Authority, orders were issued for the years 2007 - 2008, and assessments were determined to the best of its judgment for the years 2009 - 2010, according to which Clal Batucha is required to pay to the tax authorities a total of approximately NIS 18 million, including fines, interest and linkage differentials as of the issuance date of the assessments.

On November 27, 2014, a settlement agreement was signed between the bank and the tax authorities, according to which the bank paid a total of NIS 4.4 million, as full payment with respect to the tax assessment which is the subject of the dispute. In accordance with the undertaking by Clal Finance to indemnify the bank for these proceedings, Clal Finance paid all of the bank's costs in connection with the aforementioned arrangement with the tax authorities.

F. On October 19, 2014, a claim and a motion to recognize the claim as a class action were filed with the Jerusalem District Court against the bank, in an amount which was estimated by the plaintiff at a total of NIS 3 million, contending that the bank had allegedly misled its customers within the framework of an advertising campaign for deposits. In the assessment of bank management, which is based on the opinion of its legal counsel, the chances that the bank will be required to execute payments within the framework of the claim are low. In the assessment of bank management, which is based on the opinion of its legal counsel, the chances that the bank will be required to execute payments within the framework of the claim are low.

Note 18 - Contingent Liabilities and Special Engagements (Cont.)

G. On November 4, 2014, a claim and a motion to recognize the claim as a class action were filed with the District Court of Tel Aviv against the bank, for the repayment of fees in an amount which was estimated by the plaintiff at NIS 65.5 million, claiming that the bank had, allegedly, unlawfully collected certain fees in connection with foreign currency conversion activities, as well as lack of due disclosure and apparent deception of customers regarding the costs involved in conversion services, and regarding the alleged existence of a restrictive arrangement in connection with the provision of the conversion services. The motion was submitted to the bank on November 5, 2014, and the bank's response to the motion has not yet been filed.

In the assessment of bank management, which is based on the opinion of its legal counsel, the chances that the bank will be required to execute payments within the framework of the claim are low.

H. 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 transaction 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 by so doing, Clal Batucha caused him to incur significant losses.

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 is subject to the undertaking by 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, and insofar as the total amount of such damages exceeds NIS 2.5 million (discounted as of the acquisition date - NIS 2.3 million). the bank's response to the motion has not yet been filed, and it is not yet possible to estimates its chances, or the chances that the claim will be accepted.

Note 18 - Contingent Liabilities and Special Engagements (Cont.)

D - 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 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. 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 15 million par value of liability certificates (Series A), NIS 137 million par value of liability certificates (Series B), NIS 150 million par value of deferred liability notes (Series C), NIS 210 million par value of debentures (Series G), NIS 360 million par value of debentures (Series H), NIS 415 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 undertakings are irrevocable and non-modifiable, due to the fact that the rights of the deposit certificate holders are dependent upon them.

3. Further to the announcement which was received by the bank on June 4, 2013, concerning the submission of a request to the committee regarding the imposition of financial sanctions on banking corporations, pursuant to The Prohibition on Money Laundering Law, 5760 - 2000, with respect to apparent breaches of the aforementioned law, on March 25, 2014, the bank accepted the decision of the committee regarding the imposition of financial sanctions on banking corporations, in accordance with section 14 of the Prohibition on Money Laundering Law, 5760 - 2000 with respect to a breach of provisions of the Prohibition on Money Laundering Law, 5760 - 2000, the Prohibition on Money Laundering Order (Duties of Identification, Reporting and Record Keeping of Banking Corporations to Prevent Money Laundering and Terrorist Financing), 5761 - 2001, and the Prohibition on Money Laundering Regulations (Methods and Dates for Submission of Reports by Banking Corporations

Note 18 - Contingent Liabilities and Special Engagements (Cont.)

and Entities Specified in the Law's Third Addendum to the Database), 5762 - 2002, further to the audit report dated February 2013, which was prepared the Banking Supervision Department with respect to the period between 2007 and 2010.

In accordance with the decision, financial sanctions were imposed on the bank in the total amount of NIS 800 thousand, while noting the fact that this amount was determined in consideration of the fact that during the audit process, the bank cooperated regarding the disclosure of the breaches and their results, and implemented effective actions to correct the breaches and to prevent their recurrence, shortly after receiving the draft audit report.

4. The bank undertook to allow depositors and savers to receive loans in the amount of their deposits for the acquisition of apartments or for the acquisition of vehicles, at an interest rate which is lower than the nominal interest which will be practiced in the bank at the time of the provision of the loan. This right will be available to them from the end of one year after the commencement date of the deposit period, provided that they fulfill the conditions practiced in the bank with respect to the provision of loans, and additionally, that the funds will be deposited on the dates set forth in the plan terms.

Note 18 - Contingent Liabilities and Special Engagements (Cont.)

Presented below is the composition of the amounts of the credit provision undertaking:

Details of savings	Amortization rate from the nominal interest rate	Maximum liability for the provision of loans As of December 31	
		2014	2013
Savings plans (monthly or one-time deposit)	**0.25%**	**1,868.8**	1,829.2
Monthly deposit savings plans	**0.4%**	**1,261.0**	1,116.2
One-time deposit savings plans	**0.5%**	**27.9**	21.1
Total		**3,157.7**	2,966.5

It is noted that the effect of the aforementioned assumptions and their actual usage rate is immaterial.

5. 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 obligations 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 million (discounted as of the acquisition date - NIS 2.3 million). The bank is also responsible, as a result of the purchase agreement, with respect to the indemnification undertakings of various entities which had 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.

E- 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:

	Consolidated		The bank	
	December 31			
	2014	2013	2014	2013
First year	**16.4**	16.0	**2.7**	2.4
Second year	**16.1**	18.4	**2.5**	2.4
Third year	**13.9**	15.1	**1.5**	2.3
Fourth year	**14.0**	13.3	**1.5**	1.5
Fifth year and thereafter	**104.9**	115.0	**1.9**	3.3
Total long term rental contracts	**165.3**	177.8	**10.1**	11.9

Note 19 - 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 include, inter alia, basis risks, interest 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 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 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 the instrument is separate, with the same terms as 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 19 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Consolidated and in the Bank) (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 shares	Total
	NIS - CPI	Other			
A. Derivatives [1], [2] ALM					
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 shares	Total
A. Derivatives [1], [2] ALM					
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 19 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

B - Scope of operations (Cont.)

1. Denominated amount of derivative instruments

	December 31, 2013				
	Interest contracts		Foreign currency contracts	Contracts with respect to shares	Total
	NIS - CPI	Other			
A. Derivatives (1), (2) ALM					
Futures contracts	-	21.6	-	-	21.6
Forward contracts	-	-	995.8	-	995.8
Swaps	100.0	202.9	-	-	302.9
Total	**100.0**	**224.5**	**995.8**	**-**	**1,320.3**
Of which, interest rate swaps in which the banking corporation has agreed to pay a fixed interest rate	50.0	188.1	-	-	238.1
B. Other derivatives (1)					
Option contracts traded on the stock exchange					
Written options	-	-	24.4	687.1	711.5
Acquired options	-	-	24.4	687.1	711.5
Total	**-**	**-**	**48.8**	**1,374.2**	**1,423.0**
C. Credit derivatives and foreign currency spot transactions					
Foreign currency spot contracts	-	-	110.9	-	110.9
Total denominated amount	**100.0**	**224.5**	**1,155.5**	**1,374.2**	**2,854.2**

2. Gross fair value of derivative instruments

	NIS - CPI	Other	Foreign currency contracts	Contracts with respect to shares	Total
A. Derivatives (1), (2) ALM					
Gross positive fair value	0.5	1.7	15.1	-	17.3
Gross negative fair value	0.8	0.9	6.2	-	7.9
B. Other derivatives (1)					
Gross positive fair value	-	-	0.2	4.2	4.4
Gross negative fair value	-	-	0.2	4.2	4.4
Total positive fair value	**0.5**	**1.7**	**15.3**	**4.2**	**21.7**
Total negative fair value	**0.8**	**0.9**	**6.4**	**4.2**	**12.3**

(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 19 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Consolidated and in the Bank) (Cont.)

Reported amounts, in millions of NIS

C - Credit risk with respect to derivative instruments by counterparty in the contract

	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**

	December 31, 2013			
	Stock exchanges	Banks	Dealers / brokers	Total
Book value of assets with respect to derivative instruments (2)	4.4	17.3	-	21.7
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	4.4	17.3	-	21.7
Off-balance sheet credit risks, net, with respect to derivative instruments (1)	7.6	33.5	-	41.1
Total credit risk with respect to derivative instruments	**12.0**	**50.8**	**-**	**62.8**
Net amount of liabilities with respect to derivative instruments	**4.4**	**7.9**	**-**	**12.3**

Note 19 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Consolidated and in the Bank) (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
As at December 31, 2014:					
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
As at December 31, 2013:					
Interest contracts (NIS - CPI)	-	100.0	-	-	100.0
Interest contracts (other)	21.6	-	175.8	27.1	224.5
Foreign currency contracts	1,027.9	40.8	86.8	-	1,155.5
Contracts with respect to shares	1,374.2	-	-	-	1,374.2
Total	**2,423.7**	**140.8**	**262.6**	**27.1**	**2,854.2**

(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 40.4 million (as of December 31, 2013 - NIS 21.7 million), as included under the item for derivative instruments.

