



TEL-AVIV STOCK EXCHANGE

EXCHANGING HISTORY

ANNUAL REVIEW 2014



CONTENTS

MAIN INDICATORS

THE TEL-AVIV STOCK EXCHANGE

	2012	2013	2014
LOCAL CURRENCY YIELD⁽¹⁾			
TA-25 Index	9.2%	12.1%	10.2%
TA-75 Index	4.8%	24.7%	-9.8%
TA Blue-Tech Index	15.6%	8.6%	-5.2%
TA Finance Index	23.1%	18.8%	-7.7%
TA Real Estate-15 Index	14.1%	26.0%	0.9%
TA MidCap-50 Index	21.6%	35.6%	-11.5%
General Share Index	4.5%	15.3%	11.5%
General Bond Index	8.8%	5.4%	4.7%
Government Non-Linked Bond Index	7.0%	4.0%	7.2%
Corporate Bonds - Tel-Bond 20 Index	7.9%	5.9%	1.0%
DAILY TURNOVER (US \$ millions)			
Shares and Convertibles (Including ETNs)	279	324	339
Bonds (Including ETNs)	1,063	1,202	1,186
Treasury Bills	165	160	179
TA-25 Index Options (Thousands of contracts)	234	205	202
Dollar Options (Thousands of contracts)	35	41	52
Capital Raised (US \$ billions)⁽²⁾			
Shares and Convertibles	0.9	1.7	2.1
Corporate Bonds ⁽³⁾	8.5	10.1	16.1
Government Bonds - Net	5.2	5.8	0.6
Market Capitalization (US \$ billions)			
Shares and Convertibles (Excluding ETNs)	161.8	203.3	200.6
Corporate Bonds (Excluding ETNs)	79.9	87.8	80.4
Government Bonds	123.1	138.5	127.6
ETNs Public Holdings	19.2	32.7	33.3
Treasury Bills (MAKAM)	31.4	36.2	33.4
Number of Shares Listed Companies	540	508	473

MAJOR WORLD STOCK EXCHANGES' INDICES

	2012	2013	2014
DOLLAR YIELD			
S&P 500 Index	13.4%	29.6%	11.4%
NASDAQ 100 Index	16.8%	35.0%	17.9%
DJ Euro STOXX 50 Index	15.9%	23.2%	-10.8%
FTSE 100 Index	11.0%	17.1%	-8.3%
DAX Index	31.6%	31.1%	-9.5%
NIKKEI 225 Index	10.6%	28.6%	-5.9%
MSCI EM Index	12.2%	-8.0%	-7.1%
TA-25 Index	11.8%	20.6%	-1.6%

(1) In 2014 the dollar has appreciated 12% against the NIS.

(2) Excluding ETNs.

(3) In 2012 excluding US \$ 1.8 billion raised by Israel Electric Company (IEC) through government-guaranteed bond series offerings. In 2014 including US \$ 3.7 billion raised from international investors by bonds listed on the "TACT Institutional" system.

TASE BY THE NUMBERS

10%

TA-25 Index
annual SHEKEL yield

473

companies with share listings,
of which 47 dual-listing with
international exchanges

339

million dollars
daily turnover on TASE
in equity market

1493.85

Points
TA-25 index record
level on 7.12.2014

127

High-tech
companies of which
51 are biomed

1.2

billion dollars
net international investors'
purchase of equities

33.3

billion dollars
public holdings of ETNs

591

ETN series
traded on TASE

30%

Portion of equity-linked
ETNs in total equity
market turnover

16.1

billion dollars
capital raised in
corporate bonds

706

bond series
traded on TASE

1.2

billion dollars
daily turnover on TASE
in bond market

838

million dollars
largest ever corporate
bond offering by
Bank Hapoalim

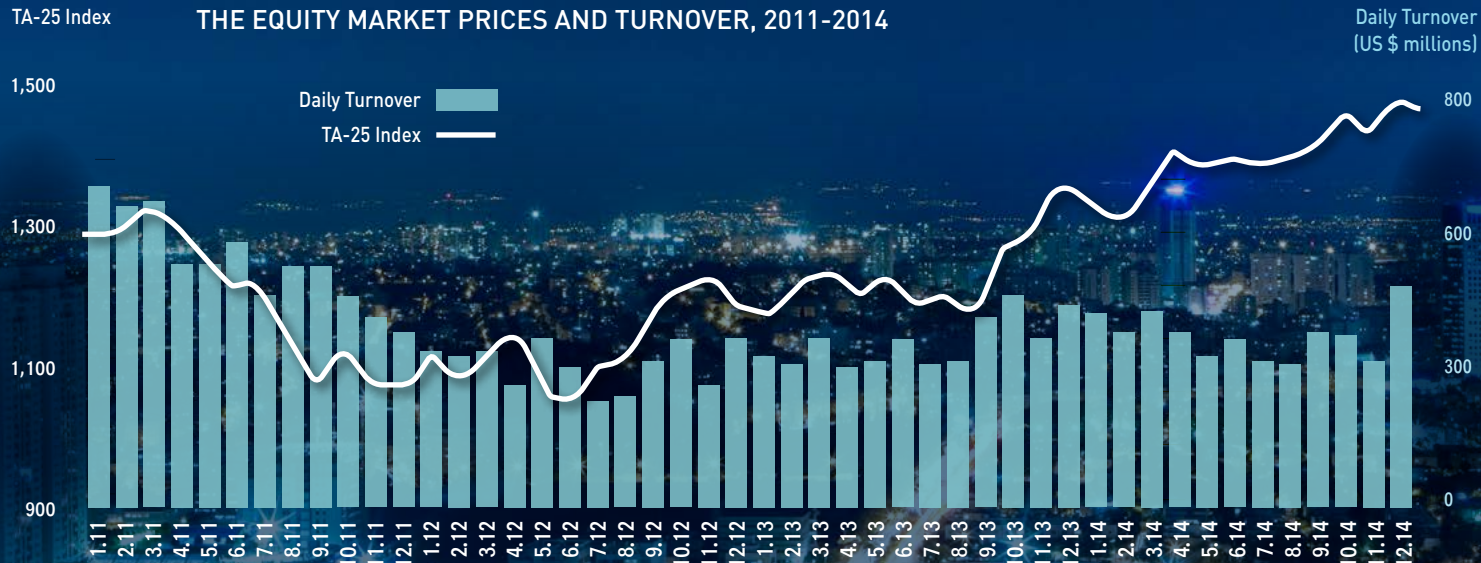
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New shares-listed
companies, thereof
1 dual-listing
company

382,918

dollar options
daily turnover record
on 17.9.2014

TASE IN 2014



TA-25 index gains

10%

reaching all-time record high

TASE launches Tech-Elite index

EQUITY MARKET

Stock Prices

The TA-25 index gained 10% in 2014, following an increase of 12% in 2013. The year opened on a positive note, continuing a rally which started in September 2013. The TA-25 index gained 7% until April 7th, at which time the trend reversed and the market retreated 3.5% until the August 24th. This downward trend can be attributed to the economic slowdown starting the second quarter of the year and the fighting in Gaza in July and August. In the last trimester of the year the market experienced an upswing, spurred by falling interest rates which reached a low of 0.25% and culminating in a 7% increase in the final four months of the year.

