Financial Statements
30.9.2017

FIBI FIRST INTERNATIONAL BANK OF ISRAEL

2017

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REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT AS OF SEPTEMBER 30, 2017

The meeting of the Board of Directors held on November 14, 2017, resolved to approve and publish the unaudited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), as of September 30, 2017.

GENERAL OVERVIEW, GOALS AND STRATEGY

Description of the Bank Group's activity

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

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

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

The Bank Group operates through three principal business divisions:

- The corporate division, which conducts all operations relating to corporate and middle-market customers, as well as business and institutional customers active on the capital market. Operating within this division is the business region, covering the operation of all business branches of the Bank.
- The banking division, which conducts all banking and mortgage operations to all customers segments of the Bank, including private banking, households and small businesses. In this framework operates Ubank branches which specialize in private banking and capital market and the branches of PAGI sub-division which specialize in the orthodox and ultra-orthodox segment, branches of Otzar Hachayal Bank and Massad Bank.
- The customer asset division which centralizes the whole capital market operations, monies and foreign currency with private, commercial customers, institutional bodies and capital market professionals. In the framework of the Division operate the dealing rooms in securities, foreign currency and deposits as well as the sub-divisions of investment and pension counseling, the investment center, the Trust Company and the Portfolio Management Company.

In addition to the Bank, the Group includes two commercial banks in Israel, specializing in unique customers populations: Otzar Hachayal, which specializes in providing services to households and commercial customers which emphasize on the employees and retirees of the security system and Massad, which specializes in providing services to the teachers' population in Israel.

FORWARD-LOOKING INFORMATION

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

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

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

Net profit attributed to the Bank's shareholders amounted to NIS 520 million in the first nine months of 2017, compared with NIS 409 million in the same period last year, an increase of 27.1%.

Net return on equity attributed to the Bank's shareholders amounted to 9.4% (annualized) in the first nine months of the year, compared with 7.6% in the same period last year and 7.2% in 2016.

Set out below are the central factors which affected the profit of the Group in the first nine months of 2017 compared with the same period last year:

- Increase in interest income, net, in the amount of NIS 97 million (6.0%).
- Decline in non-interest financing income of NIS 20 million, due mainly to the decrease in gains on realization of bonds and shares amounting to NIS 29 million.
- Increase in the expenses for credit losses in the amount of NIS 50 million, due mainly from an increase in the collective expense for credit losses.
- Decrease in salaries and related expenses in the amount of NIS 25 million (2.0%) explained by the reduction in the employees' positions in the Group.
- Decrease in operating and other expenses, excluding salaries and related expenses, in the amount of NIS 49 million (6.3%) derived mainly from the efficiency measures.
- Decrease in the Bank's share in the profit of investee company in the amount of NIS 24 million, derived mainly from the share of ICC in the proceeds of the sale transaction of Visa Europe shares in the same period last year.
- Decrease in income tax expenses in the amount of NIS 42 million. This decrease derived from the recording of income tax income in respect of previous years in the reported period and from the recording of deferred of income tax expenses in the corresponding period last year, due to the change of tax rates and from the recording of deferred tax liability in respect of temporary differences from the profit of previous years. The increase of profit before taxes offset part of the said effects.

Basic earnings per NIS 0.05 share amounted to NIS 5.18 in the first nine months of the year compared with NIS 4.08 in the same period last year.

The Bank Group's total assets on September 30, 2017 amounted to NIS 129,888 million compared with NIS 126,071 million on September 30, 2016 and NIS 127,907 on December 31, 2016, an increase of 3.0% and 1.5%, respectively.

Credit to the public, net on September 30, 2017 amounted to NIS 80,236 million compared with NIS 78,079 million on September 30, 2016 and NIS 77,328 million at the end of 2016, an increase of 2.8% and 3.8%, respectively.

Deposits from the public on September 30, 2017 amounted to NIS 108,394 million, compared with NIS 104,549 million on September 30, 2016 and NIS 105,817 million at the end of 2016, an increase of 3.7% and 2.4% respectively.

Capital attributed to shareholders totaled NIS 7,706 million on September 30, 2017, compared with NIS 7,411 million on September 30, 2016 and NIS 7,321 million at the end of 2016, an increase of 4.0% and 5.3%, respectively.

The ratio of comprehensive capital to risk components amounted to 13.94%, compared to 13.79% at the end of 2016.

The ratio of Tier I equity capital to risk components as of September 30, 2017 amounted to 10.32%, compared to 10.09% at the end of 2016.

Net profit attributed to the Bank's shareholders amounted to NIS 203 million in the third quarter of 2017, compared with NIS 128 million in the same period last year, an increase of 58.6%.

Profit before taxes amounted to NIS 281 million in the third quarter of 2017, compared with NIS 225 million in the same period last year, an increase of 24.9%.

Net return on equity attributed to the Bank's shareholders amounted in the third quarter of the year to 11.1% (annualized) compared with 7.1% in the same period last year.

Set out below are the central factors which affected the profit of the Group in the third quarter of 2017 compared with the same period last year:

- Increase in interest income, net, in the amount of NIS 12 million (2.2%).
- Increase in non-interest financing income, net, in the amount of NIS 14 million.
- Decrease in the expenses for credit losses, net, in the amount of NIS 12 million.
- Decrease in operating and other expenses, net, in the amount of NIS 22 million (3.3%).
- Income from income taxes in respect of previous years, in the amount of NIS 32 million.

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

Principal financial ratios	For the nine months ended		For the year ended
	30.9.17	30.9.16	31.12.16
			in %
Execution indices			
Return on equity(1)	**9.4%**	7.6%	7.2%
Return on assets(1)	**0.5%**	0.4%	0.4%
Ratio of fees to assets(1)	**1.0%**	1.0%	1.0%
Ratio of equity capital tier 1	**10.32%**	10.05%	10.09%
Leverage ratio	**5.69%**	5.66%	5.52%
Liquidity coverage ratio	**122%**	109%	123%
Efficiency ratio	**69.1%**	73.5%	73.5%
Credit quality indices			
Ratio of provision for credit losses to credit to the public	**1.05%**	1.10%	1.08%
Ratio of impaired debts or in arrears of 90 days or more to credit to the public	**0.98%**	1.07%	1.02%
Ratio of provision for credit losses to total impaired credit to the public	**150%**	135%	147%

Principal data from the statement of income	For the nine months ended		
	30.9.17	30.9.16	Change
		NIS million	%
Net profit attributed to shareholders of the Bank	**520**	409	27.1%
Interest Income, net	**1,710**	1,613	6.0%
Expenses from credit losses	**96**	46	108.7%
Total non- Interest income	**1,104**	1,132	(2.5%)
Of which: Fees	**972**	982	(1.0%)
Total operating and other expenses	**1,944**	2,018	(3.7%)
Of which: Salaries and related expenses	**1,218**	1,243	(2.0%)
Primary net profit per share of NIS 0.05 par value (NIS)	**5.18**	4.08	27.0%

Principal data from the balance sheet		As of			Change vs.	
		30.9.17	30.9.16	31.12.16	30.9.16	31.12.16
				NIS million		%
Total assets		**129,888**	126,071	127,907	3.0%	1.5%
of which:	Cash and deposits with banks	**33,205**	26,672	29,150	24.5%	13.9%
	Securities	**10,590**	16,127	15,776	(34.3%)	(32.9%)
	Credit to the public, net	**80,236**	78,079	77,328	2.8%	3.8%
Total liabilities		**121,563**	118,054	119,973	3.0%	1.3%
of which:	Deposits from banks	**782**	789	755	(0.9%)	3.6%
	Deposits from the public	**108,394**	104,549	105,817	3.7%	2.4%
	Bonds and subordinated capital notes	**5,230**	5,597	5,801	(6.6%)	(9.8%)
Capital attributed to the shareholders of the Bank		**7,706**	7,411	7,321	4.0%	5.3%

Additional data			As of
	30.9.17	30.9.16	31.12.16
Share price (NIS 0.01)	**6,599**	4,790	5,650
Dividend per share (NIS 0.01)	**209**	-	199

(1) Annualized.

Principal Risks to which the Bank is exposed

The Bank group activity involves exposure to risk, the more significant of which are:

- Credit risk, including credit concentration (borrower and sectorial).
- Market risks, the principal of which is interest rate risk.
- Liquidity risks.
- Operating risks.
- Compliance and Money Laundering risks.
- Strategic risk.
- Reputation risk.
- Legal risk.

All material risks are managed by and the responsibility of appointed members of Management. A regulatory requirement for capital adequecy exists in respect of credit, market and operating risks, according to the instructions of Pillar I of Basel. Within the framework of the Internal Capital Adequacy Assessment Process ("ICAAP"), the Group performs an intensive process for the identification of additional risk centers and the challenging of identified risk centers, in accordance with Pillar I. Where required, a supplementory allocation of capital is made in respect of Pillar I risks, and an additional allocation of capital in respect of other risks and sub-risks.

The material developing risks are cyber and data protection risks, cross border risks, conduct risk, risks stemming from technological innovation, regulation risk and low operational efficiency risk. Additional information is detaild in the annual report 2016.

For additional information, see the chapter on risks review below and the risk report on the internet website of the bank.

Objectives and Strategy

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

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

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

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

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

Within the framework of the plan, the Bank would continue to focus on private banking, on financial wealth customers and on medium to large businesses, by providing a comprehensive response modified to the needs of the customer, including in the digital area and technological answer; the Bank is to maintain the leadership of its subsidiaries (Otzar Hachayal and Massad) and the merged banks (UBank and PAGI) in their unique operating niches, mostly in the retail and small business sectors. The Bank is to maintain leadership in the capital market; would conduct actions leading to efficiency in expenses, while improving its manpower position, improving procedures, continue efficiency measures in the branch layout and increase the use of online banking channels, and support performance directed culture and measurement in the Group.

In addition, the Bank promote innovation through implamantation of products and technologies from start-up companies, this alongside the current activity of developing products and technologies in-house by the IT division of the Bank. The fintech activity of the Bank is focused and adjusted to the Bank's needs and its strategic focuses, and as part of the Bank's strategy of "investing in you"- the Bank puts emphasis on solutions that will be possible to combine in interfaces versus the customer and by that to improve the customer's expirience and give him added value. For that, a specific department was build for holistic treatment in innovation and digital.

On November 17, 2016 the Board of Directors of the Bank approved the update of the strategic plan of the Group in respect of efficiency measures, for the years 2016- 2020.

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

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

PRINCIPAL ECONOMIC DEVELOPMENTS

Following are the principal economic developments, which impacted the economic environment in which the Israeli banking sector operated in the first nine months of 2017.

Growth

Nonfinancial economic activity indicators, published in 2017, continue to be positive indicating that the economy continued growing also during 2017 and the labour market continues to show strength with unemployment rates relatively low, although moderationin the growth is still visible compared with previous periods. Additional parameter that shows the recovery is the Bank of Israel's Composite State-of-the-Economy Index rose in the first eight months of 2017 by 2.0%.
The review dated October 2017, issued by the Research Division of Bank of Israel, decreased the product growth forecast for 2017 to 3.1% (from 3.4%) on the background of slowdown in the investment and export areas. The growth forecast for 2018 remained stable at 3.3%.

The State budget

A deficit in the amount of NIS 5.0 billion was measured in the first nine months of 2017, in the budgetary operations of the Government, compared to deficit of NIS 6.3 billion in the corresponding period last year.
During August 2017, S&P grading company updated the forecast of the credit grading of the State of Israel concerning the foreign currency debt from "Neutral" to "positive" and ratified it at a level of A+.

Inflation

The inflationary environment continues to be relatively low, and this following a rise in the Consumer Price Index (CPI for the month) in the first nine months of 2017 of 0.3% . The "known CPI" rose by 0.2%. Bank of Israel estimates state that in 2017 the rate of inflation will be insignificant, under the lower limit of the price stability target of the Government (1%-3%), and that in 2018 the inflation rate will reach 1.0%. As of September 2017, the inflationary expectations for the coming twelve months, derived from the capital market, indicate a low inflation rate of 0.1%.

The housing market

Moderation in the rise of housing prices was noted in recent months. According to the Central Bureau of Statistics, a moderate increase of 0.2% was recorded in prices of housing units in the months of July and August 2017, in comparison to the months of June and July 2017. The prices of transactions in June and July 2017 increased by 4.7% in comparison to the corresponding months last year.
The number of new appartment sold during the first eight months of 2017 was lower by 17% compared to the same period last year (the data excluding seasonal effect).

Labor market

Unemployment data continues to be positive and with slight improvement. The rate of unemployment in August 2017 was 4.1%.

Exchange rate

The exchanged rate of the shekel as against the US dollar fell sharply by 8.3% in the first nine months of 2017, and as against the Euro the exchange rate rose by 2.9%. Bank of Israel continued the trend of foreign currency purchases, inter alia, in accordance with the natural gas program, in order to mitigate the effect of the strengthening of the shekel.

Bank of Israel interest rate

The interest rate remained stable in the course of the first nine months of 2017 at the rate of 0.1% on the background of the low inflation rate. Bank of Israel estimates that the interest rate is expected to remain at its present level until the third quarter of 2018, rising in the forth quarter of 2018 to 0.25%.

The global environment

The Global Economy continues to improve moderately.The OECD organization increased in the month of October its growth forecast for 2017 for all the major economies and the global trade, so that the forecast for the USA, for which the forecast in respect of 2017 was increased from 2.1% in the previous forecast, given in September 2017 , to 2.2% in the current forecast, and the growth forecast for 2018 was increased from 2.1% to 2.3%.

The capital markets

The principal equities indices in the local capital market in the first nine months of 2017 recorded mixed trend: the TA-125 Index rose by 0.8% and the TA-35 Index fell by 3.4% and the TA-90 rose by 15.9%. The general bond Index rose by 3.3%.

The average daily turnovers recorded a raise in the share indices (TA-35 and TA-125) compared with fall in the bonds area.

The S&P-500 Index rose by 12.5% during the first nine months of 2017. In Europe, the Eurostocks-600 Index rose by 7.4% and the developing countries Index (the EM-MSCI Index) rose by 25.5%.

For additional details, see principal developments in Israel and globally, in the Chapter "Corporate governance - additional details".

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 520 million in the first nine months of 2017, as compared to NIS 409 million in the same period last year, an increase of 27.1%.

The basic net profit per share of NIS 0.05 amounted to NIS 5.18 in the first nine months of the year, as compared to NIS 4.08 in the same period last year.

The return of net profit to the capital attributed to the shareholders of the Bank (annualized) amounted to 9.4% in the period January-September 2017, as compared to 7.6% in the same period last year and 7.2% in 2016.

DEVELOPMENT IN INCOME AND EXPENSES

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

Set out below is the composition of net financing earnings:

			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
							NIS million
Interest income	**615**	**753**	**640**	627	682	670	547
Interest expenses	**50**	**170**	**78**	71	129	136	21
Net interest income	**565**	**583**	**562**	556	553	534	526
Non-interest financing income	**38**	**21**	**12**	24	24	33	34
Net financing earnings	**603**	**604**	**574**	580	577	567	560

	First nine months	
	2017	2016
		NIS million
Interest income	**2,008**	1,899
Interest expenses	**298**	286
Net interest income	**1,710**	1,613
Non-interest financing income	**71**	91
Net financing earnings	**1,781**	1,704

Set out below is an analysis of net financing earnings:

	2017			2016			
	Q3	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
							NIS million
Earnings from current activity	**590**	**591**	**564**	571	555	536	540
Reconciliations to fair value of derivative instruments	**1**	**3**	**(1)**	5	10	3	(2)
Income from realization and reconciliations to fair value of bonds	**8**	**7**	**3**	4	3	21	13
Earnings from investments in shares	**4**	**3**	**8**	-	9	7	9
Net financing earnings	**603**	**604**	**574**	580	577	567	560

	First nine months	
	2017	**2016**
		NIS million
Earnings from current activity	**1,745**	1,631
Reconciliations to fair value of derivative instruments	**3**	11
Income from realization and reconciliations to fair value of bonds	**18**	37
Earnings from investments in shares	**15**	25
Net financing earnings	**1,781**	1,704

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

	For the nine months ended September 30,	
	2017	**2016**
		in %
Income rate on asset bearing interest	**2.33**	2.27
Expense rate on liabilities bearing interest	**0.57**	0.53
Total interest spread	**1.76**	1.74
Ratio between net interest income and assets bearing interest balance	**1.98**	1.93

The increase in net interest income compared with the same period last year, derives from an increase in the volume of assets was partially offset by the recording interest income regarding previous years in the same period last year. These income derived from the cancellation of a liabilty recorded in a consolidated subsidiary due to a compromise settlement sighned on March 2016, between the consolidated subsidiary and a third party.

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

Expenses from credit losses amounted to NIS 96 million compared with NIS 46 million in the same period last year. The increase in the expenses from credit losses derives from an increase in the expense concerning the collective provision for credit losses.

Expenses from credit losses as a ratio of total credit to the public amounted to a rate of 0.16% compared with 0.08% in the same period last year and 0.10% in 2016.

Set out below are details of expenses in respect of credit losses in respect of debts and off-balance sheet credit instruments:

	For the nine months ended September 30,	
	2017	**2016**
		NIS million
Individual expense in respect of credit losses	**180**	160
Decrease in individual expense in respect of credit losses and collection of debts written off in accounting	**(173)**	(156)
Individual expense, net in respect of credit losses	**7**	4
Collective expense in respect of credit losses	**89**	42
Total expenses in respect of credit losses	**96**	46
Of which:		
Expense in respect of commercial credit	**51**	22
Expense in respect of housing credit	**1**	1
Expense in respect of other private credit	**44**	23
Ratio of individual expense in respect of credit losses to average total credit to the public(1)	**0.01%**	0.01%
Ratio of collective expense in respect of credit losses to average total credit to the public(1)	**0.15%**	0.07%
Ratio of total expenses in respect of credit losses to average total credit to the public(1)	**0.16%**	0.08%

(1) Annualized.

For additional information regarding expenses for credit losses, see Chapter "Review of Risks" below.

Fees totaled NIS 972 million, compared with NIS 982 million in the same period last year, a decrease of 1.0%. The decrease derived mainly from the effect of the decline in the exchange rate of foreign currency on the fees income.

Set out below are details of fees income:

	For the nine months ended		
	2017	**2016**	**change**
Fees:		NIS million	%
Account management	**187**	186	0.5
Credit cards	**74**	79	(6.3)
Transactions in securities	**321**	323	(0.6)
Credit processing	**11**	12	(8.3)
Conversion differentials	**104**	106	(1.9)
Fees from financing transactions	**69**	68	1.5
Other Fees	**206**	208	(1.0)
Total Fees	**972**	982	(1.0)

Other income totaled NIS 61 million, compared with NIS 59 million in the same period last year.

Set out below are the factors which affected other income:

1. On March 30, 2017 the transaction for the sale of the Bank's leasing rights in the areas in an office building in Tel Aviv was consummated, for a proceed of NIS of 84 million. The gain from the sale of these rights amounts to NIS 41 million, before tax effect. In the same period last year the gain from realization of buildings and equipment amounted to NIS 18 million.
2. An income in the amount of NIS 12 million derived from the completion of the transaction of the sale of FIBI(Swiss) activity to a third party (see the chapter on main investee companies below).
3. In the corresponding period last year an income in the amount of NIS 32 million was included derived from the Bank's share in the proceeds of the transaction of the sale of Visa Europe shares.

Operating and other expenses totaled NIS 1,944 million compared with NIS 2,018 million in the same period last year, a decrease of 3.7%.

Set out below are details of operating and other expenses:

	For the nine months ended September 30,		
	2017	2016	change
		NIS million	%
Salaries and related expenses	**1,218**	1,243	(2.0)
Maintenance and depreciation of premises and equipment	**287**	309	(7.1)
Amortization of intangible assets	**69**	93	(25.8)
Other expenses	**370**	373	(0.8)
Total operating and other expenses	**1,944**	2,018	(3.7)

Salaries and related expenses totaled NIS 1,218 million compared with NIS 1,243 million in the same period last year, a decrease of 2.0% explained mainly from decline in payroll expenses due to reduction in the number of employees in the group.

Expenses on depreciation and maintenance of premises and equipment totaled NIS 287 million, compared to NIS 309 million in the same period last year, a decrease of 7.1%, due mainly from the efficiency measures including closure and consolidation of branches and head-office areas.

Amortizations of intangible assets totaled NIS 69 million compared to NIS 93 million in the same period last year, a decrease stemming from the end of amortization of the excess of cost of the acquisition of Otzar Hachayal.

The provision for taxes on operating earnings amounted to NIS 261 million compared with NIS 303 million in the same period last year. The effective tax rate as a proportion of earnings before taxes amounted to 33.7%, compared with the statutory rate of tax of 35%.

The effective tax rate was affected from income from taxes in respect of previous years (see note 15 to the financial statements).

The Bank's share in the operating earnings of investee company after the tax effect amounted to NIS 38 million, compare with NIS 62 million in the same period last year. A decrease of NIS 24 million, steming from ICC's share in the proceeds from the sale of Visa Europe shares that were recorded in the corresponding period last year.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 587 million. This amount was affected by the net profit for the period attributed to the shareholders of the Bank of NIS 520 million, by adjustments in respect of available-for-sale securities in an amount of NIS 51 million, and by other comprehensive profit in respect of employee benefits of NIS 16 million.

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

The consolidated balance sheet as of September 30, 2017 amounted to NIS 129,888 million compared with NIS 126,071 million as of September 30, 2016 and NIS 127,907 million as of December 31, 2016, an increase of 3.0% and 1.5%, respectively.

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

	30.9.17	31.12.16	Change
		NIS million	%
Credit to the public, net	**80,236**	77,328	3.8
Securities	**10,590**	15,776	(32.9)
Cash and deposits with banks	**33,205**	29,150	13.9
Premises and equipment	**1,097**	1,133	(3.2)
Deposits from the public	**108,394**	105,817	2.4
Bonds and subordinated capital notes	**5,230**	5,801	(9.8)
Shareholders' equity	**7,706**	7,321	5.3

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

	30.9.17	31.12.16	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**79**	119	(33.6)
Guarantees and other liabilities	**7,408**	7,960	(6.9)
Unutilized credit lines for derivatives instruments	**2,571**	2,857	(10.0)
Unutilized revolving credit and other on-call credit facilities	**9,756**	10,806	(9.7)
Unutilized credit lines for credit card facilities and facilities for the lending of securities	**7,259**	6,551	10.8
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**5,500**	6,636	(17.1)
Total	**32,573**	34,929	(6.7)

Derivative financial instruments:

	September 30, 2017			December 31, 2016		
	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value	Face value
						NIS million
Interest contracts	**242**	**251**	**16,399**	261	282	18,464
Currency contracts	**540**	**500**	**69,439**	445	464	67,412
Contracts in respect of shares	**419**	**419**	**48,465**	625	625	62,914
Commodities and other contracts	**2**	**1**	**115**	1	1	106
Total	**1,203**	**1,171**	**134,418**	1,332	1,372	148,896

Credit to the public, net as of September 30, 2017 amounted to NIS 80,236 million compared with NIS 77,328 million as of December 31, 2016, an increase of 3.8%.

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

	As of				Segment's share of credit to the public as of	
	30.9.17	**31.12.16**		**Change**	**30.9.17**	**31.12.16**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**65,158**	62,356	2,802	4.5	**81.2**	80.6
- CPI-linked	**10,073**	10,142	(69)	(0.7)	**12.6**	13.1
Foreign currency (including f-c linked)	**4,433**	4,381	52	1.2	**5.5**	5.7
Non-monetary items	**572**	449	123	27.4	**0.7**	0.6
Total	**80,236**	77,328	2,908	3.8	**100.0**	100.0

Gross Credit to the public, before provision for credit losses, by supervisory segment of activity

			As of		Change
	30.9.17	**31.12.16**	**30.9.16**	**31.12.16**	**30.9.16**
			NIS million	%	
Corporate business segment	**18,041**	17,916	18,448	0.7	(2.2)
Middle market business segment	**5,002**	4,517	5,088	10.7	(1.7)
Small and minute business segment	**15,873**	15,133	14,955	4.9	6.1
Household segment	**41,789**	39,878	39,621	4.8	5.5
Private banking segment	**49**	47	114	4.3	(57.0)
Institutional entities	**337**	684	718	(50.7)	(53.1)
Total	**81,091**	78,175	78,944	3.7	2.7
Of which, consumer credit excluding housing loans and credit cards:					
Household segment	**16,079**	15,204	15,137	5.8	6.2
Private banking segment	**19**	18	85	5.6	(77.6)
Total	**16,098**	15,222	15,222	5.8	5.8
Housing loans in Israel:					
Household segment	**22,573**	21,741	21,388	3.8	5.5
Total	**22,573**	21,741	21,388	3.8	5.5

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

Total credit risk to the public amounted to NIS 114,616 million on September 30, 2017 compared with NIS 113,336 million on December 31, 2016.

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

Sector	As of September 30, 2017		As of December 31, 2016		
	Total credit risk	Sector's share in total credit risk	Total credit risk	Sector's share in total credit risk	Change
	NIS million	%	NIS million	%	%
Financial services (including holding companies)	**14,645**	**12.8**	14,585	12.9	0.4
Construction and real estate	**14,930**	**13.0**	15,175	13.4	(1.6)
Industry	**10,777**	**9.4**	10,860	9.6	(0.8)
Commerce	**8,445**	**7.4**	9,121	8.0	(7.4)
Information and communications	**2,205**	**1.9**	2,508	2.2	(12.1)
Private customer, including housing loans	**54,329**	**47.4**	52,019	45.9	4.4
Others	**9,285**	**8.1**	9,068	8.0	2.4
Total	**114,616**	**100.0**	113,336	100.0	1.1

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

		As of September 30, 2017			
Borrower no.	Sector of the economy	Balance-sheet credit risk(*)	Off-balance-sheet credit risk	Aggregate credit risk	Aggregate credit risk after permitted deductions
					NIS million
1.	Financial services	**1,840**	**102**	**1,942**	**673**
2.	Financial services	**751**	**6**	**757**	**757**
3.	Industry	**475**	**160**	**635**	**635**
4.	Financial services	**501**	**-**	**501**	**501**
5.	Financial services	**47**	**362**	**409**	**89**
6.	Financial services	**379**	**1**	**380**	**8**

		As of December 31, 2016			
Borrower no.	Sector of the economy	Balance-sheet credit risk(*)	Off-balance-sheet credit risk	Aggregate credit risk	Aggregate credit risk after permitted deductions
					NIS million
1.	Financial services	1,625	279	1,904	718
2.	Financial services	800	6	806	806
3.	Electricity and water supply	560	21	581	230
4.	Industry	3	556	559	559
5.	Financial services	503	2	505	88
6.	Commerce	493	2	495	495

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

The investment in securities totaled NIS 10,590 million compared with NIS 15,776 million at the end of 2016, a decrease of 32.9%.

Set out below is the composition of the portfolio:

	As of		Share of total securities	
	30.9.17	31.12.16	30.9.17	31.12.16
		NIS million		%
Government bonds	**7,833**	11,619	**74.0**	73.6
Banks' bonds(1)	**836**	2,052	**7.9**	13.0
Other bonds (corporate and asset-backed)	**817**	752	**7.7**	4.8
Other bonds (corporate and asset-backed) guaranteed by governments	**942**	1,175	**8.9**	7.5
Shares(2)	**162**	178	**1.5**	1.1
Total	**10,590**	15,776	**100.0**	100.0

(1) The balance includes bonds that were issued by banks' issuing companies.
Of which: Banks' foreign-currency bonds guaranteed by foreign governments in the amount of NIS 630 million (December 31, 2016 - NIS 1,324 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 97 million, investment in foreign currency shares of NIS 52 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 6 million (31.12.16 - investment in private equity funds amounting to NIS 111 million, perpetual capital notes amounting to NIS 4 million, investment in foreign currency shares of NIS 47 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 10 million).

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

	As of				Segment's share of total securities	
	30.9.17	31.12.16		Change	30.9.17	31.12.16
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**3,369**	6,966	(3,597)	(51.6)	**31.9**	44.2
- CPI-linked	**1,041**	1,667	(626)	(37.6)	**9.8**	10.6
Foreign currency denominated & linked	**6,018**	6,965	(947)	(13.6)	**56.8**	44.1
Non-monetary items	**162**	178	(16)	(9.0)	**1.5**	1.1
Total	**10,590**	15,776	(5,186)	(32.9)	**100.0**	100.0

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on September 30, 2017:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**53**	**7**	**102**	**162**
Local currency government bonds	**3,817**	**-**	**-**	**3,817**
Local currency corporate bonds	**334**	**259**	**-**	**593**
Non-asset backed foreign-currency and f-c linked bonds	**72**	**5,638**	**-**	**5,710**
MBS bonds	**-**	**308**	**-**	**308**
Total	**4,276**	**6,212**	**102**	**10,590**
% of portfolio	**40.3**	**58.7**	**1.0**	**100.0**

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

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

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

		As of
	30.9.17	31.12.16
		NIS million
Israel (incl. Israel Government - 30.9.17 - NIS 2,499 million, 31.12.16 - NIS 1,961 million)	**2,691**	2,140
USA (incl. USA Government - 30.9.17 - NIS 1,482 million, 31.12.16 - NIS 2,001 million)	**1,793**	2,325
France	**159**	314
UK	**124**	228
Europe - others * (30.9.17 - 2 countries; 31.12.16 - 6 countries)	**123**	474
Germany (incl. Germany Government or guaranteed by it - 30.9.17 - NIS 546 million, 31.12.16 - NIS 527 million)	**546**	582
Canada	**102**	129
Netherlands	**-**	66
Australia	**-**	88
Far East, New Zealand* and others (30.9.17 - 4 countries; 31.12.16 - 5 countries)	**172**	199
Total	**5,710**	6,545

It should be noted that there is no issuer (except the Israel Government and USA Government) whose bond balance exceeds 2% of the shareholders' equity of the Bank.

* For details of total exposure to foreign countries, including Spain and Ireland, see Chapter "Credit risk management" below.

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

		As of
	30.9.17	31.12.16
		NIS million
Financial services	**52**	69
Banks	**111**	262
Industry	**47**	34
Electricity and water	**145**	*515
Construction and real estate	**105**	108
Communications and computer services	**10**	19
Commerce	**37**	20
Public and community services	**5**	20
Transportation	**66**	74
Hotels, hospitality and food services	**15**	15
Total	**593**	1,136

* 31.12.16 - Including NIS 351 million guaranteed by the Israel Government.

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

- **Non asset-backed bonds denominated in or linked to foreign currency**-amounting to NIS 5,710 million (Dollar 1,618 million) (includes foreign corporations amounting to NIS 1,501 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 192 million, foreign currency denominated Israel Government bonds amounting to NIS 2,499 million and foreign government bonds amounting to NIS 1,518 million). All of the foreign bonds are investment grade and 98% of the portfolio is rated A or higher; 2% of the exposure is to leading banking and financial institutions in OECD countries. This portfolio is diversified, in a manner whereby exposure to any single issuer (which is not a government or financial/ banking institution with ownership of more than one government) does not exceed 3.2% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 3 years. The balance of unrealized gross profits (included in shareholders' equity under reconciliations to fair value in respect of the presentation of securities available for sale) as of the report date in respect of this portfolio amounted to NIS 58 million (Dollar 17 million) compared with NIS 2 million (Dollar 0.5 million) on December 31, 2016.
- **Mortgage Backed Securities (MBS)** - amount to NIS 308 million (Dollar 87 million).

  The bonds were issued by federal agencies in the USA. Of these, NIS 303 million (Dollar 86 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 5 million (Dollar 1 million) was issued by the US federal agencies Fannie Mae and Freddie Mac.

  Set out below is a sensitivity analysis as of September 30, 2017 of the effect of changes in the interest rate on the rate of early repayments and the fair value of the MBS portfolio (including economic hedging of interest rate swaps):

	Change in rate of early repayments	Change in fair value
	Percentage points	Dollar million
Increase of 200 base points	**(4.2)**	**(5.3)**
Increase of 100 base points	**(3.6)**	**(2.5)**
Decrease of 100 base points	**12.5**	**1.3**
Decrease of 200 base points	**27.7**	**1.1**

- **Private equity funds -** investments in private equity funds amounted to NIS 97 million (Dollar 27 million). The balance of Commitments to invest in private equity funds amounted to NIS 62 million as of September 30, 2017.

The balance of profits, net (before the tax effect), included in other cumulative comprehensive profit, in respect of the difference between the fair value of securities included in the available-for-sale portfolio and their amortized cost, as of September 30, 2017, amounted to NIS 63 million.

Cash and deposits at banks on September 30, 2017 totaled NIS 33,205 million compared with NIS 29,150 million at the end of 2016, an increase of 13.9%

Deposits from the public on September 30, 2017 totaled NIS 108,394 million compared with NIS 105,817 million at the end of 2016, an increase of 2.4%.

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

	As of		Change		Segment's share of total deposits from the public on	
	30.9.17	**31.12.16**		**Change**	**30.9.17**	**31.12.16**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**82,927**	77,324	5,603	7.2	**76.5**	73.1
- CPI-linked	**6,375**	6,125	250	4.1	**5.9**	5.8
Foreign currency denominated & linked	**18,512**	21,906	(3,394)	(15.5)	**17.1**	20.7
Non-monetary items	**580**	462	118	25.5	**0.5**	0.4
Total	**108,394**	105,817	2,577	2.4	**100.0**	100.0

Deposits from the public by supervisory segment of activity

			As of		Change
	30.9.17	**31.12.16**	**30.9.16**	**31.12.16**	**30.9.16**
			NIS million		%
Corporate business segment	**9,031**	10,392	8,924	(13.1)	(1.2)
Middle market business segment	**4,929**	5,584	5,038	(11.7)	(2.2)
Small and minute business segment	**15,702**	16,359	16,682	(4.0)	(5.9)
Household segment	**46,538**	45,709	45,796	1.8	1.6
Private banking segment	**7,810**	8,325	7,986	(6.2)	(2.2)
Institutional entities	**24,384**	19,448	20,123	25.4	21.2
Total	**108,394**	105,817	104,549	2.4	3.7

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of September 30, 2017, amounted to NIS 297 billion, as compared to NIS 286 billion at the end of 2016.

Bonds and deferred debt notes amounted at September 30, 2017 to NIS 5,230 million, as compared with NIS 5,801 million at December 31, 2016, a decrease of 9.8%.

On February 8, 2017 and on September 27, 2017 the First International Issuance Ltd., a wholly owned subsidiary of the Bank, issued on private and public placement, respectively, subordinated capital notes with loss absorbtion mechanizm, at par value of NIS 50 million and NIS 302 million, respectively in proceeds of NIS 52 million and NIS 302 million, respectively. The proceeds of the issuance of the subordinated notes was deposited at the Bank. The Bank committed to fullfil the conditions of the issued subordinated capital notes.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on September 30, 2017 to NIS 7,706 million, as compared with NIS 7,321 million on December 31, 2016, an increase of 5.3%.
For detailes regarding the development of the other comprehensive profit, see the Chapter "Material developments in income, expenditure and in other comprehensive profit".

CAPITAL ADEQUACY

Minimum capital ratios

Bank of Israel issued on May 30, 2013 an amendment to Proper Conduct of Banking Business Directives Nos. 201-205, 208, 211 and 299, in the matter of "Measurement and capital adequacy", which adopt the Basel instructions. The initial implementation was set to January 1, 2014, and the implementation will be gradual in accordance to the transitional instructions in Proper Conduct of Banking Business Directive No. 299 "Measurement and capital adequacy– supervisory capital – transitional instructions". These instruction require that the ratio of Tier I equity capital to weighted average risk assets should be no less than 9% and the ratio of comprehensive capital to average risk assets should be no less than 12.5%for all banking corporations, the total consolidated stated assets of which does not exceeds 20% of total stated assets of the banking sector (including the Bank).

To these minimal capital ratios an additional capital requirement was added at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date. This requirement was applied gradually over eight quarters until January 1, 2017.

The internal capital goals as were set by the Board of Directors are as follows:

- In a regular business situation – the capital goals will be the higher between the ratio of Tier I equity capital 9.30%, and the ratio of the comprehensive capital, 12.79%, as were set in accordance to the forecasted regulatory demand at the time of the approval of the ICAAP process, to the actual demanded regulatory rates.
- In stress situations - the ratio of Tier I equity capital shall not be less than 6.50%, and the ratio of comprehensive capital shall not be less than 9.00%.

In accordance with the transitional instructions, the supervisory adjustments and the deduction from capital as well as the minority rights, which are not qualified for inclusion in the supervisory capital, shall be gradually deducted from the capital at the rate of 20% per annum, beginning on January 1, 2014 and until January 1, 2018. Capital instruments, which are no longer qualified as supervisory capital, shall be recognized, up to the maximum of 80%, on January 1, 2014, and in each consecutive year, this maximum would be reduced by 10% until January 1, 2022. As of January 1, 2017, the rate of deductions from the regulatory capital amounts to 80%, and the maximum rate of instruments qualified as supervisory capital amounts to 50%.

Operational Efficiency

The Supervisor of banks issued a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multi-annual program for the improvement of efficiency.
A banking corporation that complies with the terms of the letter would be entitled to a relief, whereby it may spread, by the "straight line" method, over a period of five years, the effect of the cost of the program for the purpose of calculating the capital adequacy.
The Board of Directors approved on November 17, 2016, a revision of the strategic program of the Bank concerning the efficiency measures aspect.
The cost of the program is estimated at NIS 207 million (before the tax effect). Without the said relief, the implementation of the efficiency measures, as of September 30, 2017 would have reduced the capital adequacy ratio by 0.16%.

Implementation of the instructions

As stated above, in accordance with Bank of Israel instructions, the Bank implements the Basel instructions.

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

Pillar II – the Bank is required to conduct an internal process for the assessment of capital adequacy (the ICAAP process). This process is designed to ensure the maintenance of an adequate level of capital means supporting the overall risks inherent in the operations of the Bank. The ICAAP document relating to the data as of June 30, 2016, has been dully submitted to bank of Israel. The infrastructure for the capital adequacy, as approved by the Bank, serves as a basis for the internal process conducted at each of the banking subsidiaries, subject to required adjustments, and on the basis of the specific risk profile of each subsidiry. The subsidiary companies had conducted the ICAAP process in relation to the December 31, 2016 data.

		As of	
		30.9.17	**31.12.16**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments (NIS million)**		
	Tier 1 capital, after deductions and supervisory adjustments	**7,977**	7,684
	Tier 2 capital	**2,796**	2,819
	Total capital	**10,773**	10,503
2.	**Weighted balances of risk assets (NIS million)**		
	Credit risk	**70,557**	69,262
	Market risk	**804**	748
	Operational risk	**5,943**	6,168
	Total weighted balances of risk assets	**77,304**	76,178
3.	**Ratio of capital to risk assets (%)**		
	Raito of tier 1 equity capital to risk assets	**10.32%**	10.09%
	Total ratio of capital to risk assets	**13.94%**	13.79%
	Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.29%**	9.25%
	Minimal ratio of capital required by the Supervisor of Banks	**12.79%**	12.75%

The Tier I equity capital ratio as of September 30, 2017, amounted to 10.32%, in comparison with 10.09% on December 31, 2016. The ratio of comprehensive capital to risk components as of September 30, 2017, amounted to 13.94%, in comparison with 13.79% on December 31, 2016.

The comprehensive capital as of September 30, 2017 amounted to NIS 10,773 million, in comparison with NIS 10,503 million on December 31, 2016. The increase in the capital base stemmed mostly from the profits for the period in the amount of NIS 520 million. This increase was partly offset from dividend paid in the amount of NIS 210 million and from reduction in instruments issued by the Bank qualified for inclusion in the supervisory capital in the amount of NIS 51 million. Risk assets as of September 30, 2017 amounted to NIS 77,304 million as compared with NIS 76,178 million on December 31, 2016.

The comprehensive capital ratios and the Tier I equity capital ratios of the significant subsidiaries, in accordance with the "framework for measurement and capital adequacy" of Basel, are:

	September 30, 2017	**December 31, 2016**
		In percent
Significant subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of Tier 1 capital to risk assets	**10.86**	10.63
Ratio of overall capital to risk assets	**13.32**	13.39
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**11.89**	13.17
Ratio of overall capital to risk assets	**12.96**	14.31

Leverage ratio in accordance with instructions of the Supervisor of Banks - On April 28, 2015, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio. The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the prescribed transitional arrangements. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis. A banking corporation, the total consolidated stated assets of which equals or exceeds 20% of total stated assets of the banking sector as a whole, should attain a leverage ratio of no less than 6%. In accordance with the above, the minimum leverage ratio required from the Bank is 5%. The minimum leverage ratio for a banking corporation applies as from January 1, 2018 and thereafter. The leverage ratio of the Bank at September 30, 2017, amounts to 5.69%.

DIVIDEND DISTRIBUTION POLICY

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

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

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

It should be noted that in addition to the provisions of the Companies Law, dividend distribution by the Bank is subject to additional restrictions that are detailed in Note 33.g. to the financial statements of 2016, which have the following change:

In the financial statements for 2016 it was noted that dividend distribution in a rate exceeding 33% of the annual profit, the Supervisor of Banks should be notified.

In accordance with the updated letter of the Supervisor of Banks to the Bank, a dividend distribution in a rate of up to 50% of the net profit of the current year, there is no need to notify the Supervisor in advance.

Following are details regarding dividends distributed by the Bank, as from the year 2015:

Declaration date	Payment date	Total dividend paid	Dividend per share
			NIS million
9 June 2015	30 June 2015	60	0.60
18 November 2015	6 December 2015	70	0.70
17 November 2016	5 December 2016	200	1.99
15 March 2017	2 April 2017	70	0.70
23 May 2017	14 June 2017	70	0.70
14 August 2017	31 August 2017	70	0.70

On August 14, 2017 the Board of Directors resolved to update the dividend policy, thus the net annual profit of the Bank, qualified to be distributed will refer to the annual net profit of the current year. The remaining condition were unchanged. It is clarified the the implementation of the updated policy will take into account the dividend distribution starting with and including the dividend paid at June 14, 2017.

Subsequent to balance sheet date, on November 14, 2017, the Board of directors of the Bank resolved to distribute a dividend in cash to shareholders of the Bank in a total amount of NIS 100 million. The determining date for the distribution of the dividend is November 23, 2017, and the date of payment is December 3, 2017. The amount of the dividend is before any taxes, including the tax that the Bank has to withhold in terms of the law.

SUPERVISORY SEGMENTS OF ACTIVITY

A. Definitions:

- **Private individuals** - individuals, including individuals managing joint account, which at the date of the report do not have an obligation to the Bank, or their obligation were classified in the economic segment-"private individuals-housing loans and other".
- **Private banking segment** - private individuals the balance of their financial asset portfolio on consolidated basis, (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- **Households** - private individuals except for customers included in the private banking.
- **Business** - Customer which is not included in the "private individuals" definition and is not institutional body or banking entity.
- **Activity turnover** - Annual sales turnover or annual volume of income.
- **Minute business** - a business the turnover of which is less than NIS 10 million.
- **Small business** - a business the turnover of which is higher than or equals NIS 10 million, and is less than NIS 50 million.
- **Middle-market business** - a business the turnover of which is higher than or equals NIS 50 million, and is less than NIS 250 million.
- **Large business** - a business the turnover of which is higher than or equals NIS 250 million.
- **Institutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers' funds.

Where the income turnover of business customer does not represents its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment. In addition, in commercial accounts active in the capital market the classification to customers segment is according to the value of assets in the balance sheet or average value of the assets in the Bank, and in commercial accounts active in the real estate area the classification is in accordance to the value of assets in the balance sheet or the volume of facilities.
According to the transition directive set in the FAQ file of the Bank of Israel, it was determined that business customer, which is indebtness to the bank is up to NIS 80 thousands (including credit facilities etc.) and the bank does not have information regarding its activity turnover, will be classified to the relevant supervisory segment of activity according to its total financial assets at the bank (including financial deposits, securities portfolio and other financial assets), after multiplying them by 10.

- **Financial management segment** - includes trading and asset and liability management operations as defined in the Directives of the Supervisor of Banks. The segment also includes the Bank's share in the earnings of ICC.

Principles for apportioning operating results among the different segments

- Net interest income-includes:
  - The financial margin between borrowing and lending activity, which is calculated as the spread between the interest obtained or paid and the average prices of money for the Bank, which derive from the duration of assets or liabilities in the relevant linkage segments.
  - Interest on the weighted capital attributed to the segment (on the basis of the risk assets attributed to each segment).
  - The customer segments are charged with the excess financing costs (over and above the cost of raising sources) of the capital notes attributed to the segment.

- Expenses on credit losses - Expenses on credit losses which were recorded in respect of its customers are attributed to each segment of activity.
- Non-interest income - Commission income, non-interest financing income and other income deriving from its customers' activity are charged to each segment of activity.
- Operating expenses - Attributed to each segment of activity are the direct expenses at the branches of the Bank and the head office deriving from the provision of services to the segment's customers, according to loading methodology, as follow:
  - Direct costs include:
    - Salary and organization expenses in the branches- are loaded on the basis of the "activity index" standard, which translates activity with customers into labor inputs.
    - Computer expenses at the branches- are loaded in accordance with the number of transactions carried out by the customers.
    - Salary, organization and computer expenses of the business units at head office- are loaded in accordance with loading parameters, corresponding with the nature of activity of the customer (such as: distribution of credit balances, number and volume of transactions).
  - The indirect expenses including the expenses of the head office and computer expenses of the back office divisions and the general computer expenses which are not classified- these expenses are loaded in accordance to the nature of the expense. Most of the indirect expenses are loaded according to the distribution of the direct expenses, and the remaining expenses according to the distribution of income.
- Taxes on income - The provision for taxes on the earnings of each segment is calculated in accordance with the statutory rate of tax, with certain adjustments deriving from such factors as unrecognized expenses.
- Net profit attribution to noncontrolling interests - The charging of noncontrolling interests in the different segments of activity is calculated on the basis of the net profit of subsidiaries with noncontrolling interests, as these profit are attributed to the different segments of activity.

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

a. Total income*

	For the three months ended September 30,			Segment's share of total income	
	2017	**2016**	**Change**	**30.9.17**	**30.9.16**
		NIS million	%		%
Large business segment	**108**	108	-	**11.6**	11.9
Medium business segment	**52**	50	4.0	**5.6**	5.5
Small and minute business segment	**225**	213	5.6	**24.2**	23.4
Household segment	**397**	363	9.4	**42.6**	40.0
Private banking segment	**21**	26	(19.2)	**2.3**	2.9
Institutional entities	**53**	46	15.2	**5.7**	5.1
Financial management segment	**74**	102	(27.5)	**8.0**	11.2
Total	**930**	908	2.4	**100.0**	100.0

	For the nine months ended September 30,			Segment's share of total income	
	2017	**2016**	**Change**	**30.9.17**	**30.9.16**
		NIS million	%		%
Large business segment	**328**	315	4.1	**11.7**	11.5
Medium business segment	**155**	153	1.3	**5.5**	5.6
Small and minute business segment	**670**	627	6.9	**23.8**	22.9
Household segment	**1,167**	1,129	3.4	**41.4**	41.1
Private banking segment	**82**	77	6.5	**2.9**	2.8
Institutional entities	**162**	166	(2.4)	**5.8**	6.0
Financial management segment	**250**	278	(10.1)	**8.9**	10.1
Total	**2,814**	2,745	2.5	**100.0**	100.0

b. Net profit (loss) attributed to the shareholders of the bank

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
		NIS million		NIS million
Large business segment	**43**	29	**124**	93
Medium business segment	**19**	12	**28**	32
Small and minute business segment	**56**	31	**106**	82
Household segment	**6**	(2)	**33**	3
Private banking segment	**2**	2	**20**	5
Institutional entities	**20**	5	**35**	7
Financial management segment	**57**	51	**174**	187
Total	**203**	128	**520**	409

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Total assets				
	For the nine months ended September 30,			% of total assets	
	2017	2016	Change	30.9.17	30.9.16
		NIS million	%	%	%
Large business segment	**17,425**	18,375	(5.2)	**13.5**	14.5
Medium business segment	**4,681**	4,435	5.5	**3.6**	3.5
Small and minute business segment	**15,234**	14,748	3.3	**11.7**	11.6
Household segment	**40,217**	37,729	6.6	**31.0**	29.8
Private banking segment	**185**	421	**(56.1)	**0.1**	0.3
Institutional entities	**616**	696	(11.5)	**0.5**	0.5
Financial management segment	**51,440**	50,418	2.0	**39.6**	39.8
Total	**129,798**	126,822	2.3	**100.0**	100.0

** The decline results from the sale of the activity of FIBI (Swiss), see the chapter of Investee Companies below.

	Total liabilities				
	For the nine months ended September 30,			% of total liabilities	
	2017	2016	Change	30.9.17	30.9.16
		NIS million	%	%	%
Large business segment	**9,178**	9,228	(0.5)	**7.5**	7.8
Medium business segment	**5,292**	5,036	5.1	**4.4**	4.2
Small and minute business segment	**16,426**	16,439	(0.1)	**13.5**	13.8
Household segment	**46,201**	44,160	4.6	**38.0**	37.1
Private banking segment	**7,588**	7,709	(1.6)	**6.2**	6.5
Institutional entities	**22,256**	22,499	(1.1)	**18.3**	18.9
Financial management segment	**14,773**	13,966	5.8	**12.1**	11.7
Total	**121,714**	119,037	2.2	**100.0**	100.0

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

BUSSINESS SEGMENTS - SMALL AND MINUTE BUSSINESS SEGMENT, MEDIUM BUSSINESS SEGMENT AND LARGE BUSSINESS SEGMENT

Following are main data concerning Bussiness segments - Small and minute, medium and large bussiness - activity in Israel

	For the three months ended September 30, 2017				For the three months ended September 30, 2016			
	Small and minute business segment	Medium business segment	Large business segment	Total	Small and minute business segment	Medium business segment	Large business segment	Total
								NIS million
Net interest income	**142**	**36**	**76**	**254**	134	34	77	245
Non-interest income	**83**	**16**	**32**	**131**	79	16	31	126
Total income	**225**	**52**	**108**	**385**	213	50	108	371
Expenses (income) from credit losses	**(7)**	**1**	**3**	**(3)**	1	7	9	17
Operating and other expenses	**148**	**22**	**46**	**216**	155	24	49	228
Net profit attributed to the shareholders of the Bank	**56**	**19**	**43**	**118**	31	12	29	72
Average balance of assets	**15,072**	**4,771**	**17,533**	**37,376**	15,108	4,555	18,871	38,534
Balance of credit to the public at the end of the reported period	**15,873**	**5,002**	**18,041**	**38,916**	14,955	4,768	18,448	38,171
Average balance of liabilities	**16,844**	**5,058**	**8,642**	**30,544**	17,123	5,232	8,898	31,253
Balance of deposits from the public at the end of the reported period	**15,702**	**4,929**	**9,031**	**29,662**	16,682	5,038	8,924	30,644

	For the nine months ended September 30, 2017				For the nine months ended September 30, 2016			
	Small and minute business segment	Medium business segment	Large business segment	Total	Small and minute business segment	Medium business segment	Large business segment	Total
								NIS million
Net interest income	**430**	**107**	**228**	**765**	394	100	220	714
Non-interest income	**240**	**48**	**100**	**388**	233	53	95	381
Total income	**670**	**155**	**328**	**1,153**	627	153	315	1,095
Expenses (income) from credit losses	**34**	**34**	**(9)**	**59**	13	16	(6)	23
Operating and other expenses	**466**	**75**	**146**	**687**	455	78	146	679
Net profit attributed to the shareholders of the Bank	**106**	**28**	**124**	**258**	82	32	93	207
Average balance of assets	**15,234**	**4,681**	**17,425**	**37,340**	14,748	4,435	18,375	37,558
Balance of credit to the public at the end of the reported period	**15,873**	**5,002**	**18,041**	**38,916**	14,955	4,768	18,448	38,171
Average balance of liabilities	**16,426**	**5,292**	**9,178**	**30,896**	16,439	5,036	9,228	30,703
Balance of deposits from the public at the end of the reported period	**15,702**	**4,929**	**9,031**	**29,662**	16,682	5,038	8,924	30,644

Main changes in the result of activity in the first nine months of 2017 compared with the same period last year

Total net interest income amounted to NIS 765 million, compared with NIS 714 million in the same period last year, an increase of 7.1% explained mainly by the change in the mix of credit to the public in business segments.