Note 20 - 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 by the deduction interest, at a rate which reflects the device embedded in the financial instrument. Fair values estimates prepared using forecasts of future cash flows and the determination of the deduction 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 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 redemption. 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, debentures and non-traded bills, and credit to the government - according to the future discounted cash flows method, based on interest rates which the bank performed 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 involving the present value of future cash flows, after deducting the appropriate deduction 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 deduction interest rates which reflect the high credit risk embodied in them. These deduction 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 calculation of fair value did not take into account early repayments credits whose impact is not unequivocal.

Deposits, debentures and deferred liability notes - according to the future discounted cash flows method, according to the interest rates at which the bank raises similar deposits, or in issuances of similar debentures or deferred liability notes, by the bank on reporting date, excluding debentures registered 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 instruments in which the 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 embedded 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 20 - Balances and Fair Value Estimates of Financial Instruments (Consolidated) (Cont.)

Reported amounts, in millions of NIS

	December 31									
	2014					2013				
		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	3,278.0	3,278.0	-	-	3,278.0	2,833.4	2,833.4	-	-	2,833.4
Securities (2)	880.4	897.6	1.1	3.7	902.4	676.6	671.6	1.3	3.7	676.6
Credit to the public, net(3)	9,566.5	-	-	9,679.7	9,679.7	9,626.6	-	-	9,713.4	9,713.4
Assets with respect to derivative instruments	40.40	19.3	21.1	-	40.4	21.7	4.4	17.3	-	21.7
Other financial assets	17.20	-	-	17.2	17.2	40.3	-	-	40.3	40.3
Total financial assets(4)	**13,782.5**	**4,194.9**	**22.2**	**9,700.6**	**13,917.7**	**13,198.6**	**3,509.4**	**18.6**	**9,757.4**	**13,285.4**
Financial liabilities										
Public deposits	10,977.2	-	1,921.9	9,130.2	11,052.1	11,071.1	-	1,249.5	9,875.5	11,125.0
Deposits from banks	42.5	-	-	43.8	43.8	51.5	-	-	59.5	59.5
Government deposits	5.0	-	-	5.0	5.0	0.7	-	-	0.7	0.7
Lent securities	582.7	582.7	-	-	582.7	27.5	27.5	-	-	27.5
Debentures and deferred liability notes	1,503.1	1,322.4	-	209.9	1,532.3	1,406.0	1,164.5	-	259.8	1,424.3
Liabilities in respect of derivative instruments	39.0	19.3	19.7	-	39.0	12.3	4.4	7.9	-	12.3
Other financial liabilities	105.2	-	-	105.2	105.2	47.5	-	-	47.5	47.5
Total	**13,254.7**	**1,924.4**	**1,941.6**	**9,494.1**	**13,360.1**	**2,616.6**	**1,196.4**	**1,257.4**	**10,243.0**	**12,696.8**

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, 2014 and December 31, 2013 in the amount of NIS 19.8 million and NIS 8.1 million, respectively.
(4) Of which, assets whose balance in the balance sheet is identical to fair value (instruments which are presented in the balance sheet at fair value) or which constitutes 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, 2014 and December 31, 2013 - a total of NIS 3,987.7 million and NIS 3,528.0 million, respectively). Liabilities whose balance sheet balance is identical to fair value (instrument 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, 2014 and December 31, 2013, in the amount of NIS 1,960.9 million and NIS 1,229.0 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.

Note 20A - Items Measured at Fair Value on a Repeated Basis (Consolidated)

Reported amounts, in millions of NIS

	December 31, 2014			
	Fair value measurements used in:			
	Quotes prices in an active market (level 1)*	Other significant observable inputs (level 2)*	Significant unobservable inputs (3 level)	Total Fair value
Assets				
Available for sale securities:				
Debentures - Government of Israel	380.5	-	-	380.5
Debentures - other companies *	21.7	1.1	-	22.8
Total available for sale securities	**402.2**	**1.1**	**-**	**403.3**
Marketable securities:				
Debentures - of the Government of Israel	266.0	-	-	266.0
Debentures - other companies	-	-	-	-
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	**687.5**	**22.2**	**-**	**709.7**
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**

Note 20A - Items Measured at Fair Value on a Repeated Basis (Consolidated)

Reported amounts, in millions of NIS

	December 31, 2013			
	Fair value measurements used in:			
	Quotes prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (3 level)	Total Fair value
Assets				
Available for sale securities:				
Debentures - Government of Israel	477.8	-	-	477.8
Debentures - other companies	10.5	1.3	-	11.8
Total available for sale securities	**488.3**	**1.3**	**-**	**489.6**
Marketable securities:				
Debentures - Government of Israel	183.0	-	-	183
Debentures - other companies	0.3	-	-	0.3
Total marketable securities	183.3	**-**	**-**	183.3
Assets with respect to derivative instruments:				
Interest contracts - NIS/CPI	-	0.5	-	0.5
Interest contracts - other	-	1.7	-	1.7
Foreign currency contracts	0.2	15.1	-	15.3
Share contracts	4.2	-	-	4.2
Total assets with respect to derivative instruments:	**4.4**	**17.3**	**-**	**21.7**
Total financial assets	**676.0**	**18.6**	**-**	**694.6**
Liabilities				
Lent securities	27.5	-	-	27.5
Liabilities in respect of derivative instruments:				
Interest contracts - NIS/CPI	-	0.8	-	0.8
Interest contracts - other	-	0.9	-	0.9
Foreign currency contracts	0.2	6.2	-	6.4
Share contracts	4.2	-	-	4.2
Total liabilities with respect to derivative instruments	**4.4**	**7.9**	**-**	**12.3**
Total financial liabilities	**31.9**	**7.9**	**-**	**39.8**

Note 21 - Interested Parties and Related Parties (1) (Consolidated)

Reported amounts, in millions of NIS

A - Balances

	Interested parties								Related parties	
	Shareholders									
	Controlling shareholders (4)		With a significant impact (5)		Others		Key management personnel (6)		Others (7)	
	2	3	2	3	2	3	2	3	2	3
As at December 31, 2014										
Assets										
Credit to the public	-	0.1	-	-	-	-	0.3	0.5	-	-
Provision for credit losses	-	-	-	-	-	-	-	-	-	-
Credit to the public, net	-	0.1	-	-	-	-	0.3	0.5	-	-
Liabilities										
Public deposits	107.1	107.1	0.2	0.2	0.1	1.5	9.4	9.4	0.5	0.7
Other liabilities - other payables and credit balances	-	-	-	-	-	-	2.2	2.2	-	-
Shares (included in equity) (8)	645.0	645.0	-	-	37.4	37.4	-	-	-	-
As at December 31, 2013										
Assets										
Credit to the public	0.3	0.6	-	-	-	-	0.6	0.7	-	-
Provision for credit losses	-	-	-	-	-	-	-	-	-	-
Credit to the public, net	0.3	0.6	-	-	-	-	0.6	0.7	-	-
Liabilities										
Public deposits	8.4	10.5	0.2	0.2	1.5	2.0	2.2	2.9	0.5	0.5
Other liabilities - other payables and credit balances	-	-	-	-	-	-	3.4	3.4	-	-
Shares (included in equity) (8)	603.9	603.9	-	-	35.0	35.0	-	-	-	-

(1) Interested party - as defined in section 80D of the public reporting regulations.
Related party - as defined in International Accounting Standard 24, Related Party Disclosures.
(2) Balance as of the balance sheet date.
(3) Highest balance during the year - based on end of month balances.
(4) Controlling shareholder - as defined in the Securities Law.
(5) Shareholders with significant influence - in accordance with section 80.D(2) of the public reporting regulations.
(6) Key management personnel - in accordance with section 80.D(4) of the public reporting regulations
(7) In accordance with section 80.D(5) of the public reporting regulations
(8) Holdings of interested parties and related parties in the capital of the banking corporation.
(9) Amounts lower than NIS 0.1 million are not presented in this note

Reported amounts, in millions of NIS

B - Summary business results of interested parties and related parties

	Interested parties				Related parties
	Shareholders				
	Controlling shareholders (4)	With a significant impact (5)	Others	Key management personnel (6)	Others (7)
For the year ended December 31, 2014					
Interest income, net **	(0.1)	-	-	(0.1)	-
Expenses with respect to credit losses	-	-	-	-	-
Non-interest income	(0.5)	-	-	-	-
Operating and other expenses ***	0.1	0.1	0.1	16.4	0.5
Total	**(0.7)**	**(0.1)**	**(0.1)**	**(16.5)**	**(0.5)**
For the year ended December 31, 2013					
Interest income, net **	(0.1)	-	-	(0.1)	-
Expenses with respect to credit losses	-	-	-	-	-
Non-interest income	0.3	-	-	-	-
Operating and other expenses ***	0.1	0.1	0.1	16.7	0.5
Total	**0.1**	**(0.1)**	**(0.1)**	**(16.8)**	**(0.5)**
For the year ended December 31, 2012					
Interest income, net **	(0.1)	-	-	-	-
Expenses with respect to credit losses	-	-	-	-	-
Non-interest income	(0.2)	-	-	-	-
Operating and other expenses**	0.1	0.1	0.1	15.0	0.5
Total	**(0.4)**	**(0.1)**	**(0.1)**	**(15.0)**	**(0.5)**