The price increase in the TA-25 index stemmed primarily from the shares of **Teva**, which contributed 6.5%, and from **Bezeq** and **Nice**, which collectively contributed an additional 4%. On December 7th, the index reached a record high of 1493.85 points – some 8% greater than the previous record of December 2013.

All data contained in this review are expressed in U.S. dollars terms, excluding return on indices, which are in local currency. In 2014 the dollar appreciated 12% against the New Israeli Shekel (NIS).

Key positive factors affecting TASE trading included:

- The lowering of interest rates by the Bank of Israel by a quarter of a percent three times during the year to a historic low of 0.25% as of September 2014. The lowering of interest rates is attributed the downward trajectory of the CPI index, which fell below government inflation targets.
- Positive macro-economic indicators: falling unemployment rates from 6.3% in 2013 to 5.6% at year's end 2014, a reduction in the fiscal deficit and increase in the Composite State-of-the Economy Index at a rate similar to that of the previous year.
- Share price increases abroad, particularly of the S&P 500 index and the Dow Jones Industrial index, which reached all-time record highs, also contributed to the positive trend on TASE.
- The strengthening of the U.S. dollar against the NIS started in August culminating in a 14% depreciation of the shekel by year's end. Towards the close of 2014, the exchange rate came to NIS 3.99.

Key negative factors affecting TASE share price indices included:

- The continued weakening of the dollar against the NIS by 2% until, which continued until the end of July, falling to NIS 3.402 on July 24th – the lowest in three years and in spite of the purchase of dollars by the Bank of Israel – had a negative impact on stock prices during the first half of the year.
- The decrease in the rate of growth starting in the second quarter of the year, falling to negative growth for the first time since March 2009: The impact of the Tzук Eytan (Solid Rock) military operation during the third quarter of the year, and apprehensions regarding a possible growth in the deficit, particularly in wake of Tzук Eitan and growing tension within Israel.

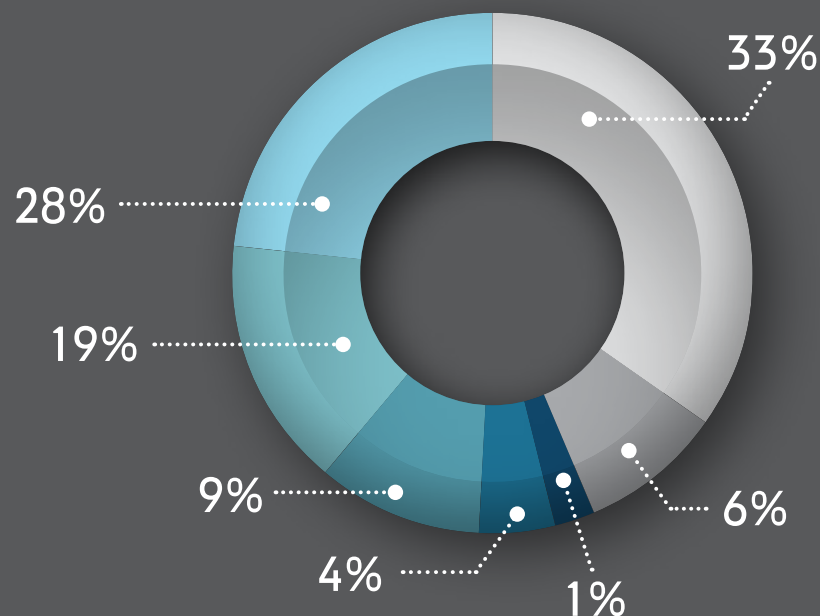
TA-25 AND INTERNATIONAL INDICES, 11/2008-2014 (US \$ terms)



- The Fitch credit rating agency reaffirmed Israel's A rating, but lowered the horizon of this rating for the coming two years from "positive" to "stable", among other things in wake of the growing deficit resulting from expenditures related to the fighting in Gaza.
- Negative factors abroad include: low inflation rates and the fear of the Euro-block sliding into deflation, plummeting commodities prices, the recession in Japan, continued tensions in Iraq and the economic crisis in Russia which unfolded towards the end of the year.

In U.S. dollars terms, the TA-25 was off 1.6% in 2014, given the 12% appreciation of the dollar against the NIS. This compares with greater losses of 6-12% in leading European stock markets and gains of 8-18% in leading U.S. indices.

In contrast to the TA-25 index, which posted gains this year, the indices for mid and small-cap shares – the TA-75 index and the TA MidCap-50 index – fell 10% and 12%, respectively.



BREAKDOWN OF SHARE OWNERSHIP ON TASE, 2014

"Free Float" (61%)

- International Public & Institutionals (28%*)
- Israeli Public (19%)
- Provident & Pension Funds (9%)
- Insurance Companies (4%)
- Mutual Funds (1%)

Interested Parties (39%)

- Israeli (33%)
- International (6%)

*Thereof: 20% holdings in dual-listed shares abroad.

Source: TASE & Bank of Israel

Results for TASE's sectors indices was mixed: The TA-Com index, which jumped 50% last year posted gains of 10% this year, resulting from the sharp 33% increase in **Bezeq** shares. The TA-Technology index posted modest gains of only 1% after advancing 7% in 2013, while the TA-Biomed index stood out this year falling 34% following a year of impressive returns of 30% in 2013. The TA-BlueTech index – comprised of all constituents of the TA-Technology and TA- Biomed indices– also retreated this year by 5% after rising 9% in 2013.

TASE launched its new TechElite index last May. The index is comprised of the largest companies included in the TA-Biomed and TA-Technology indices. The index currently includes 34 shares – 22 technology and 12 biomed companies. Since its launch the index rose 1%.

Annual rates of return on TASE share price indices (in terms of NIS)

	2012	2013	2014
TA-25	9%	12%	10%
TA-75	5%	25%	-10%
TA-MidCap 50	22%	36%	-12%
TA-Communications	-33%	50%	10%
TA-Technology	19%	7%	1%
TA-Biomed	10%	30%	-34%
TA-BlueTech	16%	9%	-5%
Oil & Gas	7%	25%	-17%
TA-Real Estate 15	14%	26%	1%
TA-Finance	23%	19%	-8%

Equity Trading Volume

The average daily volume of shares (on and off-floor) trading on TASE came to US \$340 million in 2014, 5% higher than the 2013 average.

The proportion of TA-25 shares in total activity fell this year, as it did in 2013, accounting for 47% of the total turnover in equities (excluding ETNs), as opposed to 56% and 51% in 2012 and 2013 respectively. At the same time, the share of equity index-tracking ETNs increased (see "ETNs" below).

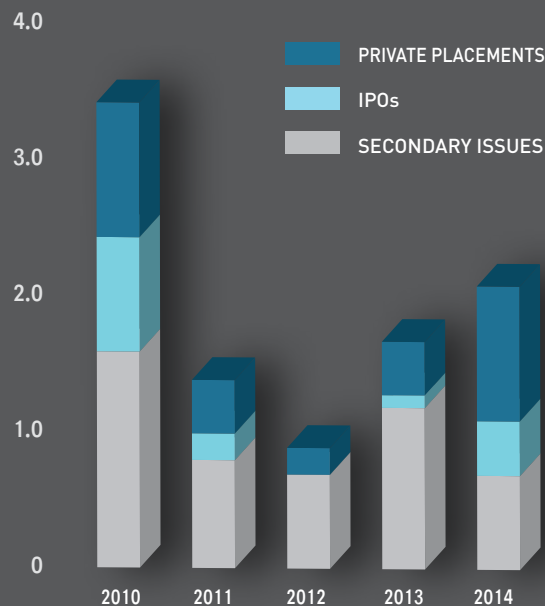
Free Float

The free float of equity holdings increased in wake of a net US \$1.5 billion **sale of shares by principal shareholders** to institutional investors and public, following net sales of US \$1.7 billion in 2013.