The operating and other expenses amounted to NIS 687 million, compared to NIS 679 million in the corresponding period last year.

The net profit attributed to the shareholders of the Bank in respect of the business segments amounted to NIS 258 million, in comparison with NIS 207 million in the same period last year.

Credit to the public as of September 30, 2017 amounted to NIS 38,916 million, in comparison with NIS 38,171 million on September 30, 2016, an increase of 2.0%.

Deposits from the public as of September 30, 2017 amounted to NIS 29,662 million, in comparison with NIS 30,644 million on September 30, 2016, a decrease of 3.2%.

PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLDS AND PRIVATE BANKING

Following are main data concerning Private individuals segments - household and private banking - activity in Israel

	For the three months ended September 30, 2017			For the three months ended September 30, 2016		
	household segment	private banking segment	Total	household segment	private banking segment	Total
						NIS million
Net interest income	**255**	**6**	**261**	223	5	228
Non-interest income	**142**	**15**	**157**	140	14	154
Total income	**397**	**21**	**418**	363	19	382
Expenses from credit losses	**25**	**-**	**25**	5	-	5
Operating and other expenses	**360**	**13**	**373**	355	13	368
Net profit (loss) attributed to the shareholders of the Bank	**6**	**6**	**12**	(2)	3	1
Average balance of assets	**40,853**	**47**	**40,900**	38,387	50	38,437
Balance of credit to the public at the end of the reported period	**41,789**	**49**	**41,838**	39,621	48	39,669
Average balance of liabilities	**46,887**	**7,616**	**54,503**	44,962	7,099	52,061
Balance of deposits from the public at the end of the reported period	**46,538**	**7,810**	**54,348**	45,796	7,241	53,037

	For the nine months ended September 30, 2017			For the nine months ended September 30, 2016		
	household segment	private banking segment	Total	household segment	private banking segment	Total
						NIS million
Net interest income	**745**	**18**	**763**	701	14	715
Non-interest income	**422**	**43**	**465**	428	39	467
Total income	**1,167**	**61**	**1,228**	1,129	53	1,182
Expenses (income) from credit losses	**49**	**-**	**49**	25	(1)	24
Operating and other expenses	**1,049**	**40**	**1,089**	1,075	40	1,115
Net profit attributed to the shareholders of the Bank	**33**	**13**	**46**	3	7	10
Average balance of assets	**40,217**	**47**	**40,264**	37,729	48	37,777
Balance of credit to the public at the end of the reported period	**41,789**	**49**	**41,838**	39,621	48	39,669
Average balance of liabilities	**46,201**	**7,588**	**53,789**	44,160	6,911	51,071
Balance of deposits from the public at the end of the reported period	**46,538**	**7,810**	**54,348**	45,796	7,241	53,037

Main changes in the result of activity in the first nine months of 2017 compared with the same period last year

Total net interest income amounted to NIS 763 million, as compared with NIS 715 million in the corresponding period last year, an increase of 6.7%. This increase is explained by an increase in interest income due to increase in the credit balances.

This increase was partialy offset by interest recognized in respect of prior years in the corresponding period last year.

Non-interest income amounted to NIS 465 million, in comparison with NIS 467 million in the corresponding period last year.

Operating and other expenses amounted to NIS 1,089 million, as compared to NIS 1,115 million in the corresponding period last year, a decrease of 2.3%. The decrease in expenses stemming mainly from the efficiency measures including the merger and closure of branches.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment, which includes households and private banking, amounted to NIS 46 million, compared with NIS 10 million in the corresponding period last year. The growth in profits stems mainly from a decrease in other and operating expenses and from an increase in the credit activity in the Bank and was partially offset by the increase in the expense from credit losses..

Credit to the public as of September 30, 2017 amounted to NIS 41,838 million, in comparison with NIS 39,669 million on September 30, 2016, an increase of 5.5%.
Deposits from the public as of September 30, 2017 amounted to NIS 54,348 million, in comparison with NIS 53,037 million on September 30, 2016, an increase of 2.5%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 250 million in the first nine months of 2017 compared with NIS 278 million in the corresponding period last year.
The net earnings of the Financial Management Segment amounted to NIS 174 million compared with NIS 187 million in the corresponding period last year.
Set out below is the main factors affected the net earnings in the financial management segment:

- An increase in capital gains from the sale of buidings and equipments, which amounted to NIS 24million.
- A decrease of NIS 24 million in the Bank's share in the profit of investee company, derived mainly from ICC's share in the proceeds from the transaction of the sale of Visa Europe shares in the corresponding period last year.

PRINCIPAL INVESTEE COMPANIES

INVESTEE COMPANIES

The Bank's investments in investee companies totaled NIS 2,434 million on September 30, 2017, compared with NIS 2,330 million on December 31, 2016, a increase of 4.5%.

The Bank's share in the net earnings of investee companies in Israel amounted to NIS 111 million compared with NIS 122 million in the same period last year.

Bank Otsar Hahayal (hereinafter - "Otsar Hahayal") - in which the Bank holds 78.0% of the share capital and voting rights, is a commercial bank that operates via 47 branches and sub-branches.

The Bank's investment in Otsar Hahayal amounted to NIS 1,271 million on September 30, 2017. Total assets of Otsar Hahayal on September 30, 2017 amounted to NIS 21,170 million compared with NIS 20,774 million on December 31, 2016, an increase of 1.9%. Shareholders' equity of Otsar Hahayal on September 30, 2017 amounted to NIS 1,271 million compared with NIS 1,209 million on December 31, 2016, an increase of 5.1%.

Net earnings of Otsar Hahayal amounted to NIS 52.3 million compared with NIS 74.4 million in the same period last year, a decrease of 29.7%.

The change in profit is mainly explained:

A. Decrease in interest income derived from interest in respect of previous years recorded in the same period last year, partially offset by an increase in the volume of activity.

B. Increase in the expenses from credit losses.

The Bank's share in the results of activity of Otsar Hahayal amounted to NIS 40.7 million compared to NIS 35.4 million in the same period last year, an increase of 15.0% (in the same period last year, the Bank's share in the results of activity of Otsar Hahayal was reported after the amortization of excess cost of acquisition ended August 17, 2016).

Net return on equity amounted to 5.7% compared with 8.4% in the same period last year.

The ratio of capital to risk assets amounted to 13.32% compared with 13.39% at the end of 2016. The Tier 1 equity capital ratio amounted to 10.86% compared with 10.63% at the end of 2016.

On May 2017, The Board of Directors of Otsar Hahayal resolved after discussion of the ICAAP document regarding the evaluation of the capital adequacy, that during 2017 the overall capital ratio of Otsar Hahayal will not be less than 12.52%, and that the Tier 1 equity capital ratio will not be less than 9.3%.

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

The Bank's investment in Massad amounted to NIS 299 million on September 30, 2017. Total assets of Massad on September 30, 2017 amounted to NIS 7,393 million compared with NIS 7,115 million on December 31, 2016, an increase of 3.9%. Shareholders' equity of Massad on September 30, 2017, totaled NIS 578 million compared with NIS 577 million on December 31, 2016, an increase of 0.2%.

Net earnings of Massad totaled NIS 39.7 million compared with NIS 29.6 million in the same period last year, an increase of 34.1%.

The increase in profit is expalined by increase in interest income stemming from increase in the volume of credit to the public.

The Bank's share in Massad's operating results, net of amortization of excess of cost of the acquisition, amounted to NIS 13.7 million compared with NIS 8.6 million in the same period last year, an increase of 59.3%.

In the first nine months of 2017, Bank Massad distributed dividends in the amount of NIS 40 million. The Bank's share in the dividend amounted to NIS 20 million.

The unamortized balance of the excess of cost of the acquisition of Massad amounted to NIS 4 million on September 30, 2017.

Net return on equity amounted to 9.2% compared with 7.2% in the same period last year. The ratio of capital to risk assets amounted to 12.96%, compared with 14.31% at the end of 2016. The Tier 1 capital ratio amounted to 11.89% compare with 13.17% at the end of 2016.
In the framework of the ICAAP process for the data of December 31, 2016 the minimal capital targets were set: tier 1 equity capital ratio will not be less than 10.5% until December 31, 2019 and the comprehensive capital ratio will be no less than 12.85% until December 31, 2019.

Israel Credit Cards Ltd. ("ICC") - The Bank holds 28.2% of equity and 21.0% of voting rights in ICC.
ICC markets and issues credit cards and settles credit card transactions of the international Visa brand, markets and operates Diners credit cards on an exclusive basis in Israel, and also markets to an only limited extent MasterCard credit cards.
The Bank's investment in ICC amounted to NIS 549 million on September 30, 2017.
The ratio of capital to risk assets on September 30, 2017 amounted to 15.8% similar to the end of 2016.
The Bank's share in the net earnings of ICC before the tax effect amounted to NIS 43.1 million compared with NIS 70.7 million in the same period last year, a decrease of 39.0%. The main change in the profit of ICC is explained by ICC's share in the proceeds of the transaction of the sale of Visa Europe shares which was recorded in the corresponding period last year.
In the first nine months of 2017, ICC distributed as dividend an amount of NIS 30 million. The Bank's share amounted to NIS 8 million.

See note 9 regarding motions for approval of class actions against ICC, a motion for approval of a derivative lawsuit against officers and functionaries officiating at ICC during the relevant period.

FIBI (Switzerland) – Following that stated in Note 18A to the financial statements for the year 2016 – "Assets and liabilities held for sale" - FIBI (Switzerland) Ltd., a subsidiary of the Bank (hereinafter – "the extension"), signed on December 19, 2016, an agreement for the sale of its operations to a third party (hereinafter – : the agreement"). The transaction was consummated on June 2, 2017, following the transfer to the purchaser of most of the assets of customers of the extension. On this date, the extension received a payment on account of the total amount of the consideration stated in the agreement. This amount is subject to adjustment according to the agreement. In respect of the said payment an income was recorded within other income in the amount of NIS 12 million.
The balance of the consideration for the sale is subject to the value of the assets of customers of the extension remaining with the purchaser at the end of one year following the date of consummation of the transaction.
Concurrently with the consummation of the sale, the extension continues the process of terminating its banking activity.

REVIEW OF RISKS

REVIEW OF RISKS

This chapter was written in great detail in the financial statements for 2016. Therefore, it should be read together with the chapter of the risk review published in the annual reports for 2016. Additional information about the risks can be found on the report on risks and additional supervisory reporting in the Bank's internet website.

General

a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk, liquidity risk, operational risk, compliance risk and ALM risk, strategy risk, legal risk and reputation risk. Members of the Board of Management are responsible for management of these risks. With respect to credit risk, market risk and operational risk, a regulatory requirement for capital adequacy in accordance with the Pillar 1 Basel directives exists. Within the ICAAP process, the Group performs an in-depth process of identifying additional risks focal and challenging the risks focal identified in the first pillar. If needed the Group makes an additional capital allocation in respect of Pillar 1 risks and additional capital allocation in respect of other risks.
b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.
c. The overall risk perceptive of the Group is in line with the regulatory framework set by the Supervisor of Banks and in line with the Sound Practices of the Basel Committee, based on the principal that every banking activity involving risk, the following will be defined and characterized: risk policy and appetite, limitations for bordering and defining the volume of exposure, control and auditing circles, reporting arrangement and earnings estimation mechanism, its measurement and reporting according to acceptable standard.
d. Risk management and control at the Group are implemented by means of a suitable infrastructure of control, supervision, review and auditing mechanisms, and are applied via three lines of defense: The first line of defense consists of those responsible for the creation and management of risk. The second line is maintained by units of the Risk Management Division and Chief Accountant by means of independent control. The third line consists of the internal and external auditing functions.
e. Chief Risk Manager and member of Management in charge of the risk management division and across the organization risk management infrastructure- Mr. Bentzi Adiri CPA.
f. Those responsible for risk management at the Group are:

   Mr. Ilan Batzri CPA, Head of the Business Division-serves as Credit Risk Manager;

   Mr. Avi Sterenshous- head of the financial sub-division- serves as financial risk manager;

   Mr. Yaacov Konortov- compliance manager, including, among other things AML, internal enforcement and cross border risks;

   Mr. Yossi Levi- head of resources division- Strategic risk manager;

   Mr. Ron Grisaro the CEO of MATAF serves as the IT risk manager as from June 4, 2017 (until June 3, 2017, Mrs. Iris Levanon served as the stand-in for the CEO and IT risk officer).

   Mr. Yehoshua Peleg, manager of cyber defense and information security- cyber risks manager;

   Adv. Haviva Dahan was appointed at September 19, 2017 as the Chief Legal Counsel and since then acts as the Legal Risk Manager (until September 18, 2017 Adv. Dalia Blank, acted as the Chief Legal Counsel and Legal Risk Manager).

   Nachman Nitzan, CPA- head of the chief accounting division- reputation risk manager;

   Bentzi Adiri CPA- operational risk manager, supervisor of the internal enforcement and manager of business continuity. In addition, the cyber risks manager is subordinated to him.

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

   Presented in the document is the Chief Risk Manager's review of the risk management situation at the group and of the effectiveness and the quality of the risk management. Also reviewed in the document are developments in the business environment and in the financial markets, and the measures taken by the division with respect to the main process involved with the different types of risks and special action which the division took during the relevant quarter.
k. The Bank applies stress scenarios for reviewing capital adequacy. In this respect, the Bank examines the effect of the materialization of risk on the capital base and the ratio of capital to risk assets. The scenarios which the Bank operates are forward looking and are used as an additional tool for risk management and for indication for the capital required for loss absorbent in case of major crisis. The importance of the stress scenarios come into effect in the planning of capital.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented in the financial statements for the year 2016.

For detailed information regarding risk, provided in accordance with the disclosure requirements of Pillar III of Basel, and addtional information regarding risks - see addtional supervisory disclosure and report on risks on the Internet website of the Bank.

CREDIT RISK

Significant exposures to borrower groups

As of September 30, 2017 there is no borrower group which its indebtness on consolidated basis, after deductions of permissible deduction according to section 5 of directive 313, exceeds 15% of the bank's capital, calculated according to the directive of Proper Conduct of Banking Business regulation concerning measurement and capital adequacy.

Credit quality and problematic credit risk

Problematic credit risk, including off-balance-sheet components, totaled NIS 1,807 million compared with NIS 2,069 million at the end of 2016, a decrease of 12.7%

The ratio of problematic credit risk to total credit risk at the group amounted to 1.6%, compared with 1.8% at the end of 2016.

20.1% of problematic credit risk at the group are attributed to the manufacturing sector, 12.0% to the real estate sector, 23.9% to the commerce sector and 29.6% to the private customers including housing loans. The ratio of problematic credit risk to total credit to the public amounted to 1.9% compared with 2.3% at the end of 2016.

1. Problematic credit risk

	September 30, 2017			September 30, 2016			December 31, 2016		
	Balance-sheet	Off-balance-sheet	Total	Balance-sheet	Off-balance-sheet	Total	Balance-sheet	Off-balance-sheet	Total
									NIS million
Impaired credit risk	**574**	**130**	**704**	650	236	886	582	174	756
Inferior credit risk	**189**	**6**	**195**	220	22	242	475	21	496
Credit under special supervision risk	**810**	**98**	**908**	610	60	670	740	77	817
Total problematic credit risk*	**1,573**	**234**	**1,807**	1,480	318	1,798	1,797	272	2,069
* Of which: Non-impaired debts in arrears of 90 days or more	**224**	**-**	**224**	199	-	199	221	-	221

	Balance on September 30, 2017	Balance on September 30, 2016	Balance on December 31, 2016
			NIS million
2. Non-performing assets			
Impaired credit to the public not accruing interest income	**520**	611	541
3. Performing impaired assets			
Impaired debts undergoing problematic debts restructuring and accruing interest income	**49**	32	36
Impaired bonds accruing interest income	**5**	7	5
Total performing impaired assets	**54**	39	41

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2017	2016	2017	2016	2016
					NIS million
4. Changes in impaired debts					
Balance of impaired debts at beginning of year	**752**	743	**577**	764	764
Classified as impaired	**101**	41	**487**	220	243
Removed from impaired classification	**-**	(8)	**(33)**	(61)	(61)
Collection of debts	**(276)**	(93)	**(376)**	(210)	(258)
Accounting write-offs	**(8)**	(40)	**(86)**	(70)	(111)
Balance of impaired debts at end of period	**569**	643	**569**	643	577

	As of September 30		As of December 31
	2017	2016	2016
5. Risk Indices			
Ratio of impaired credit to the public or in arrears of 90 days + to total credit to the public	**0.98%**	1.07%	1.02%
Of which:			
Ratio of impaired credit to the public to total credit to the public	**0.70%**	0.82%	0.74%
Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public	**0.28%**	0.25%	0.28%
Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public	**1.58%**	1.58%	1.83%
Ratio of expenses for credit losses to average total credit to the public*	**0.16%**	0.08%	0.10%
Ratio of net write-offs in respect of credit to the public to average total credit to the public*	**0.16%**	0.03%	0.09%
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.05%**	1.10%	1.08%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**150.3%**	134.5%	146.8%
Ratio of provision for credit losses in respect of credit to the public to impaired credit to the public plus credit to the public in arrears of 90 days or more	**107.8%**	102.7%	106.1%
Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public*	**15.1%**	2.8%	7.9%

* Annualized.

The increase in the expenses for credit losses out of the average recorded balance of credit to the public, is due to an increase in the colletive provision for the expenses in credit losses. In the first nine months of 2017 the collective provision amounted to NIS 89 million, compared with NIS 42 million in the corresponding period last year.

Total credit risk according to economic sectors

(NIS million)

										as at September 30, 2017
	Total credit risk(1)			Debts(2) and off-balance credit risk (excluding derivatives)(3)						
								Credit losses(4)		
	Total	Credit execution rating(5)	Problematic (6)	Total	Of which: Debts(2)	Problematic (6)	Impaired	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	546	498	12	543	429	12	5	(4)	-	6
Mining and quarrying	154	154	-	72	58	-	-	-	-	-
Industry	10,270	9,598	363	10,009	7,767	363	163	18	16	148
Construction and Real estate - construction(7)	9,515	9,123	111	9,464	3,934	110	63	(13)	(2)	79
Construction and Real estate - real estate activities	5,409	5,196	105	5,312	4,778	105	94	(5)	(5)	23
Electricity and water supply	1,124	1,049	8	922	711	8	5	2	-	7
Commerce	8,445	7,549	432	8,341	7,126	432	191	57	50	190
Hotels, hospitality and food services	949	844	29	933	771	29	9	3	10	12
Transport and storage	1,066	964	48	964	769	43	10	3	2	15
Information and communications	2,172	2,096	35	2,080	1,176	35	17	(7)	(4)	10
Financial services	13,579	13,435	28	10,175	7,757	28	1	(2)	1	28
Other business services	2,684	2,491	36	2,644	1,752	36	10	4	3	14
Public and community services	2,470	2,332	57	2,422	1,855	57	22	-	(1)	11
Total commercial(8)	58,383	55,329	1,264	53,881	38,883	1,258	590	56	70	543
Private individuals - housing loans	23,703	23,175	173	23,703	22,573	173	15	1	1	115
Private individuals - others	30,626	29,035	362	30,601	18,983	362	86	44	30	259
Total public - activity in Israel	112,712	107,539	1,799	108,185	80,439	1,793	691	101	101	917
Banks in Israel	895	895	-	573	573	-	-	-	-	-
Israeli government	7,870	7,870	-	660	652	-	-	-	-	-
Total activity in Israel	121,477	116,304	1,799	109,418	81,664	1,793	691	101	101	917
In respect of borrowers abroad										
Public-Commercial:										
Mining and quarrying	98	98	-	-	-	-	-	-	-	-
Industry	507	507	-	398	397	-	-	(2)	(3)	1
Construction and Real estate - construction	1	1	-	1	1	-	-	(1)	(1)	-
Construction and Real estate - real estate activities	5	5	-	5	5	-	-	-	-	-
Transport and storage	17	9	8	17	9	8	8	-	-	-
Information and communications	33	33	-	4	3	-	-	-	-	-
Financial services*	1,066	1,066	-	240	237	-	-	-	-	1
Other business services	-	-	-	-	-	-	-	(2)	(2)	-
Public and community services	177	177	-	-	-	-	-	-	-	-
Total commercial	1,904	1,896	8	665	652	8	8	(5)	(6)	2
Total public - activity abroad	1,904	1,896	8	665	652	8	8	(5)	(6)	2
Banks abroad	2,367	2,367	-	1,116	1,116	-	-	-	-	-
Foreign governments	1,518	1,518	-	-	-	-	-	-	-	-
Total activity abroad	5,789	5,781	8	1,781	1,768	8	8	(5)	(6)	2
Total public	114,616	109,435	1,807	108,850	81,091	1,801	699	96	95	919
Total banks	3,262	3,262	-	1,689	1,689	-	-	-	-	-
Total governments	9,388	9,388	-	660	652	-	-	-	-	-
Total	127,266	122,085	1,807	111,199	83,432	1,801	699	96	95	919

See note on page 48.

Total credit risk according to economic sectors (Cont'd)

(NIS million)

	as at September 30, 2016									
	Total credit risk[1]			Debts[2] and off-balance credit risk (excluding derivatives)[3]						
								Credit losses[4]		
	Total	Credit execution rating[5]	Problematic [6]	Total	Of which: Debts[2]	Problematic [6]	Impaired	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	591	517	25	588	484	25	6	10	2	12
Mining and quarrying	178	176	-	82	68	-	-	-	-	-
Industry	11,036	10,357	325	10,791	8,338	325	231	(37)	(3)	175
Construction and Real estate - construction[7]	10,213	9,571	195	10,167	3,807	194	155	(11)	(21)	91
Construction and Real estate - real estate activities	5,089	4,914	92	4,956	4,442	92	78	(4)	(4)	22
Electricity and water supply	1,519	1,447	3	936	665	3	-	1	-	4
Commerce	9,138	8,131	455	9,029	7,804	455	226	61	31	187
Hotels, hospitality and food services	916	778	26	898	741	26	14	2	2	17
Transport and storage	1,063	970	31	946	767	24	6	2	-	13
Information and communications	2,557	2,367	49	2,405	1,235	49	21	1	(1)	13
Financial services	13,363	13,186	33	9,924	7,257	33	15	(3)	-	25
Other business services	2,344	2,158	25	2,310	1,422	25	7	1	(1)	11
Public and community services	2,341	2,161	47	2,315	1,781	47	18	2	1	10
Total commercial[8]	60,348	56,733	1,306	55,347	38,811	1,298	777	25	6	580
Private individuals - housing loans	22,539	21,996	168	22,539	21,388	168	10	1	2	118
Private individuals - others	29,065	27,258	316	29,036	17,954	316	84	23	12	232
Total public - activity in Israel	111,952	105,987	1,790	106,922	78,153	1,782	871	49	20	930
Banks in Israel	1,348	1,348	-	806	806	-	-	-	-	-
Israeli government	10,760	10,760	-	654	653	-	-	-	-	-
Total activity in Israel	124,060	118,095	1,790	108,382	79,612	1,782	871	49	20	930
In respect of borrowers abroad										
Public-Commercial:										
Agriculture	13	13	-	13	8	-	-	-	-	-
Mining and quarrying	26	26	-	-	-	-	-	-	-	-
Industry	210	210	-	167	156	-	-	1	(1)	2
Construction and Real estate - construction	26	26	-	26	3	-	-	-	-	1
Construction and Real estate - real estate activities	209	209	-	209	208	-	-	(4)	(1)	-
Commerce	90	90	-	88	60	-	-	-	-	-
Transport and storage	18	10	8	18	8	8	8	-	-	-
Information and communications	17	17	-	6	4	-	-	-	-	-
Financial services*	1,126	1,126	-	219	189	-	-	-	-	1
Other business services	303	303	-	303	89	-	-	-	-	2
Total commercial	2,038	2,030	8	1,049	725	8	8	(3)	(2)	6
Private individuals - others	148	148	-	146	66	-	-	-	-	1
Total public - activity abroad	2,186	2,178	8	1,195	791	8	8	(3)	(2)	7
Banks abroad	4,237	4,237	-	1,795	1,795	-	-	-	-	-
Foreign governments	2,233	2,233	-	-	-	-	-	-	-	-
Total activity abroad	8,656	8,648	8	2,990	2,586	8	8	(3)	(2)	7
Total public	114,138	108,165	1,798	108,117	78,944	1,790	879	46	18	937
Total banks	5,585	5,585	-	2,601	2,601	-	-	-	-	-
Total governments	12,993	12,993	-	654	653	-	-	-	-	-
Total	132,716	126,743	1,798	111,372	82,198	1,790	879	46	18	937

See note on page 48.

Total credit risk according to economic sectors (Cont'd)

(NIS million)

										as at December 31, 2016
	Total credit risk[1]			**Debts[2] and off-balance credit risk (excluding derivatives)[3]**						
								Credit losses[4]		
	Total	**Credit execution rating[5]**	**Problematic [6]**	**Total**	**Of which: Debts[2]**	**Problematic [6]**	**Impaired**	**Expenses (income) for credit losses**	**Net accounting write-offs**	**Provision for Credit losses**
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	543	493	25	542	437	25	7	8	2	10
Mining and quarrying	151	148	-	67	55	-	-	-	-	-
Industry	10,601	9,960	344	10,348	7,378	344	182	(32)	26	150
Construction and Real estate - construction[7]	9,673	9,207	167	9,627	3,439	166	119	(13)	(22)	90
Construction and Real estate - real estate activities	5,450	5,261	91	5,363	4,817	91	78	(3)	(4)	23
Electricity and water supply	1,512	1,447	3	944	686	3	2	1	-	5
Commerce	9,118	8,257	485	9,030	7,875	485	194	58	33	182
Hotels, hospitality and food services	914	785	30	897	743	30	15	3	3	18
Transport and storage	1,060	962	33	951	764	28	6	3	-	13
Information and communications	2,491	2,402	50	2,398	1,378	50	19	-	(2)	13
Financial services	13,311	12,961	242	9,764	7,221	242	2	6	2	31
Other business services	2,431	2,256	27	2,388	1,521	27	6	2	-	12
Public and community services	2,351	2,191	48	2,314	1,706	48	21	2	1	10
Total commercial[8]	59,606	56,330	1,545	54,633	38,020	1,539	651	35	39	557
Private individuals - housing loans	22,893	22,292	174	22,893	21,741	174	8	2	6	115
Private individuals - others	29,120	27,112	342	29,094	17,937	342	84	47	24	245
Total public - activity in Israel	111,619	105,734	2,061	106,620	77,698	2,055	743	84	69	917
Banks in Israel	946	946	-	481	481	-	-	-	-	-
Israeli government	10,535	10,535	-	659	654	-	-	-	-	-
Total activity in Israel	123,100	117,215	2,061	107,760	78,833	2,055	743	84	69	917
In respect of borrowers abroad										
Public-Commercial:										
Mining and quarrying	12	12	-	-	-	-	-	-	-	-
Industry	259	259	-	228	228	-	-	-	(1)	-
Construction and Real estate - construction	3	3	-	3	3	-	-	-	-	-
Construction and Real estate - real estate activities	49	49	-	49	48	-	-	(4)	(1)	-
Commerce	3	3	-	-	-	-	-	-	-	-
Transport and storage	17	9	8	17	8	8	8	-	-	-
Information and communications	17	17	-	5	4	-	-	-	-	-
Financial services*	1,274	1,274	-	189	186	-	-	-	-	1
Public and community services	77	77	-	-	-	-	-	-	-	-
Total commercial	1,711	1,703	8	491	477	8	8	(4)	(2)	1
Private individuals - others	6	6	-	1	-	-	-	-	-	-
Total public - activity abroad	1,717	1,709	8	492	477	8	8	(4)	(2)	1
Banks abroad	3,797	3,797	-	1,443	1,443	-	-	-	-	-
Foreign governments	2,160	2,160	-	-	-	-	-	-	-	-
Total activity abroad	7,674	7,666	8	1,935	1,920	8	8	(4)	(2)	1
Total public	113,336	107,443	2,069	107,112	78,175	2,063	751	80	67	918
Total banks	4,743	4,743	-	1,924	1,924	-	-	-	-	-
Total governments	12,695	12,695	-	659	654	-	-	-	-	-
Total	130,774	124,881	2,069	109,695	80,753	2,063	751	80	67	918

See note on page 48.

Total credit risk according to economic sectors (Cont'd)

NOTES:

* Of which, NIS 308 million of investments in mortgage-backed bonds (30.9.16 - NIS 507 million, 31.12.16 - NIS 409 million).

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 83,432, 10,428, 895, 1,203 and 31,308 million respectively (30.9.16 - NIS 82,198, 15,931, 505, 1,139 and 32,943 million respectively, 31.12.16 - NIS 80,753, 15,598, 414, 1,332 and 32,677 million respectively).

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

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

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

(5) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank. The increase in the volume of the credit rated in comparison to the corresponding period last year is explained by improvement in the Bank's credit rating systems.

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

(7) Including balance sheet credit risk amounting to NIS 282 million, and non-utilized credit facilities amounting to NIS 414 million, in respect of loans extended to certain purchasing groups currently in the process of construction (30.9.16 - NIS 327 million and NIS 936 million, respectively, 31.12.16 - NIS 247 million and NIS 700 million, respectively).

(8) The balance of commercial debts includes housing loans in the amount of NIS 2,446 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currency in the process of constructions (30.9.16 - NIS 2,162 million, 31.12.16 - NIS 2,058 million).

Counter-party credit risk management

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

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

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

External credit rating(5)	As of September 30, 2017			As of December 31, 2016		
	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk
			NIS million			NIS million
AAA to AA-	**511**	**103**	**614**	945	100	1,045
A+ to A-	**1,178**	**35**	**1,213**	1,161	14	1,175
BBB+ to BBB-	**42**	**10**	**52**	205	14	219
BB+ to B-	**62**	**-**	**62**	64	-	64
Unrated	**1**	**4**	**5**	55	8	63
Total credit exposure to foreign financial institutions	**1,794**	**152**	**1,946**	2,430	136	2,566
Of which: Balance of problem loans (4)	**-**	**-**	**-**	-	-	-

NOTES:

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional investors and entities under their control.

(2) Deposits at banks, credit to the public, investments in bonds, securities that have been lent and other assets in respect of derivative instruments.

(3) Mainly guarantees and liabilities for the granting of credit, including guarantees for securing third-party indebtedness.

(4) Credit risk that is impaired, inferior or under special supervision.

(5) For the purpose of rating the financial institutions, the Bank used the ratings that were determined for the purpose of applying the Basel standardized approach. The Bank uses the rating of S&P for rating the foreign financial institutions to which credit exposure exists. When no S&P rating is available, the Bank uses the ratings of other rating agencies.

GENERAL NOTES:

a. Credit positions and problematic loans balances are presented after deduction of the provision for credit losses.

b. The credit positions do not include exposures to financial institutions that have an explicit and full government guarantee, and do not include investments in asset-backed securities.

c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 10 to the financial statements. Off-balance-sheet credit risk in respect of transactions in derivative financial instruments which were conducted with foreign financial institutions as calculated for the purpose of borrower indebtedness restrictions totaled NIS 257 million on September 30, 2017 (December 31, 2016 - NIS 322 million).

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

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

Most of the Group's present credit exposure (94%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 32% of the total exposure is rated in the range between AAA to AA-.

The Group's balance-sheet credit exposure to foreign financial institutions includes NIS 113 million investment in foreign currency bonds. All these bonds are investment grade bonds, 85% of which are rated A- or higher. The average duration of the portfolio is three years.

In addition, balance-sheet credit risk includes NIS 1.4 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of September 30, 2017 there is no country in which the credit exposure to sovereigns of the Bank group exceeding 15% of the Bank's equity capital, which amounted to NIS 1,616 million (as defined in Proper Conduct of Banking Business Regulation No. 202 concerning capital components).

Exposure to foreign countries

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

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

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

	As at September 30, 2017					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	1,785	990	549	-	-	-
Spain	-	1	2	-	-	-
Italy	-	1	27	-	-	-
Ireland	-	-	1	-	-	-
Portugal	-	-	2	-	-	-
Other	36	1,145	2,069	238	2	236
Total exposure to foreign countries	1,821	2,137	2,650	238	2	236
Total exposure to LDC countries	-	2	149	-	-	-

(1) On the basis of final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) Balance sheet and off-balance sheet credit risk, problematic credit risk and impaired loans are presented before the effect of provision for credit losses and before the effect of deductible collateral for the purpose of indebtedness of borrower and group of borrowers.
(3) Off-balance sheet credit risk as calculated for the purpose of the limits on indebtedness of borrower.
(4) Governments, Official authorities and Central Banks.
(5) Information regarding exposures to the countries: Portugal, Ireland, Italy, Spain and Greece is given.

			Off-Balance sheet exposure[2][3]		Cross-border balance sheet exposure[2]	
Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Total off-balance sheet exposure	Of which: off-balance sheet problematic credit risk	Maturity up to one year	Maturity over one year
3,324	11	1	89	-	2,876	448
3	-	-	15	-	3	-
28	-	-	2	-	25	3
1	-	-	1	-	-	1
2	-	-	-	-	2	-
3,486	19	-	594	-	2,583	667
6,844	30	1	701	-	5,489	1,119
151	5	-	102	-	135	16

	As at September 30, 2016					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	2,577	1,171	298	-	-	-
Spain	-	5	30	-	-	-
Italy	79	1	20	-	-	-
Ireland	-	-	15	-	-	-
Greece	-	-	-	-	-	-
Portugal	-	-	2	-	-	-
Other	76	2,719	1,275	204	24	180
Total exposure to foreign countries	2,732	3,896	1,640	204	24	180
Total exposure to LDC countries	-	89	206	-	-	-

	As at December 31, 2016					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	2,405	972	405	-	-	-
Spain	-	4	3	-	-	-
Italy	78	1	20	-	-	-
Ireland	-	-	14	-	-	-
Greece	-	-	-	-	-	-
Portugal	-	-	2	-	-	-
Other	79	2,462	1,491	245	32	213
Total exposure to foreign countries	2,562	3,439	1,935	245	32	213
Total exposure to LDC countries	-	80	204	-	-	-

Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Off-Balance sheet exposure(2)(3) Total off-balance sheet exposure	Of which: off-balance sheet problematic credit risk	Cross-border balance sheet exposure(2) Maturity up to one year	Maturity over one year
4,046	5	-	81	-	2,546	1,500
35	-	-	25	-	34	1
100	1	-	3	-	96	4
15	-	-	1	-	14	1
-	-	-	1	-	-	-
2	-	-	-	-	2	-
4,250	21	5	583	-	2,890	1,180
8,448	27	5	694	-	5,582	2,686
295	1	-	119	-	266	29

Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Off-Balance sheet exposure(2)(3) Total off-balance sheet exposure	Of which: off-balance sheet problematic credit risk	Cross-border balance sheet exposure(2) Maturity up to one year	Maturity over one year
3,782	5	1	89	-	2,711	1,071
7	-	-	31	-	6	1
99	-	-	3	-	95	4
14	-	-	1	-	14	-
-	-	-	1	-	-	-
2	1	-	-	-	2	-
4,245	18	5	650	-	2,952	1,080
8,149	24	6	775	-	5,780	2,156
284	1	-	109	-	266	18

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

Balance-sheet exposures:

Balance-sheet balances	Balance-sheet balances	Balance-sheet balances
September 30, 2017	**September 30, 2016**	**December 31, 2016**
-	United Kingdom 984	United Kingdom 880

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

	For the three months ended							
	September 30, 2017				**September 30, 2016**			
	Ireland	**Portugal**	**Puerto Rico**	**Venezuela**	**Ireland**	**Cyprus**	**Portugal**	**Puerto Rico**
Total exposure at beginning of the reported period	**1**	**2**	**3**	**2**	17	6	1	3
Short-term changes in total exposure, net	**-**	**-**	**(2)**	**-**	(2)	-	1	(1)
Total exposure at end of the reported period	**1**	**2**	**1**	**2**	15	6	2	2

	For the nine months ended							
	September 30, 2017				**September 30, 2016**			
	Ireland	**Portugal**	**Puerto Rico**	**Venezuela**	**Ireland**	**Cyprus**	**Portugal**	**Puerto Rico**
Total exposure at beginning of the reported period	**14**	**2**	**2**	**2**	19	-	1	3
Short-term changes in total exposure, net	**(13)**	**-**	**(1)**	**-**	(4)	-	1	(1)
Additional exposures	**-**	**-**	**-**	**-**	-	6	-	-
Total exposure at end of the reported period	**1**	**2**	**1**	**2**	15	6	2	2

	Year ended December 31, 2016				
	Cyprus	**Ireland**	**Portugal**	**Puerto Rico**	**Venezuela**
Total exposure at beginning of the reported year	-	19	1	3	2
Short-term changes in total exposure, net	(6)	(5)	1	(1)	-
Additional exposures	6	-	-	-	-
Total exposure at end of the reported year	-	14	2	2	2

Risks in the Housing loans portfolio

Mortgage activity at the Bank Group

Exclusive of refinancing transactions, the Bank extended mortgages to the public at an overall amount of NIS 2,827 million in the first nine months of 2017 compared with NIS 3,394 million in the same period last year, a decrease of 16.7%. These data include housing loans from the Bank's own sources (excluding credit from Treasury funds) in the amount of NIS 2,819 million compared with NIS 3,393 million in the same period last year, a decrease of 16.9%. Rollovers deriving from early repayments in the first nine months of 2017, totaled NIS 152 million compared with NIS 304 million in the same period last year, a decrease of 50.0%.

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

In view of the risk to which the Israeli banking system is exposed in its mortgage activity, developments in the housing loan market and the Supervisor of Banks' directives, the Bank adopts a conservative credit policy that is approved by the Board of Directors of the Bank and that is examined yearly, and is updated according to changes in the Israeli economy, changes in regulation, etc. This conservative approach is reflected by an examination of LTV, the repayments as a percentage of the borrower's debt-to-income ratio and the ability to maintain current repayments in interest rate adjustment scenarios. In addition, restrictions are applied on the maximum rate of the floating interest in the loan mix and loan size per single borrower. The Bank adopts a particularly cautious approach to properties notable for a complex registration situation, taking due account of the quality of the customer and the LTV.

When granting credit to purchase groups, the Bank focuses on groups that are building in demand areas, and in groups where the orgenizer has a proven experience in this area . Apart from conducting current examinations, the Bank holds a periodical discussion on all purchase groups' portfolios, examines the projects in question, and ascertains whether an allowance for credit losses is necessary with respect to the purchase groups, over and above the individual risk of each member of the groups.

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

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

Loan to value

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

The portfolio of housing loans extended from the Bank's sources on September 30, 2017 amounted to NIS 22,464 million, including 71% of credit granted at an LTV of up to 60% compared to 70% on September 30, 2016. 95% of total loans were granted at an LTV of up to 75%, similar to September 30, 2016.

Housing loan extensions from the Bank's sources in the first nine months of 2017 including 76% of credit granted at an LTV of up to 60%, compared with 72% in the same period last year. All loan extensions were granted at an LTV of up to 75%, similar to the same period last year.

Debt-income ratio

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

The portfolio of housing loans extended from the Bank's sources as of September 30, 2017 included 79% of credit granted at a debt-income ratio of up to 35% similar to September 30, 2016. 90% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, similar to September 30, 2016.

Housing loan extensions from the Bank's sources in the first nine months of 2017 included 83% of credit granted at a debt-income ratio of up to 35% compare with 84% in same period last year. 88% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% compared to 84% in the same period last year.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of September 30, 2017 includes 62% of credit that was granted at floating-rate interest and amounts to NIS 14,031 million.

Housing loan extensions from the Bank's sources in the first nine months of 2017 include NIS 932 million of credit granted at floating-rate interest of up to five years constituting 33% of extentions. An amount of NIS 613 million (22% of the extensions) is floating-rate credit five years and above.

Long-term loans

The portfolio of housing loans from the Bank's sources as of September 30, 2017 includes 61% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 13,856 million.

Housing loan extensions from the Bank's sources in the first nine months of 2017 include 50% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 1,398 million.

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

	For residential purposes											Secured by a residential apartment	
	Unlinked segment				CPI-linked segment				Foreign-currency linked segment		Total		Total
	Fixed-rate		Floating rate		Fixed-rate		Floating rate		Floating rate				
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Balance	Balance
	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	NIS million	NIS million
30.9.17	**5,151**	**24.1**	**9,366**	**43.8**	**3,025**	**14.1**	**3,799**	**17.7**	**56**	**0.3**	**21,397**	**1,067**	**22,464**
31.12.16	4,660	22.8	8,866	43.3	3,019	14.8	3,825	18.7	75	0.4	20,445	1,179	21,624

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

	nine months 2017	nine months 2016	2016	2015	2014	2013
Total housing loan extensions (NIS million)	**2,819**	3,393	4,337	4,796	3,707	3,550
Rate of change in housing loan extensions compared with previous year	**(17%)**	(11%)	(10%)	29%	4%	(5%)
Rate of expense (income) on credit losses relative to mortgages at the Bank's risk	**(0.01%)**	-	0.01%	0.01%	0.01%	0.20%
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.52%**	0.57%	0.55%	0.60%	0.74%	0.86%

Private individuals credit risk (excluding housing loans)

General

The private consumption is in growth trend during the last years, and as a result also the volume of credit to private individuals.
The banks in the Group grant consumer credit to a variety of households, made up mainly of individuals in employee positions, part of whom in the education system and part in the defense system.The bank provides also services to other private customers on the basis of personal agreements and on the basis of collective agreements.

The credit policy for private individuals reflects the risk apetite of the Bank and its intensions as to the risk spreads it wants to take as well as the wanted profile for the private individuals credit portfolio and its volume in respect to the overall credit portfolio. The risk apetite of the Bank reflects conservative willingness for taking credit risk, compatible with coutious banking activity, compatible with the regulatory requirements and compatible with the volume of the Bank's activity and its character.
The granting of credit is based on statistical models for the rating of credit risk, which take into account the personal parameters of each customer, including: his income and and stability of income, financial wealth, his repayment ability and past experience of the Bank with the customer. This perception is well reflected in the credit policy of the Bank through quantitative and qualitative restrictions for the granting of credit in the level of the single customer and in the level of the Bank, as well as in control procedures and structured work procedures, in the different control lines. Models of credit rating used by the banks both for the direct granting of credit via the Internet, the cellular application and via "International Bank Call", and in the underwriting process of credit at the branches. The credit recommendations derived from the statistical models together with procedures of the Bank based on the credit policy of the Bank and the qualitative and quantitative limitations included therein – shape the proportional risk appetite of the Group as regards the consumer credit field.
The Bank focuses on retail credit, typified by a high level of distribution and a low level of risk, taking into account the fact that the Bank has subsidiaries engaged in the credit field, the Bank operates from a Group viewpoint and acts for the implementation of an orderly work format of the Group, which defines, inter alia, a business focused format for each subsidiary in the Group. The targeted population is mostly a population having stable sources of income, which requires finance in the consumer field and has credit repayment ability, inter alia, salaried persons and those having a fixed income, designated populations having a joint connection on a country-wide level (such as: teaching personel, Ministry of Defense personnel, etc.) having repayment ability or realizable collateral.
Teaching personnel loan tender are loans repaid by the direct withholding from salary. Loans to Ministry of Defense personnel are granted within the framework of different tender, reflect the capitalization of rights for interim periods and are characterized by large amounts and long periods. Moreover, within the framework of the terms of the tender, the responsibility of the Ministry of Defense for the repayment of the credit in default cases is determined, thus reducing to a minimum the risk of credit granted to Ministry of Defense personnel within this framework.

Set out below is the distribution of Private individuals credit risk (excluding housing loans) in Israel:

			As of		Change
	30.9.17	30.9.16	31.12.16	30.9.16	31.12.16
			NIS million		%
Current account and utilized balances of credit cards	**4,737**	4,686	4,598	1.1	3.0
Other loans	**14,251**	13,271	13,343	7.4	6.8
Total balance credit risk	**18,988**	17,957	17,941	5.7	5.8
Unutilized current account credit lines	**3,967**	3,903	3,805	1.6	4.3
Unutilized credit lines in credit cards	**6,152**	5,341	5,561	15.2	10.6
Other off-balance credit risks	**1,519**	1,864	1,813	(18.5)	(16.2)
Total off-balance credit risk	**11,638**	11,108	11,179	4.8	4.1
Total credit risk	**30,626**	29,065	29,120	5.4	5.2
Average volume of credit, including overdrafts, credit cards and loans	**18,055**	17,115	17,422	5.5	3.6

Set out below is the distribution of problematic Private individuals credit risk (excluding housing loans) in Israel:

			As of		Change
	30.9.17	30.9.16	31.12.16	30.9.16	31.12.16
			NIS million		%
Impaired credit risks	**86**	84	84	2.4	2.4
Unimpaired problematic credit risk	**276**	232	258	19.0	7.0
Non-problematic credit risk	**30,264**	28,749	28,778	5.3	5.2
Total credit risk	**30,626**	29,065	29,120	5.4	5.2
Of which: unimpaired debts in arrears of 90 days or more	**45**	33	41	36.4	9.8
Balance of restructured debts out of the problematic credit	**73**	70	71	4.3	2.8
Expense rate of credit losses out of total credit to the public	**0.31%**	0.17%	0.27%		

Description of operations

A. The underwriting of credit to households

The underwriting of consumer credit is conducted taking into consideration of personal parameters of the customer and reflects readiness for proportional acceptance of credit risk. This concept is well reflected in quantitative and qualitative limitations, as well as by means of a wide array of structured work procedures and tight control processes in the different control lines.

The banks in the Group offer credit to their customers in an initiated fashion on the basis of monitoring the risk characteristics of the borrower and identifying his needs. As part of the underwriting process, several criteria that form a decision supporting tool are examined, inter alia, general information regarding the customer (his identity, financial stability, conduct of his account and any additional information which might assist in the underwriting process), the object of the credit, the volume of activity of the customer with the Bank in relation to the pricing of the transaction, repayment ability, the total credit mix in the account and the modification thereof to the customer's needs. This process is based upon values of fairness and transparency, when in each initiated approach by the Bank (or following exposure of the customer to marketing information on the Internet website or on the cellular application) full disclosure is provided to the customer as regards the assets and liabilities in his account and the returns thereon, to the extent computable. Such information is intended to enable the customer to make an intelligent decision regarding the advisability of taking the loan prior to taking action.

The Bank is preparing for the expansion of the volume of operations in the retail credit segment, inter alia, by means of performing the segmentation of customers in a manner that allows careful and professional relationship and proficiency, while maintaining an adequate control environment, as well as by intensifying digital operations encouraging the online taking of loans, maintaining a proportional risk appetite.