* Amounts lower than NIS 0.1 million are not presented in this note.
** Details provided in Table D, interest income, net, in transactions of the banking corporation and its consolidated companies with interested parties and related parties
*** Details provided in Table C, remuneration and other benefits to interested parties (from the banking corporation and its investee companies)

Reported amounts, in millions of NIS

C - Remuneration and any other benefit to interested parties (from the banking corporation and from the investee companies)

	Interested parties							
	Shareholders						Key management personnel (6)	
	Controlling shareholders (4)		With a significant impact(5)		Others			
	Total bonus	Number of benefit recipients	Total bonus	Number of benefit recipients	Total bonus	Number of benefit recipients	Total bonus	Number of benefit recipients
For the year ended December 31, 2014								
Interested party who is employed in the corporation or on its behalf	**-**	**-**	**-**	**-**	**-**	**-**	**14.3 ***	**12**
Director who is not employed in the corporation or on its behalf	**0.1**	**1**	**0.1**	**1**	**0.1**	**1**	**2.1**	**8**
* Of which: shared-based payment of an amount lower than 0.1. NIS								
For the year ended December 31, 2013								
Interested party who is employed in the corporation or on its behalf	-	-	-	-	-	-	14.8 *	14
Director who is not employed in the corporation or on its behalf	0.1	1	0.1	1	0.1	1	1.9	11
* Of which: shared-based payment of NIS 0.4 million								
For the year ended December 31, 2012								
Interested party who is employed in the corporation or on its behalf	-	-	-	-	-	-	13.2 *	12
Director who is not employed in the corporation or on its behalf	0.1	1	0.1	1	0.1	1	1.8	12
* Of which: shared-based payment of NIS 0.8 million								

D. Interest income, net, in transactions with the banking corporation and its consolidated companies with interested parties and related parties

	Consolidated		
	For the year ended December 31		
	2014	2013	2012
A. With respect to assets			
From credit to the public	-	-	0.2
B. With respect to liabilities			
On public deposits	0.2	0.2	0.3
Total interest income, net	(0.2)	(0.2)	(0.1)

Note 21 - Interested Parties and Related Parties (Consolidated) (1) (Cont.)

E - Employment terms of the CEO

On April 13, 2010, Mr. Uriel Paz (hereinafter: "Mr. Paz" or the "CEO") began serving as the bank's CEO. The agreement was for four years. On March 9, 2014, the bank's Board of Directors resolved to approve the extension of the CEO's tenure for an additional period of three years, which began on April 14, 2014, upon the conclusion of the provision of management services through a management company under his control, on April 13, 2014. On April 10, 2014, notice was received from the Bank of Israel, stating that the Bank of Israel did not have any objection to the extension of tenure.

On June 12, 2014, the bank's Board of Directors approved, following the approval of the Remuneration Committee, the employment terms of the bank's CEO for a period of three years, beginning on the date of the extension of his tenure on April 14, 2014 (hereinafter: the "Employment Terms"). On the above date, the general shareholders' meeting of the bank was convened on July 20, 2014, the agenda of which included, inter alia, the approval of the CEO's employment terms. In the general shareholders' meeting which was held on the above date, 94.07% voted in favor of the approval of the terms of tenure and employment among the number of shares for which votes were submitted, and 5.93% voted against, although in the absence of a required majority of shareholders who are not controlling shareholders in the bank or interested parties in the approval of the resolution (49.38% of the required majority voted in favor the approval of the CEO's employment terms, and 50.62% voted against), the CEO's employment terms were not approved.

On August 14, 2014, and in accordance with section 272(C)(3) of the Companies Law, 5759 - 1999 (hereinafter: the "Companies Law"), the bank's Board of Directors resolved (following the approval of the Remuneration Committee dated July 31, 2014 and August 3, 2014), to re-approve the CEO's employment terms, for a period of three years beginning on the date of the extension of his tenure period, on April 14, 2014 (hereinafter: the "Employment Agreement"). The employment terms of the bank's CEO, as stated above, were determined according to and correspond to the remuneration policy for corporate officers in the bank, which was approved by the general shareholders' meeting of the bank on July 20, 2014.

following the notice from the Banking Supervision Department, including its letter dated February 24, 2015, the Board of Directors held, in its meetings dated February 25, 2015, a repeat hearing in connection with its decision dated August 14, 2014, to approve the terms of tenure and employment of the bank's CEO.

In the aforementioned repeat hearing, the Board of Directors addressed, inter alia, the resolution by the general shareholders' meeting, dated July 20, 2014, in which the terms of tenure and employment of the CEO were not approved, in the absence of a majority among the minority shareholders (49.38% voted in favor, i.e., less than 0.62% of the required).

Note 21 - Interested Parties and Related Parties (Consolidated) (1) (Cont.)

In the repeat hearing, the Board of Directors resolved that, in this case, the conditions specified in the Companies Law, 5759 - 1999, regarding the approval of the aforementioned terms of tenure and employment of the CEO, were fulfilled, and based on detailed reasons, and after having evaluated, inter alia, the resolution of the general shareholders' meeting, the Board re-approved the CEO's terms of tenure and employment.

The following are the principal terms of the CEO's employment agreement:

1. The period of employment of the bank's CEO will be three (3) years, beginning on April 14, 2014. The parties will be entitled to terminate the work relationship at any time, subject to notice in writing, provided six (6) months in advance.

2. Fixed salary: the monthly salary of the bank's CEO was specified in the employment agreement as a gross total of NIS 139,000 per month (hereinafter: the "Monthly Salary"), for a full time position, linked to increases in the consumer price index which was published on March 15, 2014, with respect to February 2014. For each calendar year during the period of his employment, the bank's CEO will be entitled to a fixed annual bonus in the amount of one monthly salary. With respect to work in part of the year, the bank's CEO will be entitled to a proportional part of the above amount. The fixed annual payment will not be considered as part of the monthly salary for the purpose of social provisions, including severance pay. Additionally, the bank will perform social provisions, and the CEO will be entitled to additional benefits, as specified in the immediate report.

3. Variable annual bonus: the bank's CEO will be entitled to an annual bonus, subject to the following cumulative preconditions: (a) fulfillment of a reported rate of return which will be determined by the Board of Directors after receiving the recommendation of the Remuneration Committee, regarding each bonus year, which will amount to a rate of 8% to 8.5%, and as will be determined by the Board of Directors with respect to each year (for details regarding the definition of reported returns, see Note 15 regarding the remuneration policy for corporate officers in the bank). (b) The bank's fulfillment of the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks during the bonus year.

The following is the limit for the variable annual bonus to the CEO (NIS thousands):

Reported rate of return	2014	For each year between 2015 and 2016
8%(8.5%)-10%	390-1,170	590-1,370
10%-12%	1,170-2,080	1,370-2,280
12%-14%	2,080-3,120	2,280-3,320

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 fashion.

Note 21 - Interested Parties and Related Parties (Consolidated) (1) (Cont.)

In accordance with the levels of the reported rate of return 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 for which he is eligible. At the time of the calculation, the Board of Directors will be required, after receiving the recommendation of the Remuneration Committee, to evaluate 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, which will be based on subjects including the fulfillment of the bank's strategic plan, fulfillment of the bank's "ultimate goals", and more.

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. 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 postponed over the following three years, and will be distributed in three equal annual payments. The execution of each of the postponed 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 postponed bonus, and on the condition that the provision of that part of the postponed 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 will not be paid. In circumstances where the bank's CEO will not be entitled to receive severance pay, and in other circumstances, as will be determined, from time to time, by the Board of Directors (if any), after receiving the recommendation of the Remuneration Committee, the bank will be entitled to revoke the CEO's eligibility to receive variable remuneration (all or some), including the bonuses and all parts of variable remuneration which have not yet been paid, and including regarding the postponed parts of variable remuneration.

4. 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, as applicable, and exhaust all of the bank's obligations in connection with the payment of severance pay, as specified in

Note 21 - Interested Parties and Related Parties (Consolidated) (1) (Cont.)