The average free float rate increased from 53% in the period 2004-2008 to 57% in 2009-2013 and 61% in 2014.

The entrance of foreign investors into the TASE equity market continued to trend in 2014. As of the end of November, foreign residents purchased a net US \$1.2 billion of TASE-listed shares, following net purchases of US \$ 1.5 billion in whole 2013.

CAPITAL RAISED BY SHARES, 2010-2014
(US \$ billions)



Equity Raising

There was an increase in **public offerings and private placements of shares**, which came to US \$2.1 billion in 2014 – as opposed to US \$1.7 billion last year. Of this sum, US \$685 million were raised in a private placement by **Perion Networks**, within the framework of the company's acquisition of Conduit's Client Connect business.

Five IPOs were completed in 2014 for a total of US \$375 million. **Shapir Engineering**, which manufactures and distributes raw materials for construction, infrastructure and real estate, raised US \$110 million in the largest equity IPO since 2010. **Inrom Construction**, which raised US \$103 million, manufactures and markets products for the construction industry. Real estate company, **Ashtrom Group** raised US \$77 million, while **Mediterranean Towers**, developer and operator of retirement communities raised US \$64 million and real estate firm **Skyline** raised US \$20 million.

This year 9 companies, 6 of which are high tech companies, joined TASE through reverse mergers with exchange-listed "**shell companies**".

Raising US \$530 million equity in 2014, **real estate companies** continued to dominate the primary market in 2014. This constitutes about half of the total raised in public equity offerings, as was the case in 2013.

Dual Listings

Dually-listed companies raised US \$320 million abroad as opposed to the US \$435 million raised in 2013. The largest offerings included **Compugen** (US \$72 million) and **Magic** (US \$59 million).

Foreign real estate company, **Plaza Centers**, whose shares trade in London and Warsaw exchanges, listed on TASE as part of a debt restructuring. In addition, the Israel Corporation completed a sale of shares in its subsidiary, **Israel Chemicals (ICL)** and listed the shares on the New York Stock Exchange.

Three dual listings delisted their shares from TASE and the U.S. as a result of mergers with foreign companies - **Given Imaging** (merged with Coviden), **Pilat Media** (merged with SintecMedia) and **NTS** (merged with T3 North). **Top Image** delisted its shares from TASE only.

There are currently 43 companies listed in the U.S. and London under the dual listing provisions of Israel's Securities Law and an additional 4 companies which are cross-listed on TASE and various foreign exchanges.

Number of Companies

As of the end of the year the shares of **473 companies traded on TASE** as opposed to 508 companies at the end of 2013, following the delisting of 42 companies. The delistings included 14 companies which voluntarily delisted in wake of mergers and acquisitions. Some of these contributed to the "flattening of pyramid" conglomerate structures through mergers between two TASE-listed companies. Other delistings were of thinly traded shares and shares failing to meet TASE maintenance requirements, 20 companies were delisted by TASE for their inability to meet maintenance requirements, an additional 5 subsequent to corporate liquidation, 1 dual listing which delisted solely from TASE and 2 companies for other reasons.

27% increase in primary equity market activity, including 5 IPOs raising

375 US\$ MILLION

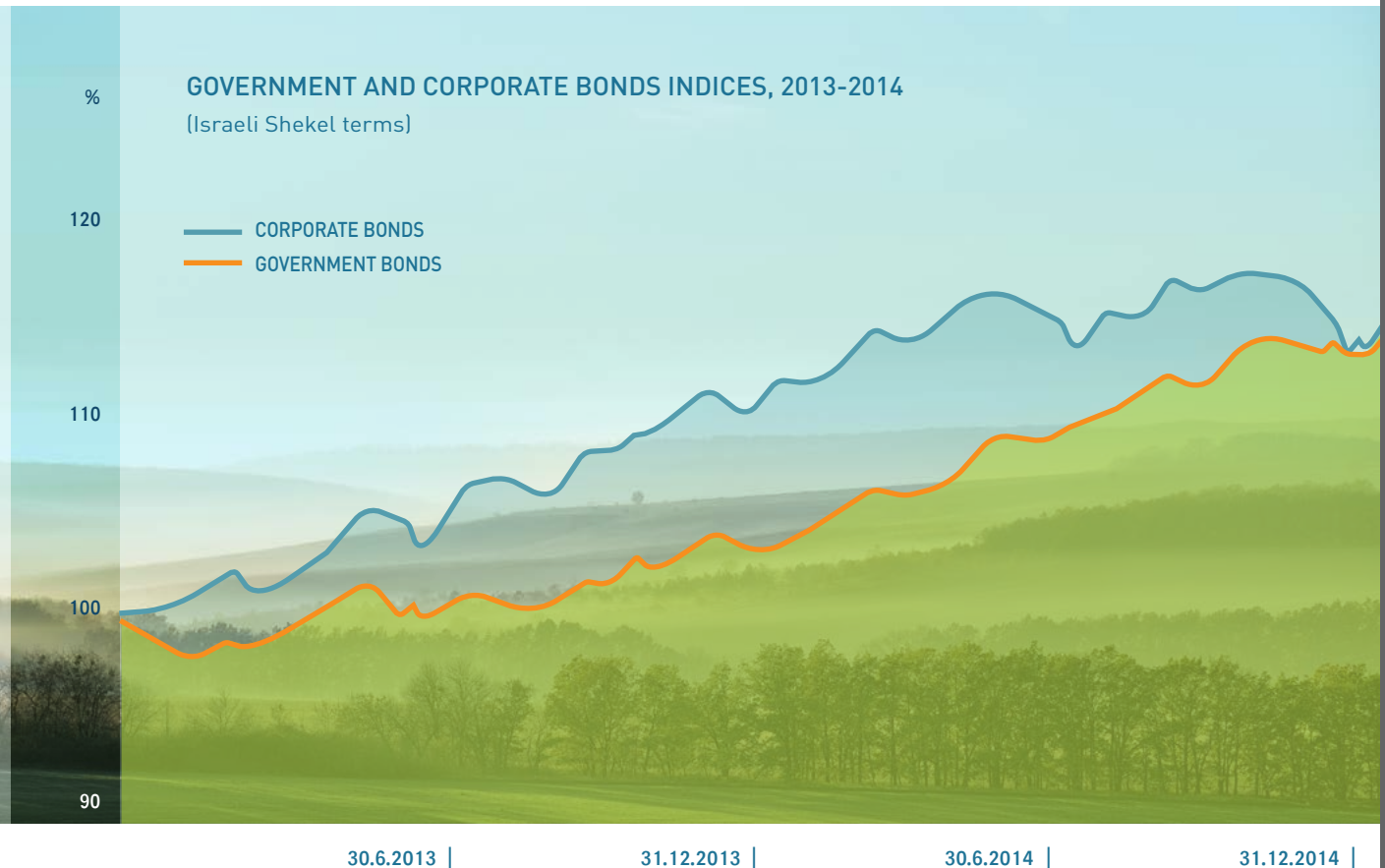
TABLE 1: MAIN INDICATORS OF THE EQUITY MARKET, 2005-2014

Year	Daily Turnover (US \$ millions)	Capital Raised in Tel-Aviv ⁽¹⁾ (US \$ billions)	Number of Listed Companies	Thereof: New Listed Companies ⁽²⁾	TA-100 Index % Change (local currency terms)
2005	223	2.7	584	32	29.4
2006	326	2.7	606	44	12.0
2007	505	5.2	654	62	25.3
2008	547	1.8	642	2	-51.1
2009	432	1.7	622	4	88.8
2010	547	3.4	613	22	14.9
2011	482	1.4	593	11	-20.1
2012	279	0.9	540	3	7.2
2013	324	1.7	508	6	15.1
2014	339	2.1	473	6	6.7