B. The manner of supervising and monitoring risk characteristics

The banks in the Group have a high level of skill and expertise in the field of retail credit due to many years of experience in household credit.

The Group trains its employees at a high level of professional skill in the credit field, having decision supporting computer systems and control and monitoring systems for the early discovery of borrowers in default or of negative symptoms.

The Group hedges acceptance of credit risks, inter alia, by means of the distribution of risk among customers.

Risk management and the control thereof are conducted at the Bank by means of an appropriate infrastructure of restraint, supervision, control and audit mechanisms. Control in the matter of consumer credit is conducted by means of three defense lines.

Controls conducted within the framework of the first line of defense include: the monitoring of deviation from current account and revolving debit account credit facilities, examination of troubled credit in arrears and follow-up of developments in the troubled consumer credit at the branches.

The second line of defense includes different controls, the essence of which are intended to test the financial management of accounts and to identify signs for deterioration in the debt situation. Deterioration signs may stem from a decline in the volume of operations, deviation from approved credit facilities, etc. In addition, the Bank uses supporting computer systems, such as a system for the identification and treatment of debts showing trouble symptoms and a statistical system forecasting credit default.

The third line of defense is the internal audit group, which is responsible for performing independent audits of risk management, work framework and controls over consumer credit risks, including the work of the first and second lines of defense in respect of this risk.

Construction and real estate sector risks

On background of the risk under which the Israeli banking sector is operating in the construction and real estate credit field, as well as on background of changes and developments in the housing credit market, directives of the Supervisor of Banks and Government regulations, the Bank adopts a proportional and careful credit policy, approved by the Board of Directors of the Bank, which is examined every year and is revised in accordance with changes in conditions in the country, changes in regulation, etc. The said proportionality and care are reflected in the examination of the financing ratio, the careful examination of failures in the financing of construction projects and examination of the ratio of the borrower's equity and early sales, this in order to reduce the risk to the extent possible.

Moreover, The Bank has adopted a specific policy in respect of the different lines of operation in the real estate and construction field, includign the financing of housing construction,financing of income producing property construction, as well as financing of construction of income producing offices, commercial and industrial properties. The Bank grants credit to "acquisition groups" and focuses on groups having projects in demand areas and on groups the organizer thereof has proven experience in this field.

Over and above examination performed on a current basis, the Bank conducts monthly discussions with respect of all credit portfolios and examines the condition of the projects as well as the level of risk inherent in each.

The pricing of each transaction is strictly calculated in accordance with the risk involved and the required capital allocation, using tools for the calculation of returns.

The parameters used by the Bank for the examination of risk relating to the real estate credit portfolio are mostly "loan to value", the ratio of the credit amount to the value of assets used as collateral at date of approval of the loan, based on an updated value assessment and the existence of stable sources for the repayment of the credit.

Examination of the risk relating to the construction credit portfolio is performed on a monthly basis, based on construction progress reports by the supervisor of the project, where the examined risks are both at the level of market risk and at the level of execution risk.

Following are data of credit to the public risk in the construction and real estate field:

As of September 30, 2017	Overall credit risk(1)				
	Projects not yet completed				
	Open land	Property under construction	Completed building projects	Other(2)	Total
					NIS million
	1,339	**4,727**	**3,924**	**4,934**	**14,924**

As of December 31, 2016	Overall credit risk(1)				
	Projects not yet completed				
	Open land	Property under construction	Completed building projects	Other(2)	Total
					NIS million
	978	5,301	3,966	4,878	15,123

(1) Of which: credit secured by housing property in the amount of NIS 4,755 million, Credit secured by industrial property in the amount of NIS 361 million and credit secured by commercial property in the amount of NIS 4,874 million (31.12.16 - NIS 5,215 million, NIS 392 million and NIS 4,638 million, respectively).

(2) Includes credit to borrowers in the construction and real estate field in Israel, the collateral provided by them does not include real estate, or borrowers where the value of their property for prompt realization purposes secures less than 50% of the credit risk of the borrower.

Leveraged Finance

Leveraged finance is defined as credit granted for financing capital transaction in corporation (as defined in the Bank of Israel directive 323) that meats certain criteria, and credit granted to debtors characterized with high finance leverage. The Bank considers leveraged finance as credit granted for certain goals as detailed in the risk report for 2016 in the internet website of the Bank.

As of September 30, 2017 total aggregate balances (balance sheet credit and off-balance sheet credit net of provisions for credit losses and deductible collateral) considered as leveraged finance, ampounted to NIS 1,405 million, compared to NIS 1,433 million on September 30, 2016 and NIS 1,172 million at the end of 2016.

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

MARKET RISK

Methodology for the estimation of exposure to market risk

The Bank manages and controls exposure to market risks by means of a number of generally accepted models and tools which include VaR calculations and the operation of stress tests and management and exposure control tools such as: duration, fair value and sensitivity tests for changes in the interest curve.

Interest exposure

Interest risk is measured on the basis of assumptions regarding the redemption times of assets and liabilities. The effect of the early repayment of housing loans is also taken into account in risk management.
Non-interest bearing current accounts have credit balances at a stable amount over time. The Bank bases on specific model and determined that the redemption period of the stable current accounts will be for several years.

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

	% actual exposure	
	September 30, 2017	**December 31, 2016**
Non-linked local currency(*)	**(0.01)**	(0.90)
CPI-linked local currency	**(1.51)**	(1.57)
Foreign currency and foreign-currency linked	**(0.55)**	(0.60)

(*) The main change in the exposure data in comparison with the data for December 31, 2016, stems from the reduction in exposure and from the transition to the discounting of future cash flows by means of the Bank's cost of money curve.

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

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

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

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

As of September 30, 2017	Local currency		Foreign currency (2)			
	Non-linked	CPI-linked	Dollar	Euro	Other	Total
						NIS million
Financial assets (1)	**100,831**	**11,956**	**9,196**	**2,600**	**612**	**125,195**
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	**26,991**	**217**	**26,766**	**6,139**	**3,569**	**63,682**
Financial liabilities (1)(5)	**89,676**	**11,487**	**14,742**	**2,999**	**1,169**	**120,073**
Amounts payable in respect of derivative financial and off-balance-sheet instruments	**33,318**	**465**	**21,147**	**5,758**	**2,962**	**63,650**
Net fair value of financial instruments	**4,828**	**221**	**73**	**(18)**	**50**	**5,154**

As of September 30, 2016	Local currency*		Foreign currency (2)			
	Non-linked	CPI-linked	Dollar	Euro	Other	Total
						NIS million
Financial assets (1)	93,041	12,874	12,195	2,256	994	121,360
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	23,079	383	27,367	5,306	4,518	60,653
Financial liabilities (1)	81,198	11,943	17,341	3,573	1,286	115,341
Amounts payable in respect of derivative financial and off-balance-sheet instruments	29,909	674	22,036	4,051	4,162	60,832
Net fair value of financial instruments	5,013	640	185	(62)	64	5,840

As of December 31, 2016	Local currency		Foreign currency (2)			
	Non-linked	CPI-linked	Dollar	Euro	Other	Total
						NIS million
Financial assets (1)	96,462	12,801	10,518	2,207	869	122,857
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	21,706	375	28,987	8,018	4,083	63,169
Financial liabilities(1)(5)	83,492	11,802	17,066	4,724	1,314	118,398
Amounts payable in respect of derivative financial and off-balance-sheet instruments	31,135	603	22,299	5,569	3,603	63,209
Net fair value of financial instruments	3,541	771	140	(68)	35	4,419

* Reclassified.

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

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

As of September 30, 2017	Net fair value of financial instruments, after effect of changes in interest rates (4)(6)								
	Local currency		Foreign currency (2)			Offsetting		Total change in	
	Non-linked	Linked	Dollar	Euro	Other	effects	Total		fair value
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	**4,555**	**136**	**42**	**(29)**	**47**	**-**	**4,751**	**(403)**	**(7.82)**
Immediate parallel increase of 0.1 percent	**4,800**	**212**	**70**	**(19)**	**50**	**-**	**5,113**	**(41)**	**(0.80)**
Immediate parallel decrease of one percent	**5,182**	**310**	**105**	**(22)**	**53**	**-**	**5,628**	**474**	**9.20**

As of September 30, 2016	Net fair value of financial instruments, after effect of changes in interest rates (4)								
	Local currency*		Foreign currency (2)			Offsetting		Total change in	
	Non-linked	Linked	Dollar	Euro	Other	effects	Total		fair value
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	4,631	616	140	(70)	63	-	5,380	(460)	(7.86)
Immediate parallel increase of 0.1 percent	4,973	637	180	(63)	64	-	5,791	(49)	(0.84)
Immediate parallel decrease of one percent	5,438	678	231	(72)	65	-	6,340	500	8.56

As of December 31, 2016	Net fair value of financial instruments, after effect of changes in interest rates (4)(6)								
	Local currency		Foreign currency (2)			Offsetting		Total change in	
	Non-linked	Linked	Dollar	Euro	Other	effects	Total		fair value
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	3,202	705	97	(73)	35	-	3,966	(453)	(10.25)
Immediate parallel increase of 0.1 percent	3,504	764	136	(68)	35	-	4,371	(48)	(1.09)
Immediate parallel decrease of one percent	3,920	847	180	(65)	35	-	4,917	498	11.27

* Reclassified

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

(2) Including foreign-currency linked local currency.

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

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

(5) Including the fair value of actuarial liability to employees in the amount of NIS 1,134 million and not including the value of the assets of the program (31.12.16 - NIS 1,166 million). Comparative data as of September 30, 2016 were not reclassified.

(6) This measurement includes the sensitivity effect of the actuarial liability to employees, that was estimated in decline in fair value of the liabilities in the amount of NIS 75 million in a scenario of 1% interest increase (31.12.16 - NIS 74 million) and does not include the sensitivity effect of the program assets to changes in interest, that was estimated in decrease in the value of the assets in the amount of NIS 18 million in a scenario of increase in interest of 1% (31.12.16 - NIS 16 million). Comparative data as of September 30, 2016 were not reclassified.

EXPOSURE OF THE BANK AND CONSOLIDATED SUBSIDIARIES TO FLUCTUATIONS IN INTEREST RATES

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Israeli currency - unlinked						
Financial assets, amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets(1)	**84,017**	**2,015**	**3,256**	**4,624**	**2,613**	**3,036**
Derivative financial instruments (except options)	**8,820**	**7,928**	**4,847**	**1,830**	**1,121**	**920**
Options (in terms of the underlying asset)	**267**	**639**	**609**	**10**	**-**	**-**
Total fair value	**93,104**	**10,582**	**8,712**	**6,464**	**3,734**	**3,956**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**75,529**	**2,067**	**4,994**	**4,243**	**1,498**	**205**
Derivative financial instruments (except options)	**14,471**	**7,056**	**5,889**	**1,576**	**1,706**	**1,100**
Options (in terms of the underlying asset)	**333**	**474**	**693**	**20**	**-**	**-**
Total fair value	**90,333**	**9,597**	**11,576**	**5,839**	**3,204**	**1,305**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**2,771**	**985**	**(2,864)**	**625**	**530**	**2,651**
Cumulative exposure in the segment	**2,771**	**3,756**	**892**	**1,517**	**2,047**	**4,698**
Israeli currency - Linked to the CPI						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets(1)	**1,237**	**459**	**2,083**	**3,727**	**2,482**	**1,253**
Derivative financial instruments (except options)	**-**	**6**	**18**	**37**	**133**	**23**
Total fair value	**1,237**	**465**	**2,101**	**3,764**	**2,615**	**1,276**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**1,249**	**266**	**1,264**	**4,639**	**2,552**	**1,272**
Derivative financial instruments (except options)	**-**	**4**	**230**	**192**	**16**	**23**
Total fair value	**1,249**	**270**	**1,494**	**4,831**	**2,568**	**1,295**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(12)**	**195**	**607**	**(1,067)**	**47**	**(19)**
Cumulative exposure in the segment	**(12)**	**183**	**790**	**(277)**	**(230)**	**(249)**

See notes in page 68.

					September 30, 2017			September 30, 2016			December 31, 2016
Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
			NIS million	%	years	NIS million	%	years	NIS million	%	years
1,104	**92**	**74**	**100,831**	**3.37**	**0.58**	*93,041	*2.96	*0.69	96,462	3.26	0.71
-	**-**	**-**	**25,466**		**0.69**	21,724		0.74	20,643		0.79
-	**-**	**-**	**1,525**		**0.31**	1,355		0.24	1,063		0.36
1,104	**92**	**74**	**127,822**		**(2)0.60**	116,120		*(2)0.70	118,168		(2)0.72
6	**-**	**-**	**88,542**	**0.64**	**0.21**	81,198	0.96	0.22	82,326	1.12	0.22
-	**-**	**-**	**31,798**		**0.68**	28,952		0.74	30,342		0.76
-	**-**	**-**	**1,520**		**0.32**	957		0.22	793		0.40
6	**-**	**-**	**121,860**		**(2)0.33**	111,107		(2)0.35	113,461		(2)0.36
1,098	**92**										
5,796	**5,888**										
643	**72**	**-**	**11,956**	**3.28**	**3.06**	*12,874	*3.09	*3.15	12,801	3.15	3.18
-	**-**	**-**	**217**		**3.30**	383		2.78	375		2.38
643	**72**	**-**	**12,173**		**(2)3.07**	13,257		(2)3.14	13,176		(2)3.15
238	**7**	**-**	**11,487**	**0.82**	**2.48**	11,943	1.10	3.09	11,802	1.11	2.82
-	**-**	**-**	**465**		**1.20**	674		1.67	603		1.56
238	**7**	**-**	**11,952**		**(2)2.43**	12,617		(2)3.01	12,405		(2)2.76
405	**65**										
156	**221**										

EXPOSURE OF THE BANK AND CONSOLIDATED SUBSIDIARIES TO FLUCTUATIONS IN INTEREST RATES (CONTD)

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Foreign Currency(4)						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets(1)	**4,834**	**1,704**	**2,132**	**860**	**854**	**2,010**
Derivative financial instruments (except options)	**19,305**	**8,116**	**6,306**	**673**	**225**	**238**
Options (in terms of the underlying asset)	**350**	**513**	**728**	**20**	**-**	**-**
Total fair value	**24,489**	**10,333**	**9,166**	**1,553**	**1,079**	**2,248**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**15,232**	**1,940**	**1,626**	**67**	**14**	**28**
Derivative financial instruments (except options)	**12,085**	**7,108**	**5,571**	**708**	**659**	**2,129**
Options (in terms of the underlying asset)	**282**	**676**	**639**	**10**	**-**	**-**
Total fair value	**27,599**	**9,724**	**7,836**	**785**	**673**	**2,157**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(3,110)**	**609**	**1,330**	**768**	**406**	**91**
Cumulative exposure in the segment	**(3,110)**	**(2,501)**	**(1,171)**	**(403)**	**3**	**94**

See notes in page 68.

				September 30, 2017			September 30, 2016			December 31, 2016		
	Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
				NIS million	%	years	NIS million	%	years	NIS million	%	years
	14	-	-	12,408	1.71	1.64	15,445	1.63	1.23	13,594	2.15	1.31
	-	-	-	34,863		0.23	36,127		0.34	40,155		0.24
	-	-	-	1,611		0.31	1,064		0.23	933		0.37
	14	-	-	48,882		[2]0.59	52,636		[2]0.60	54,682		[2]0.51
	3	-	-	18,910	1.49	0.08	22,200	1.00	0.10	23,104	1.33	0.09
	-	-	-	28,260		0.79	28,805		0.81	30,277		0.68
	-	-	-	1,607		0.30	1,444		0.25	1,194		0.32
	3	-	-	48,777		[2]0.50	52,449		[2]0.49	54,575		[2]0.42
	11	-										
	105	105										

EXPOSURE OF THE BANK AND CONSOLIDATED SUBSIDIARIES TO FLUCTUATIONS IN INTEREST RATES (CONTD)

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Total exposure to changes in interest rates						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets(1)(3)	**90,088**	**4,178**	**7,471**	**9,211**	**5,949**	**6,299**
Derivative financial instruments (except options)	**28,125**	**16,050**	**11,171**	**2,540**	**1,479**	**1,181**
Options (in terms of the underlying asset)	**617**	**1,152**	**1,337**	**30**	**-**	**-**
Total fair value	**118,830**	**21,380**	**19,979**	**11,781**	**7,428**	**7,480**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**92,010**	**4,273**	**7,884**	**8,949**	**4,064**	**1,505**
Derivative financial instruments (except options)	**26,556**	**14,168**	**11,690**	**2,476**	**2,381**	**3,252**
Options (in terms of the underlying asset)	**615**	**1,150**	**1,332**	**30**	**-**	**-**
Total fair value	**119,181**	**19,591**	**20,906**	**11,455**	**6,445**	**4,757**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(351)**	**1,789**	**(927)**	**326**	**983**	**2,723**
Cumulative exposure in the segment	**(351)**	**1,438**	**511**	**837**	**1,820**	**4,543**
In addition, exposure to interest rates in respect of liabilities for employee rights, gross - pension and severance pay	**21**	**31**	**110**	**240**	**117**	**236**

* Reclassified

Notes:

- Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance-sheet items, will be provided upon request.
- In this table, data by period reflect the present value of future cash flows of each financial instrument, discounted by the interest rate used for deduction to the fair value, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 14.A. to the Financial Statements.
- The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect thereof.
- The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

(1) Excluding balance-sheet balances of derivative instruments, fair value of off-balance sheet financial instruments and hybrid financial instruments.
(2) Average weighted by fair value of effective average duration.
(3) Including shares stated in the column "with no repayment period".
(4) Including Israeli currency linked to foreign currency.

For the quantitative and qualitative data on interest risk given in accordance with Pillar 3 reporting requirement and additional information on risks - see additional supervisory reporting and report on risks in the internet website of the Bank.

			September 30, 2017			September 30, 2016			December 31, 2016		
Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
			NIS million	%	years	NIS million	%	years	NIS million	%	years
1,761	**164**	**1,125**	**126,246**	**3.05**	**0.93**	*122,369	*2.80	*1.02	123,717	3.07	1.04
-	**-**	**104**	**60,650**		**0.44**	58,297		0.51	61,235		0.44
-	**-**	**316**	**3,452**		**0.31**	2,811		0.24	2,560		0.36
1,761	**164**	**1,545**	**190,348**		(2**0.76**	183,477		(2)0.85	187,512		(2)0.83
247	**7**	**887**	**119,826**	**0.77**	**0.41**	116,151	1.05	0.49	117,911	1.12	0.46
-	**-**	**104**	**60,627**		**0.74**	58,494		0.79	61,284		0.73
-	**-**	**316**	**3,443**		**0.31**	2,793		0.24	2,551		0.35
247	**7**	**1,307**	**183,896**		(2)**0.51**	177,438		(2)0.59	181,746		(2)0.55
1,514	**157**										
6,057	**6,214**										
306	**73**	**-**	**1,134**	**1.40**	**14.68**				1,166	1.70	14.95

Basis exposure

Actual basis exposure

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

	Actual exposure		% of active capital	
		As of		As of
	30.9.17	31.12.16	30.9.17	31.12.16
Non-linked local currency	**5,835**	4,943	**93**	85
CPI-linked local currency	**382**	814	**6**	14
Foreign currency and f-C linked	**92**	78	**1**	1

Sensitivity of capital to changes in the exchange rate

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

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

Set out below is the sensitivity of the Bank's capital to theoretical changes in the exchange rates of the principal currencies as of September 30, 2017 (NIS millions).

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

Percentage change in exchange rate	Dollar	Euro
5% decrease	**(6)**	**4**
10% decrease	**(13)**	**9**
5% increase	**5**	**(2)**
10% increase	**11**	**(2)**

NOTES:

(1) This effect is calculated in accordance with the expected change in the economic positions managed in different currencies, given the scenarios that were determined by the Supervisor of Banks.

(2) An increase implies a strengthening of the currency in question against the shekel.

(3) The data express the effects of changes in exchange rates on fair value after the tax effect.

(4) Changes in the exchange rates of other currencies have a negligible effect on the Bank's earnings.

Management of risks in derivative financial instruments

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

	As of September 30,	As of December 31,
	2017	2016
Hedging transactions:		
Interest rate contracts	**2,707**	2,943
Foreign currency contracts	**207**	241
ALM and other transactions:		
Interest rate contracts	**13,692**	15,521
Foreign currency contracts (including spot)	**69,232**	67,171
Contracts on shares, share indexes, commodities and other contracts	**48,580**	63,020
Total derivative financial instruments	**134,418**	148,896

LIQUIDITY RISK

For information regarding liquidity coverage ratio (LCR) see note 8 to the financial statements.

Liquidity position and the composition of assets and liabilities

The liquidity assets at the group, which includes cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 42.8 billion on September 30, 2017, compared with NIS 43.0 billion at the end of 2016. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 33.2 billion, and NIS 9.6 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public on September 30, 2017 amounted to 135.1% compared with 136.8% on December 31, 2016.

At the end of September 2017, deposits from the public, bonds and subordinated notes totaled NIS 113.6 billion compared with NIS 111.6 billion at the end of 2016.

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

In the non-linked shekel and foreign currency segments the Bank has sources in a short-medium contructual duration, which the Bank anticipates that they will be held for a long time.The uses in these segments are both for short term and medium- long term.

In general the exposures in the foreign currency segment are low (see the chapter on market risk).

In the CPI linked segement, the sources are spread for medium- long terms, for which a slight change in the CPI does not have a material effect on the Bank exposure.

The CPI exposure of the Bank's group amounted to NIS 382 million on September 30, 2017.

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

	As of September 30, 2017	As of December 31, 2016
		NIS million
1	**3,160**	3,308
2	**3,033**	1,856
3	**2,127**	1,423

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

OTHER RISKS

For information regarding other risks, among others, the operational risks and the way they are managed (including business continuity, data security and cyber events), compliance risk, anti money laundering and terror finance risk (including cross border risks), finance risk, legal risk, reputation risk and strategy risk- see the chapter on risk review in the annual financial statements of the Bank for 2016 and the risk report on the Bank's website.

DISCUSSION OF RISK FACTORS

For discussion in risk factors see the chapter of risk review in the annual financial statements of the Bank for 2016.
Following are the changes ocured in the level of risk factors during the first nine months of 2017:

- Borrowers concentration and group of borrowers risk- the level declined from "medium-low" to "low" in light of the on going decrease in borrowers concentration and borrowers group.
- Operational risk- the risk level was increased from "medium-low" to "medium" in light of intensifying cyber risks as a hole along side the expanding of the group's activity in the digital banking.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

General

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

A review of the significant areas, which in the opinion of the Bank Management consist critical accounting policies, are detailed in the Director's report for the annaual financial statements for 2016 and no change has occurred.

CONTROLS AND PROCEDURES

ASSESSMENT OF CONTROLS AND PROCEDURES CONCERNING DISCLOSURE IN THE FINANCIAL REPORT

In accordance with the Supervisor of Banks' directives for reporting to the public and the guidelines of Proper Conduct of Banking Business Regulation 309 that was issued in September 2008, the Bank has for a number of years maintained controls and procedures regarding disclosure, and has deployed an internal control network for financial reporting which was first applied in the financial report for the year ending December 31, 2008.

The directives, which concern Management's responsibility on the internal control of financial reporting and the external auditor's statement of opinion regarding the audit of the internal control of financial reporting, were compiled in accordance with the provisions of Sections 302 and 404 of the law known as the Sarbanes-Oxley Act of 2002 that was enacted in the USA, and directives and guidelines that were determined in the USA, including those determined by the PCAOB.

Enclosed with the financial statements are declarations by the CEO of the Bank and the Chief Accountant, each one separately, concerning the assessment of controls and procedures in the matter of disclosure.

The Management of the Bank, in cooperation with the CEO of the Bank and the Chief Accountant, assessed for September 30, 2017 the effectiveness of the controls and procedures in the matter of disclosure by the Bank. On the basis of this assessment, the CEO of the Bank and the Chief Accountant concluded that as at the end of this report period, the controls and procedures in the matter of disclosure by the Bank were effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the report in accordance with the Supervisor of Banks' directives for reporting to the public, and at the time determined in those directives.

During the quarter ending on September 30, 2017, no change occurred in the Bank's internal control over financial reporting which exerted a material effect, or which can reasonably be expected to exert a material effect on the Bank's internal control over financial reporting.

Irit Izakson	**Smadar Barber-Tsadik**	**Nachman Nitzan**
Chairperson of the Board of Directors	Chief Executive Officer	Executive Vice President, Chief Accountant

Tel Aviv, November 14, 2017

CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the quarter ended September 30, 2017 (hereinafter: "the Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure(1) and internal control of financial reporting(1). furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, November 14, 2017

Smadar Barber-Tsadik
Chief Executive Officer

CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the quarter ended September 30, 2017 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure(1) and internal control of financial reporting(1). furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, November 14, 2017

Nachman Nitzan
Executive Vice President,
Chief Accountant

FINANCIAL STATMENTS

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AUDITORS' REVIEW TO THE SHAREHOLDERS' OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD.

Introduction

We have reviewed the accompanying financial information of The First International Bank of Israel Ltd. and its subsidiaries (hereinafter- "the Bank"), comprising of the condensed consolidated interim balance sheet as of September 30, 2017 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three and nine months periods then ended. The Board of directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the interim financial information of a consolidated company which its assets included in the consolidated assets amounted to 0.2% of total consolidated assets as of September 30, 2017, and the net interest income before expenses for credit losses amounted to 0.2% of total consolidated net interest income before expenses for credit losses, included in the consolidated statement of income for the period of nine months then ended. The interim financial information of that company was reviewed by other auditors which their review report was presented to us and our conclusion, as it relate to the financial information of that company, is based on the review report of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel and a review standard applied in the review of banking institutions according to the directives and guidelines of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respect, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks.

As explained in Note 1A, the accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

Somekh Chaikin
Certified Public Accountants (Isr.)

November 14, 2017

CONSOLIDATED STATEMENT OF INCOME

(NIS million)

		For the three months ended September 30		For the nine months ended September 30		For the year Ended December 31
	NOTE	2017	2016	2017	2016	2016
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
Interest Income	2	**615**	682	**2,008**	1,899	2,526
Interest Expenses	2	**50**	129	**298**	286	357
Interest Income, net		**565**	553	**1,710**	1,613	2,169
Expenses from credit losses	6,12	**9**	21	**96**	46	80
Net Interest Income after expenses from credit losses		**556**	532	**1,614**	1,567	2,089
Non-Interest Income						
Non Interest Financing income	3	**38**	24	**71**	91	115
Fees		**321**	326	**972**	982	1,300
Other income		**6**	5	**61**	59	65
Total non-Interest income		**365**	355	**1,104**	1,132	1,480
Operating and other expenses						
Salaries and related expenses		**397**	404	**1,218**	1,243	1,656
Maintenance and depreciation of premises and equipment		**94**	104	**287**	309	409
Amortizations and impairment of intangible assets		**24**	31	**69**	93	116
Other expenses		**125**	123	**370**	373	502
Total operating and other expenses		**640**	662	**1,944**	2,018	2,683
Profit before taxes		**281**	225	**774**	681	886
Provision for taxes on profit		**78**	91	**261**	303	398
Profit after taxes		**203**	134	**513**	378	488
The bank's share in profit of equity-basis investee, after taxes		**12**	3	**38**	62	72
Net profit:						
Before attribution to noncontrolling interests		**215**	137	**551**	440	560
Attributed to noncontrolling interests		**(12)**	(9)	**(31)**	(31)	(39)
Attributed to shareholders of the Bank		**203**	128	**520**	409	521
						NIS
Primary profit per share attributed to the shareholders of the Bank						
Net profit per share of NIS 0.05 par value		**2.01**	1.27	**5.18**	4.08	5.19

The notes to the financial statements are an integral part thereof.

Irit Izakson
Chairperson of the Board of Directors

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 14 November, 2017

STATEMENT OF COMPREHENSIVE INCOME[1]

(NIS million)

	For the three months ended September 30		For the nine months ended September 30		For the year Ended December 31
	2017	2016	2017	2016	2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
Net profit before attribution to noncontrolling interests	**215**	137	**551**	440	560
Net profit attributed to noncontrolling interests	**(12)**	(9)	**(31)**	(31)	(39)
Net profit attributed to the shareholders of the Bank	**203**	128	**520**	409	521
Other comprehensive income (loss) before taxes:					
Adjustments of available for sale securities to fair value, net	**18**	4	**83**	40	14
Adjustments from translation of financial statements[2] net after the effect of hedges[3]	**-**	(1)	**-**	(1)	(3)
Adjustments of liabilities in respect of employee benefits[4]	**(9)**	(93)	**25**	(158)	(131)
Other comprehensive income (loss) before taxes	**9**	(90)	**108**	(119)	(120)
Related tax effect	**(3)**	31	**(38)**	40	38
Other comprehensive income (loss) before attribution to noncontrolling interests, after taxes	**6**	(59)	**70**	(79)	(82)
Less other comprehensive loss (income) attributed to noncontrolling interests	**-**	11	**(3)**	10	10
Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes	**6**	(48)	**67**	(69)	(72)
Comprehensive income before attribution to noncontrolling interests	**221**	78	**621**	361	478
Comprehensive loss (income) attributed to noncontrolling interests	**(12)**	2	**(34)**	(21)	(29)
Comprehensive income attributed to the shareholders of the Bank	**209**	80	**587**	340	449

(1) See note 4.

(2) Adjustments from translation of financial statements of foreign operation which its currency of operation is different from the currency of operation of the Bank.

(3) Hedges-gains (losses) regarding the hedging of investment in foreign currency.

(4) Mostly reflects adjustments in respect of actuarial assessments as of the end of the period regarding defined benefits pension plans, of amounts recorded in the past in other comprehensive profit.

The notes to the financial statements are an integral part thereof.

CONSOLIDATED BALANCE SHEET
(NIS million)

	NOTE	30.9.17 (unaudited)	30.9.16 (unaudited)	31.12.16 (audited)
Assets				
Cash and deposits with banks		**33,205**	26,672	29,150
Securities	5	**10,590**	16,127	15,776
Securities which were borrowed		**895**	505	414
Credit to the public	6,12	**81,091**	78,944	78,175
Provision for Credit losses	6,12	**(855)**	(865)	(847)
Credit to the public, net		**80,236**	78,079	77,328
Credit to the government		**652**	653	654
Investments in investee company		**549**	505	514
Premises and equipment		**1,097**	1,144	1,133
Intangible assets		**226**	223	243
Assets in respect of derivative instruments	10	**1,203**	1,139	1,332
Other assets(2)		**1,235**	980	1,020
Assets held for sale		**-**	44	343
Total assets		**129,888**	126,071	127,907
Liabilities, temporary equity and Shareholders' Equity				
Deposits from the public	7	**108,394**	104,549	105,817
Deposits from banks		**782**	789	755
Deposits from the Government		**846**	515	570
Bonds and subordinated capital notes		**5,230**	5,597	5,801
Liabilities in respect of derivative instruments	10	**1,160**	1,300	1,356
Other liabilities(1)(3)		**5,151**	5,304	4,929
Liabilities held for sale		**-**	-	745
Total liabilities		**121,563**	118,054	119,973
Temporary equity – noncontrolling interests		**336**	329	330
Capital attributed to the shareholders of the Bank		**7,706**	7,411	7,321
Noncontrolling interests		**283**	277	283
Total equity		**7,989**	7,688	7,604
Total liabilities, temporary equity and shareholders' equity		**129,888**	126,071	127,907

(1) Of which: provision for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 64 million and NIS 72 million and NIS 71 million at 30.9.17, 30.9.16 and 31.12.16, respectively.
(2) Of which: other assets measured at fair value in the amount of NIS 319 million and NIS 260 million and NIS 238 million at 30.9.17, 30.9.16 and 31.12.16, respectively.
(3) Of which: other liabilities measured at fair value in the amount of NIS 607 million and NIS 569 million and NIS 491 million at 30.9.17, 30.9.16 and 31.12.16, respectively.

The notes to the financial statements are an integral part thereof.

STATEMENT OF CHANGES IN EQUITY

(NIS million)

For the three months ended September 30, 2017 (unaudited)						
	Share capital and premium(1)	Accumulated other comprehensive income (loss)	Retained earnings (2)	Total share-holders' equity	Non-controlling interests	Total equity
Balance as of June 30, 2017	**927**	**(116)**	**6,752**	**7,563**	**276**	**7,839**
Net profit for the period	**-**	**-**	**203**	**203**	**7**	**210**
Dividend	**-**	**-**	**(70)**	**(70)**	**-**	**(70)**
Other comprehensive income, after tax effect	**-**	**6**	**-**	**6**	**-**	**6**
Temporary equity - noncontrolling interests	**-**	**-**	**4**	**4**	**-**	**4**
Balance as of September 30, 2017	**927**	**(110)**	**6,889**	**7,706**	**283**	**7,989**

For the three months ended September 30, 2016 (unaudited)						
	Share capital and premium(1)	Accumulated other comprehensive loss	Retained earnings (2)	Total share-holders' equity	Non-controlling interests	Total equity
Balance as of June 30, 2016	927	(126)	6,538	7,339	275	7,614
Net profit for the period	-	-	128	128	4	132
Other comprehensive loss, after tax effect	-	(48)	-	(48)	(2)	(50)
Temporary equity - noncontrolling interests	-	-	(8)	(8)	-	(8)
Balance as of September 30, 2016	927	(174)	6,658	7,411	277	7,688

For the nine months ended September 30, 2017 (unaudited)						
	Share capital and premium(1)	Accumulated other comprehensive income (loss)	Retained earnings (2)	Total share-holders' equity	Non-controlling interests	Total equity
Balance at the beginning of the year (audited)	**927**	**(177)**	**6,571**	**7,321**	**283**	**7,604**
Net profit for the period	**-**	**-**	**520**	**520**	**19**	**539**
Dividend	**-**	**-**	**(210)**	**(210)**	**(20)**	**(230)**
Other comprehensive income, after tax effect	**-**	**67**	**-**	**67**	**1**	**68**
Temporary equity - noncontrolling interests	**-**	**-**	**8**	**8**	**-**	**8**
Balance as of September 30, 2017	**927**	**(110)**	**6,889**	**7,706**	**283**	**7,989**

For the nine months ended September 30, 2016 (unaudited)						
	Share capital and premium(1)	Accumulated other comprehensive loss	Retained earnings (2)	Total share-holders' equity	Non-controlling interests	Total equity
Balance at the beginning of the year (audited)	927	(105)	6,251	7,073	264	7,337
Net profit for the period	-	-	409	409	14	423
Other comprehensive loss, after tax effect	-	(69)	-	(69)	(1)	(70)
Temporary equity - noncontrolling interests	-	-	(2)	(2)	-	(2)
Balance as of September 30, 2016	927	(174)	6,658	7,411	277	7,688

STATEMENT OF CHANGES IN EQUITY (CONT'D)

(NIS million)

	For the year ended December 31, 2016 (audited)					
	Share capital and premium(1)	Accumulated other comprehensive loss	Retained earnings (2)	Total share-holders' equity	Non-controllin g interests	Total equity
Balance at the beginning of the year	927	(105)	6,251	7,073	264	7,337
Net profit for the year	-	-	521	521	21	542
Dividend	-	-	(200)	(200)	-	(200)
Other comprehensive loss, after tax effect	-	(72)	-	(72)	(2)	(74)
Temporary equity - noncontrolling interests	-	-	(1)	(1)	-	(1)
Balance as of December 31, 2016	927	(177)	6,571	7,321	283	7,604

(1) Including share premium of NIS 313 million (as from 1992 onwards).
(2) Including an amount of NIS 2,391 million which cannot be distributed as dividend.

The notes to the financial statements are an integral part thereof.

STATEMENT OF CASH FLOWS

(NIS million)

	For the three months ended September 30		For the nine months ended September 30		For the year Ended December 31
	2017	**2016**	**2017**	**2016**	**2016**
		(unaudited)		(unaudited)	(audited)
Cash flows from (for) operating activities:					
Net profit for the period	**215**	137	**551**	440	560
Adjustments to reconcile cash provided by operating activities:					
The Bank's share in profit of equity-basis investee	**(12)**	(3)	**(38)**	(62)	(72)
Depreciation of premises and equipment	**20**	22	**59**	68	93
Amortization of intangible assets	**24**	31	**69**	93	116
Gain on sale of premises and equipment	**(3)**	(3)	**(44)**	(21)	(24)
Expenses from credit losses	**9**	21	**96**	46	80
Gain from sale of available for sale securities	**(11)**	*(7)	**(25)**	*(53)	(50)
Realized and non-realized loss from adjustment to fair value of trading securities	**3**	3	**8**	5	3
Deferred taxes, net	**11**	(21)	**(16)**	104	118
Defined benefit severance pay and pension schemes	**15**	*17	**51**	*69	96
Accumulation differences included in investing and financing activities	**(135)**	*118	**437**	*189	190
Effect on cash balances of changes in exchange rates	**69**	72	**200**	101	91
Net change in current assets:					
Deposits with banks	**(706)**	(45)	**523**	(130)	(1,060)
Securities held for trading	**65**	(106)	**246**	10	9
Securities which were borrowed from Treasury	**8**	97	**(481)**	(152)	(61)
Credit to the public	**(739)**	(2,009)	**(2,311)**	(5,087)	(4,155)
Credit to the public held for sale	**15**	-	**298**	-	-
Credit to government	**(6)**	(6)	**2**	16	15
Other assets	**(281)**	59	**(241)**	108	53
Assets in respect of derivative instruments	**84**	423	**117**	533	334
Net change in current liabilities:					
Deposits from the public	**563**	(1,078)	**1,616**	959	2,931
Deposits from banks	**36**	(418)	**27**	(776)	(810)
Deposits from the government	**(161)**	108	**(212)**	143	246
Other liabilities	**(46)**	*451	**205**	*127	(244)
Liabilities in respect of derivative instruments	**(180)**	(262)	**(188)**	(357)	(297)
Other liabilities held for sale	**(16)**	-	**(745)**	-	-
Net cash from (for) operating activity	**(1,159)**	(2,399)	**204**	(3,627)	(1,838)

* Reclassified.

STATEMENT OF CASH FLOWS (CONT'D)
(NIS million)

	For the three months ended September 30		For the nine months ended September 30		For the year Ended December 31
	2017	2016	2017	2016	2016
		(unaudited)		(unaudited)	(audited)
Cash flows from (for) investing activity					
Purchase of held to maturity and available for sale securities	**(1,122)**	(3,751)	**(2,954)**	(10,908)	(13,132)
Proceeds from redemption of bonds held to maturity	**68**	6	**145**	59	80
Proceeds from sale of available for sale securities	**1,125**	1,698	**3,683**	7,348	8,203
Redemption of available for sale securities	**2,598**	657	**4,478**	3,366	4,551
Acquisition of premises and equipment	**(10)**	(16)	**(32)**	(42)	(55)
Proceeds of sale of premises, equipment and other assets	**5**	7	**90**	34	38
Investment in intangible assets	**(18)**	(18)	**(53)**	(50)	(94)
Dividend received from investee company	**-**	-	**8**	-	-
Net cash from (for) investing activity	**2,646**	(1,417)	**5,365**	(193)	(409)
Cash flows for financing activity					
Issue of bonds and subordinate debt notes	**300**	-	**352**	580	834
Redemption of bonds and subordinate debt notes	**(114)**	(115)	**(907)**	(839)	(907)
Dividend paid to shareholders	**(70)**	-	**(210)**	-	(200)
Dividend paid to noncontrolling shareholders in consolidated companies	**-**	-	**(20)**	-	-
Net cash from (for) financing activity	**116**	(115)	**(785)**	(259)	(273)
Increase (decrease) in cash	**1,603**	(3,931)	**4,784**	(4,079)	(2,520)
Cash balances at beginning of period	**30,678**	30,088	**27,638**	30,265	30,265
Effect of changes in exchange rates on cash balances	**(71)**	(76)	**(212)**	(105)	(107)
Cash balances at end of period	**32,210**	26,081	**32,210**	26,081	27,638
Interest and taxes paid and/or received:					
Interest received	**656**	673	**2,153**	2,295	2,970
Interest paid	**196**	174	**585**	605	736
Dividends received	**5**	8	**25**	14	19
Income tax paid	**116**	64	**360**	229	313
Income tax received	**11**	2	**147**	170	172

The notes to the financial statements are an integral part thereof.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

A. General

The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The condensed consolidated interim financial statements of the Bank as of September 30, 2017 include those of the Bank and of its subsidiary companies (hereinafter - "the Group) as well as the rights of the Group in equity basis investee. The condensed consolidated interim financial statements do not include all the information required in full annual financial statements. The condensed statements should be read together with the financial statements as of and for the year ended December 31, 2016 (hereinafter - "the Annual Report").

The accounting policy of the Group applied in these condensed consolidated interim financial statements, is the same policy applied in the Annual Report, with the exception of that stated in subsection "D" below.

In accordance with the guidelines of the Supervisor of Banks, the Bank publishes only the condensed consolidated financial statements. The condensed consolidated interim financial statements were approved by the Board of Directors for publication on November 14, 2017.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

B. Financial reporting principles

The financial statements of he Bank are prepared in accordance with accepted accounting principles in Israel (Israeli GAAP) and in accordance with the public reporting instructions and guidelines of the Supervisor of Banks. In most matters, these directives are based on accounting principles accepted by US banks. In other matters, which are less material, the directives are based on international financial reporting standards (IFRS) and on accepted accounting principles in Israel (Israeli GAAP). Where the international financial reporting standards (IFRS) allow several alternatives, or do not include specific reference to a certain situation, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

C. Use of estimates

Preparation of financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Supervisor of Banks requires Management to use judgment, make estimates and assumptions which affect the implementation of the accounting policy and the reported amounts of assets and liabilities and the amounts of income and expenses. It should be noted that actual results may differ from these estimates.

Upon the formation of accounting estimates used in the preparation of the financial statements of the Bank, Management is required to make assumptions as to circumstances and events which involve significant uncertainty. When using judgment in determining the assessments, Management of the Bank relies upon past experience, various facts, outside factors and upon reasonable assumptions in accordance with the circumstances applying to each assessment.

Judgment and estimates of Management, when implementing the accounting policy of the Group and main guidelines used in assessments involving uncertainty, are consistent with those used in compiling the annual financial statements.

The assessments as well as the assumptions supporting them are being reviewed on a current basis. Changes in accounting assessments are recognized in the period in which these changes occur as well as in all future periods affected by them.

D. Initial implementation of accounting standards, updates of accounting standards and instructions of the Supervisor of Banks

Starting with the periods beginning on January 1, 2017, the Bank implements new accounting standards and instructions regarding the matters detailed below:

1. Reporting by banks and credit card companies in accordance with US accepted accounting principles in the matter of taxes on income.
2. Reporting in accordance with US accepted accounting principles in matters of foreign currency issues, accounting policy, changes in accounting estimates and errors, as well as events subsequent to balance sheet date.
3. A new update of the accounting standard in the matter of the effect of a derivative swap contract on existing accounting hedge relations.
4. A new legislation update in the matter of options conditional upon debt instruments.
5. Definition of a primary source of repayment in classifying a troubled debt.

Following is a description of the substance of the changes made to the accounting policy applied in these condensed consolidated interim financial statements, and a description of the manner and effect of the initial implementation, if at all:

1. Reporting by banks and credit card companies in accordance with US accepted accounting principles in the matter of taxes on income

A circular letter was published on October 22, 2015, in the matter of reporting by banks and credit card companies in accordance with US accepted accounting principles in the matter of taxes on income. The letter requires the implementation of the accounting principles accepted by US banks in the matter of taxes on income, and inter alia, the presentation, measurement and disclosure rules in accordance with Chapter 740 of the Codification regarding "taxes on income", and in the matter of 830-740 of the Codification in the matter of "foreign currency issues - taxes on income".

It is required in the letter that the new rules shall be applied as from January 1, 2017. Upon initial application, the provisions of the transitional instructions determined in the US standard are to be applied, including the retroactive restatement of the comparative data, where required. In the financial statements for 2017, the bank is not required to include disclosure regarding non-recognized tax benefits in accordance with items 740-10-50-15d and 740-10-50-15A of the Codification.

On October 13, 2016, a letter was published in the matter of reporting by banks and credit card companies in accordance with US accepted accounting principles. Among other things, the letter includes certain clarifications with respect to the reporting of taxes on income in accordance with the US principles.

The principal amendments to the public reporting instructions are as follows:

- The transitional instructions have been updated, so that temporary timing differences in respect of prior periods, would continue to be treated in accordance with the instructions in force until December 31, 2016;
- It has been clarified that interest income and expenses in respect of taxes on income, should be classified to the item "taxes on income"; also penalties payable to the tax authorities should be classified to the item "taxes on income";
- It has been clarified that an Act shall be considered as "enacted" only upon its formal publication;
- The disclosure requirements in the public reporting instructions as well as the format of disclosure regarding "provision for taxes in income", have been modified to agree with the requirements of the new instructions;
- The requirement for the presentation of a note providing, for tax purposes, information on the basis of nominal historical data, in accordance with Supplements C1 and C2, as required in the public reporting instructions, has been removed due to the fact that such a note does not provide additional information to users of financial statements;

The new instructions are being applied as from January 1, 2017, and thereafter. Moreover, the comparative data is being reclassified in order to agree with the mode of presentation in accordance with the new instructions.

Following is a review of the principal items of the new instructions for the application of the rules of the US standard in the matter of taxes on income, as adopted by the public reporting instructions:

- **Investment in domestic subsidiary companies**

  Deferred tax liabilities are to be recognized, unless the tax laws permit a tax exempt recovery of the investment (such as: by way of liquidation or by a tax exempt statutory merger) without a significant cost, and the parent company is expected to recover the investment in this way eventually (possibility and intent) . In these cases, it should be emphasized that the difference is not considered as temporary.

- **Investment in foreign subsidiary companies**

  Deferred tax liabilities have to be recognized, except where indefinite reversal criteria apply:

  - The investor is able to control the reversal date; and
  - Non-distributed profits shall be reinvested with no time limit, or may be distributed under a tax exemption;

- **Investments, whether domestic or foreign, which are treated by the equity method of accounting**

  As a general rule, an entity shall recognize deferred tax assets or liabilities in respect of temporary differences stemming from an investment treated by the equity method of accounting.

- **Temporary differences created as from the year 2017 and thereafter**

  The new instructions regarding the implementation of the US accounting standards in respect of taxes on income are applied as from January 1, 2017 onwards. Temporary differences in respect of prior periods are treated in accordance with the rules prevailing until December 31, 2016.

- **Changes in deferred taxes arising from items that originally were not recognized in profit and loss**

  Current taxes and deferred taxes in respect of items, which in the current period were not recognized in profit and loss, shall be recognized outside profit and loss. Specific rules apply to the intra-period allocation of tax expenses between the different components of the financial statements.

  Following changes in deferred taxes, arising generally as a result of changes in tax rates, shall be recognized in profit and loss in the current period, even if the deferred taxes had not been originally recognized in profit and loss.

- **Uncertain tax positions**

  A tax benefit should be recognized when it is expected, more probably than not, that the benefit would be utilized. The amount of the tax benefit that shall be recognized is the highest amount expected to be received (over 50%). Exposure risk is not included in computing the benefit. Specific rules apply to various aspects of recognition, measurement and disclosure of uncertain tax positions.

- **Tax asset in respect of temporary differences deductible tax wise**

  A deferred tax asset is recognized in the full amount of the temporary differences that are deductible tax wise, and in parallel, a separate valuation allowance is recognized in respect of the amount included in the deferred tax asset, which, more probably than not, would not be utilized. As a general rule, following changes in the valuation allowance stemming from changes in estimates regarding the possibility of realizing the deferred tax asset, or from changes in tax rates, shall be recognized in profit and loss from continuing operations in the current period, even if the allowance had initially been recognized in other comprehensive profit or in equity.

- **Changes in tax rates**

  Current tax assets or liabilities are generally measured using enacted tax rates. Deferred tax assets or liabilities are generally measured according to the tax rate that would prevail in the recovery period. A deferred tax asset should be recognized only if it is apparent that the temporary difference would be reversed in the foreseeable future. Accordingly, a deferred tax asset should not be recognized unless it is apparent that the temporary difference would be reversed in the foreseeable future. Upon the recognition of a deferred tax asset, determination should be made as to whether taxable future profits will exist against which the temporary difference could be deducted, this, in order to decide whether it is required to recognize a valuation allowance.

The Bank has applied the above instructions by way of a retroactive application. The initial application of the provisions of the letter had no material effect on the financial statements.

2. Reporting by banking corporations in Israel in accordance with US accepted accounting principles in the matters of foreign currency issues, accounting policy, changes in accounting assessments and errors, and events subsequent to balance sheet date

A circular letter was published on March 21, 2016, in the matter of the reporting by banking corporations and credit card companies in Israel according to US accepted accounting principles. The letter updates the public reporting instructions and adopts the US accepted accounting principles on the following matters:

- Accounting principles accepted by US banks regarding item 830 of the Codification in the matter of "foreign currency issues".
- Accounting principles accepted by US banks relating to accounting policy, changes in accounting assessments and errors, including item 250 of the Codification regarding "changes in accounting policy and rectification of errors".
- Accounting principles accepted by US banks regarding "events subsequent to balance sheet date", in accordance with item 855-10 of the Codification in the matter of "post balance sheet events".