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 yields thereof, 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 the above case, the bank's CEO will be entitled to receive payment 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 relationships immediately, or during the advance notice period, provided that it will pay to the bank's CEO the advance notice consideration which remains in its 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 - an adjustment bonus will be paid to the CEO, subject to the stipulation that he will not be dismissed for reasons under which, by law, severance pay may be withheld from the CEO, in whole or in part. In case of dismissal of the CEO, and redemption of the entire advance notice period - the adjustment bonus will amount to six (6) months' salary. If the CEO is required to work during the entire advance notice period, the amount of the adjustment bonus will be equal to twelve (12) months' salary. If the CEO is required to work during part of the advance notice period, the amount of the adjustment bonus will be equal to twelve (12) months' salary. Beginning from the actual termination of employment, i.e., there will be an overlap between the advance notice period, in which he is not required to work, and the adjustment months. In case the CEO will resign - if the bank redeems the entire advance notice period - the adjustment bonus will amount to three (3) months' salary. If the CEO is required to work during the entire advance notice period - the adjustment bonus will amount to six (6) months' salary. If the CEO will be required to work during part of the advance notice period - the adjustment bonus will amount to six (6) months' salary, beginning from the date of actual termination of employment, i.e., there will be an overlap between the advance notice period, in which he is not required to work, and the adjustment months, and it will amount to no less than nine (9) months' salary. Notwithstanding the above, in case notice has been given regarding the termination of the CEO's employment, after two full years of employment have passed since April 14, 2014 (the "Effective Date"), the duration of the advance notice period and the amount of the adjustment bonus will not result, in any case, in payment of salary and/or fringe benefits beyond a period of six (6) months three years after the effective date. In case eligibility has been created, as stated above, it will be conditional upon the stipulation that the CEO has not begun working in a new work place (whether as a salaried employee, or as self employed / as a service provider), where his monthly salary will be at least 75% of his last monthly salary in the bank, in which case the adjustment period will be reduced, in a manner whereby the CEO will be entitled to receive an adjustment bonus only with respect to the period in which he did not work. The adjustment bonus constitutes consideration for the 6 month non-competition undertaking.

Note 21 - Interested Parties and Related Parties (Consolidated) (1) (Cont.)

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.

5. Options plan

On February 27, 2011, after approval was received from the bank's Audit Committee for the subject on February 21, 2011, the bank's Board of Directors resolved to adopt an options plan involving the allocation of option units to Uriel Paz Consulting Ltd., a company under the full ownership and control of the CEO (hereinafter: the "Management Company"), through which the CEO provided services to the bank until April 13, 2014 (hereinafter: the "Options Plan"). In accordance with the options plan, up to 2,115,530 A type option units, and up to 1,410,355 B type option units, were allocated in the name of the management company. For additional details regarding the options plan, see the bank's immediate report dated March 07, 2011, and note 22A to the financial statements. It is hereby clarified that the terms of employment under the new employment agreement do not reduce the rights of the bank's CEO in connection with options which were granted to him in the past, and which were formulated prior to the renewal of his terms of tenure and employment.

Note 21 - Interested Parties and Related Parties (Consolidated) (1) (Cont.)

F - Employment Terms of the Chairman of the Board

On October 3, 2011, the general shareholders' meeting approved the appointment of Mr. Zeev Gutman (hereinafter: "Mr. Gutman" or the "Chairman") as a director in the bank, as well as the terms of his employment as the bank's designated Chairman of the Board, following the receipt of approval with respect to the terms of the engagement, the approval of the Audit Committee in its meeting dated June 20, 2011, and subsequently the approval of the Board of Directors, in its meeting dated July 17, 2011.

On October 27, 2011, the bank's Board of Directors resolved to appoint Mr. Gutman as the bank's Chairman of the Board. An immediate report in connection with the terms of the engagement with the Chairman of the Board was provided as part of the immediate report regarding the convention of a general shareholders' meeting on September 4, 2011, and an amendment thereto on September 26, 2011.

The current terms of the engagement with Chairman of the Board, as specified below, were approve, as specified above, by the bank's competent organs, before the entry into effect of Amendment 20 to the Companies Law, 5759 - 1999, and therefore, will continue to apply to the Chairman of the Board until the end of the engagement with him, and subject to the provisions transitional provisions of Proper Banking Management Directive 301A, according to which a specific remuneration agreement, which was approved before June 3, 2013, will be required for adjustment in accordance with the aforementioned directive, by December 31, 2016.

The following are the principal terms of the engagement:

1. The services will be provided to the bank by the Chairman, in the framework of an engagement between an orderer and an independent contractor, by means of a company under the control of the Chairman. based on this framework, the consideration with respect to these services to the bank was established. No employer - employee relationship will exist between the Chairman and the bank. In the event that directives are issued on this matter, by the Bank of Israel and/or by any other competent authority, which prohibit the provision of services through a management company, the terms of this engagement will be terminated, and concurrently, the Chairman will be employed as an employee of the bank, for all intents and purposes. In the above case, the employment terms will be adjusted in a manner whereby the economic situation of the Chairman will not be changed, either for better or for worse, following the above change. Insofar as an agreement on the matter will not be reached, the employment terms as an employee of the bank will be determined by a C.P.A. whose identity will be agreed upon by the parties.

   The consideration with respect to the services will be as follows: a fixed monthly amount of NIS 108,340 (one hundred and eight thousand, three hundred and forty New Israeli Shekels), with the addition of duly calculated value added tax (hereinafter: the "Monthly Consideration"), linked to increases of the consumer price index which was published on October 14, 2011 with respect to September 2011.

Note 21 - Interested Parties and Related Parties (Consolidated) (1) (Cont.)

In the event that, with respect to a certain fiscal year, the annual net profit of the bank, in accordance with its audited reports, exceeds NIS 61 million, the monthly consideration will be raised by 10%. It is hereby clarified that in the event that, following the update, as stated above, in a certain tax year, the bank's annual net profit falls below NIS 61 million, the monthly consideration will be reduced by 10%. The increase of the monthly consideration, or the decrease of the monthly consideration, will be implemented after the publication of the bank's audited annual financial statements, and will apply from that date onwards, without retroactive application. In any case, the monthly consideration will not fall below the monthly consideration specified in the above section, and will not exceed 10% of the updated monthly consideration (for the purpose of clarification - in the event that, for two consecutive years, the bank's annual net profit in accordance with its annual audited reports, exceeds NIS 61 million - the monthly consideration will be increased by 10% only once). This update mechanism applies beginning from the publication of the bank's audit reports for 2012.

2. Vacation of up to 30 days for each full calendar year, as well as absence due to illness, at a scope of up to 30 days per calendar year, will not result in the reduction of the monthly consideration.

3. The bank will bear 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.

4. The Chairman of the Board will be entitled to receive an annual bonus, in accordance with the following levels: the Chairman will be entitled to be included in the remuneration plan for members of management, which specifies indicators and preconditions for the receipt of an annual bonus, which was approved by the bank's Board of Directors on November 25, 2010 (hereinafter: the "Plan"), in accordance with the terms of the engagement, and will be subject to the provisions of the plan, subject to the designated indicators and levels which were determined for the Chairman, as specified below:

"Reported returns" (as defined in Note 15)	Bonus amount plus VAT (in thousands of NIS)
Up to 9% (not inclusive)	-
9% to 10%	100
10% to 11% (inclusive)	120
11% to 12% (inclusive)	140
12% to 13% (inclusive)	170

Subject to the fulfillment of the preconditions for the payment of the bonuses, as specified in the plan, conditions which have been fulfilled in this year, the Chairman will be entitled to receive payment of an annual bonus which will be contingent upon minimum reported returns of 9%. It is hereby clarified that the calculation of the annual bonus will be implemented in a linear and pro-rata fashion, between the levels specified above, with the determined limits, where the annual bonus will

Note 21 - Interested Parties and Related Parties (Consolidated) (1) (Cont.)

be between the total of NIS 0 and NIS 100,000 + VAT (for reported returns of 9% to 10%), up to a total amount of NIS 530,000 + VAT for one calendar year (for reported returns of 13%).

The bonus will be paid on the dates and according to the conditions specified in the plan. The bonus will be paid in stages, over a period of three years from the date of eligibility (60% with respect to the eligibility year and 20% in the one and two years after the eligibility date), where payment of any part of the annual bonus will be contingent upon the continued fulfillment of the targets in the year determined for its payment.

5. The Chairman will also be entitled to a special bonus - in addition to the annual bonus specified in section 5 above, and without derogating therefrom, in the event that, in accordance with the bank's annual audited reports, the bank has (net) annual returns on equity as specified in the terms of the engagement which apply to the Chairman - in accordance with and subject to the approvals required by law, the Chairman will receive payment of a special bonus, in consideration of his special contribution to the bank's profitability, to which the Chairman will be entitled in accordance with the engagement terms which apply to him. The scope of the special bonus will be subject to the exclusive discretion of the bank's Board of Directors, and to the approval of the general shareholders' meeting. In light of the provisions of the remuneration policy for corporate officers, the special remuneration will be up to the amount of the monthly consideration with respect to services for one month only, in consideration of the provisions of section 6.3.3 of the remuneration policy, regarding the special annual bonus for the Chairman, and will be paid on the payment date of the annual bonus.

6. Each party will be entitled to terminate the engagement at any time by providing written notice three months in advance. Upon the conclusion of the agreement period, the Chairman will be subject to various restrictions, for the periods and under the conditions specified in the engagement terms.