(1) Including private placements and exercise of warrants. Excluding issues abroad of the dual-listed companies.

(2) Including new dual-listed companies.

DEBT MARKET



Price increases in bond market led by government non-linked fixed interest bonds

TASE launches 2 new bond indices – Tel Bond-Floating and Tel Bond-Composite

Bond Indices

During 2014 bond prices increased across the board. Government bonds stood out this year with non-linked fixed interest bonds leading the way with an 8% increase. In contrast, corporate bonds posted modest gains of 1.5%. It is worth noting that in 2013 the situation was reversed – corporate bonds rose 9% (led by CPI-linked bonds) while government bonds lagged behind with an average increase of 4%.



16 US\$ BILLION

corporate debt raised in
public offerings and private
placements – highest amount
since the record year of 2007

Trading Volume

The average daily trading volume in the bond market (on and off-floor) came to US \$1.2 billion dollars, similar to the trading volume in 2013.

As of the end of November, **foreign investors** acquired a net US \$2.3 billion in 2014 after selling a net US \$2.1 billion the previous year (of which US \$1.5 “Shahar” bonds which were redeemed upon maturity).

Primary Debt Market

Gross government capital raising in 2014 came to US \$14.5 billion as opposed to US \$18.2 billion in 2013. Approximately 70% of the sum raised was from the issue of non-linked bonds, while 30% from the issue of CPI-linked bonds. In addition, after a four-year hiatus, the Ministry of Finance renewed sovereign bond issues in Europe, raising US \$2 billion (€1.5 billion) in 10-year Euro bonds. The issue was over-subscribed 5.7 times the original amount and interest was set at 2.93%.

At the same time, massive redemptions totaling US \$9.6 billion in non-linked bonds and US \$4.3 billion in CPI-linked bonds were carried out. Accordingly, **the scope of net capital raised by the Ministry of Finance** this year came to only US \$0.6 billion as opposed to a net US \$5.8 billion in 2013.

Total corporate debt raised on TASE (including exercise of warrants and private placements on TASE’s TACT institutional investor platform) came to US **\$16.1** billion this year as opposed to US \$10.1 billion raised in 2013. Some US **\$10.3** billion was raised through public offerings and private placements of bonds listed for trading, as opposed to US \$9.5 billion in 2013, while US **\$5.8** billion was raised in private placements to institutional investors, of which US \$3.7 was raised from foreign institutional investors.

8 **NEW ISSUERS**
 raised US \$0.9 billion by bonds,
 including 5 foreign
 real estate companies

3 **US\$ BILLION**
 raised in 6 mega
 offerings

Corporate Debt Capital Raising in 2014, Highlights:

- **Eight companies raised** US \$ 0.9 billion in initial public bond offerings, as opposed to one company raising US \$95 million in 2013. **New issuers included five foreign real estate companies** specializing in commercial real estate in New York: **Extell** raised US \$302 million in the **largest initial public bond offering in the history of TASE's corporate bond market**, while **Lightstone** raised US \$121 million, **All Year** raised US \$101 million, **Spenser Equity** raised US \$76 million and **Brookland** raised US \$35 million.
- **Growing concentration of the primary market** - This year six "mega" (US \$300 million and up) bond offerings were completed for a total sum of US \$3 billion, accounting for 34% of the total raised in public bond offerings. This is in contrast to three mega-offerings in 2013 totaling US \$1 billion, which comprised 15% of the total raised in public corporate bond offerings.
- **Increase in the weight of the sum raised in new bond series** to 75% of the total raised in 2014 as opposed to 50% in 2013.
- **The weight of investment high-grade bond offerings came to 87%** of the total raised in 2014, somewhat higher than in 2013 (84%).

Debt Capital Raised through Corporate Bonds*
 by sectors 2012-2014 (million U.S. dollars)

	2012		2013		2014	
Total	10,010		9,860		15,680	
Of which Israel Electric Company (IEC) [government guaranteed]	1,795		-		-	
Of which: raised abroad	-		-		3,660	
Total excluding IEC and abroad	8,215	100%	9,860	100%	12,020	100%
Sector						
Real Estate	2,660	32%	4,840	49%	4,135	34%
Banking	2,495	30%	1,120	11%	2,755	23%
Commerce & Services	1,320	16%	2,055	21%	2,040	17%
Manufacturing	790	10%	660	7%	1,185	10%
Oil & Gas	135	2%	-	-	725	6%
Investments	500	6%	610	6%	525	5%
Insurance	315	4%	230	2%	355	3%
Technology	-	-	345	4%	260	2%
Financial Services	-	-	-	-	40	0.3%

*Including TACT Institutional platform, excluding ETNs, warrant exercise and Neshet (bond series to institutional investors which are cleared and settled by the TASE Clearing House).

- **Real estate sector continued to stand out in debt capital raising** totaling US \$4.1 billion, constituting 34% of the total raised in public bond offerings and private placements (see table below) after leading the list of issuers in the past two years as well. The banking sector followed, raising US \$2.8 billion – accounting for 23% of the total raised in corporate bonds. These sectors, which have consistently stood out in debt raising activity in the past few years, are taking advantage of low interest rates to recycle debt and prepare for impending bond redemptions.

- **Decrease in the weight of CPI-linked bond offerings** from 77% of the total raised in public corporate bond offerings in 2013 to 47% this year, in which US \$4.3 billion was raised.

At the same time, **an increase in non-linked bond offerings** to US \$4.8 billion in 2014, where most of this sum, US \$3.9 billion, was raised through fixed interest rate bonds as opposed to US \$1.7 billion in 2013.

- In 2014 some US \$5.8 billion was raised in **private placements to institutional investors**, of which US \$3.7 billion was raised from foreign institutional investors, the highest amount since 2007. Of the total, US \$4.9 billion was raised in four large private placements of foreign currency-linked bonds listed on the TACT institutional investor trading platform.

The opening of private placements traded on TASE’s institutional investor platform to institutional investors abroad was made possible by the Israel Securities Authority decision to include U.S. and European institutional investors in the definition of the institutional investors entitled to trade on the TACT Institutional investor platform. In addition, TASE approved trading this type of bond on the TACT Institutional platform, finding solutions for the various limitations emanating from U.S. law.