The provisions of the letter apply as from January 1, 2017 and thereafter. Upon the initial implementation it is required to act in accordance with the transitional instructions relating to these matters in the US standards, with the required modifications, including the retroactive restatement of the comparative data, where requires according to the US standards in these matters. It should be noted that in the implementation of the guidelines regarding item 830 of the Codification regarding "foreign currency" in reported periods until January 1, 2019, banks shall not include exchange differences regarding available-for-sale bonds as part of the adjustments to fair value of these bonds, but should continue to be treated as required in the public reporting instructions in effect before the adoption of this matter.

Furthermore, International Accounting Standard No. 29 regarding "financial reporting in hyper-inflationary economies", as adopted by the public reporting instructions, is not to be applied as from the effective date of the letter. It is clarified, that the date on which the adjustment to inflation of financial statements of banks was discontinued remains unchanged, and the financial statements shall be prepared on the basis of reported amounts, unless the public reporting instructions state otherwise.

Following is a review of the principal new instructions regarding the implementation of the US accounting standard in the matter of foreign currency issues, as adopted in the public reporting instructions:

- **Determination of the functional currency**

  The functional currency of the entity is the currency of the principal economic environment in which the entity operates; generally speaking, the principal environment in which the entity produces and spends cash.

  The provisions of the US standard present "a framework" and "considerations", which have to be taken into account, though without unequivocal criteria; the integration of the entity in the economic environment has to be taken into consideration, including its ability to operate as an independent entity. Upon the determination of the functional currency, judgment has to be applied, and no preference should be given to certain indicators over other indicators.

- **Foreign currency transactions**

  Profits or losses from foreign currency transactions reported in profit and loss as profits or losses from translation differences, excluding:

  - Exchange differences in respect of items comprising part of the net investment;
  - The effective part of profit or loss on a hedge instrument hedging a net investment in a foreign operation, or hedging cash flows;
  - Profit or loss items in respect of available-for -sale debt instruments, which are included as part of the other cumulative comprehensive profit, subject to the transitional instructions detailed above.

- **Adjustments to the reported currency**

  Financial statements presented in foreign currency are translated using the following procedures:

  - Assets and liabilities are translated using the closing exchange rate at date of the financial condition report;
  - Income and expenses, profits and losses are translated using the exchange rates prevailing at dates of the transactions, or the average exchange rate proximate to the exchange rate during the reported period;

- Capital items excluding retained earnings are translated using the historical exchange rates at dates of the transactions;
- Retained earnings are translated using the historical exchange rate in accordance with the relevant reporting periods.

All resulting exchange differences are recognized in other comprehensive profit, net after tax, as a separate item of equity (translation differences reserve).

Following is a review of the principal new instructions regarding the implementation of the US accounting standard in the matters of accounting policy, changes in accounting estimates and errors, as adopted in the public reporting instructions:

- **Comparative data**

  Material errors in prior reporting periods have to be rectified. Under the instructions of the US standard, no practical relief is provided, according to which a restatement of the comparative data may not be made in cases where the restatement is impractical.

  The Bank has studied the effects of the implementation of the new instructions. The application of the instructions would have no material effect on the financial statements of the Bank.

3. A new standards update in the matter of the effect of a derivative contract novation on existing accounting hedge relations

In March of 2016, the US Accounting Standards Board ("FASB") published update 2016-05 regarding derivative contract novations on existing hedge relations, comprising an amendment to item 815 of the Codification regarding derivative instruments and hedge (hereinafter - "the Amendment").

In accordance with the Amendment, different reasons may exist for the exchange of counterparty to a derivative designated as hedge instrument, such as: existence of inter-company transactions, regulatory requirements (such as Dodd Frank), confrontation with internal credit limitations, and more.

The Amendment was published because the guidelines of item 815 do not provide a clear-cut answer to everything relating to the effect on hedge relations, if at all, as a result of an exchange of a counterparty to a derivative designated as a hedge instrument.

In accordance with the Amendment, an exchange of the counterparty of a derivative designated as a hedge instrument in accordance with the provisions of item 815, does not impair the designation itself, on condition that all other criteria for hedge accounting continue to exist, including items 815-20-35-14 to 815-20-35-18 of the Codification.

The instructions apply to public entities in the US, starting with the annual and interim financial statements for periods beginning after December 15, 2016.

It is noted that companies may choose to apply the new instructions from now onwards or alternatively by retroactively adjusted application. Early application is possible, including in interim statements.

The Bank has studied the implications of the new instructions. The application of the instructions would have no material effect on the financial statements of the Bank.

4. A new standard update in the matter of options contingent upon debt instruments

In March 2016, the US Financial Accounting Standards Board ("FASB") published update 2016-06 regarding CALL and PUT options contingent upon debt instruments, comprising an amendment to item 815 of the Codification regarding derivatives instruments and hedge (hereinafter -"the Amendment").

The Amendment is intended to solve the lack of uniformity in practice with respect to examining the need to separate an embedded derivative in respect of contingent PUT and CALL options embedded with debt instruments.

The Amendment clarifies that it is not required to examine whether the event on which exercise of the option is contingent, is related to the economic characteristics of the host contract.

In accordance with the Amendment, upon examination of the embedded derivative, when an option is contingent upon a debt instrument that might accelerate the payment of the principal amount of the instrument, it should be examined whether the derivative is closely related to the host contract by way of a model that includes four stages. Under this model it is required to examine whether:

- the Settlement amount is based on changes in a certain index;
- the index is not a rate of interest or credit risk;
- the debt involves a significant premium or discount; and also
- the option is contingently exercisable.

The instructions apply to public entities in the US, starting with the annual and interim financial statements for periods beginning after December 15, 2016.

Early application is possible, including in interim statements. The initial application shall be made in accordance with the transitional instructions included in the update.

The Bank has studied the implications of the new instructions. The application of the instructions would have no material effect on the financial statements of the Bank.

5. Definition of a primary source of repayment when classifying a troubled debt

On February 20, 2017, a revised FAQ file of the Supervisor of Banks was published in the matter of "implementation of the public reporting instructions regarding impaired debts, credit risk and the provision for credit losses".

The said revision relates mostly to the classification of a debt, the definition of a debt as impaired and the measurement of the specific provision for credit losses. Determination of the appropriate classification of a debt, in the period prior to the happening of a default event, or prior to such an event becoming highly probable, is based on the repayment ability of the borrower, namely: the expected reliability of the primary repayment source, this, despite the support of secondary and third repayment sources (such as: collateral, guarantors support, refinancing by a third party).

Among other things, the FAQ file includes a question relating to the primary source of repayment.

A primary source of repayment - a sustainable source of cash that must be under the control of the borrower and must be explicitly or in substance separated for the repayment of the debt. It is clarified in the FAQ file that, as a general rule, in order for the source of repayment to be recognized as a primary source of repayment, the bank has to demonstrate that it is highly probable that the borrower is expected to produce, within a reasonable period of time, an appropriate cash flow from a continuing business operation, which would serve in full all repayment installments on the dates specified in the loan agreement.

This update applies as from July 1, 2017 and thereafter.

E. New accounting standards and new directives of the Supervisor of Banks in the period prior to their implementation

1. Recognition of income from agreements with customers

A circular letter was published on January 11, 2015, in the matter of the adoption of the amendment to the accounting rules relating to "income from agreements with customers".

The letter updates the public reporting rules in view of the publication of ASU 2014-09, which adopts in US accepted accounting principles a new standard in the matter of income recognition. In accordance with the letter of the Supervisor of Banks regarding the transitional instructions for 2016, it is required to implement the amendments to the public reporting instructions in accordance with letter regarding the adoption, as from January 1, 2018, of the accounting principles in the matter of "income from agreements with customers", this following an update of the US standard ASU 2015-14, which postponed the date of the initial application.

The standard contains a single model, which applies to agreements with customers and which includes five stages in order to determine the timing of income recognition and its amount, as follows:

- Identification of the agreement with the customer;
- Identification of separate commitments for execution of the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the separate commitments for execution of the contract;
- Recognition of income upon fulfillment of the execution commitments.

Moreover, the standard states that the income would be recognized in the amount expected to be received in consideration for the delivery of the goods or the rendering of service to the customer.

Upon initial application, it is possible to choose the alternative of a retroactive application while restating the comparative data, or the alternative of application by way of "from now onwards" while recognizing in equity the cumulative effect of the change at date of initial application.

The Bank will adopt the instructions of the new standard as from the first quarter of 2018, while recognizing in the opening balance of retained earnings the cumulative effect of this change at date of initial application.

While the new instructions replace most of the existing instructions regarding the recognition of income, the new standard does not apply, inter alia, to interest income and expenses, as well as to financial instruments and contractual rights and liabilities to which Chapter 310 of the Codification applies, including loans, leases, securities and derivatives. Furthermore, Bank of Israel instructions clarify that, as a general rule, the provisions of the new standard shall not apply to the accounting treatment of interest income and expenses and of non-interest financing income. In view of this, the new instructions would not affect most of the Bank's income.

While the Bank has not yet identified a material change in the timing of income recognition, the review of the said implications is still being continued and the Bank continues the preparations for the implementation of the new instructions, including, inter alia, the mapping of income to which the new standard applies and the review of agreements with customers, the manner of presentation of certain expenses (as an expense or as a reduction in income), and including changes in the disclosure requirements stemming from the new instructions.

2. Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles

A circular letter was published on October 13, 2016, in the matter of the reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles. The letter includes, inter alia, certain clarifications regarding the reporting of taxes on income in accordance with principles applying in the US. The letter updates the public reporting instructions and adopts US accepted accounting standards on the following matters:

- Discontinued operations in accordance with item 205-20 of the Codification regarding "discontinued operations";
- Fixed assets in accordance with item 360 of the Codification regarding "fixed assets";
- Statement of cash flows in accordance with item 230-10 of the Codification regarding "statement of cash flows"
- Interim period reporting in accordance with item 270 of the Codification regarding "interim period reporting";
- Capitalization of interest costs in accordance with item 835-20 of the Codification regarding "capitalization of interest" (it should be clarified in this respect, that in accordance with the public reporting instructions, a bank may not capitalize interest costs, unless it had determined a policy and clear procedures and controls regarding the criteria for the recognition of assets as qualified assets and for the amount of interest cost that may be capitalized);
- Measurement and disclosure of guarantees in accordance with item 460 of the Codification regarding "guarantees".
- Earnings per share in accordance with item 260 of the Codification regarding "earnings per share".

The instructions contained in the letter shall apply as from January 1, 2018. Upon the initial application thereof, the Bank is required to follow the transitional instructions determined in these matters by the US standards, with the required modifications, including the retroactive restatement of the comparative data, where required, in accordance with the rules of the US standards in these matters.

Following is a review of the principal new instructions regarding the implementation of the US accounting standard in the matter of the statement of cash flows, as adopted in the public reporting instructions:

- **Loans extended**

  Credit extended by a financial institution is generally classified as an investment operation, unless it is created or acquired for the purpose of resale.
- **Deposits received**

  Changes in deposits received by a financial institution are classified as a financing operation.

Following is a review of the principal new instructions regarding the implementation of the US accounting standard in the matter of guarantees, as adopted in the public reporting instructions:

- **Transactions subject to ASC 460**

  Agreements (or indemnification agreements), which contingently require the guarantor (or the indemnifying party) to make payments to the beneficiary (or the indemnified party) based on changes in the base asset; and agreements that contingently require the guarantor to make payments to the beneficiary based on default of a third party under a binding agreement (execution guarantees); and indirect guarantees for indebtedness of other parties, even if the payment to the beneficiary may not be based on changes in the base asset. In addition, the standard details a list of transactions to which ASC 460 does not apply, even though they come under the applicability detailed above.
- **Financial guarantee agreements**

  Financial guarantee agreements are not subject to derivative instrument rules (and may be subject to the provisions of ASC 460), only if:

  (a) They require payment only in order to indemnify the beneficiary in respect of a default on the part of the debtor to pay his debt in accordance with a contract that is not a derivative instrument, on payment dates fixed in advance, or on payments dates that had been advanced as a result of a credit default event or a notice of advancement of payments sent by the lender to the borrower;

  (b) A payment according to the financial guarantee agreement made only in the event that as a result of the circumstances described in (a) above, the date for the repayment of the debt by the borrower had passed;

  (c) The beneficiary, as a condition precedent to receiving payment in respect of any claim in accordance with the guarantee agreement (or in a back-to-back agreement, where relevant), is exposed to the risk of payment default by the borrower, both at the date of granting the financial guarantee and during its life span, by means of a direct legal ownership of the guaranteed indebtedness or by way of a back-to-back agreement with another party required under the agreement to maintain a direct ownership of the guaranteed indebtedness.
- **Related companies**

  The rules regarding recognition and measurement at date of initial recognition of Standard ASC 460 do not apply to guarantees granted between a parent company and its subsidiary, between two sister companies, or between the owner of the company and the company.
- **Recognition**

  A guarantee is an obligation to make payments to the beneficiary upon the existence of the binding terms for the realization of the guarantee, so that a liability in respect of a guarantee should be recognized in the books even if it is not expected that payments would be made in the future.
- **Measurement at date of initial recognition**
  - A liability in respect of a guarantee is recorded in the books at fair value at date of initial recognition.
  - In cases where at date of initial recognition the guarantor is required to recognize a provision for contingent loss in respect of the guarantee in accordance with ASC 450, the liability in respect of the guaranty shall be measured at date of initial recognition at the higher of the fair value and the amount of the provision according to ASC 450.

- **Measurement in following periods**
  - No detailed guidelines exist regarding the reduction in liabilities in following periods. As a general rule, the liability would be removed from the books on the date on which the guarantor is released of the risk. The date of release from risk in respect of the guarantee depends on the substance of the guarantee, when in practice, one of the three following methods is used: (1) date of settlement of the liability; (2) a rational and systematic reduction method; and (3) according to the change in the fair value of the guarantee. The method of reduction in accordance with the change in fair value may be used only if it is justified in accordance with the rules of the US standard, for example: use of the change in fair value method for guarantees treated as derivative instruments in accordance with ASC 815.
  - When the guarantee is measured at date of initial recognition in accordance with ASC 450, the following measurement should also be made in accordance with ASC 450.
- **Disclosure**
  - Provision for loss:
    - The disclosure requirements in accordance with ASC 460 apply to all guarantees (even where ASC 460 does not apply to them), with the exception of those to which ASC 450 no longer applies.
    - In the case of certain guarantees, disclosure is required even where loss expectation is remote.
    - Disclosure should relate to the substance of the guarantee and its amount; where relevant, disclosure should include the value of the indemnification expected to be received.
  - Obligation in respect of a guarantee:

    The following disclosure should be given in respect of each guarantee or group of identical guarantees, even if the chances that the guarantor would have to make any payments with respect to the guarantee are remote:

    The substance of the guarantee; information regarding the maximum amount of potential payments in respect of the guarantee; the present amount of amortized cost of the liability; substance of the indemnity; substance of the collateral; and if measurable, the estimated coverage rate of the consideration for the collateral to the maximum amount of potential payments in respect of the guarantee.

The Bank is studying the effect of the letter on its financial statements.

3. A new update of the standard regarding other income

In February 2017, the US Financial Accounting Standards Board ("FASB") published update 2017-05, regarding the application of the rules in respect of the disposal of assets and the accounting treatment of part sales of nonfinancial assets, comprising an amendment of item 610-20 of the Codification regarding other income - gains or losses from disposal of nonfinancial assets (hereinafter - "the Amendment").

The Amendment clarifies that a financial asset, which in substance is not a financial asset, enters the applicability of ASC 610-20. The definition of a financial asset which in substance is a nonfinancial asset includes, inter-alia, an asset promised to a counterparty to an agreement, if most of the fair value of this asset stems materially from nonfinancial assets (for example: the transfer of rights in a subsidiary company most of the assets of which are nonfinancial assets). In accordance with the Amendment, the transfer of a business or of a not-for-profit operation, as well as any transfer of an investment treated by the equity method of accounting, are not subject to the ASC 610-20 rules (the exception, according to which certain transfers of investments treated by the equity method of accounting would be treated in accordance with ASC 610-20, has been removed).

Furthermore, entities are required to separately identify each distinct asset which is promised to a counterparty and dispose of the asset once the counterparty obtains control. Allocation of the consideration to each distinct asset shall be treated in accordance with ASC 606.

In addition, the new instructions would affect also the accounting treatment of partial sales of a nonfinancial asset. In accordance with the Amendment, an entity, which transfers its rights in a nonfinancial asset, but remains with

noncontrolling rights, shall measure the remaining rights at fair value. As a result thereof, the gains or loss in full shall be recognized upon the sale of the controlling rights in the nonfinancial asset.
The above rules will apply to US public entities as from the annual and quarterly financial statements for periods beginning after December 15, 2017. Earlier application is possible.

4. A new update of the standard regarding receivables

In March 2017, the US Financial Accounting Standards Board ("FASB") published update 2017-08, regarding the reduction in the premium on purchased bonds with an option for premature redemption, comprising an amendment to item 310-20 of the Codification regarding receivables - nonrefundable commissions and other costs (hereinafter - "the Amendment").
In accordance with the Amendment, the period of amortization of the premium on bonds with an premature redemption option by the issuer, shall be shortened in accordance with the earliest redemption date.
The above rules will apply to US public entities as from the annual and quarterly financial statements for periods beginning after December 15, 2018. Earlier application is possible, including in interim financial statements.

5. A new update of the standard in the matter of derivatives and hedge accounting

The US Financial Accounting Standards Board ("FASB") published in August 2017 update No. 12-2017 in the matter of focused improvements of the accounting treatment of hedge transactions, comprising amendment of Item 815 of the Codification regarding derivatives and hedge accounting (hereinafter – "the Amendment").
The Amendment updates the presentation and disclosure requirements, as well as the manner in by which corporations assess the effectiveness of hedge transactios. Furthermore, the Amendment increases the ability of corporations to hedge financial and non-financial risk components, so that more hedge transactions would qualify for treatment under hedge accounting.
In addition, the Amendment is intended to correspond in a stricter manner the implementation of hedge accounting to the risk management strategy of corporations, to simplify the manner of implementation of hedge accounting, as well as increase transparency as regards the scope and results of hedge plans.
These instruction will apply to US public entities as from the annual and quarterly financial statements for periods beginning after December 15, 2018. Earlier application is possible, including in interim financial statements.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

		For the three months ended September 30		For the nine months ended September 30	
		2017	**2016**	**2017**	**2016**
			(unaudited)		(unaudited)
A.	**Interest income** (1)				
	From credit to the public	**582**	636	**1,882**	1,778
	From deposits with banks	**4**	2	**9**	6
	From deposits with Bank of Israel and From cash	**6**	6	**18**	17
	From bonds(2)	**23**	38	**99**	98
	Total interest income	**615**	682	**2,008**	1,899
B.	**Interest expenses** (1)				
	On deposits from the public	**34**	62	**163**	144
	On deposits from the Government	**1**	1	**3**	4
	On deposits from banks	**1**	1	**2**	-
	On bonds and subordinated capital notes	**13**	64	**126**	135
	On other liabilities	**1**	1	4	3
	Total interest expenses	**50**	129	**298**	286
	Total interest income, net	**565**	553	**1,710**	1,613
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**				
	Interest expenses(3)	**(4)**	(5)	**(15)**	(19)
D.	**Details of interest income from bonds on cumulative basis**				
	Held to maturity	**7**	10	**26**	23
	Available for sale	**15**	27	**69**	72
	Held for trading	**1**	1	**4**	3
	Total included in interest income	**23**	38	**99**	98

(1) Including effective component in hedging relations.

(2) Including Interest income on mortgage-backed bond (MBS) in the amount of NIS 1 million and NIS 3 million for the periods of three months and nine months ended September 30, 2017, respectively (NIS 1 million and NIS 2 million for the periods of three months and nine months ended September 30, 2016, respectively).

(3) Details of effect of hedging derivative instruments on subsection A.

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	For the three months ended September 30		For the nine months ended September 30	
	2017	**2016**	**2017**	**2016**
		(unaudited)		(unaudited)
A. Non-interest financing income (expenses) in respect of non-trading activities				
1. From activity in derivative instruments				
Non-effective part of hedging ratios (see C below)(1)	**-**	-	**2**	1
Net income (expenses) in respect of ALM derivative instruments(2)	**124**	(182)	**(460)**	(325)
Total from activity in derivative instruments	**124**	(182)	**(458)**	(324)
2. From investments in bonds				
Gains from sale of bonds available for sale(4)	**11**	7	**25**	42
Losses from sale of bonds available for sale(4)	**-**	(2)	**-**	(3)
Total from investment in bonds	**11**	5	**25**	39
3. Net exchange differences	**(101)**	190	**490**	342
4. Gains from investment in shares				
Gains from sale of shares available for sale(4)	**-**	2	**2**	15
Losses from sale of shares available for sale(3)(4)	**-**	-	**(2)**	(1)
Dividend from shares available for sale	**4**	8	**16**	14
Total from investment in shares	**4**	10	**16**	28
Total non-interest financing income in respect of non-trading activities	**38**	23	**73**	85

(1) Excluding the effective component of hedging ratios

(2) Derivative instruments constituting part of the asset and liability management network of the Bank, which are not designated for hedging ratios.

(3) Including provision for impairment in the amount of NIS 2 million for the nine months ended September 30, 2017 (NIS 2 million for the three and nine months ended September 30, 2016).

(4) Reclassified from cumulative other comprehensive income.

NOTE 3 - NON-INTEREST FINANCING INCOME (CONT'D)

(NIS million)

	For the three months ended September 30		For the nine months ended September 30	
	2017	**2016**	**2017**	**2016**
		(unaudited)		(unaudited)
B. Net income in respect of non-interest financing activity for trading[3]				
Net income in respect of other derivative instruments	**3**	4	**6**	11
Net realized and unrealized losses from adjustments to fair value of bonds held for trading[1]	**(3)**	(2)	**(7)**	(2)
Net realized and unrealized losses from adjustments to fair value of shares held for trading[2]	**-**	(1)	**(1)**	(3)
Total non-interest financing income (expenses) from trading activities[4]	**-**	1	**(2)**	6
Total non-interest financing income	**38**	24	**71**	91
Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure				
Interest rate exposure	**(2)**	(1)	**(7)**	2
Exposure to shares	**2**	1	**4**	3
Foreign currency exposure	**-**	1	**1**	1
Total	**-**	1	**(2)**	6
C. Ineffective part in hedging ratios- foreign activity [5]				
Ineffectiveness of hedging	**-**	-	**1**	-
Gain element in respect of derivative instruments, excluded for the assessment of the effectiveness of the hedge	**-**	-	**1**	1
Total	**-**	-	**2**	1

(1) Of which: Losses in respect of trading bonds on hand at balance sheet date in the amount of NIS 3 million for the three months and nine months ended September 30, 2017 (for the three months and nine months ended September 30, 2016 - losses of NIS 1 million and NIS 2 million, respectively).
(2) No gains/losses exist in respect of trading shares on hand at balance sheet date.
(3) Including exchange differences arising from trading activity.
(4) See Note 2 for details on income from investment in trading bonds.
(5) See Note 2 for disclosure of the net effect of hedge derivative instruments on interest income and expenses.

NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

A. Changes in cumulative other comprehensive income (loss), net after tax effect

	Other comprehensive income (loss) before attribution to minority interests					
	Adjustment in respect of reporting available for sale securities in fair value	Translation adjustments net after the effect of hedges	Adjustments in respect of employee benefits	Total	Other comprehensive income (loss) attributed to minority interests	Other comprehensive income (loss) attributed to the Bank's shareholders
	For the three months ended September 30, 2017					
Balance as of June 30, 2017 (unaudited)	**29**	**(2)**	**(152)**	**(125)**	**(9)**	**(116)**
Net change during the period	**12**	**-**	**(6)**	**6**	**-**	**6**
Balance as of September 30, 2017 (unaudited)	**41**	**(2)**	**(158)**	**(119)**	**(9)**	**(110)**
	For the three months ended September 30, 2016					
Balance as of June 30, 2016 (unaudited)	1	(1)	(127)	(127)	(1)	(126)
Net change during the period	2	(1)	(60)	(59)	(11)	(48)
Balance as of September 30, 2016 (unaudited)	3	(2)	(187)	(186)	(12)	(174)
	For the nine months ended September 30, 2017					
Balance as of December 31, 2016 (audited)	**(13)**	**(2)**	**(174)**	**(189)**	**(12)**	**(177)**
Net change during the period	**54**	**-**	**16**	**70**	**3**	**67**
Balance as of September 30, 2017 (unaudited)	**41**	**(2)**	**(158)**	**(119)**	**(9)**	**(110)**
	For the nine months ended September 30, 2016					
Balance as of December 31, 2015 (audited)	(22)	(1)	(84)	(107)	(2)	(105)
Net change during the period	25	(1)	(103)	(79)	(10)	(69)
Balance as of September 30, 2016 (unaudited)	3	(2)	(187)	(186)	(12)	(174)
	For the year ended December 31, 2016					
Balance as of December 31, 2015 (audited)	(22)	(1)	(84)	(107)	(2)	(105)
Net change during 2016	9	(1)	(90)	(82)	(10)	(72)
Balance as of December 31, 2016 (audited)	(13)	(2)	(174)	(189)	(12)	(177)

NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)

(NIS million)

B. Changes in the components of cumulative other comprehensive income (loss) before and after tax effect

	For the three months ended September 30 (unaudited)					
			2017			2016
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests						
Adjustments in respect of available for sale securities presentation according to fair value						
Unrealized net gains (losses) from adjustments to fair value	**36**	**(12)**	**24**	(7)	2	(5)
Losses (gains) in respect of available for sale securities reclassified to income statement(1)	**(18)**	**6**	**(12)**	11	(4)	7
Net change during the period	**18**	**(6)**	**12**	4	(2)	2
Translation adjustments*						
Adjustments from translation of financial statements	**(1)**	**1**	**-**	(4)	1	(3)
Hedges**	**1**	**(1)**	**-**	3	(1)	2
Net change during the period	**-**	**-**	**-**	(1)	-	(1)
Employee benefits:						
Net actuarial loss for the period	**(14)**	**5**	**(9)**	(102)	35	(67)
Net losses reclassified to the income statement (2)	**5**	**(2)**	**3**	9	(2)	7
Net change during the period	**(9)**	**3**	**(6)**	(93)	33	(60)
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests						
Total change during the period	**-**	**-**	**-**	(17)	6	(11)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders						
Total change during the period	**9**	**(3)**	**6**	(73)	25	(48)

	For the nine months ended September 30 (unaudited)					
			2017			2016
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests						
Adjustments in respect of available for sale securities presentation according to fair value						
Unrealized net gains from adjustments to fair value	**116**	**(40)**	**76**	131	(47)	84
Gains in respect of available for sale securities reclassified to income statement(1)	**(33)**	**11**	**(22)**	(91)	32	(59)
Net change during the period	**83**	**(29)**	**54**	40	(15)	25
Translation adjustments*						
Adjustments from translation of financial statements	**(8)**	**3**	**(5)**	(3)	1	(2)
Hedges**	**8**	**(3)**	**5**	2	(1)	1
Net change during the period	**-**	**-**	**-**	(1)	-	(1)
Employee benefits:						
Net actuarial gain (loss) for the period	**4**	**(2)**	**2**	(176)	61	(115)
Net losses reclassified to the income statement (2)	**21**	**(7)**	**14**	18	(6)	12
Net change during the period	**25**	**(9)**	**16**	(158)	55	(103)
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests						
Total change during the period	**4**	**(1)**	**3**	(15)	5	(10)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders						
Total change during the period	**104**	**(37)**	**67**	(104)	35	(69)

* Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.

** Net gains (losses) in respect of hedging net investment in foreign currency.

(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.

(2) The amount before tax is reported in the statement of income in the item employee benefits, see note 7A.

NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)

(NIS million)

	For the year ended December 31, 2016		
	(audited)		
	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests			
Adjustments in respect of available for sale securities presentation according to fair value			
Unrealized net gains from adjustments to fair value	34	(12)	22
Gains in respect of available for sale securities reclassified to income statement(1)	(20)	7	(13)
Net change during the period	14	(5)	9
Translation adjustments*			
Adjustments from translation of financial statements	(10)	5	(5)
Hedges**	7	(3)	4
Net change during the period	(3)	2	(1)
Employee benefits:			
Net actuarial loss for the period	(163)	53	(110)
Net losses reclassified to the income statement (2)	32	(12)	20
Net change during the period	(131)	41	(90)
Changes in the components of cumulative other comprehensive loss attributed to minority interests			
Total change during the period	(15)	5	(10)
Changes in the components of cumulative other comprehensive loss attributed to the Bank's shareholders			
Total change during the period	(105)	33	(72)

* Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.

** Net gains (losses) in respect of hedging net investment in foreign currency.

(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.

(2) The amount before tax is reported in the statement of income in the item employee benefits, see note 7A.

NOTE 5 - SECURITIES

(NIS million)

	September 30, 2017 (unaudited)				
A. Debentures held to maturity	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
Of Israeli government	**1,039**	**1,039**	**34**	**-**	**1,073**
Of financial institutions in Israel	**32**	**32**	**4**	**-**	**36**
Of others in Israel	**262**	**262**	**35**	**-**	**297**
Total debentures held to maturity	**1,333**	**1,333**	**73**	**-**	**1,406**

			Cumulative other comprehensive income		
B. Securities available for sale	Book value	Amortized cost (in shares cost)	Gains	Losses	Fair value (1)
Bonds -					
Of Israeli government	**4,664**	**4,606**	**63**	**5**	**4,664**
Of foreign governments	**1,518**	**1,519**	**-**	**1**	**1,518**
Of financial institutions in Israel	**102**	**102**	**-**	**-**	**102**
Of foreign financial institutions	(7)**697**	**697**	**-**	**-**	**697**
Asset-backed (ABS) or Mortgage backed (MBS) securities(6)	**322**	**326**	**1**	**5**	**322**
Of others in Israel	**363**	**355**	**8**	**-**	**363**
Of foreign others	**713**	**713**	**1**	**1**	**713**
Total bonds available for sale	**8,379**	**8,318**	**73**	**12**	**8,379**
Shares -	(4)(5)**157**	**155**	**3**	**1**	**157**
Total securities available for sale	**8,536**	**8,473**	(2)**76**	(2)**13**	**8,536**

C. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
Bonds -					
Of Israeli government	**612**	**612**	**1**	**1**	**612**
Of financial institutions in Israel	**10**	**10**	**-**	**-**	**10**
Of foreign financial institutions	**28**	**28**	**-**	**-**	**28**
Of others in Israel	**3**	**3**	**-**	**-**	**3**
Of foreign others	**63**	**63**	**-**	**-**	**63**
Total trading bonds	**716**	**716**	**1**	**1**	**716**
Shares -	**5**	**5**	**-**	**-**	**5**
Total trading securities	**721**	**721**	(3)**1**	(3)**1**	**721**
Total securities	**10,590**	**10,527**	**150**	**14**	**10,663**

Note: For details of the results of activity in investment in bonds and shares, see notes 2 and 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".

(3) Recorded in the Statement of Income.

(4) Including investments in private equity funds in the amount of NIS 97 million.

(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 109 million.

(6) Securities guaranteed by GNMA and securities issued by FNMA & FHLMC.

(7) Including securities owned by more than one government in the amount of NIS 291 million and securities owned and have specified government guarantee of NIS 339 million.

NOTE 5 - SECURITIES (CON'T)

(NIS million)

	September 30, 2016 (unaudited)				
A. Debentures held to maturity	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
Of Israeli government	941	941	28	-	969
Of financial institutions in Israel	60	60	10	-	70
Of foreign financial institutions	55	55	-	-	55
Of others in Israel	266	266	20	-	286
Total debentures held to maturity	1,322	1,322	58	-	1,380

			Cumulative other comprehensive income		
B. Securities available for sale	Book value	Amortized cost (in shares cost)	Gains	Losses	Fair value (1)
Bonds -					
Of Israeli government	7,901	7,890	24	13	7,901
Of foreign governments	*2,210	*2,210	1	1	*2,210
Of financial institutions in Israel	297	299	-	2	297
Of foreign financial institutions	(7)*1,772	*1,777	-	5	*1,772
Mortgage backed (MBS) securities(6)	507	507	2	2	507
Of others in Israel	751	751	7	7	751
Of foreign others	*200	*200	-	-	*200
Total bonds available for sale	13,638	13,634	34	30	13,638
Shares -	(4)(5)196	194	7	5	196
Total securities available for sale	13,834	13,828	(2)41	(2)35	13,834

C. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
Bonds -					
Of Israeli government	754	754	-	-	754
Of foreign governments	23	23	-	-	23
Of financial institution in Israel	14	14	-	-	14
Of foreign financial institutions	68	68	-	-	68
Of others in Israel	75	75	-	-	75
Of foreign others	37	37	-	-	37
Total trading bonds	971	971	-	-	971
Shares -	-	-	-	-	-
Total trading securities	971	971	(3)-	(3)-	971
Total securities	16,127	16,121	99	35	16,185

* Reclassified.

Note: For details of the results of activity in investment in bonds and shares, see notes 2 and 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value", except for securities amounting to NIS 4 million, which include an embedded derivative measured according to fair value while reflecting changes in fair value in profit and loss.

(3) Recorded in the Statement of Income.

(4) Including investments in private equity funds in the amount of NIS 117 million, perpetual capital notes of NIS 4 million.

(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 133 million.

(6) Securities guaranteed by GNMA and securities issued by FNMA & FHLMC.

(7) Including securities owned by more than one government in the amount of NIS 895 million and securities owned and have specified government guarantee of NIS 341 million.

NOTE 5 - SECURITIES (CON'T)
(NIS million)

					December 31, 2016 (audited)
A. Debentures held to maturity	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustments to fair value**	**Unrealized losses from adjustments to fair value**	**Fair value (1)**
Of Israeli government	1,079	1,079	18	3	1,094
Of financial institutions in Israel	61	61	9	-	70
Of foreign financial institutions	52	52	-	-	52
Of others in Israel	267	267	18	-	285
Total debentures held to maturity	1,459	1,459	45	3	1,501

			Cumulative other comprehensive income		
B. Securities available for sale	**Book value**	**Amortized cost (in shares cost)**	**Gains**	**Losses**	**Fair value (1)**
Bonds -					
Of Israeli government	7,434	7,437	20	23	7,434
Of foreign governments	*2,160	*2,164	-	*4	*2,160
Of financial institutions in Israel	259	260	-	1	259
Of foreign financial institutions	(7) *1,752	*1,756	-	*4	*1,752
Mortgage backed (MBS) securities(6)	409	415	1	7	409
Of others in Israel	718	719	6	7	718
Of foreign others	*435	*436	-	*1	*435
Total bonds available for sale	13,167	13,187	27	47	13,167
Shares -	(4)(5)175	175	4	4	175
Total securities available for sale	13,342	13,362	(2)31	(2)51	13,342

C. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustments to fair value**	**Unrealized losses from adjustments to fair value**	**Fair value (1)**
Bonds -					
Of Israeli government	946	945	1	-	946
Of financial institution in Israel	4	4	-	-	4
Of foreign financial institutions	4	4	-	-	4
Of others in Israel	7	7	-	-	7
Of foreign others	11	12	-	1	11
Total trading bonds	972	972	1	1	972
Shares -	3	3	-	-	3
Total trading securities	975	975	(3)1	(3)1	975
Total securities	15,776	15,796	77	55	15,818

D. Data regarding impaired bonds	**September 30, 2017**	**September 30, 2016**	**December 31, 2016**
	(unaudited)	(unaudited)	(audited)
The recorded debt balance of Impaired bonds accruing interest income	**5**	7	5
Total recorded debt balances	**5**	7	5

* Reclassified.

Note: For details of the results of activity in investment in bonds and shares, see notes 2 and 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value", except for securities amounting to NIS 4 million, which include an embedded derivative measured according to fair value while reflecting changes in fair value in profit and loss.

(3) Recorded in the Statement of Income.

(4) Including investments in private equity funds in the amount of NIS 111 million and capital hedge funds of NIS 4 million.

(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 123 million.

(6) Securities guaranteed by GNMA and securities issued by FNMA & FHLMC.

(7) Including owned by more than one government in the amount of NIS 901 million and securities owned and have specified government guarantee of NIS 423 million.

NOTE 5 - SECURITIES (CON'T)

(NIS million)

E. Fair value and unrealized losses, according to period and rate of impairment of bonds held to maturity and of available-for-sale securities being in an unrealized loss position

	September 30, 2017 (unaudited)							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Unrealized losses Total	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Unrealized losses Total
Securities available for sale								
Of Israeli government	**-**	**-**	**-**	**-**	**565**	**5**	**-**	**5**
Of foreign governments	**1,129**	**1**	**-**	**1**	**-**	**-**	**-**	**-**
Assets-backed (ABS) or Mortgage backed (MBS) securities	**271**	**4**	**-**	**4**	**32**	**1**	**-**	**1**
Of others in Israel	**442**	**1**	**-**	**1**	**-**	**-**	**-**	**-**
Shares	**-**	**-**	**-**	**-**	**17**	**1**	**-**	**1**
Total securities available for sale	**1,842**	**6**	**-**	**6**	**614**	**7**	**-**	**7**

	September 30, 2016 (unaudited)							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Unrealized losses Total	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Unrealized losses Total
Securities available for sale								
Of Israeli government	1,998	8	-	8	1,189	5	-	5
Of foreign government	1,460	1	-	1	-	-	-	-
Of Israeli financial institutions	123	1	-	1	113	1	-	1
Of foreign financial institutions	-	-	-	-	448	5	-	5
Mortgage backed (MBS) securities	70	1	-	1	2	-	1	1
Of others in Israel	-	-	-	-	495	7	-	7
Shares	24	1	-	1	24	2	2	4
Total securities available for sale	3,675	12	-	12	2,271	20	3	23

	December 31, 2016 (audited)							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Total	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Total
								(NIS million)
Held to maturity bonds of Israeli Government(1)	403	3	-	3	-	-	-	-
Securities available for sale								
Of Israeli government	3,586	19	-	19	1,536	4	-	4
Of foreign governments	*1,793	*3	-	3	78	1	-	1
Of Israeli financial institutions	-	-	-	-	143	1	-	1
Of foreign financial institutions	*1,259	*2	-	2	277	2	-	2
Mortgage backed (MBS) securities	371	7	-	7	-	-	-	-
Of others in Israel	-	-	-	-	429	7	-	7
Of foreign others	*411	*1	-	1	-	-	-	-
Shares	-	-	-	-	30	2	2	4
Total securities available for sale	7,420	32	-	32	2,493	17	2	19

* Reclassified.

(1) 31.12.16 - The balance of the amortized cost of bonds held to maturity amounts to NIS 406 million.

NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES
(NIS million)

GENERAL

Debts - credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed

1. Debts, credit to the public and provision for credit losses

	September 30, 2017 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	**34,627**	**-**	**233**	**34,860**	**2,341**	**37,201**
Debts examined on a collective basis	**4,908**	**22,573**	**18,750**	**46,231**	**-**	**46,231**
Of which: according to the extent of arrears	**282**	**22,573**	**-**	**22,855**	**-**	**22,855**
Total	**39,535**	**22,573**	**18,983**	**81,091**	**2,341**	**83,432**
Of which:						
Debts restructuring	**180**	**-**	**73**	**253**	**-**	**253**
Other impaired debts	**289**	**15**	**12**	**316**	**-**	**316**
Total impaired debts	**469**	**15**	**85**	**569**	**-**	**569**
Debts in arrears of 90 days or more	**30**	**149**	**45**	**224**	**-**	**224**
Other problematic debts	**555**	**9**	**210**	**774**	**-**	**774**
Total problematic debts	**1,054**	**173**	**340**	**1,567**	**-**	**1,567**
Provision for credit losses:						
In respect of debts examined on an individual basis	**439**	**-**	**31**	**470**	**-**	**470**
In respect of debts examined on a collective basis	**55**	**115**	**215**	**385**	**-**	**385**
Of which: according to the extent of arrears	**1**	**115**	**-**	**116**	**-**	**116**
Total	**494**	**115**	**246**	**855**	**-**	**855**
Of which: in respect of impaired debts	**150**	**-**	**25**	**175**	**-**	**175**

	September 30, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	34,849	-	443	35,292	3,254	38,546
Debts examined on a collective basis	4,687	21,388	17,577	43,652	-	43,652
Of which: according to the extent of arrears	327	21,388	-	21,715	-	21,715
Total	39,536	21,388	18,020	78,944	3,254	82,198
Of which:						
Debts restructuring	171	-	70	241	-	241
Other impaired debts	379	10	13	402	-	402
Total impaired debts	550	10	83	643	-	643
Debts in arrears of 90 days or more	25	*141	33	199	-	199
Other problematic debts	437	*17	176	630	-	630
Total problematic debts	1,012	168	292	1,472	-	1,472
Provision for credit losses:						
In respect of debts examined on an individual basis	473	-	20	493	-	493
In respect of debts examined on a collective basis	55	118	199	372	-	372
Of which: according to the extent of arrears	1	118	-	119	-	119
Total	528	118	219	865	-	865
Of which: in respect of impaired debts	211	-	12	223	-	223

* Reclassified.

NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

	December 31, 2016 (audited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	33,911	-	408	34,319	2,578	36,897
Debts examined on a collective basis	4,586	21,741	17,529	43,856	-	43,856
Of which: according to the extent of arrears	247	21,741	-	21,988	-	21,988
Total	38,497	21,741	17,937	78,175	2,578	80,753
Of which:						
Debts restructuring	126	-	71	197	-	197
Other impaired debts	360	8	12	380	-	380
Total impaired debts	486	8	83	577	-	577
Debts in arrears of 90 days or more	30	*150	41	221	-	221
Other problematic debts	782	*16	195	993	-	993
Total problematic debts	1,298	174	319	1,791	-	1,791
Provision for credit losses:						
In respect of debts examined on an individual basis	446	-	28	474	-	474
In respect of debts examined on a collective basis	55	115	203	373	-	373
Of which: according to the extent of arrears	1	115	-	116	-	116
Total	501	115	231	847	-	847
Of which: in respect of impaired debts	178	-	22	200	-	200

* Reclassified.

NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

2. Change in provision for credit losses

	For the three months ended September 30, 2017 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the period	**499**	**114**	**232**	**845**	**-**	**845**
Expenses (income) in respect of credit losses	**(12)**	**2**	**24**	**14**	**-**	**14**
-Accounting write-offs	**(28)**	**(1)**	**(28)**	**(57)**	**-**	**(57)**
-Collection of debts written off in accounting in previous years	**35**	**-**	**18**	**53**	**-**	**53**
Net accounting write-offs	**7**	**(1)**	**(10)**	**(4)**	**-**	**(4)**
Provision for credit losses at end of the period	**494**	**115**	**246**	**855**	**-**	**855**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the period	**55**	**-**	**14**	**69**	**-**	**69**
Decrease in the provision	**(4)**	**-**	**(1)**	**(5)**	**-**	**(5)**
Provision in respect of off-balance sheet credit instruments at end of the period	**51**	**-**	**13**	**64**	**-**	**64**
Total provision for credit losses - debts and off-balance sheet credit instruments	**545**	**115**	**259**	**919**	**-**	**919**

	For the nine months ended September 30, 2017 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year	**501**	**115**	**231**	**847**	**-**	**847**
Expenses in respect of credit losses	**57**	**1**	**45**	**103**	**-**	**103**
-Accounting write-offs	**(154)**	**(2)**	**(89)**	**(245)**	**-**	**(245)**
-Collection of debts written off in accounting in previous years	**90**	**1**	**59**	**150**	**-**	**150**
Net accounting write-offs	**(64)**	**(1)**	**(30)**	**(95)**	**-**	**(95)**
Provision for credit losses at end of the period	**494**	**115**	**246**	**855**	**-**	**855**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	**57**	**-**	**14**	**71**	**-**	**71**
Decrease in the provision	**(6)**	**-**	**(1)**	**(7)**	**-**	**(7)**
Provision in respect of off-balance sheet credit instruments at end of the period	**51**	**-**	**13**	**64**	**-**	**64**
Total provision for credit losses - debts and off-balance sheet credit instruments	**545**	**115**	**259**	**919**	**-**	**919**

NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

	For the three months ended September 30, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the period	520	125	213	858	-	858
Expenses in respect of credit losses	17	(6)	11	22	-	22
-Accounting write-offs	(46)	(1)	(26)	(73)	-	(73)
-Collection of debts written off in accounting in previous years	37	-	21	58	-	58
Net accounting write-offs	(9)	(1)	(5)	(15)	-	(15)
Provision for credit losses at end of the period	528	118	219	865	-	865
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	59	-	14	73	-	73
Decrease in the provision	(1)	-	-	(1)	-	(1)
Provision in respect of off-balance sheet credit instruments at end of the period	58	-	14	72	-	72
Total provision for credit losses - debts and off-balance sheet credit instruments	586	118	233	937	-	937

	For the nine months ended September 30, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year	498	119	207	824	-	824
Expenses in respect of credit losses	34	1	24	59	-	59
-Accounting write-offs	(108)	(2)	(80)	(190)	-	(190)
-Collection of debts written off in accounting in previous years	104	-	68	172	-	172
Net accounting write-offs	(4)	(2)	(12)	(18)	-	(18)
Provision for credit losses at end of the period	528	118	219	865	-	865
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	70	-	15	85	-	85
Decrease in the provision	(12)	-	(1)	(13)	-	(13)
Provision in respect of off-balance sheet credit instruments at end of the period	58	-	14	72	-	72
Total provision for credit losses - debts and off-balance sheet credit instruments	586	118	233	937	-	937

NOTE 7 - DEPOSITS FROM THE PUBLIC
(NIS million)

A. Classes of deposits by place of origin and type of depositor

	September 30,		December 31,
	2017	2016	2016
		(unaudited)	(audited)
In Israel			
Demand			
- Non- bearing interest	**43,561**	39,086	43,051
- Bearing interest	**5,658**	6,345	5,273
Total demand	**49,219**	45,431	48,324
Fixed-term*	**59,175**	58,373	57,493
Total deposits in Israel**	**108,394**	103,804	105,817
Outside Israel			
Demand			
- Non- bearing interest	**-**	745	-
Total deposits outside Israel	**-**	745	-
Total deposits from the public	**108,394**	104,549	105,817
* Of which: non-bearing interest deposits	**2,952**	1,917	1,986
** Of which:			
Deposits of private individuals	**54,348**	53,037	54,034
Deposits of institutional entities	**24,384**	20,123	19,448
Deposits of corporates and others	**29,662**	30,644	32,335

B. Deposits of the public by size

	September 30,		December 31,
	2017	2016	2016
Maximum amount of deposit		(unaudited)	(audited)
Up to 1	**42,102**	40,724	40,864
From 1 to 10	**25,614**	25,897	26,400
From 10 to 100	**14,304**	14,535	15,627
From 100 to 500	**4,059**	4,914	5,802
Over 500	**22,315**	18,479	17,124
Total	**108,394**	104,549	105,817

NOTE 7A - EMPLOTYEE RIGHTS

(NIS million)

A. SIGNIFICANT BENEFITS

1. Pension and Severance Pay

A part of the Group's liabilities for severance pay and pensions is covered by current deposits, in the name of the employees, with provident and pension funds or by the purchase of insurance policies. The liability for severance pay and pension included in the balance sheet represents the portion of the liabilities which is not covered by deposits and/or insurance policies, as stated above. This liability is measured on an actuarial basis, using actuarial and other assumptions, including the discounting rate, increase in salaries, increased severance pay, mortality and retirement rates.

2. Staff Long-Service Awards

The employees of consolidated subsidiaries are entitled to Seniority awards, after completing defined employment period. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

3. Benefit in respect of nonutilized sick leave

Employees of the Bank are entitled to a benefit in respect of nonutilized accumulated sick leave. Towards the retirement date, this benefit is convertible into vacation days to be actually utilized, based on a determined convertion formula. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

4. Other post-employment benefits

Employees of consolidated subsidiary are entitled to an award in respect of unutilized sick leave. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.
In addition, certain senior officres are entitled to non-competion award upon their retirement.

5. Other post-retirement benefits

Employees of the group are entitled to certain post-retirement benefits, which include: holidays presents, newspapers, vacations, etc. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, mortality and retirements rates.

6. Vacation pay

Employees of the Bank are entitled by law and by labor agreements to paid annual vacation. The provision for vacation pay is calculated on the basis of the most recent salary amounts of employees and the vacation days accumulated in their favor, with the addition of the required related expenses.

B. See note 33.H. to the annual financial statements for 2016 as to the employment agreements of the Bank's CEO and the Chairman of the Board of Directors.

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)
(NIS million)

C. Defined benefits severance pay and pension schemes

(1) Liabilities and financing situation

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
		(NIS million)		(NIS million)	(NIS million)
		(unaudited)		(unaudited)	(audited)
A. Change in liability regarding anticipated benefits					
Liability regarding anticipated benefit at beginning of period	**1,128**	1,120	**1,166**	1,079	1,079
Cost of service	**6**	4	**19**	17	24
Cost of interest	**10**	9	**31**	29	38
Actuarial (profit) loss	**10**	94	**(1)**	**137	**125
Benefits paid	**(18)**	(25)	**(79)**	(86)	(133)
Other, including loss from reduction and structural changes	**(2)**	1	**(2)**	27	33
Liability regarding anticipated benefit at end of period	**1,134**	1,203	**1,134**	1,203	1,166
B. Change in fair value of assets of the scheme and the financing situation of the scheme					
Fair value of assets of the scheme at beginning of period	**739**	770	**750**	794	794
Actual return on assets of the scheme	**10**	7	**24**	12	17
Deposits in the scheme by the Bank	**3**	3	**8**	10	17
Benefits paid	**(12)**	(21)	**(42)**	(57)	(78)
Fair value of assets of the scheme at end of period	**740**	759	**740**	759	750
Financing situation - net liability recognized at end of period*	**394**	444	**394**	444	416

* Included in the item "other liabilities".