Note 21A - Share-Based Payment Transactions

1 CEO

A. The CEO will be entitled to receive two types of options - type A unit and type B units. The amount of type A option units will change in accordance with the returns of the bank's stock, as specified below: Beginning from 70,518 units per tranche, in case the returns of the bank's stock from the employment commencement date until the realization date of the option unit will reflect annual returns at a rate of up to and including 6.5% over the basic share price of NIS 8.6 per share, to 423,106 units per tranche, in case the returns of the bank's stock, from the employment commencement date until the realization date of the option unit, reflects annual returns at a rate exceeding 9% over the basic share price of NIS 8.6 per share. The number of B type option units will be 282,071 units per tranche.

B. The options will vest and will be exercisable in 5 annual tranches, the first of which will vest on the commencement date of the CEO's employment in the bank, and the fifth will vest 4 years after the commencement date of the CEO'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.

C. The exercise addition for each A type 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 B type 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.

D. Each option unit will confer upon the CEO the right to receive, after it has been exercised, a consideration which reflects the difference between the average price of the bank's stock in the 30 business days which preceded the exercise date, and the exercise addition.

E. In case of termination of the employer - employee relationship between the bank and the CEO, the options which have vested will be exercisable within 180 days after the termination date of the employer - employee relationship, after which they will expire.

F. The bank's financial statements as of December 31, 2014 include the recording of receipts with respect to options to the bank's CEO, in the amount lower than NIS 0.1 million (2013 - NIS 0.4 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 company 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 CEO would be settled with capital instruments. therefore, the company classified, at that time, the liabilities with respect to the options to the CEO, under capital, in accordance with its fair value as of that date. 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.

2 Executive managers

A. The bank's executive managers, 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 A type units, and B type 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 will 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 reflects annual returns at a rate of over 9% above the basic share price of NIS 8.84 per share. The number of B type 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 A type 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 B type phantom unit will be within the range from NIS 11.14 for the first tranche to NIS 12.9 for the fourth tranche, and will bear 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 are provided without consideration.

E. The units are non-transferable, save in case of death or in case of legal incapacity.

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 shares 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 managers, 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, 2014 include the recording of income with respect to options to managers in the amount of approximately NIS 50 thousand (2013 - income in the amount of NIS 29 thousand). The estimated economic value of the options, which was calculated by an external valuer, according to the binomial model, is estimated at approximately NIS 0.1 million as of December 31, 2014.

The calculation of the estimated economic value 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 22 - Interest Income and Expenses

Reported amounts, in millions of NIS

	Consolidated			The bank		
	For the year ended December 31					
	2014	2013	2012	2014	2013	2012
Interest income						
From credit to the public	**433.4**	509.4	510.1	**433.4**	509.4	510.1
From deposits in the Bank of Israel and from cash	**10.3**	16.8	8.2	**10.3**	16.8	8.2
Deposits in banks	**0.2**	0.6	0.7	**0.2**	0.6	0.7
From debentures	**13.9**	16.4	36.0	**15.1**	19.6	42.5
From other assets	**0.6**	-	0.7	**0.4**	-	0.5
Total interest income	**458.4**	543.2	555.7	**459.4**	546.4	562.0
Interest expenses						
On public deposits	**104.3**	204.4	241.0	**127.4**	266.7	309.8
On deposits from banks	**2.2**	3.4	3.8	**2.2**	3.4	3.8
On borrowed securities	**1.1**			**1.1**		
On liability certificates and deferred liability notes	**33.8**	78.2	80.0	**15.0**	23.0	24.2
On other liabilities	**-**	-	-	**-**	-	-
Total interest expenses	**141.4**	286.0	324.8	**145.7**	293.1	337.8
Total interest income, net	**317.0**	**257.2**	**230.9**	**313.7**	**253.3**	**224.2**
Details of the net impact of hedging derivative instruments on interest income and expenses						
Interest expenses	**-**	-	(1.2)	**-**	-	(1.2)
Details of interest income on an accrual basis from debentures						
Held to maturity	**6.7**	-	-	**6.7**	-	-
Available for sale	**5.4**	11.6	29.9	**6.6**	14.8	36.6
Marketable	**1.8**	4.8	6.1	**1.8**	4.8	5.9
Total included under interest income	**13.9**	16.4	36.0	**15.1**	19.6	42.5

Note 23 - Non-Interest Financing Income

Reported amounts, in millions of NIS

	Consolidated			The bank		
	For the year ended December 31					
	2014	2013	2012	2014	2013	2012
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 with respect to derivative instruments ALM	**36.1**	(2.7)	15.6	**36.1**	(2.7)	15.6
2. Net rate differentials (without the impact of derivatives)	**(36.2)**	1.2	(15.3)	**(36.2)**	1.2	(15.3)
3. From investment in debentures						
Profit from the sale of available for sale debentures (2)	**10.5**	9.5	20.5	**9.1**	9.0	19.7
Loss from the sale of available for sale debentures (2)	**(0.2)**	(1.3)	(8.7)	**(0.2)**	(1.3)	(8.4)
Total from investment in debentures	**10.3**	**8.2**	**11.8**	**8.9**	**7.7**	**11.3**
4. Loss from investment in shares						
Provision for impairment with respect to available for sale shares(2)	**-**	(0.3)	(1.5)	**-**	(0.3)	(1.5)
Total from investment in shares	**-**	(0.3)	(1.5)	**-**	(0.3)	(1.5)
5. Other financing income	**-**	-	1.0	**-**	-	1.0
Total with respect to activities which are not for trading purposes	**10.2**	6.4	11.6	**8.8**	5.9	11.1
B. Non-interest financing income with respect to activities for trading purposes						
Income (expenses), net, with respect to other derivative instruments	**(7.9)**	1.1	(3.8)	**(7.9)**	1.1	(3.8)
Realized and unrealized profits from adjustments to the fair value of marketable debentures, net (3)	**15.5**	6.7	14.8	**16.9**	6.7	14.8
Realized and unrealized profits from adjustments to the fair value of marketable stocks, net	**0.3**	-	-	**0.3**	-	-
Total from activities for trading purposes	**7.9**	7.8	11.0	**9.3**	7.8	11.0
Non-interest financing income	**18.1**	14.2	22.6	**18.1**	13.7	22.1

(1) Derivatives which constitute a part of the bank's assets and liabilities management unit, which were not designated to hedge relationships.
Of which, with respect to foreign currency differences of ALM derivatives as of December 31, 2014, December 31, 2013 and December 31, 2012, in the bank and consolidated, in the amount of NIS 36.1 million, NIS (2.2) million and NIS 15.6 million, respectively.
(2) Reclassified under cumulative other comprehensive income
(3) Of which, the part of the profit and loss associated with marketable debentures which are still held as of the balance sheet date, in the bank and consolidated, as of December 31, 2014, December 31, 2013 and December 31, 2012, in the amount of NIS (2.2) million, NIS 1.1 million and NIS 8.8 million, respectively.

Note 24 - Fees

Reported amounts, in millions of NIS

	Consolidated			The bank		
	For the year ended December 31					
	2014	2013	2012	2014	2013	2012
Activities with securities	**39.8**	9.8	7.8	**39.8**	8.0	6.6
Project accompaniment fees	**18.6**	17.9	13.4	**18.6**	17.9	13.4
Net income from credit portfolio services	**13.6**	15.5	17.0	**13.6**	15.5	17.0
Handling of credit	**11.7**	18.2	20.5	**11.7**	18.2	20.5
Conversion differences	**10.5**	9.6	9.4	**10.5**	9.6	9.4
Fees from life insurance	**9.0**	9.8	10.5	**4.8**	5.6	6.4
Fees for financing activities	**6.3**	3.4	3.9	**6.3**	3.4	3.9
Fees from property insurance	**2.5**	3.1	3.5	**-**	-	-
Financial product distribution fees	**3.7**	2.0	1.5	**3.7**	2.0	1.5
Credit cards	**1.2**	0.8	0.7	**1.2**	0.8	0.7
Account management	**0.2**	0.3	0.3	**0.2**	0.3	0.3
Foreign trade activities	**-**	0.1	0.1	**-**	0.1	0.1
Other fees	**1.2**	0.9	1.6	**1.2**	0.9	1.5
Total fees	**118.3**	91.4	90.2	**111.6**	82.3	81.3

Note 25 - Other Income

	Consolidated			The bank		
	For the year ended December 31					
	2014	2013	2012	2014	2013	2012
Profit from amortization of deferred income with respect to the acquisition of Clal Batucha at an opportune price [(1)]	**11.5**	-	-	**11.5**	-	-
Others	**-**	0.9	0.6	**-**	-	0.1
Total other income	**11.5**	0.9	0.6	**11.5**	-	0.1

(1) For details, see Note 32.1.