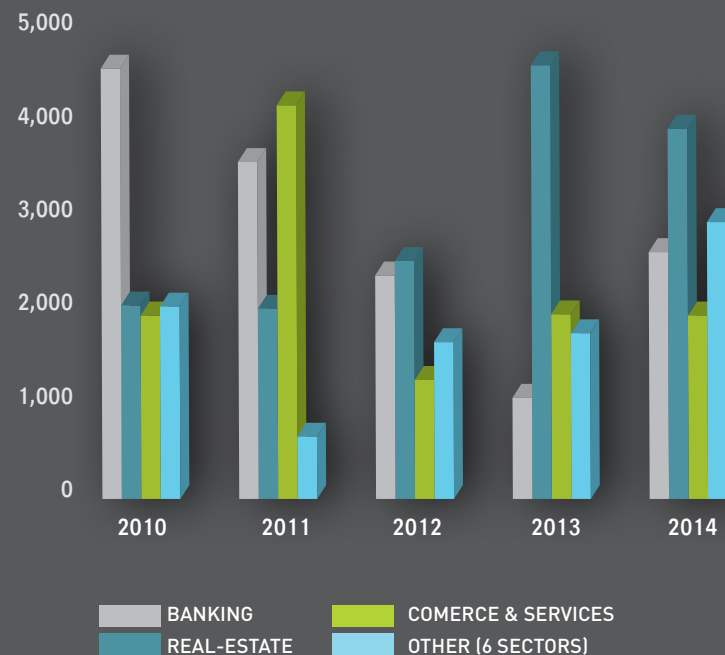
Four companies raised

3.7

US\$ BILLION

debt from foreign institutional investors - listed on TASE’s TACT Institutional trading platform

ISSUES OF CORPORATE BONDS BY SECTORS, 2010-2014
(US \$ millions)

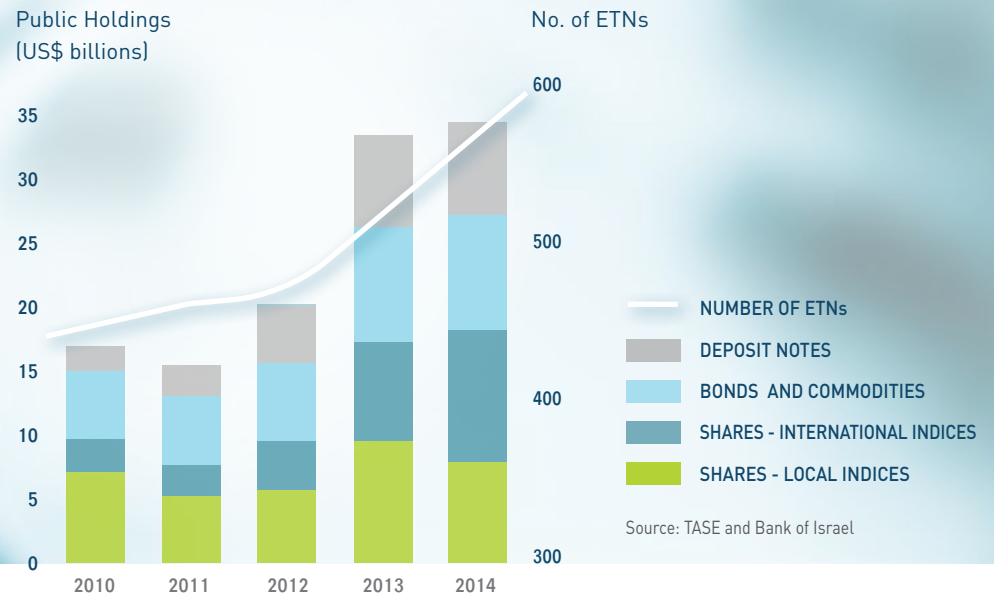


* Including Corporate Bonds and TACT Institutional, not Including deposit notes and structured bonds.

** In 2012 excluding US \$ 1.8 billion raised by Israel Electric Company (IEC) through government-guaranteed bond series offerings.

In 2014 including US \$ 3.7 billion raised from international investors by bonds listed on the "TACT Institutional" system.

THE ETNs MARKET, 2010-2014



591

ETNs traded on TASE, of which 24 currency ETNs

ETNs

At the close of 2014, **591 ETNs** traded on TASE, of which 24 currency ETNs ("CDs"). The market capitalization of investor holdings reached a record level of US \$33.3 billion at the end of 2014, after an increase of US \$0.6 billion during the calendar year.

New ETN Series

The growth of the ETN market, which first emerged in 2003, has slowed down in the past several years, picking up again in 2013. **This year 76 new ETNs were issued**, following 78 new issues in 2013, and 15 inverse (short) ETNs expired and were delisted.

Increase in public ETN
holdings reaching a record

33.3
US\$ BILLION

Public ETN purchases

In 2014 the public acquired a net US \$3 billion of ETNs. The market capitalization of investor holdings increased by US \$0.6 billion to a total of US \$33.3 billion in December 2014, while 62% of the increase stemmed from the above-mentioned acquisitions and 38% from the increase in the market value of the underlying assets.

- Investors sold a net US \$0.3 billion of ETNs tracking **local share price indices**, as opposed to net purchases of US \$1 billion in 2013. The value of investor holdings of ETNs tracking local share price indices declined US \$1.4 billion, despite the increase in the prices of the underlying shares, and this following the sharp increase of the dollar/NIS exchange rate (12% in 2014).
- Investors purchased a net US \$2.1 billion in ETNs tracking **foreign share price indices**, following net purchases of US \$2.5 billion in 2013, which was the primary reason for the increase in the market cap of investor holdings of these ETNs – US \$2.6 billion.
- Investors purchased a net US \$1.1 billion of ETNs tracking **bond and commodities** prices in 2014, following net purchases of US \$0.5 billion in 2013. The market cap of investor holdings in these ETNs fell by US \$0.3 billion following the appreciation of the US dollar which offset investor purchases.
- Investors purchased a net US \$0.3 billion **currency certificates** (“CDs”), following massive purchases of US \$3 billion in 2013. The market cap of investor holdings of these instruments declined US \$0.3 billion in 2013, despite rising prices of the underlying asset, which is affected by the appreciation of the dollar against the NIS.

ETN Trading Volume

The average daily trading volume of ETNs on share price indices (**local and foreign**) increased in 2014, coming to US \$100 million (on and off-floor transactions). This is 33% higher than the 2013 average and constituted 30% of TASE’s total equity trading activity, as opposed to 23% in the previous year.

DERIVATIVES MARKET

Trading in **TA-25 index options** was marked with a slight decline in turnover. In 2014 an average 202 thousand contracts changed hands daily as opposed to 205 thousand contracts in 2013.

These figures include trading activity in **weekly options**, which were launched in July 2013. The average daily volume of activity this year came to 25 thousand contracts – more than twice the average posted in the second half of 2013. On 17.9.2014 a record 46,119 contracts changed hands, the largest turnover since weekly options were launched.

The implied volatility of TA-25 index options peaked at 15% in January and since then declined to 8% in the third quarter of the year. In the fourth quarter the implied volatility fluctuated between 8% and 13%.