** Of which an actuarial loss in the amount of NIS 172 million in respect of efficiency process for the years 2016 till 2020 and an actuarial profit in the amount of NIS 69 million for the years afterwards.

	September 30,		December 31,
	2017	2016	2016
		(unaudited)	(audited)
			(NIS million)
C. Amounts recognized in the consolidated balance sheet			
Amounts recognized in the item "other liabilities"	**394**	444	416
Net liability recognized at end of period	**394**	444	416
D. Amounts recognized in other cumulative comprehensive loss, before the tax effect			
Actuarial loss, net	**172**	215	200
Liability net, in respect of transition*	**26**	36	28
Closing balance in other cumulative comprehensive profit	**198**	251	228

* Actuarial loss deriving from the gap between the discounting rates as of January 1, 2013 deducted by actuarial profits deriving from current changes in discounting rates offsetting the said loss.

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

(2) Expense for the period

		For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
		2017	2016	2017	2016	2016
			(NIS million)		(NIS million)	(NIS million)
			(unaudited)		(unaudited)	(audited)
A.	**Cost components of net benefit recognized in profit and loss**					
	Cost of service	**6**	4	**19**	17	24
	Cost of interest	**10**	9	**31**	29	38
	Anticipated return on assets of the scheme	**(4)**	(6)	**(16)**	(21)	(28)
	Amortization of non-recognized amounts:					
	Net actuarial loss	**3**	2	**9**	5	8
	Other, including loss from reduction or dismissal and structural changes	**1**	9	**10**	41	57
	Capitalization of software costs	**(1)**	(1)	**(2)**	(2)	(3)
	Total cost of benefits, net	**15**	17	**51**	69	96
B.	**Changes in assets of the scheme and in liability for benefits recognized in other comprehensive (profit) loss, before the tax effect**					
	Net actuarial loss (profit) for the period	**4**	93	**(9)**	146	136
	Amortization of actuarial loss	**(3)**	(2)	**(9)**	(5)	(8)
	Dismissal	**(3)**	(8)	**(12)**	(14)	(24)
	Total recognized in other comprehensive profit	**(2)**	83	**(30)**	127	104
	Total net cost of benefit	**15**	17	**51**	69	96
	Total net cost of benefit for the period recognized in other comprehensive profit	**13**	100	**21**	196	200

		(NIS million)
C.	**Assessment of amounts included in other cumulative comprehensive profit expected to be amortized from other cumulative comprehensive profit to the statement of profit and loss as an expense in 2017, before the tax effect**	
	Net actuarial loss	**30**
	Total amount expected to be amortized from other cumulative comprehensive profit	**30**

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

(3) Assumptions

A. Assumptions on the basis of weighted average used to determine the liability in respect of the benefits and for the measurement of the net cost of benefits

	September 30, 2017	September 30, 2016	December 31, 2016
		(unaudited)	(audited)
			percent
1. Principal guidelines used to determine the liability for benefits			
Discounting rate	**1.4**	1.5	1.7

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016	For the year ended December 31, 2016
		(unaudited)	(audited)
			percent
2. Principal guidelines used to measure the net cost of benefits for the period			
Discounting rate	**1.7**	1.5-1.9	1.5-1.9

B. Effect of a one percentage point change on the liability in respect of the anticipated benefit, before the tax effect

	One percentage point growth			One percentage point decline		
	September 30,		December 31,	September 30,		December 31,
	2017	2016	2016	2017	2016	2016
		(unaudited)	(audited)		(unaudited)	(audited)
			(NIS million)			(NIS million)
Discounting rate	**(75)**	(77)	(74)	**89**	94	88

C. Cash flows

(1) Deposits

	Forecast	Actual deposits				
		For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	*2017	2017	2016	2017	2016	2016
	(NIS million)		(NIS million)		(NIS million)	(NIS million)
	(unaudited)		(unaudited)		(unaudited)	(audited)
Deposits	11	**3**	3	**8**	10	17

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2017.

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS

A. CAPITAL ADEQUACY

Starting January 1, 2014 the bank has implemented Proper Banking Management Directives Nos. 201-211 in the matter of measurement and capital adequacy, as updated, in order to modify them to the Basel guidelines.

It is noted that the Basel instructions determine significant changes in the computation of the regulatory capital requirements, among other things, in everything related to:

- Components of the regulatory capital;
- Deductions from capital and regulatory adjustments;
- Treatment of exposure to financial corporations;
- Treatment of exposure to credit risk in respect of impaired debts;
- Allocation of capital in respect of CVA risk.

The instructions were implemented in a gradual manner, in accordance with the transitional instructions stated in Proper Banking Management Directive No, 299 in the matter of measurement and capital adequacy - regulatory capital - transitional instructions, this in order to allow compliance with the new instructions of the regulatory capital within the framework of the implementation of Basel, and determine a transitional period until their implementation in full. Among other things, the transitional instructions relate to the regulatory adjustments and the deductions from capital, as well as to capital instruments that are not qualified for inclusion in the regulatory capital in accordance with the new criteria determined in the Basel instructions. In particular, according to the transitional instructions, the regulatory adjustments and deductions from capital as well as the non-controlling interests that are not qualified to be included in the regulatory capital, shall be gradually deducted from capital at the rate of 20% in each year starting with January 1, 2014 and until January 1, 2018. The capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. As of January 1, 2017, the rate of deductions from the regulatory capital amounts to 80% and the maximum level of instruments qualified as supervisory capital amounts to 50%.

(1) Capital adequacy goals

The Group's policy, as approved by the Board of Directors and Management, is to maintain an adequate level of capital, in accordance with the capital target determined by an internal process, and which would not be less than the minimum capital goals required by the Supervisor of Banks. The capital target determined by the Board of Directors and Management reflects in the opinion of the Group, the proper capital level required in accordance with the risk profile and risk appetite of the Group.

As part of the gradual process of adoption of the Basel instructions in Israel, The Supervisor of Banks published on March 28, 2012, a guiding letter in the matter of Basel framework - minimum core capital ratios, requiring banks and credit card companies to attain a Tier I equity capital ratio of 9% and a total capital ratio of 12.5%, and this until January 1, 2015. It has been determined, in addition, that a bank, the total stated assets of which on a consolidated basis amount to at least 20% of the total amount of assets of the banking industry, would have to increase the said ratios by one additional percentage point and to attain a minimum Tier I equity capital ratio of 10% and a minimum total capital ratio of 13.5%, and this until January 1, 2017. In accordance with the above, the minimum ratio of Tier I equity capital ratio that would be required from the Bank is 9% and the minimum total capital ratio that would be required from the Bank is 12.5%. To these relations, as of January 1, 2015 was added capital requirement of 1% of housing loans balance for the reporting date. This demand was implemented gradualy until January 1, 2017. For the balabce of the housing loans see note 12.B.3.

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

The internal capital targets as were detrmined by the Board of Directors:

- In the ordinary course of business - the capital targets would be the higher of the Tier I equity capital ratio of 9.3% and the comprehensive capital ratio of 12.79%, as determined in accordance with the expected regulatory requirement upon approval of the capital target in the ICAAP process, and the regulatory capital ratios required in practice.
- Under stress tests - the Tier I equity capital ratio shall not be lower than 6.50%, and the comprehensive capital ratio shall not be lower than 9.00%.

(2) Following are details regarding risk assets, the regulatory capital and capital ratios calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, regarding "measurement and capital adequacy", and in accordance with Directive 299 regarding the "regulatory capital - transitional instructions":

	September 30, 2017	September 30, 2016	December 31, 2016
	(unaudited)	(unaudited)	(audited)
a. Consolidated			
1. Capital for calculation of capital ratio			
Tier 1 capital, after supervisory adjustments and deductions	**7,977**	7,772	7,684
Tier 2 capital after deductions	**2,796**	2,614	2,819
Total overall capital	**10,773**	10,386	10,503
2. Weighted balances of risk assets			
Credit risk	(3)**70,557**	(3)70,220	(3)69,262
Market risk	**804**	1,002	748
Operational risk	**5,943**	6,108	6,168
Total weighted balances of risk assets	**77,304**	77,330	76,178
3. Ratio of capital to risk assets			
Ratio of tier 1 capital to risk assets	**10.32%**	10.05%	10.09%
Total ratio of capital to risk assets	**13.94%**	13.43%	13.79%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.29%**	(1)9.21%	(1)9.25%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.79%**	(1)12.71%	(1)12.75%

			percent
B. Significant Subsidiaries			
Bank Otsar Hahayal Ltd.			
Ratio of tier 1 capital to risk assets	**10.86%**	10.81%	10.63%
Total ratio of capital to risk assets	**13.32%**	13.84%	13.39%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.02%**	(1)9.02%	(1)9.02%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.52%**	(1)12.52%	(1)12.52%
Bank Massad Ltd.			
Ratio of tier 1 capital to risk assets	**11.89%**	13.02%	13.17%
Total ratio of capital to risk assets	**12.96%**	14.16%	14.31%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.00%**	9.00%	9.00%
Minimal ratio of capital required by the Supervisor of Banks	**12.50%**	12.50%	12.50%

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

(3) Capital components for computation of capital ratio (consolidated)

	September 30, 2017	September 30, 2016	December 31, 2016
	(unaudited)	(unaudited)	(audited)
1. Equity capital tier 1			
Capital attributed to shareholders	**7,706**	7,411	7,321
Differences between capital attributed to shareholders and equity capital tier 1			
Minority interests	[(2)]**452**	[(2)]460	[(2)]458
Application of the transitional instructions in respect of the adoption of accepted accounting principles in the matter of employee rights	**12**	23	29
Total equity capital tier 1 before regulatory adjustments and deductions	**8,170**	7,894	7,808
Regulatory adjustments and deductions:			
Intangible assets	**(106)**	(117)	(114)
Commitment to invest in shares	[(2)]**(175)**	[(2)](131)	[(2)](128)
Regulatory adjustments and other deductions- equity capital tier 1	**(18)**	(3)	(5)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures - equity capital tier 1	**(299)**	(251)	(247)
Total adjustments in respect of efficiency measures- Tier 1 equity capital	**106**	129	123
Total equity capital tier 1 after regulatory adjustments and deductions	**7,977**	7,772	7,684
2. Tier 2 capital			
Tier 2 capital: instruments before deductions	**2,054**	1,905	2,105
Tier 2 capital: provisions before deductions	**742**	709	714
Total tier 2 capital before deductions	**2,796**	2,614	2,819
Deductions:			
Total deductions- tier 2 capital	**-**	-	-
Total tier 2 capital	**2,796**	2,614	2,819

	September 30, 2017	September 30, 2016	December 31, 2016
	(unaudited)	(unaudited)	(audited)
(4) Effect of transitional instructions on equity capital tier 1			
Ratio of capital to risk assets			
Ratio of equity capital tier 1 to risk assets before implementation of transitional instructions in directive 299 and before effect of adjustments in respect of efficiency measures	**10.07%**	9.63%	9.67%
Effect of transitional instructions	**0.09%**	0.23%	0.23%
Ratio of tier 1 equity capital to risk assets before effect of adjustments in respect of efficiency measures	**10.16%**	9.86%	9.90%
Effect of adjustments in respect of efficiency measures	**0.16%**	0.19%	0.19%
Ratio of tier 1 equity capital to risk assets	**10.32%**	10.05%	10.09%

(1) Minimal capital tier 1 ratio and minimal total capital ratio requested according to the Supervisor of Banks' directives effective from January 1, 2015 until December 31, 2016 were 9.0% and 12.5%, respectively. To these relations, as of January 1, 2015 was added capital requirement of 1% of housing loans balance for the reporting date. This requirement was applied gradually until January 1, 2017.

(2) As for the amount of NIS 57 million, with coordination of the Supervisor of Banks, the Bank implemented the transition instructions of Basel regarding the PUT option granted to noncontrolling interests (30.9.16 - NIS 109 million, 31.12.16 - NIS 110 million).

(3) An amount of NIS 149 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures (30.9.16 and 31.12.16 - NIS 193 million).

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(5) Factors that might materially affect the capital adequacy of the Bank and of its significant subsidiaries

(5a.) Capital components subject to fluctuations

The Bank manages the capital adequacy ratio with the aim of adhering to the minimal capital requirements of the Supervisor of Banks. The capital of the Bank is subject to changes, inter alia, in respect of the factors detailed below:

- Changes in the volume of risk assets of the Bank and in deductions from capital;
- Actuarial changes due to changes in the interest rate used to compute the liabilities of the Bank or in other actuarial assumptions, such as: mortality rates, retirement etc.

Following is an analysis of the impact of such changes on the Tier I equity capital of the Bank as of September 30, 2017:

	Effect of a change of NIS 100 million in Tier I equity capital	Effect of a change of NIS 1 billion in total risk assets
		percent
The Bank (consolidated data)	**0.13%**	**0.13%**
Otsar Hahayal Bank	**0.84%**	**0.84%**
Massad Bank	**2.08%**	**2.05%**

(5b.) Capital requirements in respect of exposure to central counterparties

The Supervisor of Banks published on October 22, 2015, a final letter in the matter of "Capital requirements in respect of exposure to central counterparties" (hereinafter - "the letter"). The letter amends Proper Conduct of Banking Business Directives 203 and 204, in order to match them to the Basel Committee recommendations in everything relating to the capital requirements with respect to exposure of banking corporations to central counterparties. The letter details the new guidelines applying to exposure to central counterparties arising from OTC derivatives, marketable derivative transactions and transactions financing securities. The guidelines differentiate between an unqualified central counterparty and a qualified central counterparty; where in respect of the latter, lower capital requirements have been established.

The guidelines regularize, inter-alia, the following exposures:

- The exposures of banking corporation which is a member of a clearing house to central counterparty. As a general rule, these exposures should be weighted at risk rate of 2% (in contrast to 0% before the amendment).
- Exposures of a banking corporation to customer who is active in the stock exchange. According to the amendment, the required capital to these exposures is to be calculated as if this is a bilateral transaction, including capital allocation in respect of CVA risk. The calculation method used until now according to the directive- calculation in accordance to the Stock Exchange rules- is to be cancelled.
- Exposure of customer corporation active by a clearing house member.
- Transfers of a banking corporation which is a clearing house member, to the risk fund.
- Collateral deposited by banking corporation with a clearing house member or with a central counterparty.
- Exposures to unqualified central counterparty will be weighted according to the relevant risk weight of the counterparty while transfers to the risk fund will be weighted in 1,250%.

The contents of the amendment directive apply as from January 1, 2017.

On December 28, 2016 a letter from the Bank of Israel was received approving to continue to compute the amount of exposure in respect of the activity of customers in the MAOF exchange according to the scenarios method.

On July 2, 2017, the Supervisor of Banks published a letter in the matter of "Capital requirements in respect of exposure to central counterparties". In the letter the Supervisor of Banks notified that the condition in appendix C to Directive no. 203 to classify the Stock Exchange clearing house and the Maof clearing house as qualified central counterparties, exist. This, following various amendments in legislation and the declaration of the securities authority in the matter.

(5c.) Raising of regulatory capital by debt notes including loss absorbing mechanism

On June 26, 2016 and on December 27, 2016, the First International Issuance Ltd. (hereinafter - "International Issuance"), a wholly owned subsidiary of the Bank, issued to the public deferred debt notes (Series 22), having a debt absorption mechanism, in a total amount of NIS 580 million and of NIS 261 million, respectively. On February 8, 2017, the First International Issuing issued by way of a private placement, additional subordinate debt notes having a loss absorption mechanism, in consideration for NIS 52 million. On September 27, 2017, International Issuance issued to the public deferred debt notes (Series 23) in a total amount of NIS 302 million. The proceeds of issue of the said subordinate debt notes were deposited with the Bank. The said deferred debt notes are compatible with the qualification terms of the Basel III Rules and are recognized as Tier II capital.

The deferred debt notes include a loss absorption mechanism in the event that the Tier I equity capital of the Bank falls below a rate of 5%, or upon the occurrence of a constitutive event concerning the existence of the Bank, this in accordance with a decision of the Supervisor of Banks. In such cases, the deferred debt notes may be erased in part or in full.

In the event that the Tier I equity capital ratio of the Bank rises over the minimum capital ratio determined for the Bank by the Supervisor of Banks, the Bank would be entitled, at its own discretion, to announce the partial or full cancellation of the erasure of the principal amount of the debt until June 26, 2031 in respect of Seiries 22 or October 1, 2032 in respect of Series 23.

After five years since the date of issue, the Bank is entitled to a one-time only premature redemption of the debt. In the event that no such premature redemption is made by the Bank, the annual interest rate would be revised in accordance with the difference between the basic interest rate at that date and the basic interest rate at the original date of issue of the deferred debt notes.

B. Leverage ratio in accordance with instructions of the Supervisor of Banks

As from April 1, 2015, the Bank implements Proper Banking Management Directive No. 218 in the matter of leverage ratio. The Directive states a simple and transparent leverage ratio that is not risk based, which would serve as a supplementary and reliable measurement of the risk based capital requirements, and which is intended to restrict the accumulation of leverage at a banking corporation.

The leverage ratio is expressed in percentages, and is defined as the ratio between the measurement of capital and the measurement of exposure. Capital for the purpose of measuring leverage is the Tier I capital as defined in Proper Banking Management Directive No. 202, taking into consideration the determined transitional arrangements. The total measurement of exposure of the Bank is the total of the balance sheet exposures, exposure to derivatives and to transactions financing the purchase of securities and off-balance sheet items. As a general rule, measurement is consistent with accounting values and risk weights are not taken into consideration. Furthermore, the Bank is not permitted to use physical or financial collateral, guarantees or other credit risk reducing techniques, in order to reduce exposure measurement, unless this is specifically permitted by the Directive. Balance sheet assets, deducted from Tier I capital (in accordance with Directive No. 202) are deducted from exposure measurement. In accordance with the Directive, the Bank computes exposure in respect of derivatives in accordance with the provisions of Appendix "C" of Proper Banking Management Directive No. 203, and exposure in respect of off-balance sheet items by converting the imputed amount of the items by the conversion coefficients for credit, as determined in Proper Banking Management Directive No. 203.

In accordance with the Directive, a banking corporation shall maintain a leverage ratio of not less than 5% on a consolidated basis. A banking corporation, the total stated consolidated assets of which comprises 20% or more of the total stated assets of the banking industry, shall maintain a leverage ratio of not less than 6%. In accordance with the above, the minimum leverage ratio required from the Bank is 5%.

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)	December 31, 2016 (audited)
	NIS million		
A. Consolidated			
Tier 1 capital*	**7,977**	7,772	7,684
Total exposures	**140,235**	137,364	139,207
			percent
Leverage ratio	**5.69%**	5.66%	5.52%
B. Significant Subsidiaries			
Bank Otsar Hahayal Ltd.			
Leverage ratio	**5.73%**	5.60%	5.56%
Bank Massad Ltd.			
Leverage ratio	**7.11%**	7.35%	7.39%
Minimal Leverage ratio required by the Supervisor of banks	**5.00%**	5.00%	5.00%

* For the effect of the transition directive and the effective in respect of the efficiency program, see note A (4) above.

C. Reporting the liquidity coverage ratio in accordance with instructions of the Supervisor of Banks

As from April 1, 2015 the Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio". The Directive adopts the recommendations of the Basel Committee in the matter of liquidity coverage ratio as regards the banking industry in Israel. The liquidity coverage ratio examines a range of thirty days in a stress test, and is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets serving the liquidity needs of the corporation within that period of time. The Directive specifies the manner of computation of the liquidity coverage ratio, including the definitions of characteristics and operational requirements for the "inventory of high quality liquid assets" (numerator) and security coefficients in its respect, as well as the anticipated cash outflows in the stress test, as defined in the Directive for the thirty calendar days (denominator).

The stress test stated in the Directive includes a stress situation that combines a specific stress to the corporation with a system stress, within the framework of which, standard withdrawal rates have been defined for cash outflows and cash deposit rates for cash inflows, in accordance with the different categories of outstanding balances.

As from January 1, 2017 the minimum required ratio is 100%.

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

	For the three months ended		
	September 30,	September 30,	December 31
	2017	2016	2016
	(unaudited)	(unaudited)	(audited)
			percent
A. Consolidated*			
Liquidity coverage ratio	**122%**	109%	123%
B. The bank**			
Liquidity coverage ratio	**124%**	108%	120%
Significant Subsidiaries**			
Bank Otsar Hahayal Ltd.			
Liquidity coverage ratio	**323%**	406%	352%
Bank Massad Ltd.			
Liquidity coverage ratio	**199%**	283%	270%
Minimal liquidity coverage ratio required by the Supervisor of banks***	**100%**	80%	80%

* Until January 1, 2017 in terms of simple averages of monthly observations during the reported quarter. As from January 1, 2017 the consolidated liquidity coverage ratio is computed in terms of simple averages of daily observations during the reported quarter.

** In terms of simple averages of daily observations.

*** The liquidity coverage ratio increased gradually from 60% on April1, 2015, to 80% on January 1, 2016 and 100% on January 1, 2017.

D. Dividends

On March 15, 2017, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 70 million. The determining date for the payment of the dividend was March 23, 2017, and the payment date was April 2, 2017.

On May 23, 2017, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 70 million. The determining date for the payment of the dividend is June 6, 2017, and the payment date is June 14, 2017.

On August 14, 2017, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 70 million. The determining date for the payment of the dividend is August 23, 2017, and the payment date is August 31, 2017.

Subsequent to balance sheet date, on November 14, 2017, the Board of directors of the Bank resolved to distribute a dividend in cash to shareholders of the Bank in a total amount of NIS 100 million. The determining date for the distribution of the dividend is November 23, 2017, and the date of payment is December 3, 2017. The amount of the dividend is before any taxes, including the tax that the Bank has to withhold in terms of the law.

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
				(unaudited)	(audited)
					NIS million
Dividend declared by the Bank	**70**	-	**210**	-	200

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES
(NIS million)

Other contingent liabilities and special commitments

		30.9.17	30.9.16	31.12.16
		(unaudited)	(unaudited)	(audited)
A.	Improvements to premises and acquisition of new premises, equipment and software	**8**	9	11
	Commitments to invest in private investment funds	**62**	59	58

B. The Bank and its investees have leased premises and equipment on a long term basis. The rentals payable in the future subject to linkage terms (partly to the CPI and partly to foreign currency), are as follows:

	30.9.17	30.9.16	31.12.16
	(unaudited)	(unaudited)	(audited)
First year	***18**	*19	73
Second year	**70**	73	63
Third year	**66**	66	61
Fourth year	**63**	64	59
Fifth year	**57**	61	54
Sixth year and thereafter	**342**	375	325
Total	**616**	658	635

* For the period until the end of the calendar year

C. In the ordinary course of business, legal actions have been filed against the Bank and certain of its subsidiaries, including pleas for approval of class actions. In the opinion of the Management of the Bank and the Managements of its subsidiaries, based on legal opinions, as to the prospects of these actions, including the pleas for approval of class actions as detailed in this section, adequate provisions have been included in the financial statements, where required, to cover losses which might be sustained as a result of these actions.

As regards the legal actions, including pleas for approval of class action see Note 25G to the financial statements for 2016.

Following are details of a legal actions which were filed in the past against the bank and its consolidated company, and changes has occurred relating to the presentation in the annual financial statements for 2016:

1. On January 1, 2015, a consolidated subsidiary was served with a motion for approval of a lawsuit as a class action suit against fifteen Defendants, being nine managers of mutual funds and six trust companies.

   The claim is in respect of alleged excessive payments of brokerage fees, while violating fiduciary duties and other duties towards holders of mutual funds units.

   It is further alleged that the fund managers had conducted transactions on behalf of the funds being managed by them without making any effort to reduce the brokerage fees paid by investors in the funds, and that the Defendants had collaborated with the factor providing brokerage services, so that he would receive higher consideration for services paid for by the unit holders, while on the other hand, he would provide at no cost services, the price for which, if charged, would have to be paid by the fund managers. It is also alleged that the consolidated subsidiary charged trustee fees at a much higher rate than the fees charged by the other Defendants, this in order to compensate the consolidated subsidiary for operating services provided at no cost to managers of the funds.

   The claim relates to whoever owned participation units in whatever mutual fund being managed by one or more of the defendant fund managers in the period ended on December 27, 2011, or during a part thereof, and which had been charged with brokerage commissions and/or charged, directly or indirectly, with payments for operating services.

On February 13, 2017, a motion for withdrawal of was filed in the lawsuit and the approval as a class action suit against the trust companies, except for the consolidated company. On February 28, 2017, the withdrawal motion was approved without expenses order (the trustee affidavit and opinions in their matter were removed from the court file).

On July 28, 2017, a motion for withdrawal of was filed in the lawsuit and the approval as a class action suit against the six funds managers. On August 2, 2017, the withdrawal motion was approved without expenses order.

The amount of the claim is assessed at NIS 220 million in nominal terms, of which, the share of the consolidated subsidiary amounts to NIS 54 million.

On October 2, 2017, the Plaintiffs in this action filed a motion for withdrawal of the request for approval of the action as a class action against the consolidated company, as well as instruct the rejection of the personal claim of the Plaintiffs against the consolidated company (hereinafter - "a motion for withdrawal and rejection of the claim").

On the said date, the Court awarded the validity of a Court verdict to the motion for withdrawal and rejection of the claim.

2. On October 18, 2016, the Bank received notice of a motion for approval of an action as a class action filed against the Bank and against nine additional banks, including consolidated subsidiary. The subject of the action is a group of customers to whom applies the full pricelist as published in July 2007 (hereinafter – "the pricelist"). In the action the Appellants argue that the pricelist applies to all bank customers wherever they may be, while the banks had interpreted the pricelist as applying only to individual customers and small businesses. The Appellants request the Court to instruct the banks to refund commission fees charged by them to customers to whom the definition of "individual or small business" does not apply, and who were charged with commission fees not included in the pricelist. The Appellants cannot quantify the amount of the action, though they estimate that the amount of the damage caused to the group as a whole, amounts to at least NIS 1 billion (by all the banks together).

   The Appellants were requested to deposit a collateral, while saying that if the collateral will not be deposited, the motion will be rejected. The appeal which the Appellant submitted on the decision, was rejected by the Supreme Court. The collateral was not deposited in time and on November 7, 2017 the motion was rejected.

The additional exposure of the Bank and of the subsidiary companies as of September 30, 2017, to pending claims, which in the opinion of Management of the Bank the probability of their realization, in full or in part, is not remote, and in respect of which no provisions have been included, amounts to NIS 82 million.

D. 1. Following are details of a claim against an affiliated company, Israel Credit Cards Ltd. ("ICC"), the amounts claimed therein is material:

(a) A lawsuit and a motion for its approval and conduct as a class action suit under the Class Actions Act, 2006, were filed on January 30, 2014, with the Tel Aviv Yaffo Distruct Court, against ICC and against Israel Discount Bank Ltd. (hereinafter - "the claim and the motion"). The subject of the motion is a credit card named "Active", which grants revolving credit. The Appellant argues that ICC, at its discretion, charged the account of the holder of an "Active" credit card with only a minimal amount out of the amounts accumulated to the debit of the credit card, the remaining balance turned into a loan carrying interest at especially high rates. It is further argued that upon the marketing of this scheme, ICC refrained from emphasizing to the customers that cancellation of the credit requires an explicit request by the customer, and also refrained from providing information as to the cost of the credit granted. Encumbering the customers with a revolving credit mechanism and charging them with interest, has been done with no valid contractual basis while impairing the autonomy of customer.

The causes of action in this case are violations of the provisions of the Banking Act (Service to customers), 1981 and the Uniform Contracts Act, 1982.

The group which the Appellant wishes to represent has been defined as anyone whom ICC had marketed to a credit card serving as a customer club card of the marketing chains, which had cooperated and are cooperating with ICC in the marketing of the said cards, in which was integrated a revolving credit scheme operated as the default option according to the "Active" plan, or any of their alternatives, including the "CAL Choice" plan.

The Appellant stated the amount of the claim in respect of all class members at NIS 2,225 million.

On June 14, 2016, the Appellant submitted his summing-up brief and ICC submitted its summing-up brief on September 25, 2016.

On December 8, 2016 the Court dismissed the lawsuit. On January 22, 2017 the Plaintiff appealed to the Supreme Court against the verdict.

The Appellant submitted his summing-up brief on May 17, 2017. ICC submitted its summing-up briefs on August 6, 2017. Response on behalf of the Appellant was submitted on October 15, 2017. A hearing by the Court is fixed for February 5, 2018.

(b) On April 28, 2014, ICC received notice of an action and a motion for approval and conduct of the action as a class action under the Class Actions Act, 2006, filed with the District Court, Central District against ICC and other credit card companies (hereinafter - "the claim and motion").

The motion refers to two binding arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards, which, as alleged by the Appellants, amount to systematic and continuous deception of customers of credit card companies. The first binding arrangement, as argued by the Appellants, is the arrangement for the charging of a cross commission in respect of transactions made by debit cards and prepaid cards. The second binding arrangement, as argued by the Appellants, is the unlawful withholding of funds due to trading houses for periods of approximately twenty days after the credit card companies had received the money. The class of those directly affected which the Appellants wish to represent was defined as "all trading houses in the State of Israel that accept debit cards". The class of those indirectly affected, which the Appellants seek to represent is defined as "whoever purchased goods or services at trading houses that accept debit cards, including the Appellants".

The Appellants stated the amount of the claim in respect of all class members and regarding all the Defendants, at NIS 1,736 million.

On February 24, 2015, the Appellants, with the consent of the Responders, filed a motion for withdrawal from the claim and from the request for approval of a class action, with no order for expenses.

On April 19, 2015, a motion was filed with the Court, requesting the Court to order the replacement of the Appellants who had filed for withdrawal, as above, and their representatives, by the Appellant and his representative, and to instruct the continuation of the proceedings through the Appellant.

It is alleged in this motion, that the request for withdrawal does not state the reasons meriting the request for withdrawal, and that it relies only on future action to be taken by the Regulator (Bank of Israel) with no compensation in respect of the past.

On July 1, 2015 the Court approved the withdrawal. Concurrently, the Court instructed that a replacement of the Appellant and its representative be found, who would take upon themselves the management of the proceedings in the name of the group.

Following the decision of the Court of July 1, 2015, the representatives for the Appellants presented on July 6, 2015, the text of a newspaper advertisement regarding the withdrawal from the claim which had been approved by the Court.

On June 8, 2016, an amended motion for approval of the class action was filed ("the amended motion"). In this motion for approval, three credit card companies are being sued under the allegation that they had entered into binding arrangements regarding the immediate debit card and prepaid card markets.

The amended motion does not state explicitly the amount of the claim, but makes reference to an economic opinion appended to the amended motion. A review of the economic opinion shows that the amount of the claim is composed of the following main types of damage: an amount of NIS 13.5 million per year for the years 2007-2015 in respect of the damage stemming from the existence of an alleged binding arrangement regarding the amount of the cross commission payable in immediate debit card transactions; an amount of NIS 5.3 million per year, for the years 2007-2015, in respect of the damage stemming from the existence of an alleged binding arrangement regarding the date for the transfer of funds to trading houses in respect of immediate debit card transactions; an amount of between NIS 418 million and NIS 683 million per year for the years 2007-2015, in respect of the damage stemming from underuse of immediate debit cards due to the alleged two binding arrangements, as above.

ICC responded to the amended motion for approval on December 22, 2016. The Appellant submitted his response to the response of ICC on February 22, 2017. On March 12, 2017, a preliminary hearing of the motion was held. In its decision, the Court stated that the matter of the cross-commission in respect of the "debit" and the "pre-paid" cards, is apparently included in a verdict given by the Antitrust Tribunal, and therefore any claim raised against the determination of the cross-commission, should be raised using procedures relating to the said verdict. In view of this, the Court deferred the hearing of the motion for a class action until after the matter is settled by the Antitrust Tribunal.

An action requesting declaratory relief was filed with the Antitrust Tribunal on October 16, 2017. Within the framework of this action, the Tribunal is requested to state that when giving the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and rechargeable cards. It should be noted that the Bank and other parties were added to the motion since they were parties to the former procedure in the Antitrust Tribunal.

(c) A plea was filed on August 10, 2017, with the Supreme Court sitting as a High Court of Justice, the Respondents to which are the Attorney General for the Government, the State Prosecutor Office, ICC, the First International Bank and Israel Discount Bank. In the plea, the Court is requested to instruct the Respondents to provide reason why they should not act in order to indict whoever had been involved in the affair relating to the international clearing operations of ICC, and why they should refrain from reaching an arrangement with those involved in the said affair. The Court is also requested to issue an Interim Order instructing the Respondents to avoid any attempt to reach an arrangement, until decision is given in the plea. An Interim Order has not been given. The Attorney General for the Government and the State Prosecutor Office have to submit their response to the plea and to the request for an Interim Order by November 12, 2017. Israel Discount Bank, ICC and the First International Bank have to submit their response by November 19, 2017.

2. The amount of exposure due to claims submitted against ICC, the prospect of materialization of all or part of these claims is reasonably possible, totals NIS 1,307 million.

3. A request for approval of an action as a class action is pending against Diners, a consolidated company of ICC, as detailed below. ICC states in its financial report that, in the opinion of the Management of ICC, based upon Counsels opinion, it is not possible at this stage to assess the prospects of this action, and therefore no provision has been recorded in respect thereof.

   On October 19, 2017, Diners received notice of an action and motion for approval of the action as a class action suit filed with the Haifa District Court against Diners and against another company (hereinafter – "the action and motion").

   The subject matter of the motion is a claim that Diners and the other Respondent company intentionally mislead in their publications members of the Frequent Flyer Club, who hold credit cards of the Diners Fly Card class (hereinafter – "the card), with regards to the manner of calculation of the flight points, which may be accumulated upon use of the card when making payments to Government agencies.

The class is defined as "any holder of the Diners Fly Card type who used the card for payment to Government agencies in amounts of over NIS 30,000 per month".

The plaintiffs stated their claim for all members of the class at approximately NIS 66 million and alternatively at NIS 300 million.

4. As detailed to ICC by Israel Discount Bank Ltd. (hereinafter - -"Discount"), Discount received notice on May 7, 2015, of an action and a motion for its approval as a multi-party derivative action, filed with the Tel Aviv-Yafo District Court. The Court is being asked to approve a derivative action against sixteen officers and other executives (including former officers in Discount and the Bank) who officiated in the relevant period at ICC and at ICC international Ltd., which on December 31, 2009 was merged into ICC and struck-off the Companies Register. The action alleges damage caused to ICC and ICC International and the damage expected to be caused to these companies, as alleged, in connection with the international clearing activity of ICC and of ICC International in the years 2006-2009.

The Appellant claims that the responded officers and other executives have, among other things violated their duties and caused the alleged damage, which is assessed by him at NIS 100 million. The Appellant further refers to a potential risk of forfeiture of funds to the tune of NIS billions, within the framework of criminal proceedings, if these are instituted, and to reputation and other damage, not yet assessed, all as alleged by the Appellant.

In accordance with a procedural arrangement reached by the parties, the Appellant filed on May 9, 2017, an amended motion for approval of a derivative action. The amended motion remained mostly unchanged, though with two central changes: (1) Presentation of the conditional arrangement signed with the State Prosecutor and presentation of the payment under it as an additional damage caused to ICC; and (2) Deletion of the cause of action relating to the violation of the provisions of the Money Laundering Act and the monetary sanction imposed by Bank of Israel stemming there from.

The Court decided on May 10, 2017, that ICC and all other Respondents shall submit their response to the amended motion by September 24, 2017. It was also decided that a copy of the motion for approval would be delivered to the Attorney General for the Government (including the Supervisor of Banks) who shall inform whether he intends to join the proceedings. On August 20, 2017, the Attorney General for the Government informed that he sees no reason to join the proceedings. Furthermore, on August 29, 2017, the parties informed that the Appellant, ICC and the insurers of the other Respondents are negotiating an arrangement that would obviate the hearing of this case. Accordingly, the parties asked for an extension of the date for submission of the response of the Respondents to the amended motion. The present date for submission of the response is December 3, 2017.

On background of the arrangement in lieu of criminal proceedings signed by ICC and the Economic Department of the State Prosecutor Office, the ad-hoc committees established by Discount and by ICC in the matter of demand letter under Section 194 of the Companies Act and the motion for approval of a derivative action, have renewed their discussions in order to assess the implications of the said arrangement on the motion for approval of a derivative action.

On September 28, 2016, the Bank received a letter sent by a shareholder of the Bank, in which the Board of Directors of the Bank is requested to do their utmost to exploit a cause of action against two former senior officers of ICC (the former managing director of ICC and the former general manager of CAL International) prior to the submission to the Court of a motion for approval of a multiple derivative action on the part of the Bank, and a motion for disclosure of documents. To the best understanding of the Bank, the request relates to events in respect of which an action and a motion for approval of a derivative action had been filed against Discount Bank and against ICC, as discussed above. The Board of Directors of the Bank discussed the said request on November 1, 2016, and decided to reject it.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

A. Volume of activity

	September 30, 2017 (unaudited)					
	Interest Contracts		Foreign		Commodity	
	Shekel-CPI	Other	currency contracts	Contracts of shares	and other contracts	Total
1. Face value of derivative instruments						
A. Hedging derivatives[1]						
Forward contracts	-	-	207	-	-	207
SWAPS	-	2,707	-	-	-	2,707
Total	-	2,707	207	-	-	2,914
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,707	-	-	-	2,707
B. ALM derivatives[1][2]						
Futures contracts	-	58	-	-	-	58
Forward contracts	225	400	39,935	-	-	40,560
Option contracts traded on an exchange:						
- Options written	-	-	183	-	-	183
- Purchased options	-	-	183	-	-	183
Other option contracts:						
- Options written	-	-	3,916	-	-	3,916
- Purchased options	-	-	3,680	-	-	3,680
SWAPS	75	10,457	294	-	-	10,826
Total	300	10,915	48,191	-	-	59,406
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	5,878	-	-	-	5,953
C. Other derivatives[1]						
Futures contracts	-	1,497	734	8,375	80	10,686
Option contracts traded on an exchange:						
- Options written	-	-	8,791	19,241	-	28,032
- Purchased options	-	-	8,791	19,241	-	28,032
Other option contracts:						
- Options written	-	-	188	939	-	1,127
- Purchased options	-	-	179	669	-	848
SWAPS	-	980	122	-	-	1,102
Total	-	2,477	18,805	48,465	80	69,827
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	490	-	-	-	490
D. Credit derivatives and spot swap foreign currency contacts						
Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	35	35
Foreign currency spot swap contracts	-	-	2,236	-	-	2,236

(1) Except for credit derivatives and foreign currency spot swap contracts

(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity (CONT'D)

		September 30, 2016 (unaudited)					
		Interest Contracts					
		Shekel-CPI	Other	Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
1.	**Face value of derivative instruments**						
A.	**Hedging derivatives[1]**						
	Forward contracts	-	-	241	-	-	241
	SWAPS	-	2,697	-	-	-	2,697
	Total	-	2,697	241	-	-	2,938
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,697	-	-	-	2,697
B.	**ALM derivatives[1][2]**						
	Futures contracts	-	100	-	-	-	100
	Forward contracts	487	100	40,561	-	-	41,148
	Option contracts traded on an exchange:						
	- Options written	-	-	346	-	-	346
	- Purchased options	-	-	360	-	-	360
	Other option contracts:						
	- Options written	-	-	2,167	-	-	2,167
	- Purchased options	-	-	2,875	-	-	2,875
	SWAPS	75	10,162	399	-	-	10,636
	Total	562	10,362	46,708	-	-	57,632
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	5,619	-	-	-	5,694
C.	**Other derivatives[1]**						
	Futures contracts	-	2,702	455	9,305	647	13,109
	Option contracts traded on an exchange:						
	- Options written	-	-	6,679	21,980	-	28,659
	- Purchased options	-	-	6,679	21,980	-	28,659
	Other option contracts:						
	- Options written	-	-	271	1,165	-	1,436
	- Purchased options	-	-	251	829	-	1,080
	SWAPS	-	440	142	-	-	582
	Total	-	3,142	14,477	55,259	647	73,525
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	220	-	-	-	220
D.	**Credit derivatives and spot swap foreign currency contacts**						
	Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	38	38
	Foreign currency spot swap contracts	-	-	964	-	-	964

(1) Except for credit derivatives and foreign currency spot swap contracts
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity (CONT'D)

		December 31, 2016 (audited)					
		Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
		Shekel-CPI	Other				
1.	**Face value of derivative instruments**						
A.	**Hedging derivatives(1)**						
	Forward contracts	-	-	241	-	-	241
	SWAPS	-	2,943	-	-	-	2,943
	Total	-	2,943	241	-	-	3,184
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,943	-	-	-	2,943
B.	**ALM derivatives(1)(2)**						
	Futures contracts	-	21	-	-	-	21
	Forward contracts	489	100	41,390	-	-	41,979
	Option contracts traded on an exchange:						
	- Options written	-	-	136	-	-	136
	- Purchased options	-	-	223	-	-	223
	Other option contracts:						
	- Options written	-	-	2,121	-	-	2,121
	- Purchased options	-	-	2,467	-	-	2,467
	SWAPS	75	9,885	340	-	-	10,300
	Total	564	10,006	46,677	-	-	57,247
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	5,325	-	-	-	5,400
C.	**Other derivatives(1)**						
	Futures contracts	-	4,111	6,251	9,146	68	19,576
	Option contracts traded on an exchange:						
	- Options written	-	-	6,112	25,843	-	31,955
	- Purchased options	-	-	6,112	25,843	-	31,955
	Other option contracts:						
	- Options written	-	-	343	1,210	-	1,553
	- Purchased options	-	-	316	872	-	1,188
	SWAPS	-	840	135	-	-	975
	Total	-	4,951	19,269	62,914	68	87,202
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	420	-	-	-	420
D.	**Credit derivatives and spot swap foreign currency contacts**						
	Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	38	38
	Foreign currency spot swap contracts	-	-	1,225	-	-	1,225

(1) Except for credit derivatives and foreign currency spot swap contracts
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity (CONT'D)

	September 30, 2017 (unaudited)					
	Interest Contracts					
	Shekel-CPI	Other	Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
2. Gross fair value of derivative instruments						
A. Hedging derivatives[(1)]						
Gross positive fair value	**-**	**18**	**1**	**-**	**-**	**19**
Gross negative fair value	**-**	**23**	**-**	**-**	**-**	**23**
B. ALM derivatives[(1)(2)]						
Gross positive fair value	**22**	**184**	**408**	**-**	**-**	**614**
Gross negative fair value	**-**	**211**	**369**	**-**	**-**	**580**
C. Other derivatives[(1)]						
Gross positive fair value	**-**	**18**	**131**	**419**	**1**	**569**
Gross negative fair value	**-**	**17**	**131**	**419**	**1**	**568**
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	**-**	**-**	**-**	**-**	**1**	**1**
E. Total						
Gross positive fair value	**22**	**220**	**540**	**419**	**2**	**1,203**
Fair value amounts that were offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance of assets in respect of derivative instruments*	**22**	**220**	**540**	**419**	**2**	**1,203**
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**
Gross negative fair value [(3)]	**-**	**251**	**500**	**419**	**1**	**1,171**
Fair value amounts that were offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance of liabilities in respect of derivative instruments*[(3)]	**-**	**251**	**500**	**419**	**1**	**1,171**
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**

(1) Except for credit derivatives.
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.
(3) Of which gross negative fair value in respect of embedded derivative instruments of NIS 11 million.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity (CONT'D)

	September 30, 2016 (unaudited)					
	Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
	Shekel-CPI	Other				
2. Gross fair value of derivative instruments						
A. Hedging derivatives[1]						
Gross positive fair value	-	1	-	-	-	1
Gross negative fair value	-	86	1	-	-	87
B. ALM derivatives[1][2]						
Gross positive fair value	22	237	313	-	-	572
Gross negative fair value	3	294	368	-	-	665
C. Other derivatives[1]						
Gross positive fair value	-	9	102	453	2	566
Gross negative fair value	-	9	102	453	2	566
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:	-	-	-	-	-	-
Gross positive fair value	-	-	-	-	-	-
E. Total						
Gross positive fair value	22	247	415	453	2	1,139
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments*	22	247	415	453	2	1,139
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-
Gross negative fair value [3]	3	389	471	453	2	1,318
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments*[3]	3	389	471	453	2	1,318
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-

(1) Except for credit derivatives.

(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.

(3) Of which gross negative fair value in respect of embedded derivative instruments of NIS 18 million.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity (CONT'D)

	December 31, 2016 (audited)					
	Interest Contracts					
	Shekel-CPI	Other	Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
2. Gross fair value of derivative instruments						
A. Hedging derivatives[1]						
Gross positive fair value	-	31	6	-	-	37
Gross negative fair value	-	30	-	-	-	30
B. ALM derivatives[1][2]						
Gross positive fair value	23	188	346	-	-	557
Gross negative fair value	3	230	372	-	-	605
C. Other derivatives[1]						
Gross positive fair value	-	19	93	625	1	738
Gross negative fair value	-	19	92	625	1	737
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	-	-	-	-	-	-
E. Total						
Gross positive fair value	23	238	445	625	1	1,332
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments*	23	238	445	625	1	1,332
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-
Gross negative fair value [3]	3	279	464	625	1	1,372
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments*[3]	3	279	464	625	1	1,372
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-

(1) Except for credit derivatives.

(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.

(3) Of which gross negative fair value in respect of embedded derivative instruments of NIS 16 million.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

B. Credit risk in respect of derivatives instruments, according to transaction counterparty

	September 30, 2017 (unaudited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	85	373	123	-	622	1,203
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(218)	(37)	-	(15)	(270)
Credit risk mitigation in respect of cash collateral received	-	(35)	(10)	-	-	(45)
Net amount of assets in respect of derivative instruments	85	120	76	-	607	888
Off balance sheet credit risk in respect of derivative instruments (2)	-	325	-	-	838	1,163
Off balance sheet credit risk mitigation	-	(145)	-	-	(84)	(229)
Net off balance sheet credit risk in respect of derivative instruments	-	180	-	-	754	934
Total credit risk in respect of derivative instruments	85	300	76	-	1,361	1,822
Balance sheet balance of liabilities in respect of derivative instruments (1)	107	421	192	-	451	1,171
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(218)	(37)	-	(15)	(270)
Cash collateral which was attached by a lien	-	(145)	-	-	-	(145)
Net amount of liabilities in respect of derivative instruments	107	58	155	-	436	756

(1) Of which negative gross value of embedded derivative instruments is NIS 11 million (30.9.16 - NIS 18 million, 31.12.16 - NIS 16 million).

(2) The difference, if positive, between total amounts in respect of derivative instruments (including in respect of derivative instruments having a negative fair value) as computed for the purpose of limitations on indebtedness of a single borrower, according to credit risk mitigation, to the total balance of assets in respect of derivative instrument of the borrower.

	September 30, 2016 (unaudited)						December 31, 2016 (audited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
	98	319	173	1	548	1,139	191	380	115	-	646	1,332
	-	(225)	(20)	-	-	(245)	-	(234)	(18)	-	-	(252)
	-	(48)	-	-	-	(48)	-	(61)	(13)	-	-	(74)
	98	46	153	1	548	846	191	85	84	-	646	1,006
	-	333	21	4	592	950	-	355	26	3	555	939
	-	(139)	(11)	-	(1)	(151)	-	(141)	(6)	-	(1)	(148)
	-	194	10	4	591	799	-	214	20	3	554	791
	98	240	163	5	1,139	1,645	191	299	104	3	1,200	1,797
	83	484	236	-	515	1,318	173	404	206	8	581	1,372
	-	(225)	(20)	-	-	(245)	-	(234)	(18)	-	-	(252)
	-	(143)	(23)	-	-	(166)	-	(46)	-	-	-	(46)
	83	116	193	-	515	907	173	124	188	8	581	1,074

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

C. Maturity dates (stated value amounts): period-end balance

	September 30, 2017 (unaudited)				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	**-**	**87**	**213**	**-**	**300**
- Other	**2,489**	**2,448**	**6,669**	**4,493**	**16,099**
Foreign currency contracts	**55,349**	**13,444**	**600**	**46**	**69,439**
Contracts of shares	**44,212**	**3,588**	**665**	**-**	**48,465**
Commodities and other contracts	**80**	**-**	**35**	**-**	**115**
Total	**102,130**	**19,567**	**8,182**	**4,539**	**134,418**

	September 30, 2016 (unaudited)				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	-	264	298	-	562
- Other	2,466	1,875	7,033	4,827	16,201
Foreign currency contracts	49,866	11,996	465	63	62,390
Contracts of shares	50,269	3,558	1,432	-	55,259
Commodities and other contracts	136	128	421	-	685
Total	102,737	17,821	9,649	4,890	135,097

	December 31, 2016 (audited)				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	183	81	300	-	564
- Other	4,423	1,282	6,976	5,219	17,900
Foreign currency contracts	46,626	20,289	442	55	67,412
Contracts of shares	59,659	2,022	1,233	-	62,914
Commodities and other contracts	25	43	38	-	106
Total	110,916	23,717	8,989	5,274	148,896

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION

(NIS million)

A. Definitions

- **Private individuals** - individuals including those conducting a joint account, who at the reporting date have no indebtedness to the bank, or where their indebtedness has been classified to the "Private individuals - housing and other loans" segment.
- **Private banking segment** - private individuals the balance of their financial asset portfolio, on a consolidated basis, held with the bank (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- **Households** - private individuals, excluding customers included in the private banking segment.
- **Business** - a customer not included in the "private individual" definition and who is not an instructional body or a banking corporation.
- **Business turnover** - annual sales turnover or volume of annual income.
- **Minute business** - a business the annual turnover of which is less than NIS 10 million.
- **Small business** - a business the annual turnover of which is higher than or equal to NIS 10 million and is lower than NIS 50 million.
- **Middle-market business** - a business the annual turnover of which is higher than or equal to NIS 50 million and is lower than NIS 250 million.
- **Large business** - a business the annual turnover of which is higher than or equal to NIS 250 million.
- **Institutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers funds.