Note 26 - Payroll and Associated Expenses

Reported amounts, in millions of NIS

	Consolidated			The bank		
	For the year ended December 31					
	2014	2013	2012	2014	2013	2012
Salaries	**122.3**	103.1	95.1	**108.9**	91.6	83.6
National Insurance and payroll tax	**25.3**	23.4	21.5	**24.3**	22.5	20.7
Severance pay, remuneration, study fund and vacation	**17.2**	18.3	19.7	**14.5**	16.1	17.5
Expenses due to share-based payment transactions*	**-**	0.4	0.8	**-**	0.4	0.8
Other associated expenses	**2.9**	0.9	0.7	**0.4**	0.4	0.6
Total salary and associated expenses	**167.7**	146.1	137.8	**148.1**	131.0	123.2

* Of which: an amount lower than NIS 0.1 million in 2014 (2013 - NIS 0.4 million, 2012 - NIS 0.7 million) Expenses due to transactions which are accounted for as shared-based payment transactions which are settled through capital instruments.

Note 27 - Other Expenses

	Consolidated			The bank		
	For the year ended December 31					
	2014	2013	2012	2014	2013	2012
IT	**42.3**	27.6	21.8	**94.0**	66.4	52.8
Professional services	**11.6**	9.7	10.1	**11.0**	8.6	9.4
Marketing and advertising	**15.2**	14.0	12.2	**15.2**	14.0	12.2
Vehicle maintenance	**4.8**	4.4	4.6	**4.2**	4.3	4.0
Call center	**7.8**	8.2	3.4	**7.8**	8.2	3.4
Training and continuing education	**3.6**	2.7	3.2	**3.5**	2.6	3.2
Communications (mail, telephone, deliveries, etc.)	**3.3**	3.0	3.0	**3.2**	3.0	2.8
Fees	**7.4**	2.2	2.2	**7.3**	1.8	2.0
Salary of directors who are not employed in the bank	**2.1**	1.9	1.9	**2.1**	1.8	1.8
Office expenses	**2.6**	2.8	1.8	**2.7**	2.9	1.7
Insurance	**1.3**	1.4	1.4	**1.3**	1.3	1.4
Amortization of intangible assets	**0.4**	-	-	**0.4**	-	-
Payment of fines to the Bank of Israel	**0.8**	-	-	**0.8**	-	-
Others	**6.8**	4.2	4.2	**6.6**	4.2	4.1
Total other expenses	**110.0**	82.1	69.8	**160.1**	119.1	98.8

Note 28 - Provision for Taxes on Income

Reported amounts, in millions of NIS

A - Composition of the provision for taxes on income

	Consolidated			The bank		
	For the year ended December 31					
	2014	2013	2012	2014	2013	2012
Current taxes -						
With respect to the accounting year	**35.1**	18.7	35.8	**33.1**	15.6	32.5
With respect to previous years	**-**	(1.1)	(0.1)	**-**	(1.1)	-
Total current taxes	**35.1**	17.6	35.7	**33.1**	14.5	32.5
Deferred taxes - (deduction) / addition						
With respect to the accounting year	**(5.3)**	(12.2)	(11.7)	**(4.7)**	(11.6)	(11.2)
With respect to previous years	**-**	-	(6.3)	**-**	-	(6.3)
Total deferred taxes	(5.3)	(12.2)	(18.0)	(4.7)	(11.6)	(17.5)
Provision for taxes on income	**29.8**	5.4	17.7	**28.4**	2.9	15.0

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					
	2014	2013	2012	2014	2013	2012
Profit before tax	**96.1**	22.7	53.8	**88.3**	8.7	36.1
Statutory tax rate which applies to the bank in Israel	**37.71%**	36.22%	35.53%	**37.71%**	36.22%	35.53%
Tax amount based on the statutory tax rate	**36.2**	8.2	19.1	**33.3**	3.2	12.8
Tax (tax savings) with respect to:						
General and additional provisions for credit losses	**-**	-	-		-	-
Other unrecognized expenses	**1.3**	1.1	0.9	**1.3**	1.1	0.9
Tax exempt and tax restricted income	**(4.6)**	(0.7)	(1.1)	**(4.3)**	-	-
Taxes with respect to previous years	**-**	1.1	(0.1)	**-**	1.1	-
Change in the balance of deferred taxes due to change in the tax rate	**-**	(2.1)	(0.5)	**-**	(2.1)	(0.5)
Depreciation adjustment differences	**(1.2)**	-	-	**(1.2)**	-	-
Income of subsidiaries in Israel	**(0.8)**	(1.4)	(1.8)	**-**	-	-
Other differences	**(1.1)**	(0.8)	1.2	**(0.7)**	(0.4)	1.8
Provision for taxes on income	**29.8**	5.4	17.7	**28.4**	2.9	15.0

Note 28 - Provision for Taxes on Income (Cont.)

Reported amounts, in millions of NIS

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 for the years up to and including 2010 are considered final.

Current taxes and deferred taxes were calculated in accordance with the new tax rates.

Balances of deferred taxes receivable and provision for deferred taxes (1)

Note 28 - Provision for Taxes on Income (Cont.)

Reported amounts, in millions of NIS

D - Balances of deferred taxes receivable and provision for deferred taxes

	Consolidated				The bank			
	For the year ended December 31							
	2014	2013	2014	2013	2014	2013	2014	2013
			Average tax rate				Average tax rate	
Deferred taxes receivable:								
Tax assets with respect to losses	**51.1**	57.5 [(2)]	26.5%	26.5%	**51.1**	57.5 [(2)]	26.5%	26.5%
With respect to timing differences:								
Provision for vacation, jubilee bonus and severance pay	**2.0**	2.8	36.6%	36.9%	**1.8**	2.6	37.7%	37.7%
Securities	**10.0**	-	37.7%	-	**10.1**	2.3	37.7%	37.7%
Deferred liability notes	**0.1**	0.9	37.7%	37.7%	**-**	-		-
From provision for credit losses	**38.6**	40.2	37.7%	37.7%	**38.6**	40.2	37.7%	37.7%
From interest which was not charged to income this year	**0.3**	0.6	37.7%	37.7%	**0.3**	0.6	37.7%	37.7%
With respect to the adjustment of non-monetary assets and others	**1.0**	1.8	31.8%	37.6%	**2.5**	1.9	30.8%	37.7%
Total deferred taxes receivable	**103.1**	103.8	32.0%	32.0%	**104.4**	105.1	32.1%	37.7%

(1) Realization of net deferred taxes receivable, based on a forecast according to which taxable income will arise in the future, in appropriate amounts.

(2) Restated. For details, see note 32.1 regarding significant events in the reporting period.

E - Tax rates which apply to the bank and the subsidiaries

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.

A. In June 2013, the Value Added Tax Ordinance (Tax Rate Applicable to NPO's and Financial Institutions) (Amendment), 5773 - 2013 was published, which determined that the payroll tax rate which applies to financial institutions will amount to 18% of the salary which was paid for work performed in the month of June and thereafter, and capital gains tax will amount to 18% of the generated gains. The provision regarding capital gains tax in the 2013 tax year will apply regarding the proportional part of the profit for that year.

B. On July 30, 2013, the economic plan for 2013-2014 was passed in the Knesset, in the second and third readings (Budget Law), which includes, inter alia, fiscal changes which are primarily intended to increase the collection of taxes for those years. The aforementioned changes include, inter alia, increasing the corporate tax rate from 25% to 26.5%, beginning on January 1, 2014.

Note 28 - Provision for Taxes on Income (Cont.)

Reported amounts, in millions of NIS

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
		%	
2012	25.00	16.33*	35.53
2013	25.00	17.53*	36.22**
2014 and thereafter	26.50	18.00	37.71

* Weighted rate
** As compared with a tax rate of 35.90%, prior to the publication of the amendment.

D. The balances of deferred taxes which were included in the financial statements as of December 31, 2014 were calculated according to the new tax rates, the enactment of which was effectively completed as of the balance sheet date, and therefore, they include the aforementioned changes.

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 instructions 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 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 as households.

Private banking segment

The customers of this segment are customers of medium to high 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

Includes investment in mutual funds and capital gains from the sale of fixed assets, if any. The segment also includes a provision for the impairment of fixed assets, if any.

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 cash price (the economic transfer price which corresponds to the linkage segment and the credit's average lifetime).

This profit includes inter-segmental financing costs - charging the segment that provided the loan, and crediting the segment that raised the loan, for the transfer prices (accordingly, income in the segment that raised the deposits is increased, while on the other hand, income in segments where credit was used is decreased).

Non-interest income

Non-interest income was directly carried to the segment where the customer activity is classified.

Expenses with respect to credit losses

The provision was carried to the operating segment under which the customer activity for which the provision was performed in 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.