On August 28th, TASE launched stock options on Bezeq and Perrigo shares. These options join eight other stock options (Teva Pharmaceuticals, Bank Hapoalim, Bank Leumi, ICL, Bank Mizrahi

Tefahot, Bank Discount, Ratio Oil Exploration and Avner Oil & Gas) which already trade on TASE.

TASE is in the process of launching options and futures on the TA-100 share price index, which will join existing derivatives on various underlying equity assets - the TA-25 index, the TA-Banks index and 10 individual TA-25 shares. Derivatives on the TA-100 are scheduled to start trading on 29 January 2015.

Trading activity for **dollar options** was characterized by steady turnovers of an average 40 thousand contracts daily from January to August. In the final trimester of the year there was a sharp increase mirroring the strengthening of the dollar against the NIS by some 14%, starting in August. Average daily trading volume rose to 65 thousand contracts from August-November and to 98 thousand contracts in December. Average daily activity in dollar options for the entire 2014 year came to 52 thousand contracts, an increase of 27% relative to the previous year. On September 17th a record volume of 382,918 contracts was posted.

TABLE 2: TA-25 INDEX OPTIONS TURNOVER, 2010-2014

Year	Daily Turnover (thousands contracts)	Derivatives Liquidity ratio ⁽¹⁾	Maximum no. of open interest contracts (thousands)
2010	289	1,056%	746
2011	357	1,452%	1,125
2012	234	1,473%	718
2013	205	1,424%	736
2014	202	1,703%	688

[1] The ratio between the turnover of the TA-25 options, in the underlying asset terms, [delta-weighted, taking into account the probability that the options will be exercised] and the turnover of the TA-25 index shares.

Daily turnover record in TA-25 weekly and dollar options

TASE launches derivatives on the TA-100 index

MAKAM (T-BILLS)

The average daily trading volume of MAKAM T-bills in on and off-floor transactions came to US \$180 million, 12% higher than the 2013 average.

Massive liquidation of MAKAM by foreign investors were curtailed already in 2013 and **in 2014 foreign investors purchased** a net US \$1.2 billion MAKAM on TASE, after selling a net US \$0.3 billion in 2013.

Following the revocation of the tax exemption granted foreign residents in July 2011, foreign investors have reduced their MAKAM holdings, selling a net US \$12.6 billion from May 2011 to December 2012.

MAKAM prices rose 0.8% in NIS terms in 2014 and the yield to maturity declined this year to 0.25% at the end of 2014, as opposed to 1% at the end of 2013 and 1.8% at the end of 2012.

In 2014 **Israeli and foreign investor holdings of MAKAM** came to US \$33.4 billion at the end of the year, as opposed to US \$36.3 billion at the end of 2013. These balances are still lower than the record high of US \$38.4 billion at the end of 2010.



TASE NEWS

MOVING UP IN STYLE

Where architectural design and technology meet

The Tel Aviv Stock Exchange (TASE) moved into its new headquarters on Ahuzat Bayit Street last July. The inauguration of the building was celebrated in a festive opening bell ceremony. Taking part in the ceremony were: Finance Minister, Yair Lapid; Chairman of the Knesset Finance Committee, MK Nissan Slomiansky; Mayor of Tel Aviv-Yafo, Ron Huldai; Director of the Capital Market, Insurance and Savings Department of the Ministry of Finance, Dorit Salinger; Chairman of the Israel Securities Authority, Prof. Shmuel Hauser and Deputy Governor of the Bank of Israel, Dr. Nadine Baudot-Trajtenberg. Also attending were the heads of public companies, TASE members, executives from investment houses and banks, institutional investors and other members of the financial community.

Underlying the impressive architecture of the building is the concept of a “non-stop stock exchange”. The IT center is located underground, housing the infrastructure which enables TASE to operate and meet both the on-going and emergency needs of the capital market. This is in conjunction with the backup facility which operates in a remote location. The new IT center enables TASE to face both current and future technological challenges and supports a wide array of new business activity. Vast resources were also invested in the building’s security and survivability, complying with the strictest international standards, as is appropriate for a building which serves as the beating heart of Israel’s capital market.

Despite the complexity of the move, TASE maintained smooth and seamless IT and trading operations throughout the entire period.

The building also houses a convention center which hosts economic and professional gatherings for the financial community. A visitor center will open in mid-2015, providing financial education for university and high school students as well as for the general public.



Photo by: Guy Assayag

GREATER GLOBAL INTEGRATION

Israel's economy is considered one of the most promising and dynamic growth economies in the world. TASE places great importance in its accessibility to foreign investors and continues to work towards enhancing the attractiveness of investing in TASE-traded securities, inter alia through the following.

Eurex – TA-25 Futures

Futures on the TA-25 share price index began trading on the Eurex Exchange, the Deutsche Börse Group's derivatives exchange, in June. The launch of the new product, which is denominated in US dollars, creates new opportunities to access and invest in Israel's blue chip index and to develop trading and hedging strategies for more effective portfolio management. Trading is conducted Monday through Friday by Eurex, which is also responsible for clearing and settlement, acting as a central counterparty for all transactions.

EUROCLEAR

The TASE Clearing House (TASECH) is currently finalizing the **opening of an account with the European settlement bank, Euroclear Bank**. TASE will begin operating through the account in early 2015. The account facilitates the transfer of securities cross-listed on both Israeli and European exchanges. This measure enhances TASECH's capacity to act globally, and it complements the TASE account at the DTCC in the United States, which serves to transfer share inventory registration for U.S./Israeli dual listings.

Adoption of International Standards for Clearing House Risk Management

TASECH and the MAOF Clearing House have initiated the adoption and integration of principles of clearing house risk management articulated by the **IOSCO_SPSS (IOSCO Committee on Payment and Settlement Systems)** for clearing houses which serve as central counterparties (CCP). IOSCO is the global standard setter for securities regulation and best practice. The two TASE-owned clearing houses, in conjunction with the TASE Risk Management Department, are in the final stages of comprehensively reviewing the gaps between TASE's clearing house operations and current international standards and will continue to work to lessen and close these gaps.

At the same time, the clearing houses are also in the process of **being recognized by ESMA**, the European Securities and Markets Authority for the purpose of providing CCP services to foreign investment houses subject to European regulation under the European Market Infrastructure Regulation (EMIR).

Consolidating Risk Management for the Entire TASE Group

Over the past several years international standards and regulation in the risk management practices of financial institutions necessitate the adoption of a robust and resilient, organization-wide risk management framework. Given its pivotal role in Israel's capital market as well as its plans to expand international activity, TASE has initiated a process of consolidating its group-wide risk management system.

Following an examination of risk management systems and practices in exchange groups abroad, financial institutions with similar risk profiles and Israel's public sector, the TASE Group has instituted a series of measures designed to ensure the existence of an appropriate infrastructure for risk management, which reinforces the Group's ability to identify and respond to the risks engendered in its activity and business environment in real time.

This includes articulating a clearly defined role for the Board of Directors as the authority in matters pertaining to risk management, the establishment of an independent risk management function and the implementation of a system designed to proactively identify, measure and monitor risks. The consolidation of risk management throughout the organization will facilitate TASE's business development, enhancing its capacity for international partnering and taking advantage of new business opportunities as they arise.