Where the income turnover of business customer does not represents its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment. In addition, in business accounts operating in the capital market the classification to customers segments is in accordance to the value of the assets in the balance sheet or average value of the assets in the Bank and in business account in the real estate area the classification is in accordance to the value of the assets in the balance sheet or the volume of the credit lines.
According to the transition directive set in the FAQ file of the Bank of Israel, it was determined that business customer, which is indebtness to the bank is up to NIS 80 thousands (including credit facilities etc.) and the bank does not have information regarding its activity turnover, will be classified to the relevant supervisory segment of activity according to the total financial assets at the bank (including financial deposits, securities portfolio and other financial assets), after multiplying them by 10.

- **Financial management segment** - includes trading and asset and liability management operations as defined in the Directives of the Supervisor of Banks. The segment includes the Bank's share in the earning of ICC.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

B. Operational supervision segment information

	Households						
	Total	of which: Housing loans	of which: credit cards	Private banking	Small and minute businesses	Medium business	Large business
Interest income from external	294	102	12	-	153	40	88
Interest expense from external	16	-	8	3	11	4	5
Net interest income							
- From external	278	102	4	(3)	142	36	83
- Inter - segment	(23)	(41)	(1)	9	-	-	(7)
Total net interest income	255	61	3	6	142	36	76
Non-interest income	142	3	20	15	83	16	32
Total income	397	64	23	21	225	52	108
Expenses (Income) in respect of credit losses	25	2	-	-	(7)	1	3
Operating and other expenses	360	28	15	13	148	22	46
Operating profit (loss) before taxes	12	34	8	8	84	29	59
Provision for taxes (tax savings) on operating profit (loss)	2	9	3	2	25	9	16
Operating profit (loss) after taxes	10	25	5	6	59	20	43
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	-
Net profit (loss)							
Before attribution to noncontrolling interests	10	25	5	6	59	20	43
Attributed to noncontrolling interests	(4)	-	-	-	(3)	(1)	-
Net profit (loss) attributed to shareholders of the Bank	6	25	5	6	56	19	43
Average balance of assets(1)	40,853	22,491	3,034	47	15,072	4,771	17,533
of which: Investee Company(1)	-	-	-	-	-	-	-
of which: Average balance of credit to the public(1)	40,853	22,491	3,034	47	15,072	4,771	17,533
Balance of credit to the public	41,789	22,573	3,137	49	15,873	5,002	18,041
Balance of impaired debts	100	15	-	-	233	52	184
Balance in arrears over 90 days	194	149	-	-	29	1	-
Average balance of liabilities(1)	46,887	-	-	7,616	16,844	5,058	8,642
of which: Average balance of deposits from the public(1)	46,887	-	-	7,616	16,844	5,058	8,642
Balance of deposits from the public	46,538	-	-	7,810	15,702	4,929	9,031
Average balance of risk assets(1)(2)	28,547	11,811	3,230	173	15,403	5,973	17,815
Balance of risk assets(2)	28,671	12,032	3,290	168	15,720	6,110	17,688
Average balance of assets under management(1)(3)	35,384	-	-	15,251	14,201	3,297	17,131
Segmentation of net interest income:							
- Earnings from credit - granting activity	231	65	3	-	135	34	76
- Earnings from deposits - taking activity	31	-	-	6	12	4	5
- Other	(7)	(4)	-	-	(5)	(2)	(5)
Total net interest income	255	61	3	6	142	36	76

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

For the three months ended September 30, 2017 (unaudited)				
		Activity in Israel	Activity abroad	
Institutional entities	Financial Management	Total activity in Israel	Total activity abroad	Total
				(NIS million)
6	34	615	-	615
5	6	50	-	50
1	28	565	-	565
11	10	-	-	-
12	38	565	-	565
41	36	365	-	365
53	74	930	-	930
(13)	-	9	-	9
37	9	635	5	640
29	65	286	(5)	281
9	16	79	(1)	78
20	49	207	(4)	203
-	12	12	-	12
20	61	219	(4)	215
-	(4)	(12)	-	(12)
20	57	207	(4)	203
646	52,366	131,288	44	131,332
-	545	545	-	545
646	-	78,922	-	78,922
337	-	81,091	-	81,091
-	-	569	-	569
-	-	224	-	224
23,560	14,533	123,140	-	123,140
23,560	-	108,607	-	108,607
24,384	-	108,394	-	108,394
1,047	8,744	77,702	53	77,755
807	8,131	77,295	9	77,304
205,072	-	290,336	-	290,336
6	-	482	-	482
7	-	65	-	65
(1)	38	18	-	18
12	38	565	-	565

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

B. Operational supervision segment information

	Households						
	Total	of which: Housing loans	of which: credit cards	Private banking	Small and minute businesses	Medium business	Large business
Interest income from external	320	152	13	1	136	31	92
Interest expense from external	34	-	11	7	12	4	5
Net interest income							
- From external	286	152	2	(6)	124	27	87
- Inter - segment	(63)	(92)	-	11	10	7	(10)
Total net interest income	223	60	2	5	134	34	77
Non-interest income	140	4	25	14	79	16	31
Total income	363	64	27	19	213	50	108
Expenses (income) in respect of credit losses	5	(6)	-	-	1	7	9
Operating and other expenses	355	26	21	13	155	24	49
Operating profit (loss) before taxes	3	44	6	6	57	19	50
Provision for taxes on operating profit	1	14	2	2	24	7	20
Operating profit (loss) after taxes	2	30	4	4	33	12	30
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	-
Net profit (loss)							
Before attribution to noncontrolling interests	2	30	4	4	33	12	30
Attributed to noncontrolling interests	(4)	-	-	(1)	(2)	-	(1)
Net profit (loss) attributed to shareholders of the Bank	(2)	30	4	3	31	12	29
Average balance of assets(1)	38,387	21,138	3,386	50	15,108	4,555	18,871
of which: Investee Company(1)	-	-	-	-	-	-	-
of which: Average balance of credit to the public(1)	38,387	21,138	3,386	50	15,108	4,555	18,871
Balance of credit to the public	39,621	21,388	3,096	48	14,955	4,768	18,448
Balance of impaired debts	93	10	-	-	198	129	223
Balance in arrears over 90 days	174	141	-	-	24	1	-
Average balance of liabilities(1)	44,962	-	-	7,099	17,123	5,232	8,898
of which: Average balance of deposits from the public(1)	44,962	-	-	7,099	17,123	5,232	8,898
Balance of deposits from the public	45,796	-	-	7,241	16,682	5,038	8,924
Average balance of risk assets(1)(2)	27,501	11,544	2,528	142	14,482	6,252	18,466
Balance of risk assets(2)	27,485	11,417	2,516	147	14,762	6,322	18,350
Average balance of assets under management(1)(3)	35,140	-	-	13,648	13,559	3,484	13,476
Segmentation of net interest income:							
- Earnings from credit - granting activity	204	64	2	-	131	34	78
- Earnings from deposits - taking activity	28	-	-	5	8	2	2
- Other	(9)	(4)	-	-	(5)	(2)	(3)
Total net interest income	223	60	2	5	134	34	77

* Reclassified.
(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

For the three months ended September 30, 2016 (unaudited)*				
		Activity in Israel	Activity abroad	
Institutional entities	Financial Management	Total activity in Israel	Total activity abroad	Total
				(NIS million)
3	97	680	2	682
10	57	129	-	129
(7)	40	551	2	553
16	29	-	-	-
9	69	551	2	553
37	33	350	5	355
46	102	901	7	908
(1)	-	21	-	21
37	21	654	8	662
10	81	226	(1)	225
5	32	91	-	91
5	49	135	(1)	134
-	3	3	-	3
5	52	138	(1)	137
-	(1)	(9)	-	(9)
5	51	129	(1)	128
712	49,342	127,025	371	127,396
-	512	512	-	512
712	-	77,683	371	78,054
718	-	78,558	386	78,944
-	-	643	-	643
-	-	199	-	199
21,483	13,360	118,157	738	118,895
21,483	-	104,797	738	105,535
20,123	-	103,804	745	104,549
1,054	8,455	76,352	641	76,993
1,062	8,543	76,671	659	77,330
203,230	-	282,537	-	282,537
3	-	450	-	450
6	-	51	2	53
-	69	50	-	50
9	69	551	2	553

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

B. Operational supervision segment information

	Households						
	Total	of which: Housing loans	of which: credit cards	Private banking	Small and minute businesses	Medium business	Large business
Interest income from external	997	417	36	1	480	120	273
Interest expense from external	115	-	25	19	55	19	42
Net interest income							
- From external	882	417	11	(18)	425	101	231
- Inter - segment	(137)	(243)	(2)	36	5	6	(3)
Total net interest income	745	174	9	18	430	107	228
Non-interest income	422	11	61	43	240	48	100
Total income	1,167	185	70	61	670	155	328
Expenses (Income) in respect of credit losses	49	1	-	-	34	34	(9)
Operating and other expenses	1,049	80	47	40	466	75	146
Operating profit before taxes	69	104	23	21	170	46	191
Provision for taxes on operating profit	22	34	8	7	58	16	66
Operating profit after taxes	47	70	15	14	112	30	125
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	-
Net profit							
Before attribution to noncontrolling interests	47	70	15	14	112	30	125
Attributed to noncontrolling interests	(14)	-	(1)	(1)	(6)	(2)	(1)
Net profit attributed to shareholders of the Bank	33	70	14	13	106	28	124
Average balance of assets(1)	40,217	22,209	2,744	47	15,234	4,681	17,425
of which: Investee Company(1)	-	-	-	-	-	-	-
of which: Average balance of credit to the public(1)	40,217	22,209	2,744	47	15,234	4,681	17,425
Balance of credit to the public	41,789	22,573	3,137	49	15,873	5,002	18,041
Balance of impaired debts	100	15	-	-	233	52	184
Balance in arrears over 90 days	194	149	-	-	29	1	-
Average balance of liabilities(1)	46,201	-	-	7,588	16,426	5,292	9,178
of which: Average balance of deposits from the public(1)	46,201	-	-	7,588	16,426	5,292	9,178
Balance of deposits from the public	46,538	-	-	7,810	15,702	4,929	9,031
Average balance of risk assets(1)(2)	28,107	11,821	3,162	169	15,091	5,915	17,901
Balance of risk assets(2)	28,671	12,032	3,290	168	15,720	6,110	17,688
Average balance of assets under management(1)(3)	35,082	-	-	14,787	12,641	3,713	16,415
Segmentation of net interest income:							
- Earnings from credit - granting activity	672	185	9	-	411	102	231
- Earnings from deposits - taking activity	91	-	-	18	31	10	12
- Other	(18)	(11)	-	-	(12)	(5)	(15)
Total net interest income	745	174	9	18	430	107	228

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

	For the nine months ended September 30, 2017 (unaudited)				
	Activity in Israel			Activity abroad	
	Institutional entities	Financial Management	Total activity in Israel	Total activity abroad	Total
					(NIS million)
	11	123	2,005	3	2,008
	25	23	298	-	298
	(14)	100	1,707	3	1,710
	43	50	-	-	-
	29	150	1,707	3	1,710
	133	100	1,086	18	1,104
	162	250	2,793	21	2,814
	(8)	-	100	(4)	96
	116	36	1,928	16	1,944
	54	214	765	9	774
	19	71	259	2	261
	35	143	506	7	513
	-	38	38	-	38
	35	181	544	7	551
	-	(7)	(31)	-	(31)
	35	174	513	7	520
	616	51,440	129,660	138	129,798
	-	531	531	-	531
	616	-	78,220	-	78,220
	337	-	81,091	-	81,091
	-	-	569	-	569
	-	-	224	-	224
	22,256	14,773	121,714	-	121,714
	22,256	-	106,941	-	106,941
	24,384	-	108,394	-	108,394
	1,053	8,258	76,494	247	76,741
	807	8,131	77,295	9	77,304
	203,114	-	285,752	-	285,752
	10	-	1,426	-	1,426
	20	-	182	3	185
	(1)	150	99	-	99
	29	150	1,707	3	1,710

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

B. Operational supervision segment information

	Households						
	Total	of which: Housing loans	of which: credit cards	Private banking	Small and minute businesses	Medium business	Large business
Interest income from external	906	353	30	1	432	98	260
Interest expense from external	71	-	22	17	26	9	12
Net interest income							
- From external	835	353	8	(16)	406	89	248
- Inter - segment	(134)	(207)	(1)	30	(12)	11	(28)
Total net interest income	701	146	7	14	394	100	220
Non-interest income	428	12	67	39	233	53	95
Total income	1,129	158	74	53	627	153	315
Expenses (Income) in respect of credit losses	25	1	-	(1)	13	16	(6)
Operating and other expenses	1,075	79	48	40	455	78	146
Operating profit (loss) before taxes	29	78	26	14	159	59	175
Provision for taxes on operating profit	9	26	9	6	71	26	80
Operating profit (loss) after taxes	20	52	17	8	88	33	95
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	-
Net profit (loss)							
Before attribution to noncontrolling interests	20	52	17	8	88	33	95
Attributed to noncontrolling interests	(17)	-	(1)	(1)	(6)	(1)	(2)
Net profit (loss) attributed to shareholders of the Bank	3	52	16	7	82	32	93
Average balance of assets(1)	37,729	20,662	3,000	48	14,748	4,435	18,375
of which: Investee Company(1)	-	-	-	-	-	-	-
of which: Average balance of credit to the public(1)	37,729	20,662	3,000	48	14,748	4,435	18,375
Balance of credit to the public	39,621	21,388	3,096	48	14,955	4,768	18,448
Balance of impaired debts	93	10	-	-	198	129	223
Balance in arrears over 90 days	174	141	-	-	24	1	-
Average balance of liabilities(1)	44,160	-	-	6,911	16,439	5,036	9,228
of which: Average balance of deposits from the public(1)	44,160	-	-	6,911	16,439	5,036	9,228
Balance of deposits from the public	45,796	-	-	7,241	16,682	5,038	8,924
Average balance of risk assets(1)(2)	27,141	11,214	2,422	142	14,360	6,192	18,040
Balance of risk assets(2)	27,485	11,417	2,516	147	14,762	6,322	18,350
Average balance of assets under management(1)(3)	35,340	-	-	12,960	12,523	3,550	15,020
Segmentation of net interest income:							
- Earnings from credit - granting activity	640	158	7	-	384	98	226
- Earnings from deposits - taking activity	83	-	-	14	24	7	8
- Other	(22)	(12)	-	-	(14)	(5)	(14)
Total net interest income	701	146	7	14	394	100	220

* Reclassified.
(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

For the nine months ended September 30, 2016 (unaudited)*				
Activity in Israel			Activity abroad	
Institutional entities	Financial Management	Total activity in Israel	Total activity abroad	Total
				(NIS million)
12	183	1,892	7	1,899
22	129	286	-	286
(10)	54	1,606	7	1,613
38	95	-	-	-
28	149	1,606	7	1,613
138	129	1,115	17	1,132
166	278	2,721	24	2,745
(1)	-	46	-	46
154	44	1,992	26	2,018
13	234	683	(2)	681
6	105	303	-	303
7	129	380	(2)	378
-	62	62	-	62
7	191	442	(2)	440
-	(4)	(31)	-	(31)
7	187	411	(2)	409
696	50,418	126,449	373	126,822
-	474	474	-	474
696	-	76,031	373	76,404
718	-	78,558	386	78,944
-	-	643	-	643
-	-	199	-	199
22,499	13,966	118,239	798	119,037
22,499	-	104,273	798	105,071
20,123	-	103,804	745	104,549
1,106	8,135	75,116	659	75,775
1,062	8,543	76,671	659	77,330
202,540	-	281,933	-	281,933
11	-	1,359	-	1,359
18	-	154	7	161
(1)	149	93	-	93
28	149	1,606	7	1,613

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

B. Operational supervision segment information

	Households						
	Total	of which: Housing loans	of which: credit cards	Private banking	Small and minute businesses	Medium business	Large business
Interest income from external	1,205	486	44	1	614	141	380
Interest expense from external	139	-	29	22	61	21	54
Net interest income							
- From external	1,066	486	15	(21)	553	120	326
- Inter - segment	(129)	(299)	(2)	41	(15)	14	(33)
Total net interest income	937	187	13	20	538	134	293
Non-interest income	569	15	90	52	308	69	131
Total income	1,506	202	103	72	846	203	424
Expenses (Income) in respect of credit losses	52	2	-	(1)	24	14	(16)
Operating and other expenses	1,419	132	67	55	610	99	196
Operating profit (loss) before taxes	35	68	36	18	212	90	244
Provision for taxes on operating profit	11	25	13	8	94	40	110
Operating profit (loss) after taxes	24	43	23	10	118	50	134
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	-
Net profit (loss)							
Before attribution to noncontrolling interests	24	43	23	10	118	50	134
Attributed to noncontrolling interests	(19)	-	(2)	(1)	(7)	(2)	(2)
Net profit (loss) attributed to shareholders of the Bank	5	43	21	9	111	48	132
Average balance of assets(1)	38,257	20,884	2,950	49	14,787	4,396	18,182
of which: Investee Company(1)	-	-	-	-	-	-	-
of which: Average balance of credit to the public(1)	38,257	20,884	2,950	49	14,787	4,396	18,182
Balance of credit to the public	39,878	21,741	2,933	47	15,133	4,517	17,916
Balance of impaired debts	91	8	-	-	194	96	196
Balance in arrears over 90 days	191	150	-	-	29	1	-
Average balance of liabilities(1)	44,620	-	-	7,431	16,167	5,103	9,535
of which: Average balance of deposits from the public(1)	44,620	-	-	7,431	16,167	5,103	9,535
Balance of deposits from the public	45,709	-	-	8,325	16,359	5,584	10,392
Average balance of risk assets(1)(2)	26,471	11,371	2,899	148	14,918	6,061	18,313
Balance of risk assets(2)	26,853	11,605	3,071	150	14,934	5,949	18,266
Average balance of assets under management(1)(3)	34,962	-	-	13,337	12,828	3,430	22,110
Segmentation of net interest income:							
- Earnings from credit - granting activity	853	202	13	1	524	130	302
- Earnings from deposits - taking activity	110	-	-	20	30	10	13
- Other	(26)	(15)	-	(1)	(16)	(6)	(22)
Total net interest income	937	187	13	20	538	134	293

* Reclassified

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

(2) Risk assets - as computed for the purpose of capital adequacy.

(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

For the year ended December 31, 2016 (audited)*				
Activity in Israel			Activity abroad	
Institutional entities	Financial Management	Total activity in Israel	Private individuals	Total
				(NIS million)
17	159	2,517	9	2,526
29	31	357	-	357
(12)	128	2,160	9	2,169
47	75	-	-	-
35	203	2,160	9	2,169
179	151	1,459	21	1,480
214	354	3,619	30	3,649
7	-	80	-	80
192	61	2,632	51	2,683
15	293	907	(21)	886
7	128	398	-	398
8	165	509	(21)	488
-	72	72	-	72
8	237	581	(21)	560
-	(8)	(39)	-	(39)
8	229	542	(21)	521
640	50,651	126,962	350	127,312
-	493	493	-	493
640		76,311	350	76,661
684	-	78,175	-	78,175
-	-	577	-	577
-	-	221	-	221
21,636	14,162	118,654	768	119,422
21,636	-	104,492	768	105,260
19,448	-	105,817	-	105,817
1,044	8,587	75,542	578	76,120
1,031	8,417	75,600	578	76,178
199,598	-	286,265	-	286,265
14	-	1,824	-	1,824
22	-	205	9	214
(1)	203	131	-	131
35	203	2,160	9	2,169

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

A. General

1. Instructions of the Supervisor of Banks state that a banking corporation, the operating segments of which per Management's approach, materially differ from the regulatory segments of activity, shall, in addition, provide disclosure regarding operating segments according to Management's approach ("administrative operating segments"), in accordance with accounting principles accepted by US banks in the matter of segments of operation (ASC 280-10).
2. The distribution to segments of operation in accordance with Management's approach is made according to criteria detailed in item 3 below. This distribution is used by the chief operational decision maker at the Bank for the purpose of determining the work plan, taking decisions and analyzing the business results of the Group. Management of the Bank and the Board of Directors are considered as the chief operational decision maker at the Bank.
3. The Bank has identified the following administrative operating segments:
   - **Banking Division - housing loans** - the segment is responsible for providing housing credit services to customers in this segment.
   - **Banking Division - other** - the segment includes all activities of private banking customers, households, small businesses and commercial customers of the Banking Division branches. In addition the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - corporate customers** - The corporate department of the Division coordinates all activities of large and international corporate customers, having a credit facility of NIS 40 million and over, or an income turnover of NIS 200 million and over, as well as the activity of borrower in complex credit areas, such as: communication, diamonds, closed construction projects and such like.
   - **Corporate Division - commercial customers** - The commercial department handles customers having a credit facility of between NIS 5 million and up to NIS 40 million, and an income turnover of between NIS 25 million and up to NIS 200 million and the customers of the branches which are not under authority of the branches' managers. In addition the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - other** - Bank customers in the business branches subordinated to the corporate division up to the authority of the branches' managers.
   - **Customer Assets Division** - The Division is responsible for the Bank's activity with all customers in operations involving the capital market, foreign currency and deposits.
   - **Financial Management** - The segment includes the results of operations concerning the asset and liability management of the Bank, including management of market and liquidity risk management in general, the results of management of the "nostro" securities portfolio of the Bank, including activity with other banks and with Bank of Israel. The segment includes also the Bank's share in the earnings of Israel Credit Cards Ltd.
   - **Subsidiary companies** - The segment includes the results of operation of its subsidiaries, including the banking subsidiaries Otzar Hachayal Bank and Massad Bank.

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

- **Adjustments:**

  A part of the results of operations with customers of the Bank is recorded in more than one operating segment, as detailed below:

  - The results of operation in the capital market product, which includes securities activity of customers, the distribution of pension products and deposits from the public, as well as the foreign currency product, are included both in the Customer Assets Division segment and in the Banking Division-other segment or in any one of the Corporate Division segments.
  - The results of operation of certain commercial customers under the responsibility of the Corporate Division are included both in the Corporate Division-commercial customers segment and in the Banking Division-other segment.
  - The results of operation of certain small business customers under the responsibility of the Banking Division are included both in the Banking Division-other segment and in the Corporate Division-small business segment.
  - The results of operation of certain commercial customers under the responsibility of the Customer Assets Division are included both in the Customer Assets Division segment and in the Banking Division-other segment or in any one of the Corporate Division segments.

The duplicity in the recording of the results of operation as described above is eliminated in the adjustments column.

The adjustments column includes also the elimination of inter-company balances.

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	For the three months ended September 30, 2017 (unaudited)									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	63	192	99	55	7	60	25	159	(95)	565
Non-interest income	3	160	56	20	8	159	33	84	(158)	365
Total income	66	352	155	75	15	219	58	243	(253)	930
Expenses (income) in respect of credit losses	2	22	(26)	1	1	(13)	-	19	3	9
Operating and other expenses	28	322	67	44	7	186	15	174	(203)	640
Operating profit before taxes	36	8	114	30	7	46	43	50	(53)	281
Provision for taxes on operating profit	9	2	31	8	2	12	7	20	(13)	78
Operating profit after taxes	27	6	83	22	5	34	36	30	(40)	203
Bank's share in operating profit of investee company	-	-	-	-	-	-	12	-	-	12
Net profit										
Before attribution to noncontrolling interests	27	6	83	22	5	34	48	30	(40)	215
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(12)	-	(12)
Attributed to shareholders of the Bank	27	6	83	22	5	34	48	18	(40)	203
Average balance of assets	22,602	15,687	20,339	7,147	436	5,253	44,293	25,563	(9,460)	131,860
Balance of net credit to the public at the end of the reported period	22,563	15,818	21,567	7,387	453	5,322	-	17,138	(10,012)	80,236
Balance of deposits from the public at the end of the reported period	-	50,647	22,087	4,973	2,420	86,573	-	23,555	(81,861)	108,394

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	For the three months ended September 30, 2016 (unaudited)									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	52	167	96	49	6	45	59	149	(70)	553
Non-interest income	3	157	54	20	7	155	52	85	(178)	355
Total income	55	324	150	69	13	200	111	234	(248)	908
Expenses (income) in respect of credit losses	(7)	31	(9)	14	-	3	-	8	(19)	21
Operating and other expenses	28	330	76	45	8	189	14	180	(208)	662
Operating profit (loss) before taxes	34	(37)	83	10	5	8	97	46	(21)	225
Provision for taxes (tax saving) on operating profit (loss)	14	(16)	32	3	2	3	37	18	(2)	91
Operating profit (loss) after taxes	20	(21)	51	7	3	5	60	28	(19)	134
Bank's share in operating profit of investee company	-	-	-	-	-	-	3	-	-	3
Net (loss) profit										
Before attribution to noncontrolling interests	20	(21)	51	7	3	5	63	28	(19)	137
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(9)	-	(9)
Attributed to shareholders of the Bank	20	(21)	51	7	3	5	63	19	(19)	128
Average balance of assets	21,344	14,055	22,114	6,485	471	5,166	41,986	24,259	(8,484)	127,396
Balance of net credit to the public at the end of the reported period	21,431	14,494	22,360	6,770	478	5,508	-	16,615	(9,577)	78,079
Balance of deposits from the public at the end of the reported period	-	49,930	21,211	4,733	2,649	83,075	-	23,079	(80,128)	104,549

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	For the nine months ended September 30, 2017 (unaudited)									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	182	562	293	163	20	162	113	476	(261)	1,710
Non-interest income	11	475	170	59	23	477	100	256	(467)	1,104
Total income	193	1,037	463	222	43	639	213	732	(728)	2,814
Expenses (income) in respect of credit losses	(1)	65	(26)	27	5	(4)	-	46	(16)	96
Operating and other expenses	84	956	221	119	23	535	37	532	(563)	1,944
Operating profit before taxes	110	16	268	76	15	108	176	154	(149)	774
Provision for taxes on operating profit	37	5	89	25	5	36	58	53	(47)	261
Operating profit after taxes	73	11	179	51	10	72	118	101	(102)	513
Bank's share in operating profit of investee company	-	-	-	-	-	-	38	-	-	38
Net profit										
Before attribution to noncontrolling interests	73	11	179	51	10	72	156	101	(102)	551
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(31)	-	(31)
Attributed to shareholders of the Bank	73	11	179	51	10	72	156	70	(102)	520
Average balance of assets	22,346	15,231	20,573	6,987	464	5,007	43,323	25,129	(9,262)	129,798
Balance of net credit to the public at the end of the reported period	22,563	15,818	21,567	7,387	453	5,322	-	17,138	(10,012)	80,236
Balance of deposits from the public at the end of the reported period	-	50,647	22,087	4,973	2,420	86,573	-	23,555	(81,861)	108,394

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)
(NIS million)

	For the nine months ended September 30, 2016 (unaudited)									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	143	500	285	143	19	141	126	482	(226)	1,613
Non-interest income	11	470	167	57	23	479	216	252	(543)	1,132
Total income	154	970	452	200	42	620	342	734	(769)	2,745
Expenses (income) in respect of credit losses	-	49	(20)	19	(1)	7	-	20	(28)	46
Operating and other expenses	85	971	235	117	25	577	38	548	(578)	2,018
Operating profit (loss) before taxes	69	(50)	237	64	18	36	304	166	(163)	681
Provision for taxes (tax saving) on operating profit (loss)	30	(22)	104	28	8	16	133	64	(58)	303
Operating profit (loss) after taxes	39	(28)	133	36	10	20	171	102	(105)	378
Bank's share in operating profit of investee company	-	-	-	-	-	-	62	-	-	62
Net profit (loss)										
Before attribution to noncontrolling interests	39	(28)	133	36	10	20	233	102	(105)	440
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(31)	-	(31)
Attributed to shareholders of the Bank	39	(28)	133	36	10	20	233	71	(105)	409
Average balance of assets	20,876	13,637	22,164	6,197	501	5,262	43,091	23,995	(8,901)	126,822
Balance of net credit to the public at the end of the reported period	21,431	14,494	22,360	6,770	478	5,508	-	16,615	(9,577)	78,079
Balance of deposits from the public at the end of the reported period	-	49,930	21,211	4,733	2,649	83,075	-	23,079	(80,128)	104,549

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	For the year ended December 31, 2016 (audited)									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	177	686	376	195	26	190	190	638	(309)	2,169
Non-interest income	15	628	229	79	31	628	139	339	(608)	1,480
Total income	192	1,314	605	274	57	818	329	977	(917)	3,649
Expenses (income) in respect of credit losses	1	56	(24)	20	2	12	-	35	(22)	80
Operating and other expenses	110	1,285	300	157	47	725	47	753	(741)	2,683
Operating profit (loss) before taxes	81	(27)	329	97	8	81	282	189	(154)	886
Provision for taxes (tax saving) on operating profit (loss)	35	(11)	142	42	3	35	122	84	(54)	398
Operating profit (loss) after taxes	46	(16)	187	55	5	46	160	105	(100)	488
Bank's share in operating profit of investee company	-	-	-	-	-	-	72	-	-	72
Net profit (loss)										
Before attribution to noncontrolling interests	46	(16)	187	55	5	46	232	105	(100)	560
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(39)	-	(39)
Attributed to shareholders of the Bank	46	(16)	187	55	5	46	232	66	(100)	521
Average balance of assets	20,518	14,845	21,766	6,321	496	5,484	43,110	24,295	(9,523)	127,312
Balance of net credit to the public at the end of the reported period	21,732	14,858	21,269	6,851	502	5,449	-	16,235	(9,568)	77,328
Balance of deposits from the public at the end of the reported period	-	51,652	21,951	5,193	2,381	82,604	-	22,989	(80,953)	105,817

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

A. Debts[1] and off-balance sheet credit instruments

Provision for credit losses

1. Change in provision for credit losses

	For the three months ended September 30, 2017 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the period	499	114	232	845	-	845
Expenses (income) in respect of credit losses	(12)	2	24	14	-	14
-Accounting write-offs	(28)	(1)	(28)	(57)	-	(57)
-Collection of debts written off in accounting in previous years	35	-	18	53	-	53
Net accounting write-offs	7	(1)	(10)	(4)	-	(4)
Provision for credit losses at end of the period	494	115	246	855	-	855
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	55	-	14	69	-	69
Decrease in the provision	(4)	-	(1)	(5)	-	(5)
Provision in respect of off-balance sheet credit instruments at end of the period	51	-	13	64	-	64
Total provision for credit losses - debts and off-balance sheet credit instruments	545	115	259	919	-	919

	For the nine months ended September 30, 2017 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year	501	115	231	847	-	847
Expenses in respect of credit losses	57	1	45	103	-	103
-Accounting write-offs	(154)	(2)	(89)	(245)	-	(245)
-Collection of debts written off in accounting in previous years	90	1	59	150	-	150
Net accounting write-offs	(64)	(1)	(30)	(95)	-	(95)
Provision for credit losses at end of the period	494	115	246	855	-	855
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	57	-	14	71	-	71
Decrease in the provision	(6)	-	(1)	(7)	-	(7)
Provision in respect of off-balance sheet credit instruments at end of the period	51	-	13	64	-	64
Total provision for credit losses - debts and off-balance sheet credit instruments	545	115	259	919	-	919

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

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

A. Debts* and off-balance sheet credit instruments (Cont'd)

Provision for credit losses (Cont'd)

1. Change in provision for credit losses (Cont'd)

	For the three months ended September 30, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year	520	125	213	858	-	858
Expenses (income) in respect of credit losses	17	(6)	11	22	-	22
-Accounting write-offs	(46)	(1)	(26)	(73)	-	(73)
-Collection of debts written off in accounting in previous years	37	-	21	58	-	58
Net accounting write-offs	(9)	(1)	(5)	(15)	-	(15)
Provision for credit losses at end of the period	528	118	219	865	-	865
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	59	-	14	73	-	73
Decrease in the provision	(1)	-	-	(1)	-	(1)
Provision in respect of off-balance sheet credit instruments at end of the period	58	-	14	72	-	72
Total provision for credit losses - debts and off-balance sheet credit instruments	586	118	233	937	-	937

	For the nine months ended September 30, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year	498	119	207	824	-	824
Expenses in respect of credit losses	34	1	24	59	-	59
-Accounting write-offs	(108)	(2)	(80)	(190)	-	(190)
-Collection of debts written off in accounting in previous years	104	-	68	172	-	172
Net accounting write-offs	(4)	(2)	(12)	(18)	-	(18)
Provision for credit losses at end of the period	528	118	219	865	-	865
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	70	-	15	85	-	85
Decrease in the provision	(12)	-	(1)	(13)	-	(13)
Provision in respect of off-balance sheet credit instruments at end of the period	58	-	14	72	-	72
Total provision for credit losses - debts and off-balance sheet credit instruments	586	118	233	937	-	937

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

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

A. Debts* and off-balance sheet credit instruments (Cont'd)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1) and the underlying debts(1)

	September 30, 2017 (unaudited)					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts(1)						
Examined on an individual basis	**34,627**	**-**	**233**	**34,860**	**2,341**	**37,201**
Examined on a collective basis	**4,908**	**22,573**	**18,750**	**46,231**	**-**	**46,231**
Of which: provision for which was calculated according to the extent of arrears	**282**	**22,573**	**-**	**22,855**	**-**	**22,855**
Total debts	**39,535**	**22,573**	**18,983**	**81,091**	**2,341**	**83,432**
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	**439**	**-**	**31**	**470**	**-**	**470**
Examined on a collective basis	**55**	**115**	**215**	**385**	**-**	**385**
Of which: provision for which was calculated according to the extent of arrears	**1**	**(2)115**	**-**	**116**	**-**	**116**
Total provision for credit losses	**494**	**115**	**246**	**855**	**-**	**855**

	September 30, 2016 (unaudited)					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts(1)						
Examined on an individual basis	34,849	-	443	35,292	3,254	38,546
Examined on a collective basis	4,687	21,388	17,577	43,652	-	43,652
Of which: provision for which was calculated according to the extent of arrears	327	21,388	-	21,715	-	21,715
Total debts	39,536	21,388	18,020	78,944	3,254	82,198
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	473	-	20	493	-	493
Examined on a collective basis	55	118	199	372	-	372
Of which: provision for which was calculated according to the extent of arrears	1	(2)118	-	119	-	119
Total provision for credit losses	528	118	219	865	-	865

	December 31, 2016 (audited)					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts(1)						
Examined on an individual basis	33,911	-	408	34,319	2,578	36,897
Examined on a collective basis	4,586	21,741	17,529	43,856	-	43,856
Of which: provision for which was calculated according to the extent of arrears	247	21,741	-	21,988	-	21,988
Total debts	38,497	21,741	17,937	78,175	2,578	80,753
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	446	-	28	474	-	474
Examined on a collective basis	55	115	203	373	-	373
Of which: provision for which was calculated according to the extent of arrears	1	(2)115	-	116	-	116
Total provision for credit losses	501	115	231	847	-	847

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

(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on a collective basis in the amount of NIS 80 million (30.9.16 - NIS 78 million, 31.12.16 - NIS 78 million).

(3) The balance of commercial debts includes housing loans in the amount of NIS 2,446 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (30.9.16 - NIS 2,162 million, 31.12.16 - NIS 2,058 million).

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B.Debts(1)

1. Credit quality and arrears

	September 30, 2017 (unaudited)					
		Problematic(2)			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**3,857**	**37**	**40**	**3,934**	**2**	**19**
Construction and real estate - real estate activities	**4,725**	**11**	**42**	**4,778**	**1**	**1**
Financial services	**7,730**	**26**	**1**	**7,757**	**-**	**8**
Commercial - other	**21,525**	**511**	**378**	**22,414**	**27**	**66**
Total commercial	**37,837**	**585**	**461**	**38,883**	**30**	**94**
Private individuals - housing loans	**22,400**	(6)**158**	**15**	**22,573**	**149**	**209**
Private individuals - others	**18,643**	**255**	**85**	**18,983**	**45**	**43**
Total public - activity in Israel	**78,880**	**998**	**561**	**80,439**	**224**	**346**
Banks in Israel	**573**	**-**	**-**	**573**	**-**	**-**
Israeli government	**652**	**-**	**-**	**652**	**-**	**-**
Total activity in Israel	**80,105**	**998**	**561**	**81,664**	**224**	**346**
Borrower activity abroad						
Public - commercial						
Construction and real estate	**6**	**-**	**-**	**6**	**-**	**-**
Other commercial	**638**	**-**	**8**	**646**	**-**	**-**
Total commercial	**644**	**-**	**8**	**652**	**-**	**-**
Private individuals	**-**	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**644**	**-**	**8**	**652**	**-**	**-**
Banks abroad	**1,116**	**-**	**-**	**1,116**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**1,760**	**-**	**8**	**1,768**	**-**	**-**
Total public	**79,524**	**998**	**569**	**81,091**	**224**	**346**
Total banks	**1,689**	**-**	**-**	**1,689**	**-**	**-**
Total governments	**652**	**-**	**-**	**652**	**-**	**-**
Total	**81,865**	**998**	**569**	**83,432**	**224**	**346**

* Reclassified

(1) Credit to the public, credit to government, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 12.B.2.c. below.

(4) Classified as unimpaired problematic debts, accruing interest income.

(5) Accruing interest income Debts in arrears of 30 to 89 days, in the amount of approximately NIS 137 million (30.9.16 - NIS 117 million) were classified as unimpaired problematic debts.

(6) Includes a balance of housing loans, in the amount of approximately NIS 3 million (30.9.16 - NIS 5 million) with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B.Debts[(1)] (Cont'd)

1. Credit quality and arrears (Cont'd)

	September 30, 2016 (unaudited)					
		Problematic[(2)]			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired [(3)]	Total	In arrears of 90 days or more[(4)]	In arrears of 30 to 89 days[(5)]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	3,722	27	58	3,807	2	3
Construction and real estate - real estate activities	4,399	13	30	4,442	1	1
Financial services	7,224	18	15	7,257	-	16
Commercial - other	22,462	404	439	23,305	22	58
Total commercial	37,807	462	542	38,811	25	78
Private individuals - housing loans	21,220	[(6)]158	10	21,388	*141	*159
Private individuals - others	17,662	209	83	17,954	33	39
Total public - activity in Israel	76,689	829	635	78,153	199	276
Banks in Israel	806	-	-	806	-	-
Israeli government	653	-	-	653	-	-
Total activity in Israel	78,148	829	635	79,612	199	276
Borrower activity abroad						
Public - commercial						
Construction and real estate	211	-	-	211	-	-
Other commercial	506	-	8	514	-	-
Total commercial	717	-	8	725	-	-
Private individuals	66	-	-	66	-	-
Total public - activity abroad	783	-	8	791	-	-
Banks abroad	1,795	-	-	1,795	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	2,578	-	8	2,586	-	-
Total public	77,472	829	643	78,944	199	276
Total banks	2,601	-	-	2,601	-	-
Total governments	653	-	-	653	-	-
Total	80,726	829	643	82,198	199	276

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B.Debts(1) (Cont'd)

1. Credit quality and arrears (Cont'd)

	December 31, 2016 (audited)					
		Problematic(2)			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	3,337	36	66	3,439	4	6
Construction and real estate - real estate activities	4,775	12	30	4,817	1	6
Financial services	6,980	239	2	7,221	-	1
Commercial - other	21,638	525	380	22,543	25	61
Total commercial	36,730	812	478	38,020	30	74
Private individuals - housing loans	21,567	(6)166	8	21,741	*150	*237
Private individuals - others	17,618	236	83	17,937	41	53
Total public - activity in Israel	75,915	1,214	569	77,698	221	364
Banks in Israel	481	-	-	481	-	-
Israeli government	654	-	-	654	-	-
Total activity in Israel	77,050	1,214	569	78,833	221	364
Borrower activity abroad						
Public - commercial						
Construction and real estate	51	-	-	51	-	-
Other commercial	418	-	8	426	-	-
Total commercial	469	-	8	477	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	469	-	8	477	-	-
Banks abroad	1,443	-	-	1,443	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	1,912	-	8	1,920	-	-
Total public	76,384	1,214	577	78,175	221	364
Total banks	1,924	-	-	1,924	-	-
Total governments	654	-	-	654	-	-
Total	78,962	1,214	577	80,753	221	364

* Reclassified

(1) Credit to the public, credit to government, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 12.B.2.c. below.

(4) Classified as unimpaired problematic debts, accruing interest income.

(5) Accruing interest income Debts in arrears of 30 to 89 days, in the amount of approximately NIS 127 million were classified as unimpaired problematic debts.

(6) Includes a balance of housing loans, in the amount of approximately NIS 6 million with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

Credit quailty - the status of debts in arrears

The credit risk policy of the Bank defines principal indicators for the examination of credit quality, among which are the default situation, rating of the customer, status of the collateral etc. The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts examined on an individual basis, are treated as impaired debts after 90 days of arrears. In addition debts restructuring of problematic debt are treated as impaired debts. With regard to debts evaluated on a collective basis, the status of arrears effects the classification of the debt (the classification is more severe for more extensive arrears) and mostly after 150 days of arrears, the Bank performs an accounting write-off of the debt up to the extent of the collateral. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears. The Bank also uses additional indications such as customer rating and status of collateral managed by computer systems in accordance with the credit risk management policy determined by the Board of Directors.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts

	September 30, 2017 (unaudited)				
A. Impaired debts and the individual provision	Balance(2) of impaired debts for which an individual provision exists(3)	Individual provision(3)	Balance(2) of impaired debts for which no individual provision exists(3)	Total Balance(2) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	36	21	4	40	883
Construction and real estate - real estate activities	19	3	23	42	604
Financial services	1	1	-	1	746
Commercial - other	297	125	81	378	2,057
Total commercial	353	150	108	461	4,290
Private individuals - housing loans	-	-	15	15	15
Private individuals - others	76	25	9	85	175
Total public - activity in Israel	429	175	132	561	4,480
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	429	175	132	561	4,480
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	8	8	70
Total commercial	-	-	8	8	70
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	70
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	70
Total public	429	175	140	569	4,550
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	429	175	140	569	4,550
(*) Of which:					
Measured at the present value of cash flows	417	174	67	484	
Debts in troubled debt restructuring	191	54	62	253	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	September 30, 2016 (unaudited)				
A. Impaired debts and the individual provision	Balance(2) of impaired debts for which an individual provision exists(3)	Individual provision(3)	Balance(2) of impaired debts for which no individual provision exists(3)	Total Balance(2) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	27	23	31	58	798
Construction and real estate - real estate activities	2	2	28	30	503
Financial services	15	4	-	15	348
Commercial - other	329	182	110	439	2,361
Total commercial	373	211	169	542	4,010
Private individuals - housing loans	-	-	10	10	10
Private individuals - others	15	12	68	83	159
Total public - activity in Israel	388	223	247	635	4,179
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	388	223	247	635	4,179
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	8	8	77
Total commercial	-	-	8	8	77
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	77
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	77
Total public	388	223	255	643	4,256
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	388	223	255	643	4,256
(*) Of which:					
Measured at the present value of cash flows	388	223	197	585	
Debts in troubled debt restructuring	22	12	219	241	

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[(1)] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	December 31, 2016 (audited)				
A. Impaired debts and the individual provision	Balance[(2)] of impaired debts for which an individual provision exists[(3)]	Individual provision[(3)]	Balance[(2)] of impaired debts for which no individual provision exists[(3)]	Total Balance[(2)] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	38	28	28	66	829
Construction and real estate - real estate activities	14	3	16	30	522
Financial services	2	-	-	2	669
Commercial - other	328	147	52	380	1,973
Total commercial	382	178	96	478	3,993
Private individuals - housing loans	-	-	8	8	8
Private individuals - others	67	22	16	83	162
Total public - activity in Israel	449	200	120	569	4,163
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	449	200	120	569	4,163
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	8	8	77
Total commercial	-	-	8	8	77
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	77
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	77
Total public	449	200	128	577	4,240
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	449	200	128	577	4,240
(*) Of which:					
Measured at the present value of cash flows	449	200	63	512	
Debts in troubled debt restructuring	123	27	74	197	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	For the three months ended September 30					
	2017			2016		
	(unaudited)			(unaudited)		
B. Average balance and interest income	Average balance of impaired debts(2)	Interest income recorded(3)	Of which: recorded on a cash basis	Average balance of impaired debts(2)	Interest income recorded(3)	Of which: recorded on a cash basis
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**40**	**-**	**-**	58	-	-
Construction and real estate - real estate activities	**40**	**-**	**-**	33	-	-
Financial services	**39**	**4**	**4**	15	-	-
Commercial - other	**351**	**3**	**2**	437	1	1
Total commercial	**470**	**7**	**6**	543	1	1
Private individuals - housing loans	**14**	**-**	**-**	10	-	-
Private individuals - others	**85**	**-**	**-**	79	-	-
Total public - activity in Israel	**569**	**7**	**6**	632	1	1
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**569**	**7**	**6**	632	1	1
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	**-**	3	-	-
Other commercial	**8**	**-**	**-**	8	-	-
Total commercial	**8**	**-**	**-**	11	-	-
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**8**	**-**	**-**	11	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Government abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**8**	**-**	**-**	11	-	-
Total public	**577**	**7**	**6**	643	1	1
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**577**	(4)**7**	**6**	643	(4)1	1

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

(2) Average recorded debt balance of impaired debts to the public in the reported period

(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.

(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 17 million was recorded in three months ended September 30, 2017 (for three months ended September 30, 2016 - NIS 15 million).

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

B. Average balance and interest income	2017 (unaudited) Average balance of impaired debts(2)	2017 Interest income recorded(3)	2017 Of which: recorded on a cash basis	2016 (unaudited) Average balance of impaired debts(2)	2016 Interest income recorded(3)	2016 Of which: recorded on a cash basis
	For the nine months ended September 30					
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**50**	**-**	**-**	60	-	-
Construction and real estate - real estate activities	**34**	**-**	**-**	37	-	-
Financial services	**115**	**4**	**4**	13	-	-
Commercial - other	**345**	**4**	**2**	491	1	1
Total commercial	**544**	**8**	**6**	601	1	1
Private individuals - housing loans	**14**	**-**	**-**	14	-	-
Private individuals - others	**83**	**1**	**-**	73	1	1
Total public - activity in Israel	**641**	**9**	**6**	688	2	2
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**641**	**9**	**6**	688	2	2
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	**-**	9	-	-
Other commercial	**8**	**-**	**-**	8	-	-
Total commercial	**8**	**-**	**-**	17	-	-
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**8**	**-**	**-**	17	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Government abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**8**	**-**	**-**	17	-	-
Total public	**649**	**9**	**6**	705	2	2
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**649**	(4)**9**	**6**	705	(4)2	2

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

(2) Average recorded debt balance of impaired debts to the public in the reported period

(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.

(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 47 million was recorded in nine months ended September 30, 2017 (for nine months ended September 30, 2016 - NIS 48 million).