Operating and other expenses

Identifiable direct expenses were specifically carried 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 (Consolidated) (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	73.2	9.9	46.7	18.1	-	147.9
Total income	**307.0**	**29.9**	**83.3**	**44.7**	**-**	**464.9**
Expenses with respect to credit losses	(29.1)	0.3	10.3	0.1	-	(18.4)
Operating and other expenses, excluding depreciation and amortizations	(239.6)	(25.2)	(41.5)	(6.0)	-	(312.3)
Depreciation and amortizations	(29.0)	(3.5)	(5.3)	(0.3)	-	(38.1)
Profit before taxes	**9.3**	**1.5**	**46.8**	**38.5**	**-**	**96.1**
Provision for taxes on income	(3.0)	(0.5)	(14.3)	(12.0)	-	(29.8)
Net profit	**6.3**	**1.0**	**32.5**	**26.5**	**-**	**66.3**
Return on equity (percentage of net profit from average equity)	**1.4%**	**1.6%**	**22.0%**	**58.8%**	**-**	**9.2%**
Average balance of assets	7,417.4	1,153.8	1,288.2	3,502.6	-	13,362.0
Average balance of liabilities	7,387.4	1,043.7	3,272.2	937.2	-	12,640.5
Average balance of risk assets	4,914.1	663.0	1,544.2	477.6	-	7,598.9
Average balance of securities	7,969.7	294.2	6,431.3	-	-	14,695.2
Average balance of other managed assets	1,525.3	-	-	-	-	1,525.3
Margin from credit provision activity	193.0	17.1	29.7	20.6	-	260.4
Margin from deposits receipt activity	18.3	2.9	4.2	-	-	25.4
Other	22.5	-	2.7	6.0	-	31.2
Total interest income, net	**233.8**	**20.0**	**36.6**	**26.6**	**-**	**317.0**

Note 29 - Operating Segments (Consolidated) (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 amortizations	(198.7)	(27.7)	(26.6)	(6.4)	-	(259.4)
Depreciation and amortizations	(20.6)	(3.2)	(2.9)	(0.3)	-	(27.0)
Profit before taxes	**(26.6)**	**(1.4)**	**34.4**	**16.2**	**-**	**22.6**
Provision for taxes on income	12.6	0.6	(12.7)	(5.9)	-	(5.4)
Net profit (loss)	**(14.0)**	**(0.8)**	**21.7**	**10.3**	**-**	**17.2**
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**

Note 29 - Operating Segments (Consolidated) (Cont.)

Reported amounts, in millions of NIS

	For the year ended December 31, 2012*					
	Households	Private banking	Business	Financial management	Unallocated amounts and adjustments	Total
Interest income, net:						
From externals	185.8	21.2	36.9	(13.0)	-	230.9
Inter-segmental	(12.4)	(2.1)	(4.3)	18.8	-	-
Non-interest income - externals	56.6	11.6	22.6	22.6	-	113.4
Total income	**230.0**	**30.7**	**55.2**	**28.4**	**-**	**344.3**
Expenses with respect to credit losses	(33.4)	(0.6)	(2.0)	-	-	(36.0)
Operating and other expenses from externals, excluding depreciation and amortizations	(178.1)	(24.1)	(28.8)	(5.6)	-	(236.6)
Depreciation and amortizations	(13.5)	(2.1)	(2.1)	(0.2)	-	(17.9)
Profit before taxes	**5.0**	**3.9**	**22.3**	**22.6**	**-**	**53.8**
Provision for taxes on income	(1.5)	(1.3)	(7.3)	(7.6)	-	(17.7)
Net profit (loss)	**3.5**	**2.6**	**15.0**	**15.0**	**-**	**36.1**
Return on equity (percentage of net profit from average equity)	**0.7%**	**4.1%**	**9.9%**	**31.8%**	**-**	**5.4%**
Average balance of assets	7,028.7	1,192.6	1,311.9	2,132.6	-	11,665.8
Average balance of liabilities	6,292.4	1,119.7	3,405.1	176.5	-	10,993.7
Average balance of risk assets	4,380.2	653.1	1,527.4	509.2	-	7,069.9
Average balance of securities	1,476.0	263.7	247.8	-	-	1,987.5
Average balance of other managed assets	2,310.0	-	72.7	-	-	2,382.7
Margin from credit provision activity	136.6	13.1	28.2	(13.6)	-	164.3
Margin from deposits receipt activity	17.0	6.0	5.3	-	-	28.3
Other	19.8	-	(0.9)	19.4		38.3
Total interest income, net	**173.4**	**19.1**	**32.6**	**5.8**	**-**	**230.9**

* Reclassified.

Not 30 - Cumulative Other Comprehensive Income (Loss)

Reported amounts, in millions of NIS

Changes in cumulative other comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012, after tax impact

	Adjustments with respect to the presentation of available for sale securities at fair value	Total
Balance as of January 1, 2012	**(11.6)**	**(11.6)**
Net change during the period	12.7	12.7
Balance as of January 1, 2013	**1.1**	**1.1**
Net change during the period	(0.8)	(0.8)
Balance as of January 1, 2013	**0.3**	**(0.3)**
Net change during the period	(0.6)	(0.6)
Balance as of December 31, 2014	**(0.3)**	**(0.3)**

	For the year ended								
	December 31, 2014			December 31, 2013			December 31, 2012		
	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	9.3	(3.2)	6.1	6.7	(2.4)	4.3	29.6	(10.1)	19.5
Net profit (loss) which was reclassified to the statement of income (1)	(10.3)	3.6	(6.7)	(7.9)	2.8	(5.1)	(10.3)	3.5	(6.8)
Total net change during the year	**(1.0)**	**0.4**	**(0.6)**	**(1.2)**	**0.4**	**(0.8)**	**19.3**	**(6.6)**	**12.7**

(1) The pre-tax amount is reported in the statement of income under the item for non-interest financing income. For additional details, see the note regarding non-interest financing income.

Note 31 - Data Based on the Bank's Nominal Figures

Reported amounts, in millions of NIS

	December 31	
	2014	2013
Total assets	**14,315.6**	13,712.6 *
Total liabilities	**13,571.5**	13,014.3 *
Equity	**744.1**	696.1

	For the year ended December 31	
	2014	2013
Net profit	**66.4**	17.4

* Restated - for details, see Note 32.1, significant events during the reporting period.

Note 32 - Events During the Reporting Year

1. On December 15, 2013, the bank acquired from Clal Finance Ltd. its entire stake in Clal Finance Batucha Management and Investments Ltd. ("Clal Batucha"), and on December 22, 2013, Clal Batucha and Clal Finance Batucha Brokerage Ltd. were merged into the bank. For details, see Note 33 to the financial statements as of December 31, 2013.

   In accordance with the provisions of Note 7E to the financial statements as of December 31, 2013, the bank recognized the fair value of assets which were acquired and of liabilities which were accepted within the framework of the business combination, in light of the fact that the bank did not receive advance approval from the Tax Authority regarding the tax implications of the merger by the approval date of the financial statements for 2013.

   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 (the "Merger"), subject to the fulfillment of the conditions specified in section 103C of the Ordinance (which provide, inter alia, that the bank will continue the main economic activity of each of the acquired companies, Batucha and Brokerage, for two years, and that the controlling shareholders in the bank will hold their shares for a period of at least two years after the merger date, which entered into effect on December 31, 2013).

   The aforementioned decision is conditional upon the fulfillment of the conditions specified in the directive and in the taxation decision. It is noted that a determination was reached, within the framework of the taxation decision, according to which, notwithstanding the provisions of the directive, business losses which have accrued in the acquired companies, Batucha and Brokerage, by the end of 2013, may be deducted beginning from 2014, equally over 9 years, so long as this amount does not exceed 50% of the taxable income of Bank of Jerusalem in the same tax year. Additionally, it was determined that capital losses which were accumulated in Batucha until the end of 2013 may not be set off.

   In accordance with IFRS 3 (R), the balance sheet data as of December 31, 2013, which constitute comparative figures in the financial statements, were restated in order to reflect the adjustment of accounting treatment with respect to the presentation of the deferred tax asset with respect to the aforementioned transfered losses. Due to the above, a deferred tax asset was recorded in the amount of NIS 57.5 million.

   As a result of the adjustment of the value of the assets which were acquired by the bank, profit was created from the acquisition at an opportune price of NIS 57.1 million. In accordance with a directive issued by the Banking Supervision Department, this profit was recorded as deferred income in the bank's balance sheet, 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, and is included in the statement of income, under the item for other income. There was no significant influence on the bank's results for the year ended December 31, 2013 due to this restatement.

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 were created as a result of this acquisition, at the end of each reporting period.

2. Further to the announcement which was received by the bank on June 4, 2013, concerning the submission of a request to the committee regarding the imposition of financial sanctions on banking corporations, to impose on the bank financial sanctions pursuant to The Prohibition on Money Laundering Law, 5760 - 2000, with respect to apparent breaches of the aforementioned law, on March 25, 2014, the bank accepted the decision of the committee regarding the imposition of financial sanctions on banking corporations, in accordance with section 14 of the Prohibition on Money Laundering Law, 5760 - 2000 with respect to a breach of provisions of the Prohibition on Money Laundering Law, 5760 - 2000, the Prohibition on Money Laundering Order (Duties of Identification, Reporting and Record Keeping of Banking Corporations to Prevent Money Laundering and Terrorist Financing), 5761 - 2001, and the Prohibition on Money Laundering Regulations (Methods and Dates for Submission of Reports by Banking Corporations and Entities Specified in the Law's Third Addendum to the Database), 5762 - 2002, further to the audit report dated February 2013, which was prepared by the Banking Supervision Department with respect to the period between 2007 and 2010.