Membership in the Federation of European Securities Exchanges (FESE)

This past year TASE joined the European Federation of Stock Exchanges as an "Affiliate Member". TASE's membership in FESE is in addition to its membership in the World Federation of Exchanges (WFE) and the International Organization of Securities Commissions (IOSCO). FESE represents 37 exchanges in equities, bonds, derivatives and commodities from 30 countries.

INCREASING TASE TECHNOLOGY LISTINGS

At the beginning of the year, the Committee to Promote Investment in Publicly Traded Companies Engaging in Research & Development (R&D Committee), a joint initiative of TASE and the Israel Securities Authority, submitted its final report. The committee's recommendations are designed to promote solutions for the financing of high-tech companies through IPOs on TASE, by easing regulations on TASE-listed companies and by offering incentives to investors. Most of the committee's recommendations will be implemented once the Bill to Promote Investment in High-tech Companies, which passed its initial reading in the Knesset last October, becomes valid. IN the meantime TASE is advancing a number of key measures stemming from these recommendations.

In May TASE launched the **TA Tech-Elite Index**, which includes the shares of the largest biomed and technology companies and is the premium index for these industries. Most of the technology and biomed constituents of the index are likely to also be included in a new "Israeli High-tech" index, which will be calculated by a leading foreign index vendor and will serve as the underlying asset for index-tracking products. This index will facilitate investment by foreign investors in Israeli technology-based industries.

Currently some 130 technology and biomed company's trade on TASE, but little market analysis on these industries exists. In order to bridge the gap, TASE is promoting **Project Analysis**. This project will build a mechanism to ensure ongoing analyst coverage of small and medium-size technology and biomed companies in both Hebrew and English. The project will get underway in the first half of 2015.

Another step in the implementation of the committee's recommendations and in promoting technology listings on TASE is the recent **approval of listing rules for exchange traded high-tech funds**. The listing of such funds will enable both institutional and retail investors to invest in a pool of high tech companies through closed-end funds, which will be able to operate as either fixed-term funds with a maximum life span of 15 years or as perpetual funds. As closed-end funds, these new instruments will be entitled to invest a proportion of their holdings in non-traded financial assets.

Trading System Improvements

Within the framework of TASE initiatives to improve trading and encourage liquidity, and pursuant to the recommendations of the Ben Horin Committee, a number of measures to upgrade the TASE trading system were implemented:

- **Raising the ceiling on the order/ trade volume ratio** for derivatives quote generation, a measure facilitating high-frequency trading;
- **Broadening the number of layers** in the order book from three to five layers;
- Adding two new types of orders: **"Stop Limit" and "Iceberg"**;
- Converting the trading system to a **Linux operating system** work environment similar to the new trading systems employed today in leading securities exchanges. The shift to Linux will improve system performance and the ability to address the ever-growing order flow.



EXTENDING THE FAMILY OF TEL BOND INDICES

In keeping with TASE's policy to broaden the array of Tel Bond indices, three new Tel Bond indices were launched this year, serving as underlying assets for index-tracking products.

This past November the **Tel Bond - Floating**, which comprises 16 floating interest rate corporate bonds included in the Tel Bond universe. The new index was launched in wake of high market demand for Tel Bond products and it is anticipated that it will interest investors with expectations for interest rate increases as well as investors seeking to diversify their portfolios with floating interest rate corporate bonds.

In light of the need to provide an index reflecting the performance of the entire investment grade corporate bond market, TASE launched the **Tel Bond-Universal index**. This index consists of all corporate bonds rated BBB (S&P Maalot) or Baa3 (Midroog) or higher, which meet all index criteria. The new index serves as the underlying asset for index-tracking products, the trading of which contributes to liquidity of the constituent bonds. The credit rating criterion for index constituents renders the index particularly appropriate for institutional investors.

In January 2015, TASE launched the **Tel Bond Non-linked index**, which comprise corporate bonds included in the Tel Bond-Shekel and the Tel Bond-Floating indices. The index includes 73 bond series issued by 44 different issuers.

DERIVATIVES MARKET - NEW STOCK OPTIONS AND TA-100 INDEX DERIVATIVES

This year TASE launched stock options on **Bezeq and Perrigo shares**. The new underlying assets join the eight shares on which individual stock options are already traded: Teva, Bank Hapoalim, Bank Leumi, ICL, Mizrahi Tefahot, Bank Discount, Ratio Oil Exploration and Avner Oil Exploration.

This year marked the five-year anniversary of stock options trading on TASE and the average daily trading volume in these currently stands at 7,500 contracts. The trading volume of stock options has grown continually and in April of this year a record level of 11,000 contracts on average changed hands daily.

TASE intends to launch **stock options on the majority of TA-25 index constituents**. Launching these options constitutes an important part of TASE's stock derivatives market and implements the recommendations of the Ben Horin Committee concerning the need to expand the array of financial products traded on TASE.

Options and futures on the TA-100 index began trading in January 2015. The specifications of these derivatives are similar to those of TA-25 index options. The launch of TA-100 index options is a significant step in broadening TASE-traded derivative offerings and it is expected that their launch will lead to an increase in the trading activity of both derivatives and underlying shares alike. These derivatives are expected to increase the attractiveness on TASE investments, particularly among foreign investors who view the TA-100 index as the most representative of the Israeli economy.

[For a summary of the derivatives market in 2014 >>](#)

TABLES

TA-25 INDEX COMPANIES

TABLE 3: MARKET CAPITALIZATION AND WEIGHTING

SECURITY	MARKET CAP 31.12.2014 (US\$ millions)	WEIGHTING ⁽¹⁾
1. Perrigo ⁽²⁾	23,653	10.6%
2. Teva ⁽²⁾	54,595	10.0%
3. Bank Leumi	5,070	9.8%
4. Bank Hapoalim	6,259	9.6%
5. Israel Chemicals ⁽²⁾	9,245	8.0%
6. Bezeq	4,902	7.4%
7. Nice ⁽²⁾	3,078	6.1%
8. Opko ⁽²⁾	4,318	4.7%
9. Isramco	2,221	3.3%
10. Bank Discount	1,694	3.2%
11. Elbit Systems ⁽²⁾	2,612	3.0%
12. Frutarom ⁽²⁾	1,808	2.8%
13. Mizrahi Tefahot Bank	2,426	2.7%
14. Delek Group	2,969	2.5%
15. Gazit Globe ⁽²⁾	2,118	2.4%
16. Avner	2,332	2.0%
17. Paz Oil	1,318	2.0%
18. Azrieli Group	4,001	1.9%
19. Israel Corporation	3,674	1.8%
20. Strauss Group	1,614	1.4%
21. Delek Drilling	2,013	1.3%
22. Osem	1,972	1.0%
23. International Bank	1,287	0.9%
24. Migdal Insurance	1,263	0.8%
25. Melisron	1,178	0.8%
TOTAL	147,620	100.0%

TABLE 4: DAILY TURNOVER

SECURITY	DAILY TURNOVER ⁽³⁾ (US\$ thousands)
1. Teva ⁽²⁾	23,596
2. Israel Chemicals ⁽²⁾	13,924
3. Bank Hapoalim	13,193
4. Bezeq	12,595
5. Bank Leumi	11,805
6. Perrigo ⁽²⁾	10,602
7. Bank Discount	6,207
8. Delek Group	5,951
9. Mizrahi Tefahot Bank	4,641
10. Nice ⁽²⁾	3,923
11. Israel Corporation	3,903
12. Avner	3,479
13. Isramco	3,452
14. Frutarom ⁽²⁾	3,363
15. Elbit Systems ⁽²⁾	3,007
16. Gazit Globe ⁽²⁾	2,509
17. Opko ⁽²⁾	2,442
18. Delek Drilling	2,393
19. Azrieli Group	2,349
20. Paz Oil	1,798
21. Strauss Group	1,796
22. Migdal Insurance	1,371
23. International Bank	1,321
24. Osem	1,143
25. Melisron	880
TOTAL	141,645
OF TOTAL TURNOVER	46%

(1) The weight is calculated according to the value of the float in each share. Weighting is adjusted according to the 10% cap - updated quarterly.