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	September 30, 2017 (unaudited)				
	Recorded debt balance				
C. Troubled debt restructuring	Not accruing interest income	accruing[2] in arrears of 90 days or more	accruing [2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	16	-	-	1	17
Construction and real estate - real estate activities	7	-	-	4	11
Financial services	1	-	-	-	1
Commercial - other	120	-	-	23	143
Total commercial	144	-	-	28	172
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	52	-	-	21	73
Total public - activity in Israel	196	-	-	49	245
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	196	-	-	49	245
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	8	-	-	-	8
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	204	-	-	49	253
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	204	-	-	49	253

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	September 30, 2016 (unaudited)				
	Recorded debt balance				
C. Troubled debt restructuring	Not accruing interest income	accruing [2] in arrears of 90 days or more	accruing [2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	14	-	-	1	15
Construction and real estate - real estate activities	8	-	-	1	9
Financial services	2	-	-	-	2
Commercial - other	120	-	-	17	137
Total commercial	144	-	-	19	163
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	57	-	-	13	70
Total public - activity in Israel	201	-	-	32	233
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	201	-	-	32	233
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	8	-	-	-	8
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	209	-	-	32	241
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	209	-	-	32	241

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	December 31, 2016 (audited)				
	Recorded debt balance				
C. Troubled debt restructuring (Cont'd)	Not accruing interest income	accruing (2) in arrears of 90 days or more	accruing (2) in arrears of 30 to 89 days	Accruing(2), not in arrears	Total(3)
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	14	-	-	1	15
Construction and real estate - real estate activities	8	-	-	1	9
Financial services	1	-	-	-	1
Commercial - other	74	-	-	19	93
Total commercial	97	-	-	21	118
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	56	-	-	15	71
Total public - activity in Israel	153	-	-	36	189
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	153	-	-	36	189
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	8	-	-	-	8
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	161	-	-	36	197
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	161	-	-	36	197

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	Restructuring made					
	For the three months ended September 30					
	2017			2016		
				(unaudited)		
C. Troubled debt restructuring (Cont'd)	**Number of contracts**	**Debt balance before restructuring**	**Debt balance after restructuring**	**Number of contracts**	**Debt balance before restructuring**	**Debt balance after restructuring**
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**4**	**7**	**6**	6	-	-
Construction and real estate - real estate activities	**1**	**-**	**-**	-	-	-
Financial services	**1**	**-**	**-**	2	1	1
Commercial - other	**60**	**12**	**12**	52	34	34
Total commercial	**66**	**19**	**18**	60	35	35
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - others	**239**	**12**	**12**	270	14	12
Total public - activity in Israel	**305**	**31**	**30**	330	49	47
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**305**	**31**	**30**	330	49	47
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	**-**	-	-	-
Other commercial	**-**	**-**	**-**	-	-	-
Total commercial	**-**	**-**	**-**			
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**-**	**-**	**-**	-	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Governments abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**-**	**-**	**-**	-	-	-
Total public	**305**	**31**	**30**	330	49	47
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**305**	**31**	**30**	330	49	47

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	Restructuring made					
	For the nine months ended September 30					
	2017			2016		
				(unaudited)		
C. Troubled debt restructuring (Cont'd)	**Number of contracts**	**Debt balance before restructuring**	**Debt balance after restructuring**	**Number of contracts**	**Debt balance before restructuring**	**Debt balance after restructuring**
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**17**	**16**	**15**	20	6	6
Construction and real estate - real estate activities	**4**	**1**	**1**	-	-	-
Financial services	**5**	**228**	**228**	4	2	2
Commercial - other	**192**	**68**	**66**	178	54	52
Total commercial	**218**	**313**	**310**	202	62	60
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - others	**742**	**35**	**33**	778	39	36
Total public - activity in Israel	**960**	**348**	**343**	980	101	96
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**960**	**348**	**343**	980	101	96
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	**-**	-	-	-
Other commercial	**-**	**-**	**-**	-	-	-
Total commercial	**-**	**-**	**-**			
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**-**	**-**	**-**	-	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Governments abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**-**	**-**	**-**	-	-	-
Total public	**960**	**348**	**343**	980	101	96
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**960**	**348**	**343**	980	101	96

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	Restructuring made and failed (2)			
	For the three months ended September 30			
	2017		*2016	
			(unaudited)	
c. **Troubled debt restructuring** (Cont'd)	**Number of contracts**	**Balance of debt recorded**	**Number of contracts**	**Balance of debt recorded**
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	**4**	**-**	2	-
Construction and real estate - real estate activities	**-**	**-**	-	-
Financial services	**-**	**-**	-	-
Commercial - other	**25**	**1**	44	3
Total commercial	**29**	**1**	46	3
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - others	**126**	**3**	143	3
Total public - activity in Israel	**155**	**4**	189	6
Banks in Israel	**-**	**-**	-	-
Israeli government	**-**	**-**	-	-
Total activity in Israel	**155**	**4**	189	6
Borrower activity abroad				
Public - commercial				
Construction and real estate	**-**	**-**	-	-
Other commercial	**-**	**-**	1	8
Total commercial	**-**	**-**	1	8
Private individuals	**-**	**-**	-	-
Total public - activity abroad	**-**	**-**	1	8
Banks abroad	**-**	**-**	-	-
Governments abroad	**-**	**-**	-	-
Total activity abroad	**-**	**-**	1	8
Total public	**155**	**4**	190	14
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**155**	**4**	190	14

* Reclassified.

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debts during the 12 months that preceded the date in which they became debts in arrears.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	Restructuring made and failed (2)			
	For the nine months ended September 30			
	2017		*2016	
			(unaudited)	
c. Troubled debt restructuring (Cont'd)	**Number of contracts**	**Balance of debt recorded**	**Number of contracts**	**Balance of debt recorded**
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	**9**	**-**	4	-
Construction and real estate - real estate activities	**-**	**-**	2	1
Financial services	**2**	**-**	1	1
Commercial - other	**69**	**4**	94	15
Total commercial	**80**	**4**	101	17
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - others	**304**	**7**	334	5
Total public - activity in Israel	**384**	**11**	435	22
Banks in Israel	**-**	**-**	-	-
Israeli government	**-**	**-**	-	-
Total activity in Israel	**384**	**11**	435	22
Borrower activity abroad				
Public - commercial				
Construction and real estate	**-**	**-**	-	-
Other commercial	**-**	**-**	1	8
Total commercial	**-**	**-**	1	8
Private individuals	**-**	**-**	-	-
Total public - activity abroad	**-**	**-**	1	8
Banks abroad	**-**	**-**	-	-
Governments abroad	**-**	**-**	-	-
Total activity abroad	**-**	**-**	1	8
Total public	**384**	**11**	436	30
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**384**	**11**	436	30

* Reclassified.

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debts during the 12 months that preceded the date in which they became debts in arrears.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)(*), repayment type, and interest type

	September 30, 2017 (unaudited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	**16,129**	**375**	**9,832**	**813**
- Over 60%	**6,417**	**90**	**4,196**	**313**
Secondary lien or no lien	**27**	**-**	**16**	**4**
Total	**22,573**	**465**	**14,044**	**1,130**

	September 30, 2016 (unaudited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	14,982	388	9,222	805
- Over 60%	6,219	105	4,114	335
Secondary lien or no lien	187	4	103	11
Total	21,388	497	13,439	1,151

	December 31, 2016 (audited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	15,381	391	9,445	827
- Over 60%	6,319	100	4,179	313
Secondary lien or no lien	41	-	24	12
Total	21,741	491	13,648	1,152

* Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

C. Off-balance sheet financial instruments

	Balance of contracts[1]			Balance of provision for credit losses		
	30.9.17	**30.9.16**	**31.12.16**	**30.9.17**	**30.9.16**	**31.12.16**
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)	(audited)
Transactions the balance of which represents credit risk:						
Documentary credit	**79**	108	119	**-**	-	1
Guarantees securing credit	**908**	1,077	1,022	**8**	12	10
Guarantees to home purchasers	**2,540**	2,960	2,859	**8**	10	11
Guarantees and other liabilities	**3,686**	3,650	3,833	**18**	17	17
Unutilized credit lines for derivatives instruments	**2,571**	*2,855	2,857	**-**	-	-
Unutilized revolving credit and other on-call credit facilities	**9,756**	10,619	10,806	**10**	17	17
Irrevocable commitments to grant credit, not yet executed	**3,994**	5,042	4,658	**10**	4	4
Unutilized credit lines for credit card facilities	**7,025**	6,115	6,361	**4**	4	4
Facilities for the lending of securities	**234**	205	190	**-**	-	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses	**180**	164	139	**-**	-	-
Commitments to issue guarantees	**1,506**	1,670	1,978	**6**	8	7
Transactions the stated amount of which does not represents credit risk:						
Guarantees (including guarantees to the courts for claims which may arise upon the occurrence of certain events) and letters of indemnity[2]	**94**	122	107	**-**	-	-

* Restated. As of December 31,2016 the balance of the forex facilities which have not been utilized are multiplied by the potential future exposure coefficients, in accordance with the Proper Conduct of Banking Business Management Directive No. 203. The comparative data for September 30, 2016 were restated.

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.

(2) In addition, the Bank provided the courts with letters of self undertaking unlimited in amounts, given in connection with legal proceedings, in order to secure compensation for the damage to the defendants in the event that the action against them is dismissed or the legal proceedings terminated because of any other reason.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES

(NIS million)

	September 30, 2017 (unaudited)						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	**31,499**	**66**	**1,076**	**243**	**321**	**-**	**33,205**
Securities	**3,369**	**1,041**	**4,420**	**1,584**	**14**	**162**	**10,590**
Securities which were borrowed	**895**	**-**	**-**	**-**	**-**	**-**	**895**
Credit to the public, net[3]	**65,158**	**10,073**	**3,388**	**771**	**274**	**572**	**80,236**
Credit to the government	**34**	**618**	**-**	**-**	**-**	**-**	**652**
Investee company	**-**	**-**	**-**	**-**	**-**	**549**	**549**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**1,097**	**1,097**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**226**	**226**
Assets in respect of derivative instruments	**403**	**57**	**180**	**113**	**30**	**420**	**1,203**
Other assets	**590**	**4**	**290**	**2**	**9**	**340**	**1,235**
Total assets	**101,948**	**11,859**	**9,354**	**2,713**	**648**	**3,366**	**129,888**
Liabilities							
Deposits from the public	**82,927**	**6,375**	**14,449**	**2,930**	**1,133**	**580**	**108,394**
Deposits from banks	**476**	**52**	**172**	**56**	**26**	**-**	**782**
Deposits from the Government	**664**	**120**	**59**	**2**	**1**	**-**	**846**
Bonds and subordinated capital notes	**711**	**4,519**	**-**	**-**	**-**	**-**	**5,230**
Liabilities in respect of derivative instruments	**405**	**40**	**167**	**117**	**22**	**409**	**1,160**
Other liabilities	**4,605**	**106**	**58**	**11**	**10**	**361**	**5,151**
Total liabilities	**89,788**	**11,212**	**14,905**	**3,116**	**1,192**	**1,350**	**121,563**
Difference	**12,160**	**647**	**(5,551)**	**(403)**	**(544)**	**2,016**	**8,325**
Hedging financial instruments							
Derivative instruments (not including options)	**206**	**-**	**-**	**-**	**(206)**	**-**	**-**
Non-hedging derivatives							
Derivative instruments (not including options)	**(6,534)**	**(265)**	**5,711**	**270**	**818**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**(11)**	**-**	**(73)**	**84**	**-**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**14**	**-**	**(32)**	**31**	**(13)**	**-**	**-**
Total	**5,835**	**382**	**55**	**(18)**	**55**	**2,016**	**8,325**
Options in the money, net (present value of stated amount)	**(120)**	**-**	**57**	**62**	**1**	**-**	**-**
Options out of the money, net (present value of stated amount)	**(185)**	**-**	**9**	**246**	**(70)**	**-**	**-**

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

	September 30, 2016 (unaudited)						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	24,290	80	1,611	392	299	-	26,672
Securities	6,771	1,827	6,525	694	114	196	16,127
Securities which were borrowed	505	-	-	-	-	-	505
Credit to the public, net[3]	61,483	10,271	4,031	1,167	568	559	78,079
Credit to the government	35	618	-	-	-	-	653
Investee company	-	-	-	-	-	505	505
Premises and equipment	-	-	-	-	-	1,144	1,144
Intangible assets and goodwill	-	-	-	-	-	223	223
Assets in respect of derivative instruments	382	45	163	18	76	455	1,139
Other assets	645	37	7	3	8	280	980
Assets held for sale	-	-	-	-	-	44	44
Total assets	94,111	12,878	12,337	2,274	1,065	3,406	126,071
Liabilities							
Deposits from the public	75,755	6,436	16,995	3,543	1,247	573	104,549
Deposits from banks	540	-	203	20	26	-	789
Deposits from the Government	277	166	68	3	1	-	515
Bonds and subordinated capital notes	712	4,885	-	-	-	-	5,597
Liabilities in respect of derivative instruments	458	40	233	64	68	437	1,300
Other liabilities	4,810	112	67	8	12	295	5,304
Total liabilities	82,552	11,639	17,566	3,638	1,354	1,305	118,054
Difference	11,559	1,239	(5,229)	(1,364)	(289)	2,101	8,017
Hedging financial instruments							
Derivative instruments (not including options)	240	-	-	-	(240)	-	-
Non-hedging derivatives							
Derivative instruments (not including options)	(7,373)	(296)	5,387	1,703	579	-	-
Options in the money, net (in terms of underlying asset)	377	-	(7)	(375)	5	-	-
Options out of the money, net (in terms of underlying asset)	2	-	21	(27)	4	-	-
Total	4,805	943	172	(63)	59	2,101	8,017
Options in the money, net (present value of stated amount)	374	-	60	(444)	10	-	-
Options out of the money, net (present value of stated amount)	(367)	-	375	(23)	15	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)
(NIS million)

	December 31, 2016 (audited)						
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	27,245	80	1,108	401	316	-	29,150
Securities	6,966	1,667	6,112	775	78	178	15,776
Securities which were borrowed	414	-	-	-	-	-	414
Credit to the public, net(3)	62,356	10,142	3,069	980	332	449	77,328
Credit to the government	36	618	-	-	-	-	654
Investee company	-	-	-	-	-	514	514
Premises and equipment	-	-	-	-	-	1,133	1,133
Intangible assets and goodwill	-	-	-	-	-	243	243
Assets in respect of derivative instruments	266	50	339	29	22	626	1,332
Other assets	610	37	104	2	10	257	1,020
Assets held for sale	17	-	104	48	129	45	343
Total assets	97,910	12,594	10,836	2,235	887	3,445	127,907
Liabilities							
Deposits from the public	77,324	6,125	16,230	4,454	1,222	462	105,817
Deposits from banks	467	-	242	30	16	-	755
Deposits from the Government	266	172	67	64	1	-	570
Bonds and subordinated capital notes	716	5,085	-	-	-	-	5,801
Liabilities in respect of derivative instruments	345	39	290	50	22	610	1,356
Other liabilities	4,449	120	56	6	24	274	4,929
Liabilities held for sale	50	-	469	171	55	-	745
Total liabilities	83,617	11,541	17,354	4,775	1,340	1,346	119,973
Difference	14,293	1,053	(6,518)	(2,540)	(453)	2,099	7,934
Hedging financial instruments							
Derivative instruments (not including options)	234	-	-	-	(234)	-	-
Non-hedging derivatives							
Derivative instruments (not including options)	(9,841)	(239)	6,564	2,805	711	-	-
Options in the money, net (in terms of underlying asset)	337	-	(72)	(277)	12	-	-
Options out of the money, net (in terms of underlying asset)	(80)	-	147	(58)	(9)	-	-
Total	4,943	814	121	(70)	27	2,099	7,934
Options in the money, net (present value of stated amount)	333	-	(62)	(293)	22	-	-
Options out of the money, net (present value of stated amount)	(454)	-	650	(173)	(23)	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

	September 30, 2017 (unaudited)				
	Stated in the Balance Sheet	Fair value[1] (1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	**33,205**	**612**	**32,535**	**67**	**33,214**
Securities[2]	**10,590**	**4,313**	**6,241**	**109**	**10,663**
Securities which were borrowed	**895**	**-**	**895**	**-**	**895**
Credit to the public, net	**80,236**	**3,540**	**1,398**	**75,139**	**80,077**
Credit to the government	**652**	**-**	**33**	**614**	**647**
Assets in respect of derivative instruments	**1,203**	**529**	**335**	**339**	**1,203**
Other financial assets	**750**	**319**	**-**	**431**	**750**
Total financial assets	[3]**127,531**	**9,313**	**41,437**	**76,699**	**127,449**
Financial liabilities					
Deposits from the public	**108,394**	**2,945**	**88,972**	**16,669**	**108,586**
Deposits from Banks	**782**	**-**	**724**	**82**	**806**
Deposits from the Government	**846**	**491**	**290**	**78**	**859**
Bonds and non-convertible subordinated capital notes	**5,230**	**4,675**	**-**	**770**	**5,445**
Liabilities in respect of derivative instruments	**1,160**	**528**	**592**	**40**	**1,160**
Other financing liabilities	**4,142**	**607**	**1,501**	**2,033**	**4,141**
Total financial liabilities	[3]**120,554**	**9,246**	**92,079**	**19,672**	**120,997**
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	**30**	**-**	**-**	**30**	**30**
In addition, the liability in respect of employee rights, gross - pension and severance pay[4]	**1,134**	**-**	**-**	**1,134**	**1,134**

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 14,210 million and liabilities of NIS 5,214 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

(4) The liability in shown gross, without taking into account the plan assets managed against it.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

					September 30, 2016 (unaudited)
	Stated in the				Fair value(1)
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	26,672	606	25,935	128	26,669
Securities(2)	16,127	8,373	7,679	133	16,185
Securities which were borrowed	505	-	505	-	505
Credit to the public, net	78,079	2,323	1,170	*74,470	77,963
Credit to the government	653	-	35	606	641
Assets in respect of derivative instruments	1,139	522	346	271	1,139
Other financial assets	406	260	-	146	406
Total financial assets	(3)123,581	12,084	35,670	75,754	123,508
Financial liabilities					
Deposits from the public	104,549	1,918	85,940	16,863	104,721
Deposits from Banks	789	-	731	65	796
Deposits from the Government	515	220	220	94	534
Bonds and non-convertible subordinated capital notes	5,597	4,918	-	906	5,824
Liabilities in respect of derivative instruments	1,300	518	739	43	1,300
Other financing liabilities	4,296	569	1,170	2,555	4,294
Total financial liabilities	(3)117,046	8,143	88,800	20,526	117,469
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	35	-	-	35	35

* Reclassified

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 18,394 million and liabilities of NIS 4,025 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

					December 31, 2016 (audited)
	Stated in the Balance Sheet				Fair value[1]
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	29,150	582	28,480	84	29,146
Securities[2]	15,776	8,421	7,274	123	15,818
Securities which were borrowed	414	-	414	-	414
Credit to the public, net	77,328	2,845	1,030	73,038	76,913
Credit to the government	654	-	36	608	644
Assets in respect of derivative instruments	1,332	698	386	248	1,332
Other financial assets	484	238	-	246	484
Assets held for sale	298	-	-	298	298
Total financial assets	[3]125,436	12,784	37,620	74,645	125,049
Financial liabilities					
Deposits from the public	105,817	1,984	87,690	16,248	105,922
Deposits from Banks	755	-	729	28	757
Deposits from the Government	570	173	323	90	586
Bonds and non-convertible subordinated capital notes	5,801	5,165	-	848	6,013
Liabilities in respect of derivative instruments	1,356	698	616	42	1,356
Other financing liabilities	3,906	491	1,030	2,383	3,904
Liabilities held for sale	745	-	-	745	745
Total financial liabilities	[3]118,950	8,511	90,388	20,384	119,283
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	33	-	-	33	33
In addition, the liability in respect of employee rights, gross - pension and severance pay[4]	1,166	-	-	1,166	1,166

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 18,609 million and liabilities of NIS 4,020 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

(4) The liability in shown gross, without taking into account the plan assets managed against it.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

A. Fair value of financial instruments.

The Note includes information regarding the fair value of financial instruments. There is no quotable "market value" for most of the financial instruments of the Bank since they are not traded in an active market. Therefore, the fair value is derived by accepted pricing models, such as discounting future cash flows at interest rates reflecting the credit risk inherent in the financial instrument.

Determination of fair value, estimated by discounting future cash flows and determining the relative interest rates is subjective. Furthermore, the fair value estimations for most of the financial instruments does not necessarily indicate the realizable value on the reporting date. The estimated fair value was calculated according to interest rates prevailing on balance sheet date and does not consider interest rate fluctuations. Given other interest rate assumptions fair value estimates may differ materially. This is mainly the case where financial instruments have fixed interest rates or do not bear interest.

In addition, in determining fair value, commissions to be received or paid as a result of the said transactions and tax effects, in respect of the gap between the fair value and the balances at the balance sheet, were not taken into consideration.

Furthermore, the difference between the balance sheet and the fair value amounts may not be realized as the Bank may hold the instruments until maturity. As a result of all of these it is necessary to emphasize that the data included in this note does not reflect the net worth of the Bank as a going concern. Also, as a result of the wide range of possible estimation techniques and methods, care should be taken when comparing fair value of different banks.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

B. Principal methods and assumptions used for the calculation of the fair value estimates of financial instruments

Deposits with banks, bonds and non-marketable securities and credit to the Government - By discounting future cash flows according to interest rates used by the Bank in similar transactions close to the reporting date.

Marketable securities - According to their value in the principal market. Where there are several markets on which the instrument is traded, the assessment is made according to the most beneficial market.

Credit to the public - The fair value of the credit to the public balance was estimated according to discounting the future cash flows in an appropriate discount rate. The balance was separated into homogenous categories. The receipts in each category were discounted at a discount rate which reflects the risk inherent in the category. In general, this discount rate is determined according to the interest at which the Bank transacts similar business at the reporting date.

The fair value of impaired debts is assessed using discount rates that reflect the high credit risk inherent in such debts. In any event, such discount rates are not lower than the highest interest rate used by the Bank in transacting business at the reporting date.

Anticipated future cash flows in respect of impaired debts and other debts have been assessed after deducting the effect of accounting write-offs and of provisions for credit losses in respect of the debts.

Accounting write-offs and provisions for credit losses are attributed, where possible, to periods in which these debts had been classified (example: where the provision was assessed on a specific basis, by the present value of future cash flows). In the absence of such data, accounting write-offs and provisions for credit losses are attributed proportionally to the outstanding balance of credit according to maturity periods at end of the period.

Deposits and subordinate capital notes - By discounting future cash flows according to interest rates used by the Group in raising similar deposits (if a quoted price on an active market is not available), or issuing similar capital notes, at reporting date. As regards bonds and subordinate debt notes that are traded as an asset on an active market, fair value is based upon quoted market prices.

Derivative financial instruments - Derivative financial instruments for which an active market exists have been estimated at market value, and where several active markets exist, have been estimated according to the most beneficial market.

Derivative financial instruments for which no active market exists have been calculated according to models which are used by the Group in current activity and take into account the inherent risks of the financial instrument (market risk, credit risk, etc.).

Off-balance sheet financial instruments and transactions the balance of which represents credit risk - the fair value has been assessed in accordance with commission earned in similar transactions at the reporting date, adjusted in respect of the remaining period of the transaction and the credit quality of the counterparty.

NOTE 14B - ITEMS MEASURED AT FAIR VALUE
(NIS million)

A. Items measured at fair value on a recurrent basis

	September 30, 2017 (unaudited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	2,166	2,498	-	-	4,664
Government bonds - Foreign governments	-	1,518	-	-	1,518
Bonds of financial institutions in Israel	102	-	-	-	102
Bonds of foreign financial institutions	-	697	-	-	697
Asset-backed (ABS) or Mortgage backed (MBS) securities	-	322	-	-	322
Bonds of others in Israel	231	132	-	-	363
Bonds of foreign others	-	713	-	-	713
Shares of others	48	-	-	-	48
Total available for sale securities	2,547	5,880	-	-	8,427
Trading Securities:					
Government bonds -Israeli Government	612	-	-	-	612
Bonds of financial institutions in Israel	10	-	-	-	10
Bonds of foreign financial institutions	-	28	-	-	28
Bonds of others in Israel	3	-	-	-	3
Bonds of foreign others	-	63	-	-	63
Shares of others	5	-	-	-	5
Total trading securities	630	91	-	-	721
Credit in respect of security borrowing	3,540	-	-	-	3,540
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	22	-	22
Interest rate contract: other	10	199	11	-	220
Foreign currency contracts	110	124	306	-	540
Shares contracts	408	11	-	-	419
Commodities and other contracts	1	1	-	-	2
Total assets in respect of derivative instruments	529	335	339	-	1,203
Assets in respect of MAOF activity	319	-	-	-	319
Total assets	7,565	6,306	339	-	14,210
Liabilities					
Deposits in respect of borrowing between customers	2,945	-	-	-	2,945
Deposits from the Government	491	-	-	-	491
Liabilities in respect of derivative instruments:					
Interest rate contract: other	9	242	-	-	251
Foreign currency contracts	110	350	40	-	500
Shares contracts	408	11	-	-	419
Commodities and other contracts	1	-	-	-	1
Total liabilities in respect of derivative instruments	528	603	40	-	1,171
Other liabilities					
Liabilities in respect of activity in the maof market	319	-	-	-	319
Short selling of securities	288	-	-	-	288
Total other liabilities	607	-	-	-	607
Total liabilities	4,571	603	40	-	5,214

NOTE 14B - ITEMS MEASURED AT FAIR VALUE (CONT'D)
(NIS million)

A. Items measured at fair value on a recurrent basis (CONT'D)

	September 30, 2016 (unaudited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	5,671	2,230	-	-	7,901
Government bonds - Foreign governments	-	*2,210	-	-	2,210
Bonds of financial institutions in Israel	297	-	-	-	297
Bonds of foreign financial institutions	-	*1,772	-	-	1,772
Mortgage backed (MBS)	-	507	-	-	507
Bonds of others in Israel	506	245	-	-	751
Bonds of foreign others	-	*200	-	-	200
Shares of others	59	4	-	-	63
Total available for sale securities	6,533	7,168	-	-	13,701
Trading Securities:					
Government bonds -Israeli Government	754	-	-	-	754
Bonds of financial institutions in Israel	-	23	-	-	23
Bonds of foreign financial institutions	14	-	-	-	14
Bonds of others in Israel	-	68	-	-	68
Bonds of foreign others	75	-	-	-	75
Shares of others	-	37	-	-	37
Total trading securities	843	128	-	-	971
Credit in respect of security borrowing	2,323	-	-	-	2,323
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	22	-	22
Interest rate contract: other	4	230	13	-	247
Foreign currency contracts	81	98	236	-	415
Shares contracts	435	18	-	-	453
Commodities and other contracts	2	-	-	-	2
Total assets in respect of derivative instruments	522	346	271	-	1,139
Assets in respect of MAOF activity	260	-	-	-	260
Total assets	10,481	7,642	271	-	18,394
Liabilities					
Deposits in respect of borrowing between customers	1,918	-	-	-	1,918
Deposits from the Government	220	-	-	-	220
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	3	-	3
Interest rate contract: other	4	385	-	-	389
Foreign currency contracts	77	354	40	-	471
Shares contracts	435	18	-	-	453
Commodities and other contracts	2	-	-	-	2
Total liabilities in respect of derivative instruments	518	757	43	-	1,318
Other liabilities					
Liabilities in respect of activity in the maof market	260	-	-	-	260
Short selling of securities	309	-	-	-	309
Total other liabilities	569	-	-	-	569
Total liabilities	3,225	757	43	-	4,025

* Reclassified

NOTE 14B - ITEMS MEASURED AT FAIR VALUE (CONT'D)
(NIS million)

A. Items measured at fair value on a recurrent basis (CONT'D)

	December 31, 2016 (audited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	5,504	1,930	-	-	7,434
Government bonds - Foreign governments	-	*2,160	-	-	2,160
Bonds of financial institutions in Israel	259	-	-	-	259
Bonds of foreign financial institutions	-	*1,752	-	-	1,752
Mortgage backed (MBS)	-	409	-	-	409
Bonds of others in Israel	524	194	-	-	718
Bonds of foreign others	-	*435	-	-	435
Shares of others	48	4	-	-	52
Total available for sale securities	6,335	6,884	-	-	13,219
Trading Securities:					
Government bonds -Israeli Government	946	-	-	-	946
Bonds of financial institutions in Israel	4	-	-	-	4
Bonds of foreign financial institutions	-	4	-	-	4
Bonds of others in Israel	7	-	-	-	7
Bonds of foreign others	-	11	-	-	11
Shares of others	3	-	-	-	3
Total trading securities	960	15	-	-	975
Credit in respect of security borrowing	2,845	-	-	-	2,845
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	23	-	23
Interest rate contract: other	15	213	10	-	238
Foreign currency contracts	73	157	215	-	445
Shares contracts	609	16	-	-	625
Commodities and other contracts	1	-	-	-	1
Total assets in respect of derivative instruments	698	386	248	-	1,332
Assets in respect of MAOF activity	238	-	-	-	238
Total assets	11,076	7,285	248	-	18,609
Liabilities					
Deposits in respect of borrowing between customers	1,984	-	-	-	1,984
Deposits from the Government	173	-	-	-	173
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	3	-	3
Interest rate contract: other	15	264	-	-	279
Foreign currency contracts	73	352	39	-	464
Shares contracts	609	16	-	-	625
Commodities and other contracts	1	-	-	-	1
Total liabilities in respect of derivative instruments	698	632	42	-	1,372
Other liabilities					
Liabilities in respect of activity in the maof market	238	-	-	-	238
Short selling of securities	253	-	-	-	253
Total other liabilities	491	-	-	-	491
Total liabilities	3,346	632	42	-	4,020

* Reclassified.

NOTE 14B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

B. Items measured at fair value on a non-recurrent basis

	September 30, 2017 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Gains (losses) in respect of changes in value for the nine months ended September 30, 2017
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**57**	**57**	**(8)**

	September 30, 2016 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Gains (losses) in respect of changes in value for the nine months ended September 30, 2016
Impaired credit the collection of which is contingent on collateral	-	-	58	58	13

	December 31, 2016 (audited)				
	Level 1	Level 2	Level 3	Total fair value	Gains (losses) in respect of changes in value for the year ended December 31, 2016
Impaired credit the collection of which is contingent on collateral	-	-	65	65	19

NOTE 14C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

	For the three months ended September 30, 2017 (unaudited)							
	Fair value as of June 30, 2017	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as of September 30, 2017	Unrealized profits in respect of instruments held as of September 30, 2017
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**20**	**2**	**-**	**-**	**-**	**-**	**22**	**2**
Interest rate contracts: Other	**10**	**1**	**-**	**-**	**-**	**-**	**11**	**1**
Foreign currency contracts	**351**	**365**	**19**	**(429)**	**-**	**-**	**306**	**46**
Total assets	**381**	**368**	**19**	**(429)**	**-**	**-**	**339**	**49**
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**1**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**
Foreign currency contracts	**46**	**6**	**-**	**-**	**-**	**-**	**40**	**6**
Total liabilities	**47**	**6**	**-**	**(1)**	**-**	**-**	**40**	**6**

	For the three months ended September 30, 2016 (unaudited)							
	Fair value as of June 30, 2016	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as of September 30, 2016	Unrealized profits (losses) in respect of instruments held as of September 30, 2016
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	30	-	-	(8)	-	-	22	-
Interest rate contracts: Other	12	1	-	-	-	-	13	1
Foreign currency contracts	265	309	9	(347)	-	-	236	91
Total assets	307	310	9	(355)	-	-	271	92
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	8	-	-	(5)	-	-	3	-
Foreign currency contracts	34	(6)	-	-	-	-	40	(6)
Total liabilities	42	(6)	-	(5)	-	-	43	(6)

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

NOTE 14C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3 (CONT'D)

(NIS million)

	For the nine months ended September 30, 2017 (unaudited)							
	Fair value as of December 31, 2016	**Profits (losses) realized and unrealized Included in the profit and loss statement (1)**	**Purchases**	**Payments**	**Transfers to level 3, gross**	**Transfer from level 3, gross**	**Fair value as of September 30, 2017**	**Unrealized profits in respect of instruments held as of September 30, 2017**
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**23**	**1**	**-**	**(2)**	**-**	**-**	**22**	**2**
Interest rate contracts: Other	**10**	**4**	**-**	**(3)**	**-**	**-**	**11**	**4**
Foreign currency contracts	**215**	**1,065**	**47**	**(1,021)**	**-**	**-**	**306**	**199**
Total assets	**248**	**1,070**	**47**	**(1,026)**	**-**	**-**	**339**	**205**
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**3**	**-**	**-**	**(3)**	**-**	**-**	**-**	**-**
Foreign currency contracts	**39**	**(1)**	**-**	**-**	**-**	**-**	**40**	**-**
Total liabilities	**42**	**(1)**	**-**	**(3)**	**-**	**-**	**40**	**-**

	For the nine months ended September 30, 2016 (unaudited)							
	Fair value as of December 31, 2015	**Profits (losses) realized and unrealized Included in the profit and loss statement (1)**	**Purchases**	**Payments**	**Transfers to level 3, gross**	**Transfer from level 3, gross**	**Fair value as of September 30, 2016**	**Unrealized profits (losses) in respect of instruments held as of September 30, 2016**
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	27	3	-	(8)	-	-	22	2
Interest rate contracts: Other	10	7	-	(4)	-	-	13	7
Foreign currency contracts	241	1,525	46	(1,576)	-	-	236	119
Total assets	278	1,535	46	(1,588)	-	-	271	128
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	8	(1)	-	(6)	-	-	3	(1)
Foreign currency contracts	60	(6)	-	(26)	-	-	40	(6)
Total liabilities	68	(7)	-	(32)	-	-	43	(7)

	For the year ended 31, December 2016 (audited)							
	Fair value as of December 31, 2015	**Profits (losses) realized and unrealized Included in the profit and loss statement (1)**	**Purchases**	**Payments**	**Transfers to level 3, gross**	**Transfer from level 3, gross**	**Fair value as of December 31, 2016**	**Unrealized profits (losses) in respect of instruments held as of December 31, 2016**
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	27	4	-	(8)	-	-	23	3
Interest rate contracts: Other	10	5	-	(5)	-	-	10	5
Foreign currency contracts	241	2,017	62	(2,105)	-	-	215	95
Total assets	278	2,026	62	(2,118)	-	-	248	103
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	8	-	-	(5)	-	-	3	-
Foreign currency contracts	60	(6)	-	(27)	-	-	39	(6)
Total liabilities	68	(6)	-	(32)	-	-	42	(6)

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

	As of September 30, 2017 (unaudited)				
	Value Assessment technique	**Unobservable inputs**	**Fair value**	**Average**	**Range**
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	**22**	**0.31**	**0.31**
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	**11**	**1.90**	**1.30-4.99**
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	**60**	**(0.25)**	**(0.55)-2.00**
		2. Counter-party credit risk	**246**	**1.48**	**1.05-4.99**
Liabilities					
Liabilities in respect of derivative instruments:					
Foreign currency contracts	Discounted cash flow	CPI-linked interest	**40**	**0.63**	**(0.55)-1.06**
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		**57**		

	As of September 30, 2016 (unaudited)				
	Value Assessment technique	**Unobservable inputs**	**Fair value**	**Average**	**Range**
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	22	0.10	(0.19)-0.31
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	13	1.88	1.30-5.10
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	46	(0.77)	(0.90)-0.84
		2. Counter-party credit risk	190	1.50	1.05-5.01
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	3	(0.36)	(0.79)-(0.04)
Foreign currency contracts	Discounted cash flow	CPI-linked interest	40	(0.26)	(0.91)-0.93
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		58		

Qualitative information in respect of items measured at fair value included in level 3

- Interest linked to the CPI- a change in the forecasted inflation rate will affect the fair value of CPI transaction, so an Increase (decrease) in the forecasted inflation rate will lead to an increase (decrease) in the fair value in accordance to the Bank's CPI position.
- Counter-party credit risk- a change in the credit risk of the counter-party to the transaction, so when the credit risk of the counter-party will be high/low, the value of the transaction will be high/low.

NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3 (CONT'D)

	As of December 31, 2016 (audited)				
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	23	0.12	(0.04)-0.31
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	10	1.90	1.30-5.01
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	52	(0.58)	(0.98)-0.59
		2. Counter-party credit risk	163	1.48	1.05-5.01
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	3	(0.35)	(0.79)-(0.40)
Foreign currency contracts	Discounted cash flow	CPI-linked interest	39	(0.50)	(0.75)-(0.17)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		65		

NOTE 15 - TAXES ON PROFIT

In continouance to the reported in Note 8 to the annual financial statements for 2016, after the settelement of the disagreement between the Bank and the Tax Authority, the Bank has received during the month of July 2017 final tax assessments for the years 2011-2013.
Due to that the Bank recorded an income from taxes in respect of previous years in the amount of NIS 32 million.

NOTE 16 - SECURITIES LAW (AMENDMENT NO. 63), 2017 - CHANGE IN THE OWNERSHIP STRUCTURE OF THE STOCK EXCHANGE AND THE CLEARING HOUSES

The Securities Act (Amendment 63), 2017, ("the Amendment") was published On April 6, 2017. The Amendment took effect on July 6, 2017, except for specific issues for which other effective dates has been set. The aim of the Amendment is to regulate a change in the ownership structure of the Stock Exchange and the clearing houses, while severing the link between the ownership of the Stock Exchange and of the clearing houses and the membership therein, turning them into profit-earning companies. Following the structural change, access to trading and/or clearing would no longer be dependent on ownership rights in the Stock Exchange and/or the clearing houses, but would be based upon a contractual engagement between the Stock Exchange and/or the clearing houses and the potential members.
In accordance with the Amendment, a Stock Exchange member or a banking corporation shall not be permitted to obtain a holding permit of over 5% or a control permit in the Stock Exchange and in the clearing houses following the change in the structure of ownership.
Moreover, it is determined that the proceeds from the sale of the means of control by existing Stock Exchange members, which are in excess of their proportionate part in the equity of the Stock Exchange, in accordance with its financial statements for 2015, which totals to NIS 508 million, shall be paid over to the Stock Exchange and used exclusively for the reduction in commission fees and for investment in technological infrastructure.
Upon termination of the period of five years since date of approval of the arrangement program by the Court, or until the date of issue to the public of shares in the Stock Exchange and their listing for trade, if at all, whichever is earlier, the present members of the Stock Exchange shall not be permitted to hold means of control in the Stock Exchange at a rate exceeding 5%. During this period, they shall not purchase means of control that exceed the rate permitted by the Act, as well as any rights attached to such holdings.
On September 7, 2017, the Court approved the arrangement program within the framework of proceedings in terms of Section 350 of the Companies Act, submitted by the Stock Exchange for the implementation of the change in structure of the Stock Exchange and the turning of it into a profit earning corporation, having only one class of share capital. According to the arrangement program, shares in the Stock Exchange were allotted to the present members of the Stock Exchange, the share of the Bank Group (following allottment of shares to employees and officers of the Stock Exchange) amounting to 20.3%.

LIST OF TABLES -CORPORATE GOVERNANCE

Corporate Governance, Additional Information and Appendix

CORPORATE GOVERNANCE

DISCLOSURE OF THE INTERNAL AUDITOR

Details regarding the Internal Auditor of the Bank (which also serves as the Internal Auditor in the Banking subsidiaries in the Bank's group), including the working plan of the internal auditor department, conduct of the audit and the internal audit reports, were published in the annual financial statements for 2016.
The report of the internal audit for the year 2016 was discussed in the audit committee of the Bank on April 4, 2017.

BOARD OF DIRECTORS MEETINGS AND COMMITTEES

During January-September 2017, the Bank's Board of Directors held 20 meetings in plenary session and 42 meetings of its various Board Committees.

APPOINTMENTS AND RETIREMENTS

On June 4, 2017 Mr. Ron Grisaro was appointed as the CEO of MATAF and in charge of the information technology in the Bank.
On September 19, 2017 Adv. Haviva Dahan was appointed as the Head of the legal department, replacing Adv. Dalia Blank, that retired for pension.

TRANSACTIONS WITH INTERESTED PARTIES

a. Reporting transactions with controlling shareholders

From time to time the Bank enters or is likely to enter, in the ordinary course of business, into transactions with controlling shareholders or their relatives or with corporations in which controlling shareholders of the Bank are likely to be regarded as having a personal interest (hereinafter: “controlling shareholders”).

Under the Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970, of 2008 (hereinafter: "the Securities Regulations"), a reporting corporation must publish an immediate report on details of a transaction with a controlling shareholder or in which a controlling shareholder has a personal interest in its approval, including the main elements of the transaction or the contractual engagement, details of the competent organ that approved the transaction and a summary of its reasons for doing so, except in connection with transactions of a type which in the most recent financial reports were determined as negligible within the meaning of the term in Regulation 41(a)(6)(a) of the Securities Regulations (Annual financial statements), 2010. A similar instruction is applicable on reporting such transaction in the periodic report.

Since the said regulations do not apply to banks, which are subject to directives of the Supervisor of Banks concerning the compilation of annual financial reports, the Union of Banks approached the Securities Authority regarding the matter of applying the directive concerning a “negligible transaction” with respect to the banks and the disclosure format. As agreed between the Union of Banks and the Securities Authority, the banks received an exemption from immediate reporting with respect to banking transactions that are not exceptional, providing that the banks have determined criteria for exceptional and negligible transactions.

As a result of this approach to the Securities Authority and the meetings that were subsequently held as a result, the Authority instructed the Bank to provide disclosure in the Bank's prospectus and thereafter in the annual reports, in the format detailed below:

- Regarding banking transactions with controlling shareholders that are not exceptional transactions, the Bank will report within the framework of the prospectus and periodic reporting on balances of credit and balances of deposits, in accordance with the format appearing in the table at the end of this section.
- In the credit table, the disclosure will be split between the balance of credit granted to the controlling shareholder and the balance of credit granted to the controlling shareholder's relatives (on a cumulative basis). Credit granted to any reporting corporation connected with the controlling shareholder will be reported at the level of the reporting corporation in the consolidated report.

In view of the aforementioned, the Bank’s Audit Committee determined criteria regarding the nature of the said transactions as exceptional or as unexceptional or as negligible, in connection with transactions with controlling shareholders or in which controlling shareholders have a personal interest.

The criteria will also be applied to transactions conducted in the ordinary course of business by companies that are controlled by the Bank, such as banking corporations that are controlled by the Bank.

It should be noted that the criteria are likely to be examined from time to time by the Audit Committee, inter alia, as the result of changes in the Bank's policy and business activities and in market conditions, and that the Audit Committee is likely to change them from time to time and/or add to them additional types of transactions and/or various criteria.

According to additional amendment of the Securities Regulation from 2015 (applicable from January 2016) the duty to publish an immediate report on such transaction was abolished while the duty to report these transaction remained only with respect to the periodical report.

Accordingly, and with respect to banking transactions, the Bank publishes the detailed report below at the end of this section.

In the matter of a non-banking transaction, the Bank has specified that a "negligible transaction" is a transaction that is conducted in the ordinary course of business at market conditions, which conforms to the criteria detailed below:
A one-time transaction for the purchase of services or products from a controlling shareholder, or a transaction as stated in which a controlling shareholder has a personal interest and whose amount does not exceed a minimum amount (as defined below) or a continuing transaction as stated (a number of essentially identical transactions with the same company) whose cumulative amount in the course of the calendar year does not exceed 0.75% of total operating and other expenses as reported in the most recent financial statements of the Bank. It is clarified that the aforementioned are not to be applied to a contractual engagement with a controlling shareholder or his relative regarding the terms of his service and employment. In this respect, the definition of the term "minimum amount" will be as defined in Proper Conduct of Banking Business Regulation 312 "Transactions of banking corporation with related persons".
Transactions involving the rental of premises from a controlling shareholder or transactions as said in which a controlling shareholder has a personal interest, which were approved in a single calendar year, providing that the overall amount of the transactions does not exceed the minimum amount.
Transactions involving the rental of property to a controlling shareholder or transactions as said in which a controlling shareholder has a personal interest, which were approved in a single calendar year, providing that the overall amount of the transactions does not exceed the minimum amount.
Any other transaction the amount of which does not exceed the minimum amount, or the total amount of transactions of its type for the calendar year which do not exceed the minimum amount.

In the matter of a banking transaction, the Bank has specified that a "negligible transaction" is a transaction that is conducted in the ordinary course of business at market conditions, which conforms to the criteria detailed below:

1. A transaction for which or as a result of which the indebtedness amount does not exceed the minimum amount (as defined above).
2. Any other transaction the amount of which does not exceed the minimum amount.

An immediate report inasmuch as required under the Securities Regulations will be issued in respect of transactions as said that are not banking transactions and that are not negligible transactions.

In addition to the aforementioned, with respect to an indebtedness transaction to which Proper Conduct of Banking Business Regulation 312 does not apply, if the Bank becomes aware of such a transaction, the Bank is committed to submit any such transaction for approval in accordance with Proper Conduct of Banking Business Regulation 312, and to provide disclosure thereof in the Bank's annual report. The definitions "negligible transaction" and "exceptional transaction" with respect to these transactions will be the same as the above-mentioned definitions specified by the Bank with respect to the Securities Regulations.

b. Determination of criteria for the purpose of the Bank's transactions with interested parties

Under Paragraph 117 (1a) of the Companies Act, 1999 (hereinafter: "the Companies Act") which was amended as part of Amendment No. 16 to the Companies Act, the Audit Committee was charged with responsibility for deciding on the causative basis for the specification of the Bank's transactions with office-holders in it or for transactions in which office-holders have a personal interest and the Bank's transactions with controlling owners or transactions in which a controlling owner has a personal interest, whether these are exceptional or non-exceptional transactions. Paragraph 117 (1a) also stipulates that the Audit Committee may decide as said regarding a type of operation or transaction, on the basis of standards which it will determine once a year in advance.
Accordingly the Audit Committee of the Bank specified standards, and stipulated that once a year a discussion will be held for the purpose of determining or re-approving the standards.
The standards were determined on the basis of quantitative criteria, and it was stipulated that a transaction that is not exceptional is a transaction executed during the ordinary course of business at the Bank and at market terms. The audit committee determined standards regarding examination of market terms.

The said criteria will also apply to transactions in the ordinary course of business which are conducted by companies controlled by the Bank, such as banking corporations controlled by the Bank. The said criteria will not apply in connection with the Bank's transactions with corporations under its control. In addition, it is clarified that the criteria do not concern approval of terms of employment and service at the Bank.

It should be noted that the criteria are likely to be examined from time to time by the Audit Committee, inter alia, in view of changes in the Bank's policy and business activity or in market conditions, and that the Audit Committee is likely to change from time to time and/or add to the criteria additional types of transaction and/or criteria.

In January 2014, Paragraphs 117(1b) and 117(2a) of the Companies Act took effect within the framework of an indirect amendment to the Companies Act, which was included in the Increase in Competition and Reduction in Concentration Act, 2013. Pursuant to the said paragraphs, the Audit Committee is required to stipulate a requirement to fulfill a competitive process with respect to transactions with controlling owners or in which a controlling owner has an interest, even if these are not extraordinary transactions. The said process would be under the supervision of the Committee or whoever would be appointed by it in this matter, and in accordance with standards that will be prescribed, or to stipulate that other processes determined by the Audit Committee would be conducted before engagement in the said transactions, all this in accordance with the type of transaction, and the Committee is entitled to specify standards once a year in advance. In addition, pursuant to the said paragraphs, the Audit Committee is required to determine the manner in which non-negligible transactions are to be approved, and including in this respect to determine types of transactions as said which will require the Audit Committee's approval.

The Audit Committee approved standards concerning the obligation to perform competitive process according to paragraph 117(1b) to the Companies Act as well as the manner of approval of non-negligible transactions in accordance with paragraph 117(2a) to the Companies Act.

c. Transactions with controlling owners or in which a controling owner has an interest approved in the reporting year in accordance with Paragraph 270(4) and/or 267A of the Companies Act (including framework transactions still valid at the reporting date and transactions approved in accordance with the Companies Regulations (Relief regading Transactions with Interested Parties), 2000 (hereinafter: "the Relaxation Regulations"):

1. Following approvals of the Audit Committee, the Compensation Committee and the Board of Directors, the general meeting of shareholders of the Bank approved on June 29, 2014, the following resolutions concerning insurance for directors and officers:
   - Renewal of “directors and officers” insurance policy for a period of eighteen months beginning on July 1, 2014 (“the insurance period”) issued by Clal Insurance Co. Ltd. for the Bank and for the Bank Group, including subsidiaries of the Bank and the controlling owner, FIBI Holdings Ltd. (hereinafter - "Group companies"), which will apply to officers serving at the Bank and at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be of interest to holders of a controlling interest.
   - Prior approval, for the purchase by the Bank of an insurance policy, as stated above, covering the Bank and Group companies for a period of five years following the termination of the insurance period, including by way of extension of the original policies and/or by way of the purchase of new policies, which will apply with respect to officers who may serve at the Bank and at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be of interest to holders of a controlling interest.

     The said resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations, as well as a resolution under Section 267A of the Companies Act, as part of the compensation policy of the Bank (as long as this policy remains in effect), as stated in item 1B(1) of the Relief Regulations.

- Approval of the manner in which the said insurance fees are to be allocated among FIBI Holdings Ltd., the Bank and Group's companies which elect to join the insurance policy as from July 1, 2014 and for the period of five years. The above mentioned decision is a decision for the approval of framework transaction as determined in regulation 1(3) to the relief regulation.

The terms for the renewal of the policy following the termination of the insurance period within the framework transaction, the compensation policy and the manner of allocation of the insurance fees between FIBI Holdings Ltd., the Bank and the Bank's subsidiaries, are described in an immediate report of the Bank regarding approval of the framework transaction dated May 22, 2014 (Ref. No. 071067-01-2014). In addition, on February 23, 2017 the general meeting of the Bank approved a new compensation policy to office holders of the Bank in accordnce to section 267A of the Companies Act which include principles of insurance settelement for directors and office holders according to regulation 1B1 of the Relief Regulations, details of which are contained in section 8 to apendix A of the immediate report of the Bank (reference no. 2017-01-006415) presented here by way of reference.

According to the above, on June 13, 2017 the Bank's Board of Directors passed a resolution, after obtaining the approval of the Audit Committee and the Remuneration Committee dated May 9, 2017 and June 6, 2017, respectively, and in accordance to regulations 1(3), 1a1, 1b(5) and 1b1 to the Relief Regulations, to approve the renewal of the policy for a period of 18 months starting July 1, 2017 till December 31, 2018 (inclusive) (hereinafter - "the current insurance period") issued by Menora-Mivtachim Insurance Ltd. for the companies in the Group, as defined above. The said policy applies to the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest. The terms of the policy for the current insurance period are detailed in the immediate report of the Bank dated June 14, 2017 (reference no. 2017-01-049999) and the contents of this report are presented here by way of reference.