   In accordance with the decision, financial sanctions were imposed on the bank in the total amount of NIS 800 thousand, while noting the fact that this amount was determined in consideration of the fact that during the audit process, the bank cooperated regarding the disclosure of the breaches and their results, and implemented effective actions to correct the breaches and to prevent their recurrence, shortly after receiving the draft audit report.

3. On March 9, 2014, the bank's Board of Directors resolved to approve the continued tenure of the bank's CEO, Uriel Paz. On April 10, 2014, the bank received a notice from the Bank of Israel, stating that the Bank of Israel did not object to the extension of tenure. On June 12, 2014, the bank's Board of Directors approved, following the recommendation of the Remuneration Committee, the terms of tenure and employment of the bank's CEO for a period of three years, beginning on the date of extension of his period of tenure on April 14, 2014 (hereinafter: the "Terms of Tenure and Employment") on the above date, and a general meeting of the bank's shareholders was convened for July 20, 2014, whose agenda included, inter alia, the approval of the CEO's terms of tenure and employment. In the general shareholders' meeting which was held on the aforementioned date,

94.07% voted in favor of the approval of the terms of tenure and employment among the number of shares which for which votes were submitted, and 5.93% objected, although in the absence of the required majority among shareholders who are not the controlling shareholders in the bank or interested parties in the approval of the decision (49.38% voted in favor of the approval of the CEO's employment terms, and 50.62% voted against), the CEO's terms of tenure and employment were not approved.

In light of the aforementioned decision by the general shareholders' meeting, the bank's Board of Directors resolved, on August 14, 2014 (following the approval of the Remuneration Committee from July 31, 2014, on August 3, 2014) to re-approve the terms of tenure and employment of the bank's CEO, Mr. Uriel Paz, for a period of three years beginning on the date of the extension of his tenure on April 14, 2014, in accordance with section 272(C)(3) of the Companies Law, 5759 - 1999.

4. On July 8, 2014, following Operation Protective Edge, a "Special Home Front Situation" was declared in accordance with section 9C of the Civil Defense Law, 5711- 1951. Accordingly, on July 9, 2014, the Commissioner of Banks issued instructions to the banking corporations, stating that the banking corporations are required to provide easements to their customers regarding exceptions from credit facilities, banking communication services, management of business operations outside of the banking corporation's offices, provision of telephone orders and charges by authorization, in accordance with the easements specified in Proper Bank Management Directive 355.

   Additionally, the banking corporations were required to reinforce their call centers, as necessary, and not to restrict account owners residing in townships in which a special home front situation was declared, due to checks which were rejected beginning from the date of the letter, until further notice, and to increase the banking corporation's preparation for and awareness of cyber attacks.

   On July 27, 2014, the Commissioner of Banks issued additional instructions for the provision of easements to customers, as follows:

   - A banking corporation may not restrict an account or an account owner, of an individual or a corporation, whose official residence in the records of the banking corporation is located in townships in which a special home front situation was declared, due to rejected checks, beginning from the date of the letter, until further notice.

   - Action must be taken in accordance with the Checks Without Coverage Regulations (Exceptions to the Application of the Law), 5774-2014, according to which, in the event that a person is called up to reserve military service in emergency circumstances, or to reserve military service in a special situation, and a check in their account has been rejected, that check will be deducted from the total of checks regarding section 2(A) of the Law, if the date of the rejection occurred during the period when they were in reserve military service, as stated above, up to fifteen days after the end of the reserve military service period.

The Commissioner of Banks also ordered, in light of the uncertainty which was created due to the security situation, which pertains to the collection of debts of small businesses and private individuals, and to the effect on the status of arrears on chances of collection, that the banking corporations are requested to act in accordance with the following instructions in their preparation of financial statements for the second and third quarters of 2014:

- A banking corporation is not required to write off, in accounting terms, debts of borrowers in Israel who are subject to the requirements regarding accounting write offs under section 29D.5 of the Public Reporting Regulations, unless the banking corporation is aware of other reasons which require accounting write-offs, other than the debt's state of arrears.

- The banking corporation is requested to assess the impact of the security situation on the likelihood of debt collection, and accordingly to increase the provision for credit losses, which is calculated on a group basis.

On July 24, 2014, the government held a special meeting, which included a discussion of actions to strengthen the home front, due to the continuation of Operation Protective Edge. Following the aforementioned meeting, the banks were instructed as follows:

- Support for mortgage takers - the postponement of two monthly payments will be allowed for borrowers who received a mortgage from the State by virtue of the Housing Loans Law, 5752-1992, and who have requested the postponement of payments. Borrowers throughout the entire country will be eligible to file such requests.

- Freezing of actions to evict mortgage debtors - the banks will work to freeze eviction proceedings and notices which were planned for implementation during the period of Operation Protective Edge, against persons who had received a mortgage from the State by virtue of the Housing Loans Law, 5752-1992. This section applies to borrowers throughout the entire country.

On September 3, 2014, the Commissioner of Banks announced that in light of the termination of the special home front situation, the banks were required to resume ordinary operations, and ordered the banks to discontinue acting in accordance with the various instructions for action which he had issued, as specified above in this section, immediately or in accordance with the termination date, as determined by the Commissioner in his letter. The bank applied the aforementioned instructions, and acted in accordance with all of the instructions and guidelines specified above.

Note 32 - Events During the Reporting Year (Cont.)

5. On July 20, 2014, the general shareholders' meeting approved the remuneration policy for corporate officers in the bank, in accordance with section 267A of the Companies Law, 5759-1999, For details regarding the remuneration policy, see Note 15 to this report.

6. On August 17, 2014, 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".

7. On September 28, 2014, the Commissioner of Banks published instructions regarding restrictions on the provision of housing loans. The following are the primary components of the instructions which were included in the new directive:

   Increasing target capital in accordance with the size of the housing loan portfolio - the banking system is required to increase the target Tier I capital at a rate which reflects 1% of the balance of the housing loans, The commencement date regarding the fulfillment of the required capital target is January 1, 2017. The bank is required to increase the required capital target in fixed quarterly rates from January 1, 2015 to January 1, 2017. As a result of the aplication of the directive, the bank is expected to weigh this demand into the total calculation of the minimum Tier I capital target, gradually until the target date.

   Cancellation of the requirement to provide increased risk weight for leveraged loans at variable interest.

8. On September 30, 2014, the rating company Standard & Poor's Maalot announced that following the publication of the updated criteria to the local rating, the rating would be updated for three deferred liability notes which had been 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".

9. On November 4, 2014, a claim and a motion to recognize the claim as a class action were filed with the District Court of Tel Aviv against the bank, for the repayment of fees in an amount which was estimated by the plaintiff at NIS 65.5 million, claiming that the bank had, allegedly, unlawfully collected certain fees in connection with foreign currency conversion activities, as well as lack of due disclosure and apparent deception of customers regarding the costs involved in conversion services, and regarding the alleged existence of a restrictive arrangement in connection with the provision of the conversion services. The motion was submitted to the bank on November 5, 2014, and the bank's response to the motion has not yet been filed. In the assessment of bank management, the chances that the bank will be required to execute payments within the framework f the claim are low.

Note 32 - Events During the Reporting Year (Cont.)

10. On December 16, 2014, Bank of Jerusalem sent an offer for the acquisition of all of the shares of Dexia Israel Bank, and its subsequent merger into Bank of Jerusalem.

    On December 16, 2014, Dexia Israel Bank Ltd. published an immediate report, in which it stated that prior to receiving the offer from Bank of Jerusalem, no negotiations were conducted, and that no negotiations are currently being conducted between Dexia Israel Bank and Bank of Jerusalem. Additionally, on December 18, 2014, Dexia Israel Bank published an immediate report in which it referred to a notice which had been published by the controlling shareholder in Dexia Israel Bank to the foreign media, under the heading: "Dexia Denies the Existence of Any Discussions Whatsoever At This Stage with Bank of Jerusalem, in Connection With the Sale of Dexia Israel Bank". The announcement also stated that the Dexia Group had undertaken to execute an orderly and competitive process of selling its holdings in Dexia Israel, in order to maximize the value of Dexia Israel for all interested parties, and in accordance with its commitments towards the European Commission. On January 6, 2015, Dexia Israel announced, in a letter to the bank, that it had received its letter, submitted it to the Board members, and will respond to the bank

Note 33 - Events After the Balance Sheet Date

For details regarding the approval of the terms of tenure and employment of the bank's CEO, see Note 21 above.

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
10 Yacov Meir Street, Jerusalem 95513

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

Jerusalem Financing and Issuances (2005) Ltd.
2 Herbert Samuel Street, Jerusalem 91022

Beit Shemesh Branch
2 Rabin st., Naimi Mall, Beit Shemesh

Capital Market Branch
37 Menachem Begin rd., Rubinstein House, Tel Aviv

Bank of Jerusalem

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