(2) a Dual-Listing company.

(3) Not including off exchange transactions.

TABLE 5: CAPITAL RAISED BY SECURITY TYPES, 2005-2014 (US \$ millions)

Year	Shares & convertibles		Government Bonds - Net	Corporate Bonds			ETNs ⁽⁴⁾
	Tel-Aviv ⁽¹⁾	Abroad		Corporate Bonds ⁽¹⁾⁽²⁾	Institutionals ⁽³⁾	Total	
2005	2,748	465	1,208	5,205	4,009	9,214	968
2006	2,713	6,909	698	4,689	5,597	10,286	802
2007	5,168	668	957	10,904	8,904	19,808	2,088
2008	1,774	3,265	8,889	4,949	1,257	6,206	932
2009	1,701	266	7,595	8,296	874	9,170	549
2010	3,424	152	2,634	10,416	862	11,278	558
2011	1,437	405	668	9,574	1,631	11,205	380
2012	889	171	5,156	7,316	1,131	8,447	144
2013	1,690	439	5,849	9,545	601	10,146	296
2014	2,146	325	579	10,321	5,827	16,148	116
Change in 2014	27%	-26%	-90%	8%	870%	59%	-61%

(1) Including direct offers, private placements and exercise of warrants.

(2) In 2012 Excluding US \$ 1.8 billion raised by Israel Electric Company (IEC) through government-guaranteed bond series offerings.

(3) In 2014 including US \$ 3.7 billion raised from international investors by bonds listed on the "TACT Institutional" system.

(4) Including deposit notes and structured bonds.

TABLE 6: DAILY TURNOVER, 2005-2014⁽¹⁾ (US \$ millions)

Year	The Equity Market			The Fixed Income Market			Treasury Bill	Total	
	Total	Thereof:		Total	Thereof:				
		Shares & convertibles	ETN's		Government Bonds	Corporate Bonds			ETN's ⁽²⁾
2005	223	200	23	298	251	21	26	151	672
2006	326	263	63	384	325	27	32	179	889
2007	505	412	93	799	635	95	69	205	1,509
2008	547	446	101	1,120	866	152	102	219	1,886
2009	432	347	85	1,035	806	151	78	163	1,630
2010	547	460	87	875	639	172	64	320	1,742
2011	482	373	109	1,054	805	179	70	328	1,864
2012	279	223	56	1,063	800	188	75	165	1,507
2013	324	248	76	1,202	920	210	72	160	1,686
2014	339	237	102	1,186	901	204	81	179	1,704
Change in 2014	5%	-4%	34%	-1%	-2%	-3%	13%	12%	1%

(1) Including off-the floor transactions.

(2) Including deposit notes and structured bonds.

TABLE 7: MARKET CAPITALIZATION OF LISTED SECURITIES, 2005-2014 (US \$ billions)

Year	The Equity Market		The Fixed Income Market				Treasury Bills
	Shares & convertibles	ETN's ⁽¹⁾	Government Bonds	Corporate Bonds	TACT Institutional	ETN's ⁽²⁾	
2005	112.8	1.5	56.8	12.6	3.7	3.1	18.9
2006	140.7	3.0	62.8	20.0	6.4	4.6	20.9
2007	198.0	4.9	71.2	38.5	11.1	7.3	18.1
2008	106.7	2.3	84.3	34.4	11.2	9.4	18.9
2009	189.4	6.7	97.3	53.3	9.1	10.1	22.6
2010	227.1	9.4	109.7	67.3	9.8	9.7	38.1
2011	157.1	7.5	107.0	61.6	9.3	9.6	32.1
2012	161.8	9.3	123.1	69.9	10.0	11.1	31.4
2013	203.3	16.2	138.5	78.1	9.7	16.9	36.2
2014	200.6	18.1	127.6	67.8	12.6	16.0	33.4

(1) Public Holdings. Source: Bank of Israel.

(2) Public Holdings. Source: Bank of Israel - Including deposit notes and structured bonds.

TABLE 8: ANNUAL YIELDS OF THE EQUITY INDICES, 2005-2014 (in local currency terms)

Year	TA-25	TA-100	TA Blue-Tech ⁽¹⁾	TA-Finance ⁽²⁾	TA Real Estate-15	General Share Index
2005	33.3	29.4	-4.8	36.2	41.2	32.8
2006	12.5	12.0	-2.9	7.5	66.4	5.8
2007	31.4	25.3	-3.5	2.1	0.9	22.9
2008	-46.2	-51.1	-60.9	-56.2	-79.7	-46.4
2009	74.9	88.8	92.7	126.9	125.2	78.8
2010	15.8	14.9	9.1	9.3	15.4	12.6
2011	-18.2	-20.1	-9.4	-34.0	-23.2	-22.1
2012	9.2	7.2	15.6	23.1	14.1	4.5
2013	12.1	15.1	8.6	18.8	26.0	15.3
2014	10.2	6.7	-5.2	-7.7	0.9	11.5

(1) Till March 2011 – Tel-Tech. Till June 2014 - Blue-Tech 50.

(2) Till March 2011 – Finance-15.

TABLE 9: ANNUAL YIELDS OF THE BOND INDICES, 2005-2014 (in local currency terms)

Year	General Bond Index	Government Bond Indices		Corporate Bond Indices			
		CPI Linked Bonds	Non Linked Bonds	Total ⁽¹⁾	CPI Linked Bonds	Dollar Linked Bonds ⁽¹⁾	
					Thereof: Tel-Bond 20 ⁽²⁾	Thereof: Tel-Bond 40 ⁽³⁾	
2005	5.9	6.5	5.4	6.9	-	-	6.1
2006	4.6	4.1	6.4	4.8	-	-	-2.3
2007	4.0	6.7	3.1	5.5	5.8	-	-2.5
2008	-0.7	9.6	9.7	-16.6	-3.2	-22.2	-5.5
2009	15.5	10.3	2.5	40.2	21.6	44.1	6.8
2010	8.0	8.0	5.0	13.0	11.1	10.8	-0.9
2011	2.5	4.3	5.2	-1.8	0.7	-1.6	8.2
2012	8.8	9.4	7.0	10.3	7.9	9.1	7.3
2013	5.4	3.0	4.0	9.5	5.9	6.9	-0.2
2014	4.7	5.8	7.2	1.0	1.0	0.6	3.3

(1) Including corporate bonds (until June 2010 including structured bonds and deposit notes).

(2) Launched in February 2007.

(3) Launched in February 2008.

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Graphic Design: Studio Merhav