2. On October 30, 2017, after obtaining the authorizations from the Compensation Committee and the Board of Directors of the Bank, the general meeting of shareholders approved the continued employment of Mrs. Yehudit Dagan, who is "a relative of a controlling shareholder" in the Bank, as a clerk in the Banking Operations Division at MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF"), a wholly owned and wholly controlled subsidiary of the Bank, for a period of up to three additional years beginning on October 30, 2017 (date of expiry of three years since date of the general meeting's approval in 2014 of her continued employment) or until her retirement, whichever is earlier, at the existing terms of Mrs. Dagan's employment which are based on collective labor agreements. Also approved were certain potential changes in the terms of her employment, as is accepted and reasonable in the employment of an employee at the Bank and at MATAF of Mrs. Dagan's seniority and rank, all this as specified in the approval of her employment.

3. Pursuant to Sections 270(4) of the Companies Act, 1999, transactions with a controlling shareholder or with his relative with respect to his terms of office, require reapproval once in every three years, and accordingly, on September 19, 2017, the Board of Directors of the Bank, after obtaining the approval of the Compensation Committee and in accordance with Regulation 1B of the Companies Regulations (Relief regarding transactions with interested parties), 2000, reapproved the continued payment of remuneration to directors from among the controlling shareholders of the Bank, as detailed inin the immediate report by the Bank dated September 19, 2017 (Ref. No. 094248-01-2017) included herewith by way of reference. The approved remuneration conforms with the compensation olicy for office holders at the Bank as approved by the general meeting of the Bank's shareholders of February 23, 2017, the details of which as for remuneration of directors (except the Chairperson of the Board) are detailed in section 7 to apendix A of the immediate report of the Bank dated February 14, 2017 (Ref. No. 016098-01-2017) presented herein by way of reference.

4. The granting of a commitment to indemnify directors and office-holders at the Bank (including directors from among the controlling shareholders in the Bank) as detailed in Note 25.c to the financial statements for 2016, and its revision, as approved by the general meeting of shareholders on October 30, 2014, with major changes detailed below and which are contained in the immediate report of the Bank dated September 19, 2017 (Ref. No. 094239-01-2017) presented herein by way of reference. The granting of a commitment to indemnify directors who are controlling shareholders of the Bank, in accordance with the revised letter of indemnification, as approved by the above-mentioned general meeting of shareholders, for a period of three years beginning on date of reapproval of the indemnification commitment by the general meeting of shareholders held on October 30, 2017.

   Following are the major changes made to the indemnification commitment as approved by the general meeting of shareholders:

   - Addition of a clarification regarding the possibility of indemnification in respect of expenses incurred in connection with an administrative proceedings under the Antitrust Act, 1988, including reasonable expenses regarding negotiations and legal fees. For reasons of care, the Bank's Articles of Association have also been amended.
   - Updating of the list of events, which in the opinion of the Bank are expected events in view of its operations.

d. Additional information on transactions with interested parties

1. The Group, including FIBI Holdings, jointly purchases various insurance policies, including liability insurance for directors and officers (including directors who are controlling owners and their relatives).
2. The granting of exemption from responsibility to acting directors and officers and those who would act at the Bank from time to time, in accordance with the approval of the general meeting of shareholders of the Bank of 2004, and as detailed in Note 25(c) to the financial statements for 2016. In addition, the general meeting of shareholders of the Bank held on October 30, 2017, approved an exemption from responsibility for Officers initially appointed after February 23, 2017, which includes a provison, according to which the exemption shall not apply to an act of commission or omission by an officer relating to a resolution or transaction in which the controlling shareholder or the officer has a personal interest, and everything in accordance with the compensation policy of the Bank, as approved by the general meeting of shareholders held on February 23, 2017, the details of which regarding the exemption from responsibility are detailed in Section 8.5 of Appendix "A" to the immediate report by the Bank dated February 14, 2017 (Ref. No. 016098-01-2017) included herein by way of reference. It should be noted, that the Bank has not submitted for re-approval by the general meeting of shareholders the granting of exemption letters granted in 2004 to directors who are controlling shareholders.
3. Furthermore, the Bank and its subsidiary companies enter from time to time, in the ordinary course of business and at market terms, into transactions with interested parties.

4. Set out below are summarized data concerning banking transactions that were conducted by the Bank and companies under its control with the controlling owners at the Bank (including their relatives and companies in which controlling owners at the Bank are interested parties), including data concerning transactions conforming to the criteria that were determined with respect to negligible transactions, as discussed above (in NIS thousand):

Indebtedness	Credit	Investment in bonds	Fair value of derivatives	Total balance-sheet monetary indebtedness	Unutilized credit balance	Guarantees granted by Bank for securing credit to a controlling owner or to a party related thereto	Guarantees granted to Bank by controlling owner in favor of third party	Indebtedness of controlling owner in respect of transactions in derivatives	Total
									NIS thousand
September 30, 2017									
Others(2)	**60**	**-**	**-**	**60**	**277**	**-**	**-**	**-**	**337**
Total	**60**	**-**	**-**	**60**	**277**	**-**	**-**	**-**	**337**
December 31, 2016									
Paz group(1)	53,314	-	-	53,314	4,586	160	-	-	58,060
Others(2)	50	-	-	50	192	-	84	-	326
Total	53,364	-	-	53,364	4,778	160	84	-	58,386

Deposits	September 30, 2017		September 30, 2016	
	Balance on balance-sheet date	Highest balance during period(3)	Balance on balance-sheet date	Highest balance during period(3)
		NIS thousand		NIS thousand
Paz group(1)	**-**	**-**	77,877	73,063
Others(2)	**33,762**	**91,991**	4,550	5,140
Total	**33,762**	**91,991**	82,427	78,203

(1) Paz Oil Co. Ltd. and its subsidiaries and affiliated companies. Controlling shareholders of the Bank held more than 5% of controlling means in Paz until March 31, 2017.

(2) Relatives of controlling shareholders of the Bank. As the term relative is defined in the Banking Law (licensing)-1981.

(3) On the basis of balances at the end of each day.

DETAILS OF THE OWNERS OF CONTROL IN THE BANK

FIBI Holdings Ltd. owns 48.34% of the issued share capital and voting rights in the Bank (a rate comprising the control core in accordance with the control permit granted by Bank of Israel). The controlling shareholders of FIBI are Mr. Zadik Bino and his children, Nessrs. Gil Bino, Hadar Bino-Shmueli and Daphna Bino-Or (hereinafter - "the Bino Family), Messrs. Michael and Helen Abeles and Messrs. Barry Lieberman, Casey Lieberman-Harris, Lee Lieberman and Joshua Lieberman (each of the said groups through corporations under their full control: Binohon Ltd., Instanz No. 2 Ltd. and Dolphin Energies Ltd.). The controlling shareholders are party to various arrangements concerning their holdings in FIBI, and indirectly, at the Bank, as detailed in the Chapter "Details regarding the stakeholders in the Bank" in the financial report for 2016.

In accordance with FIBI's reports as of date of this financial report, the holdings of the controlling stakeholders in FIBI (in equity and voting) are as follows: Binohon - 38.29%, Instanz No. 2 Ltd. - 15.66% and Dolphin Energies Ltd - 11.68%.

It is noted that in accordance with the provisions of the Promotion of Competition and Reduction in Centralization Act, 2013, and the list of centralized factors in the market that was published by the Committee for the Reduction in Centralization, the Bank has been defined as a significant financial institution and PAZ Oil Company Ltd. ("PAZ") has been defined as a significant non-financial corporation. In view of the above, and in accordance with the existing situation until March 31, 2017, at the end of a transitional period of six years from date of publication of the Centralization Act, the controlling shareholders of the Bank would not be pernmitted to control both the Bank and PAZ at the same time or control the Bank and hold more than 5% of controlling means in Paz.

According to the publication of Paz, following the sale of shares from time to time by the controlling shareholders of Paz, as from March 31, 2017 Bino Holdings Ltd., Dolphine Energies Ltd and Instanz Holdings Ltd. ceased to be interested parties in Paz. In these circumstances, there is no prevention as from the Concentration Act for the controlling holders to continue and control the Bank.

ADDITIONAL INFORMATION

LABOR RELATIONS AT THE BANK

Two labor organizations exist at the Bank: the union of managers and signatories numbering approximately 800 employees and the clerks union numbring approximately 1,900 employees. Collective labor agreement are in effect at the Bank, which link to a certain extent, the employment terms of the clerks and managers to those agreed upon by the Management of Bank Leumi Le'Israel Limited (hereinafter - "Bank Leumi") and the unions of its employees.

A. The managers and signatories of the Bank filed on September 28, 2016, a party motion regarding the dispute concerning the collective employment agreement. It is argued in the motion that under the linkage to Bank Leumi employment terms agreement, the managers and signatories are entitled to an award equal to one month's salary per person, following such a payment made by Bank Leumi to its employees on June 2, 2016.

   The Bank submmited a response to the party motion and the hearing of the party motion took place in Labor Tribunal on February 19, 2017. In the hearing it was concluded on submmiting written conclusions, after which a verdict will be given. Due to the summing up of the managers and signatories, the Bank requested the delete of new facts appearing in them, and the Tribunal decided that the parties will submit additional evidences relating to the facts. The hearing took place on October 30, 2017 and it passed to the summing level.

B. The clercks of the Bank also filed on November 17, 2016, a party motion regarding the dispute concerning the collective employment agreement. It is argued in the motion that under the linkage to Bank Leumi employment terms agreement, the clercks are entitled to an award equal to one month's salary per person, following such a payment made by Bank Leumi to its employees on June 2, 2016.

   The Bank submmited a response to the party motion and the hearing of the party motion took place in labor court on February 23, 2017. In the hearing, the clercks asked and were granted permission to submmit evidence as to the essence of the award paid by Bank Leumi, and have also submitted a supplementary response brief in the matter. The Bank has submited a response brief and hearing of evidence took place on June 15, 2017. A timetable was set for submiting the suming up, in which the latest will be submited om November 15, 2017.

C. On March 23, 2017, the Regional Labor Tribunal in Tel Aviv admitted the claim of the clerks in the party motion served by them regarding the collective dispute, stating that they are entitled to the conversion of unutilized sick leave days to vacation days for actual utilization upon retirement on grounds of age, following an agreement made at Bank Leumi in January 2015. The Bank appealed the above decision. On November 2, 2017 the hearing of the appeal took place, in which the tribunal court suggested the parties to compromise and enabled the to give the tribunal notice until December 17, 2017, if they reached a compromise, otherwise it will give verdict.

D. The managers and signatories submitted on March 14, 2017, a party motion in the collective dispute, in which they request temporary and permanent relief against the continuing efficiency measures at the Bank, while requesting the Tribunal to instruct the Bank to enter into negotiations with them towards the signing of a collective agreement as regards everything relating to the implications of the efficiency measures on the managers and signatories. The parties exchanged claimes briefs. The hearing of the motion was held by the Tribunal on May 16, 2017 and the parties negotiated. The negotiations did not lead to an agreement. Another hearing to place on August 10, 2017, in which the managers notified that until November 15, 2017 they will notify if they are going to continue with the proceeding.

E. A notice from the New Federation of Labor (hereinafter - "the Federation") was received on March 8, 2017, according to which, over one third of the employees of MATAF Computer and Financial Operations Ltd. (hereinafter - "MATAF") had joined the Federation, and that as from that date, the Federation serves as the representative organization for MATAF employees. Management of MATAF has begun negotiations with the employees for the signing of an initial labor agreement.

LIMITATIONS REGARDING LEGISLATION, STANDARDS AND SPECIAL CONSTRAINTS AFFECTING THE BANK GROUP

Set out below are brief details of the principal legislative changes and legislative initiatives relevant to the period of the report, which have an effect on or are likely to have a material effect on the Bank's activity.

BANKING

Banking Rules (Customer service) (Commission fees) (Amendment), 2017

The said Amendment to the Banking Rules (Customer service) (Commission fees), 2008, was formally published on August 24, 2017. The Amendment states, among other things, that fees charged in respect of services provided online, would be lower than those charged for the same service provided by a bank employee.

This Amendment is expected to increase competition between banks in providing online services, which, on the one hand may lead to an increase in the volume of activity in these channels, and on the other hand to a possible erosion in fees. At this stage it is not possible to quantify the effect of the change on the Bank's Group.

ONLINE BANKING

Proper Conduct of Banking Business Directive No. 367 regarding online banking

The Directive was published on July 21, 2016, with a view of encouraging the development of digital banking, thus increasing competition in the banking segment. The Directive removes existing obstractions and allows expansion of the scope of banking services provided by technological means, as well as providing means for the remote conduct of various banking operations. At the same time, the Directive imposes on banking corporations increased responsibility for the management of the singular risks inherent in such operations, among which are data protection and cyber risks as well as risk of damage to privacy. The Directive also requires the reinforement of the risk management framework and its adaptation to the environment of advanced technological operations, including the addition of controls, the monitoring of irregular operations, delivery of warning notices to customers and guidance provided to customers.

The Directive constitutes a reform in banking rules and is expected to lead to changes in a variety of banking services and their scope, that would be provided online to customers, this according to the technological developments in the fintech field and intenational trends. A special department for holistic treatment in the area of inovation and digital. At this stage, it is not possible to quantify the effect of the Directive on the Bank Group.

CREDIT AND COLLATERAL

The Bills discussed below offer a significant reform in collateral and insolvency laws, and includes, inter alia, possible impairment in the rights of secured creditors and in the ability to collect debts.

The Insolvency and Economic Recovery Bill, 2016

The Bill passed its first reading on March 9, 2016. It includes a comprehensive reform of insolvency legislation, while determining one legislative framework that includes the two classes of debtors - corporations and individuals, as well as reference to the unique aspects relating to each. Among other things, the Bill includes the following new premises:

The definition of insolvency would be based on the cash flow test, this, instead of the assets test in practice today; a future creditor would not be entitled to request the opening of insolvency proceedings, otherwise than in the case where the debtor is acting with intention of deceiving his credirors; as regards corporations, the District Court shall decide on the appropriate manner for dealing with insolvency of a corporation - economic recovery proceedings or liquidation proceedings; as regards individuals, proceedings shall be conducted before a Magistrate Court or before administrative authorities, depending on the scope of debts of the debtor. During an examination period, the economic condition and conduct of the debtor will be examined and a stay of proceedings will apply. At the end of the examination period, a recovery plan would be formed for the debtor, whereupon the conclusion thereof, the individual would be exempted from his debts. Where the individual has no ability to repay his debts, he would be immediately exempted; the majority of preferential debts would be cancelled; a creditor secured by a floating pledge, would be entitled to an amount of up to 75% of the value of the assets subject to the floating pledge, unless the floating pledge had been registered prior to the publication of the Act, subject to terms detailed in the Bill; A secured creditor would be entitled to receive interest in arrears on the secured debt, payable out of the proceeds of realization of the pledged assets, only after the debts of the ordinary creditors have been repaid in full.

The Pledge Bill, 2015

On July 17, 2015, the Knesset passed, in first reading, the Pledge Bill.

The Bill proposes to establish a comprehensive reform of the pledge laws and to replace the provisions of the existing Pledge Act and of the Companies Ordinance in this matter.

Among the central changes of the Bill are: the right of an individual to pledge an asset not yet in his possession or even an asset that has not yet come into existence; revocation of the concept of a "floating pledge" - the borrower company would be able to create a fixed pledge upon its future assets, and the status of such pledge would not be automatically inferior to specific pledges; cancellation of the possibility of a creditor to limit the power of the debtor to effect transactions regarding the pledged asset, and more.

COMPETITION

Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (Legislation amendments), 2017.

Following the recommendations of the committee for the increase in competition regarding prevalent banking and financial services, headed by Adv. Dror Strom ("the Committee"), the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act, 2017 ("the Act") was published on January 31, 2017, the principal provisions thereof are detailed below.

Further steps are being taken by Bank of Israel for the implementation of the recommendations of the Committee, among which are increasing the number of participants in the retail credit market, removal of obstructions for the establishment of new banks in Israel, including mitigation for credit card companies and opening the payment layout to competition.

Among the main items of the Act are: a bank having a wide scope of operations, the value of its assets, as stated in its most recent financial statements prepared on a consolidated basis ("balance sheet assets") exceeds 20% of the said assets of all banks in Israel ("a bank having a large volume of activity") shall not engage in the issue of debit cards and in the clearing of transactions made by debit cards, shall not control and shall not hold means of control in a corporation engaged in the issue and clearing as stated above (a bank shall be entitled to operate the issue of debit cards through another entity or to engage with a clearing agents).The said restrictions on a bank having a large volume of activity (if it controlled or held means of control immediately prior to the date of publication of the Act) would apply three years from date of publication of the Act, and under certain conditions - four years from date of publication of the Act.

It is further stated that as from the end of four years from date of publication of the Act and until six years from that date, The Minister of Finance will have the authority to determine that the said restrictions would apply also to a banking corporation which is not a bank having a large volume of activity, provided that the value of its balance sheet assets does not exceed 10% of the total balance sheet assets of all banks in Israel.

As of date of publication of this report, the value of the balance sheet assets of the Bank is less than 10% of total balance sheet assets of all banks in Israel.

In addition, a transitional period of five years since date of publication of the Act has been determined, and in respect of a bank having a large volume of activity - three years from date of separation of ownership ("the transitional period"), within the framework of which restrictions would be imposed on banks that issue debit cards and prior to date of publication of the Act controlled or held means of control in a debit card company (including the Bank). It is, inter alia, stated that as from the end of one year from date of publication of the Act and until the end of the transitional period, banks, as stated, are required to perform the debit card issue operation through at least one debit card company, and with respect to a bank having a large volume of activity and to any other bank not engaged in issueance operations (including the Bank), by means of at least two companies, provided that at least one of which is not controlled by that bank and it does not hold means of control in that company. It is further stated that as from the end of two years from date of publication of the Act and until the end of the transitional period, a bank, as stated, shall not perform through one debit card company the operation and issue of over 52% of the total number of new debit cards which it issues to its customers. The Minister of Finance, with the consent of the Governor and with the approval of the Economic Committee of the Knesset, may, at any time, change during the transitional period, by an Order issued to all banks or to a certain class thereof, the rate stated in this Section, if he finds the matter justified in order to enhance competition in the credit market. Additional restrictions apply during the transitional period to a bank having a large volume of activity in respect of the division of income between such bank and the credit card company, of the reduction in credit facilities and of setting limits to the date on which it is entitled to approach its customers regarding an offer for the issue/renewal of a card.

During the transitional period, credit cards companies are entitled to make use of the name of the customer and the details of engagment with him, if legally obtained while performing the issue of a debit card, for the purpose of approching the customer offering him a debit card or the granting of credit, this even without obtaining the consent of the customer (so long as the customer has not requested that use would not be made of the said information).

The Act includes further instructions, the aim of which is to increase competition as well as the negotiating ability of customers, imposing a duty on a bank to issue credit cards of issuers engaged with that bank in an issue agreement and presentation of data to the customer, at his request, also regarding transactions made by credit card that had not been issued by the bank and payments therefore were made by charging the account of the customer with that bank, prohibiting the changing to the worse of engagement terms and prohibiting the prevention of competition and access to information of financial bodies. It is further stated that a financial body shall enable the customer or a provider of a cost comparison service (acting on behalf of the customer) to view online financial information relating to the customer and make use of such information for the purpose of providing services stated in the Act.

The Act further prohibits the unreasonable refusal of a request by the customer for the registration of an additional subordinate pledge on an asset, in favor of another creditor, as well as for the realization of such a pledge. An amendment of Proper Conduct of Banking business Directive No. 311 in the matter of "the management of credit risk", published on October 22, 2017, requires a banking corporation to take into consideration in its credit policy, both the implications resulting from the right of the debtor to create an additional subordinate pledge on the pledged asset, and in particular, the implications of such a pledge being realized by the other creditor.

The Act further prohibits the holding of over 10% of a certain class of means of control in Automatic Bank Services Ltd., which operates an interface between issuers and clearing agents for the approval of debit card transactions, and a transitional period in this respect has been determined in respect of existing stakeholders.

The Act instructs the establishment of a technological infrastructure providing computer services. If at the end of eighteen months since the effective date of the Act, the Minister of Finance finds that no adequate alternative technologies are available and that the matter is essential for the increase in competition, then he could require a bank, whose share in balance sheet assets exceeds 10%, to sell and operate computer services or lease out properties used for this purpose, under terms determined in the Act.

The measures involved in this legislation are expected to increase the level of competition in the banking sector in Israel, whether by way of incteasing the negotiating power of the consumer, or by way of encouraging the entry of new participants. This result creates on the one hand a competitive threat to the First International Bank Group, though , on the other hand, contains opportunities, in particular for the Bank, which does not have a large volume of activity. The Bank plans to utilize to the fullest the business opportunities inherent in the enhanced competition in this field.

Regulation of Off-banking Loans Bill (Amendment No. 5), 2017

Amendment No. 5 of this Act was published on August 9, 2017. Inter alia, the Amendment changed also the name of the Act to the Fair Credit Act, 1933 (hereinafter - "the Act").

The Amendment to the Act was passed on background of the recommendations of the team examining the increase of competition in the banking sector, with the aim of equalizing the norms applying to non-institutional lenders to those applying to institutional lenders, including banks. The Amendment states maximum amounts with respect to the cost of credit and maximum rates of interest appling to credit in arrears, and in addition, all the provisions of the Act, including instructions relating to the granting and collection of credit, apply now to the institutional bodies including the banks. The Amendment to the Act imposes criminal and administrative sanctions in respect of the different violations of the Act. The Act applies to individual borrowers only, though the Minister of Finance has the authority to expand its application also to corporations of a class to be determined. The Amendment takes effect at the end of fifteen months from date of publication thereof, and it applies to agreements signed as from the effective date of the Amendment. The Bank is preparing to implement the Act as from its due date.

THE CAPITAL MARKET

A. Provident funds

The Ministry of Finance published on December 19, 2016, a draft of the Supervision over Financial Services Regulations (Provident funds) (Purchase, sale and holding of securities) (Amendment), 2016, which amends prior drafts in the same matter.

According to the draft amendment, an institutional investor being a member of a group of investors, where one of them has an agreement with a corporation for the provision of management or operating services ("the Operator"), may purchase of sell securities by means of the Operator, or by means of a related party thereof, provided that the rate of the purchase or sale commission shall not exceed 20% of the total purchase or sale commissions paid by the institutional investor during the year. Furthermore, conditions were stated, under which an institutional investor may purchase or sell securities by means of parties related to the institutional investor. The Draft amendment also adds a requirement for a competitive process, at least once in every three years, with respect to the holding of securities and states that an institutional investor who had engaged in a direct agreement with a global custodian (excluding a bank, a mortgage bank or a foreign bank holding a license from Bank of Israel) for the holding of securities, shall be exempted from the duty to hold a competitive process for obtaining holding services.

The final regulations that were published on October 31, 2017, do not include the above mentioned limitation of 20% with respect to the purchase and sale of securities by means of the Operator or by means of a related party thereof, as stated above. It is also determined that the competitive process relating to the holding of securities, shall be conducted once in every period of five years instead of three years, the requirement to conduct a competitive process, as stated, taking effect only after the termination of one year from date of publication of the Regulations.

It is still impossible to assess the implications of the Regulations on the income of the Bank from this segment.

B. Securities Law (Amendment No. 63), 2017

The Securities Act (Amendment 63), 2017, ("the Amendment") was published On April 6, 2017. The Amendment took effect on July 6, 2017, except for specific issues for which other effective dates has been set. The aim of the Amendment is to regulate a change in the ownership structure of the Stock Exchange and the clearing houses, while severing the link between the ownership of the Stock Exchange and of the clearing houses and the membership therein, turning them into profit-earning companies. Following the structural change, access to trading and/or clearing would no longer be dependent on ownership rights in the Stock Exchange and/or the clearing houses, but would be based upon a contractual engagement between the Stock Exchange and/or the clearing houses and the potential members.

Following are the main provisions of the Amendment:

The regulation of licensing, holding and manner of management of the Stock Exchange and/or the clearing houses following the change.

A Stock Exchange member or a banking corporation shall not be permitted to obtain a holding permit of over 5% or a control permit in the Stock Exchange and in the clearing houses following the change in the structure of ownership.

Moreover, it is determined that the proceeds from the sale of the means of control by existing Stock Exchange members, which are in excess of their proportionate part in the equity of the Stock Exchange, in accordance with its financial statements for 2015, which totals to NIS 508 million, shall be paid over to the Stock Exchange and used exclusively for the reduction in commission fees and for investment in technological infrastructure.

In accordance with the Amendment, dates have been fixed for the approval by the Court of the arrangement program.

Upon termination of the period of five years since date of approval of the arrangement program by the Court, or until the date of issue to the public of shares in the Stock Exchange and their listing for trade, if at all, whichever is earlier, the present members of the Stock Exchange shall not be permitted to hold means of control in the Stock Exchange at a rate exceeding 5%. During this period, they shall not purchase means of control that exceed the rate permitted by the Act, as well as any rights attached to such holdings.

In addition, The Amendment contains special corporate governance principles in accordance with the holdings of Stock Exchange members in the Stock Exchange. Likewise, reporting duties to the Finance Committee were determined with respect to different issues.

On September 7, 2017, the Court approved the arrangement plrogram within the framework of proceedings in terms of Section 350 of the Companies Act, submitted by the Stock Exchange for the implementation of the change in structure of the Stock Exchabge and the turning of it into a profit earning corporation, having only one class of share capital. According to the arrangement program, shares in the Stock Exchange were allotted to the present members of the Stock Exchange, the share of the Bank Group (following allottment of shares to employees and officers of the Stock Exchange) amounting to 20.3%.

On May 11, 2017, Knesset members filed a petition with the High Court of Justice, requesting the abolishment the Amendment to the Act on grounds of it being unconstitutional and detrimental to basic constitutional rights, among which, public ownership rights. The motion was rejected by the Court on June 22, 2017.

CORPORATE GOVERNANCE AND COMPANIES

Amendment of Proper Conduct of Banking Business Directive No. 301 - Board of Directors

On July 5, 2017, Bank of Israel published an amendment of Proper Conduct of Banking Business Directive No. 301. The aim of the amendment is to increase effectiveness of discussions by the Board of Directors and the modification of the structure of the Board to the activity of the Bank, thus assissting the Board to focus in a better fashion on strategic issues and central risks. Among the principal amendments are included the following amendments: a requirement has been added for a policy determining the period of office of the Chairman of the Board; additional terms have been added for the qualification of a Director; the maximum number of Directors has been reduced from fifteen to ten; the need for the ratification by the full Board of any resolution taken by a committee of the Board has been abolished, and matters which may not be delegated to a committee of the Board have been changed. The amendment took immediate effect, except for the change in the number of Directors and in the terms of qualification required of a Director, which would take effect on July 1, 2020.

CROSS BORDER ACTIVITY BY CUSTOMERS

The Income Tax Ordinance Amendment Act (No. 227), 2016

In order to be able to implement the bilateral agreement between the United States and Israel with respect to the implementation of FATCA ("the FATCA agreement") and agreements for the automatic exchange of information for tax purposes relating to financial accounts (CRS - Common Reporting Standard) to be signed by the competent authorities in Israel and the competent authorities in countries with which an agreement for the exchange of information had been signed, in the format determined by the OECD, the Income Tax Ordinance Amendment Act (No. 227), 2016 was published on July 14, 2016. The Act requires reporting Israeli financial institutions to collect and deliver information, as defined in the Act, everything as will be determined by the Minister of Finance in regulations to be published in this respect. In terms of the Act, a montary sanction may be imposed on reporting Israeli financial institutions in respect of unidentified details, or due to deficiencies in transmitting them, and this without derogating from the criminal responsibility of a person stemming from violation of an instruction, as stated, comprising an offence.

The Income Tax Regulations (Implementation of the FATCA Agreement), 2016

These Regulations, published on August 4, 2016, state the duties applying to financial institutions for the purpose of implementation of the FATCA Agreement, and regularize the various procedures that financial institutions have to apply in respect of a due diligence examination of financial accounts for the identification of the account holders and the classification thereof as accounts that should be reported under the agreement. The Regulations include also the duty of informing the customer regarding information provided to the Tax Authorities, the duty of reporting and withholding of tax imposed on financial institutions which are not participating in the implementation of the FATCA Agreement, and transitional instructions applying to the terms of recognition of an entity as a "public institution" by a reporting Israeli financial institution.

Circular letter of Bank of Israel regarding the management of risks associated with cross-border activity by customers

In accordance with the circular, published on March 16, 2015, in view of the growing risks involved in the activity regarding foreign residents, a banking corporation has to review and update its policy, procedures and controls with respect to operations of foreign residents. It is further stated in the circular that refusal to open a new account for a customer who does not cooperate with the banking corporation in the manner required for the implementation of the policy and procedures of that banking corporation with respect to the cross-border risks, and refusal to provide banking services with respect to an existing account, which expose the banking corporation to the risk of being considered a collaborator of the customer in evading the foreign legislation applying to the customer, shall be considered "reasonable refusal" in terms of the Banking Act (Customer service), 1981.

The Bank is aware of the risks involved in the operations of foreign residents and of the intensified regulation and enforcement exercised by the foreign tax authorities, including risks regarding possible tax evasion by customers subject to US tax laws. The Bank has a singular group policy in this respect and employs measures for the facing of risks involved in the activity with foreign residents, being part of the different procedures of the Bank, alongside the preparations for the implementation of the FATCA rules, as required.

Prohibition on money laundering and compliance with Israeli tax laws

Proper Conduct of Banking Business Directive No. 411 in the matter of the management of money laundering, the finance of terror and customer identification risks

The amended Directive, published on March 6, 2017, is intended to expand and re-edit Proper Conduct of Banking Business Directive No. 411 as a risk management Directive, as well as determine operational measures for the reduction of risk.

An additional Chapter was, inter alia, added within the framework of this amendment relating to the assessment of risk, which states that a bank has to perform an extensive risk assessment for the identification and analysis of money laundering and finance of terror risks, which would constitute the infrastructure for the implementation of a risk based approach, and , inter alia, would assist in the adequate allocation of resources for the reduction in identified risks.

Also added is a Chapter dealing with risk reduction, which states that the policy and procedures, the measures and controls for the reduction of risk, should be consistent with the risk assessment of the bank.

The amendment to the Directive will take effect on January 1, 2018.

The amendment to the Directive, reqires changes to be made by the Bank to the methodological and mechanized preparations for money laundering risk management.

LEGAL PROCEEDINGS

Note 9 to the financial statements includes details of material claims pending against the Bank and its subsidiary companies.

THE RATING OF THE BANK BY RATING AGENCIES

Set out below is the Bank's rating as determined by rating agencies in Israel and by an international rating agency:

- S&P Maalot rated the Bank ilAA+/Stable and its subordinated notes at ilAA and its subordinated notes with loss absorption mechanism ilA+.
- Midrug rated the Bank's internal finance resolution at aa3.il/positive, the Bank's short-term deposits P-1.il, its long-term deposits and senior debt Aa1.il/positive and its subordinated notes Aa2.il/positive, and its subordinated notes with loss absorption mechanism A1.il(hyb)/positive.
  On July 11, 2017, Midrug upgraded the rating forecast of the long-term deposits, the senior debt of the Bank and its subordinated notes from Stable to Positive.
- Moody's rates the Bank as follows: long and short-term foreign-currency and local currency deposits A3/Prime-2. The rating forecast is Stable.

EMPLOYEE COMPENSATION POLICY

In accordance with Proper Conduct of Banking Business Directive No. 301A regarding "compensation policy of a banking corporation" (hereinafter - "the Directive"), and following the end of three years from date of approval of the policy, the Bank approved in April 2017, an updated compensation policy to all Bank employees, including central employees, as well as principles for a collective compensation policy, and the compensation policy for officers, approved by the general meeting of shareholders of the Bank on February 23, 2017, which comprises a part thereof.
Within the framework of the employee compensation policy, the Bank updated the provisions regarding the compensation of employees and central employees, including in accordance with the amendments contained in the Directive, as from date of its initial publication. Also updated were the instructions regarding the division of responsibility among the different factors engaged in the compensation mechanism. Moreover, within the framework of the collective compensation policy, the Bank updated the principles regarding the fixed compensation and the variable compensation payable to officers of controlled corporations, taking into consideration the principles set in the compensation policy for officers of the Bank.

CONTRIBUTION TO THE COMMUNITY

"Believing in You" - the long running community project of the Bank, in operation already for ten years, in cooperation with MATAN- investing in the community. In its first years the project focused on young persons that were emmited from different frameworks with the aim of giving these young persons the oportunity to change their lives and leave a normative life within the Israeli society. Within the framework of the program the young persons were combined in business enterpenuers and different programs combining studies with work and grooming business enterpenuership by development of skills.

In continuance and in recent years the Bank approached additional populations, within the new project "believing in you", in order to expand the voluntiring activity among its employees, while creating social involvement with additional value such as "fathers and sons on the field" and cooperations with childrens at risk populations.

In 2017 the Bank continues these projects in the framework of "believing in you" with a focus on children and youth in risk situations concentrating on enriching and providing tools in various subjects, such as: financial awarness, enterprenuership, management and exelence skills, and with personal support, tutoring and adoption of groups in various frames.

In addition, other activities of volunteering and aid to weak population take place, by cooperation of joint learning, packaging food baskets language learning, social rehabilitive activity, etc.

The Bank encourages and supports the volunteers from among employees of the Bank, that are interested in taking part in the project and in contributing their time, experience and skills in favor of these young persons.

In addition to these projects, the Bank and its subsidiaries donate to various foundations and organizations.

PRINCIPAL DEVELOPMENTS IN ISRAEL AND GLOBALLY

Nonfinancial developments

The nonfinancial activity indicators continue to be positive, showing that the economy continues to grow also in 2017, with the labor market continuing to demonstrate strength with relatively low unemployment rates. Nevertheless, a trend of moderation in growth over a period of time is still expected, so that according to assessments published in October 2017 by the Central Bureau of Statistics (hereinafter - "CBS"), the economy grew in the first half of 2017 by an annualized rate of 2.1%, following a growth of 4.6% in the second half of 2016 and a growth of 4.7% in the first half of 2016. Analyzing the developments by quarters shows that in the second quarter of 2017, the product grew by 2.4% in annualized terms, following a growth of 0.8% in the first quarter of 2017 and a growth of 4.4% in the fourth quarter of 2016. The growth in the product in the first half of 2017 reflects growth in the private consumption expenditure, in public consumption expenditure, in the export of goods and services and stability in investment in fixed assets. An additional parameter indicating recovery is the Composite State-of-the-Economy Index of Bank of Israel which rose in the first eight months of 2017 by 2%, in contrast to a rise of 3.1% in the first eight months of 2016.

In October 2017, the Research Division of Bank of Israel decreased the product growth forecast for 2017 to 3.1%, in contrast to 3.4% in the previous forecast, this on background of the fact that the national accounting data for the first half of 2017 grew at a lower rate than that indicated by earlier assessments. The growth forecast for 2018 remains at a level of 3.3%. This forecast reflects a gradual transition to growth that is based more on exports and less on private consumption, a process reflected in the national accounting data.

State budget

In accordance with a preliminary assessment of the Ministry of Finance, a deficit of NIS 5 billion was measured in the first nine months of 2017 in the budgetary activity of the Government, in comparison to a deficit of NIS 6.3 billion in the corresponding period last year. The planned deficit for 2017 amounts to NIS 36.6 billion comprising 2.9% of GDP, while in the last twelve months (October 2016 to September 2017) the State budgetary deficit amounted to only 1.9% of GDP. Tax revenues in the period January-September 2017, amounted to NIS 234.1 billion, a growth of 8.3% in comparison to the corresponding period last year.

The increase in tax revenues and the reduction in the deficit stem mainly from high tax revenues recorded in September 2017, as a result of dividend tax imposed on shareholders and due to relatively low tax refunds.

During April 2017, Fitch the credit rating company ratified the credit rating forecast for the foreign currency debt of the State of Israel at the level of "A+".

During August 2017, the S&P credit rating company updated the credit rating forecast for the foreign currency debt of the State of Israel from "neutral" to "positive" and ratified it at a level of "A+". The meaning of this announcement is that the raising of the credit level of Israel is expected at a range of six months to two years, as long as no significant adverse changes appear in any of the central indicators on which the rating is based.

Inflation

The inflationary environment in the economy continues at a low level, even after a rise in the Consumer Price Index ("CPI") of 0.3% ("CPI for the month of") in the first nine months of 2017. The "known" CPI rose by 0.2%. Price increases were mostly recorded in the fruit and vegetable item – increase of 3.9%, and in the housing item – increase of 2.3%. Price reductions were mainly recorded in the apparel and footwear item – decrease of 15.5%.

The Research Division of Bank of Israel estimated in October 2017, that the inflation in the whole of 2017 would be negligible, below the lower level of the targeted price stability range set by the Government of 1% to 3%, and that the inflation rate in 2018 would be 1%, at the lower end of the Government's price stability range. The present estimate stem from the fact that the moderating forces, among which are growing competition and Government steps taken to reduce the cost of living, would continue to contribute to slower of price increases.

As of September 2017, the inflationary expectations for the following twelve months, derived from the capital market, still stand at the low rate of 0.1%.

The housing market

Recent publications reflect a slowdown in the rise of housing prices. According to the housing price index of the Central Bureau of Statistics, housing prices recorded an increase of 0.2% in the months of July-August 2017, in comparison with the months of June-July 2017. Transaction prices increased by 4.7% in June-July 2017, in comparison with the corresponding months last year.

In accordance with the trend data for the period from October 2016 to June 2017, the number of apartments in the process of construction declined by 6.9% on an average per quarter. The trend data for the first half of 2017 show that the number of completed apartments declined by 4.1% on an average per quarter.

6,870 new apartments were sold in the months of June to August 2017, an increase of 5.9% in comparison to the number of new apartments sold in the period from March to May 2017. The number of new apartments sold in the first eight months of 2017 totaled 17,190 apartments, 17% lower than the number sold in the corresponding period last year (free of seasonal effects data).

Labor market

Unemployment data continue to be positive, and even slightly improved. The unemployment rate in August 2017 (relating to those aged 15 and over) was 4.1%., unchanged in relation to July 2017. The rate of unemployment among those of principal working age (25-64), was 3.6% in the month of August, compared to 3.7% in July 2017. According to the Research Division of Bank of Israel, the near full employment situation is expected to continue supporting the rise in wages, which in continuation may result in a rise in the local inflation.

Exchange rate

In the first nine months of 2017, the exchange rate of the shekel against the US dollar dropped sharply by 8.3%. The exchange rate of the shekel against the Euro increased by 2.9%.

During the first nine months of 2017, Bank of Israel purchased an amount of US$ 6.2 billion (of which US$ 1.2 billion being purchases intended to offset the effect of the natural gas production in Israel on the exchange rate).

	Exchange rate as of			Rate of change	
	30.9.17	**31.12.16**	**30.9.16**	**First nine months 2017**	**First nine months 2016**
US dollar	**3.53**	3.85	3.76	(8.3%)	(3.7%)
Euro	**4.16**	4.04	4.20	2.9%	(1.0%)

Bank of Israel interest rate

Since February 2015, in which the Monetary Committee of Bank of Israel decided on the reduction of the interest rate for the month of March to a level of 0.1%, stability exists in the market monetary interest rate. At that time, the Committee estimated that the monetary policy would remain expansionary as long as required, in order to keep the inflationary environment within the limits of the targeted range. According to estimates of the Research Division of Bank of Israel of October 2017, the interest rate is expected to remain at its present level until the third quarter of 2018, thereafter rising to a level of 0.25% in the fourth quarter of 2018.

The global environment

The global economy continued to improve; world trade is growing at a fair rate and international institutions convey careful optimism regarding expected developments in the near period. The International Monetary Fund (IMF) raised in October 2017 the growth rate forecast for all principal economies and for world trade. Thus, the forecasted growth rate for the US economy in respect of 2017 was increased from 2.1% in the previous forecast of September 2017, to 2.2%, and the expected growth forecast for 2018 was increased from 2.1% to 2.3%.

A continuation of the positive trend of economic activity is noted in the third quarter in the United States. Despite disruptions in economic activity, possibly temporary and limited in scope, stemming from weather damage, the US Administration has presented details of a plan for the reduction in taxes, though its format and date of realization is still uncertain. The FED announced that it would apply anytime soon the monetary contraction plan, and it is estimated that that the interest rate would be raised once again in December 2017. The US inflation rate is significantly higher than that in Israel, though has not yet reached the target of the central bank.

Economic growth in Europe continues to progress and consolidate despite political challenges. Improvement engulfs the core countries as well as peripheral countries. It is estimated that when the ECB announces the extension of the bond purchase program, it would also announce a gradual reduction in its scope. The growth data in Japan was adjusted downwards in the second quarter of 2017, though it is still significantly higher than the potential growth rate, and the positive momentum seems to continue in the third quarter of 2017. Economic data published in China indicate a slight slowdown in growth in the third quarter of 2017.

The capital markets

During the first nine months of 2017, the local capital market recorded a mixed trend in the principal share indices. The TA-125 Index rose by 0.8%, the TA-35 Index decreased by 3.4%. The general bond index rose by 3.3%.

Recovery was recorded in the average daily trade in equities on the local Stock exchange. The average daily trade turnover in the TA-35 shares recorded an increase of 19.8%, while the TA-125 shares recorded an increase of 24.5%. The trade turnover in bonds continued to show a weakness trend, recording a decrease of 2.3%.

	Rate of change		Average daily trade turnover	
	%		NIS millions	
	January - September		January - September	
	2017	**2016**	**2017**	**2016**
TA 35 Index*	**(3.4%)**	(5.6%)	**757**	632
TA 125 Index*	**0.8%**	(4.1%)	**1,027**	825
General bond Index	**3.3%**	2.6%	**3,690**	3,775

* The names of the indices were changed as from February 9, 2017, as follows: TA 25 was changed to TA 35, and TA 100 was changed to TA 125.

The total amount of funds raised (in shares and bonds) during the first nine months of 2017, recorded a reduction of 15%, in comparison to the corresponding period last year. The reduction related to issues of shares and convertibles, mainly on background of a private offering made by Teva last year, within the framework of the acquisition of the operations of Allergan plc in an amount of NIS 21 billion.

	Amount of capital raised		
	NIS millions		
	January - September		
	2017	2016	Rate of change
Shares and convertibles	**8,931**	26,045	(65.7%)
Government bonds	**36,817**	36,822	-
Corporate bonds (incl. institutional)	**56,380**	56,761	(0.7%)
Total	**102,128**	119,628	(14.6%)

The S&P-500 Index rose by 12.5% during the first nine months of 2017. In Europe, the Eurostocks-600 Index rose by 7.4%, and the developing countries index (the MSCI-EM Index) rose by 25.5%.

APPENDIX

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

A. Average balances and interest rates - assets

	For the three months ended September 30, 2017			For the three months ended September 30, 2016		
	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income (expense)	Rate of income (expense)
		NIS million	%		NIS million	%
Assets bearing interest						
Credit to the public(2)						
- In Israel	**73,071**	**582**	**3.22**	70,946	634	3.62
- Outside Israel	**-**	**-**	**-**	371	2	2.17
Total	**73,071**	**(5)582**	**3.22**	71,317	(5)636	3.62
Credit to the Government						
- In Israel	**635**	**-**	**-**	641	-	-
Total	**635**	**-**	**-**	641	-	-
Deposits with banks						
- In Israel	**3,723**	**4**	**0.43**	2,504	2	0.32
- Outside Israel	**-**	**-**	**-**	242	-	-
Total	**3,723**	**4**	**0.43**	2,746	2	0.29
Deposits with central banks						
- In Israel	**26,157**	**6**	**0.10**	20,715	6	0.11
Total	**26,157**	**6**	**0.10**	20,715	6	0.11
Securities borrowed						
- In Israel	**862**	**-**	**-**	627	-	-
Total	**862**	**-**	**-**	627	-	-
Held to maturity or available for sale bonds(3)						
- In Israel	**10,850**	**22**	**0.81**	14,193	37	1.05
- Outside Israel	**21**	**-**	**-**	91	-	-
Total	**10,871**	**22**	**0.81**	14,284	37	1.04
Trading bonds						
- In Israel	**743**	**1**	**0.54**	903	1	0.44
- Outside Israel	**-**	**-**	**-**	5	-	-
Total	**743**	**1**	**0.54**	908	1	0.44
Other assets						
- In Israel	**2**	**-**	**-**	221	-	-
Total	**2**	**-**	**-**	221	-	-
Assets held for sale						
- Outside Israel	**44**	**-**	**-**	-	-	-
Total	**44**	**-**	**-**	-	-	-
Total assets bearing interest	**116,108**	**615**	**2.14**	111,459	682	2.47
Debtors regarding credit cards non-bearing interest	**2,586**			3,167		
Other assets non-bearing interest(4)	**12,588**			12,763		
Total assets	**131,282**			127,389		
Total assets bearing interest attributed to activity outside Israel	**65**	**-**	**-**	709	2	1.13

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

B. Average balances and interest rates - liabilities and capital

	For the three months ended September 30, 2017			For the three months ended September 30, 2016		
	Average balance (1)	Interest expense	Rate of expense	Average balance (1)	Interest expense (income)	Rate of expense (income)
		NIS million	%		NIS million	%
Liabilities bearing interest						
Deposits from the public						
- In Israel						
Demand	**5,436**	**-**	**-**	6,356	-	-
Fixed-term	**56,745**	**34**	**0.24**	57,345	62	0.43
Total	**62,181**	**34**	**0.22**	63,701	62	0.39
Deposits from the Government						
- In Israel	**242**	**1**	**1.66**	271	1	1.48
Total	**242**	**1**	**1.66**	271	1	1.48
Deposits from banks						
- In Israel	**2,180**	**1**	**0.18**	1,282	1	0.31
Total	**2,180**	**1**	**0.18**	1,282	1	0.31
Bonds						
- In Israel	**5,172**	**13**	**1.01**	5,641	64	4.62
Total	**5,172**	**13**	**1.01**	5,641	64	4.62
Other liabilities						
- In Israel	**292**	**1**	**1.38**	250	1	1.61
Total	**292**	**1**	**1.38**	250	1	1.61
Total liabilities bearing interest	**70,067**	**50**	**0.29**	71,145	129	0.73
Deposits from the public non-bearing interest	**46,426**			41,834		
Creditors in respect of credit cards non-bearing interest	**2,586**			3,167		
Other liabilities non-bearing interest (6)	**4,061**			3,391		
Total liabilities	**123,140**			119,537		
Total capital resources	**8,142**			7,852		
Total liabilities and capital resources	**131,282**			127,389		
Interest spread			**1.85**			1.74
Net return on assets bearing interest (7)						
- In Israel	**116,043**	**565**	**1.96**	110,750	551	2.00
- Outside Israel	**65**	**-**	**-**	709	2	1.13
Total	**116,108**	**565**	**1.96**	111,459	553	2.00
Total liabilities bearing interest attributed to activity outside Israel	**-**	**-**	**-**	-	-	-

See notes in page 222.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

A. Average balances and interest rates - assets

	For the nine months ended September 30, 2017			For the nine months ended September 30, 2016		
	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income	Rate of income
		NIS million	%		NIS million	%
Assets bearing interest						
Credit to the public(2)						
- In Israel	**72,649**	**1,880**	**3.47**	69,832	1,772	3.40
- Outside Israel	**-**	**-**	**-**	373	6	2.15
Total	**72,649**	**(5)1,880**	**3.47**	70,205	(5)1,778	3.39
Credit to the Government						
- In Israel	**637**	**-**	**-**	641	-	-
Total	**637**	**-**	**-**	641	-	-
Deposits with banks						
- In Israel	**3,509**	**9**	**0.34**	2,932	6	0.27
- Outside Israel	**170**	**-**	**-**	320	-	-
Total	**3,679**	**9**	**0.33**	3,252	6	0.25
Deposits with central banks						
- In Israel	**23,899**	**18**	**0.10**	21,373	17	0.11
Total	**23,899**	**18**	**0.10**	21.373	17	0.11
Securities borrowed or repurchased						
- In Israel	**656**	**-**	**-**	605	-	-
Total	**656**	**-**	**-**	605	-	-
Held to maturity or available for sale bonds(3)						
- In Israel	**12,872**	**94**	**0.97**	14,645	94	0.86
- Outside Israel	**57**	**1**	**2.35**	105	1	1.27
otal	**12,929**	**95**	**0.98**	14,750	95	0.86
Trading bonds						
- In Israel	**821**	**4**	**0.65**	897	3	0.45
- Outside Israel	**-**	**-**	**-**	3	-	-
Total	**821**	**4**	**0.65**	900	3	0.44
Other assets						
- In Israel	**12**	**-**	**-**	91	-	-
Total	**12**	**-**	**-**	91	-	-
Assets held for sale						
- Outside Israel	**138**	**2**	**1.94**	-	-	-
Total	**138**	**2**	**1.94**	-	-	-
Total assets bearing interest	**115,420**	**2,008**	**2.33**	111,817	1,899	2.27
Debtors regarding credit cards non-bearing interest	**2,480**			3,097		
Other assets non-bearing interest(4)	**11,876**			11,921		
Total assets	**129,776**			126,835		
Total assets bearing interest attributed to activity outside Israel	**365**	**3**	**1.10**	801	7	1.17

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

B. Average balances and interest rates - liabilities and capital

	For the nine months ended September 30, 2017			For the nine months ended September 30, 2016		
	Average balance (1)	Interest expense	Rate of expense	Average balance (1)	Interest expense (income)	Rate of expense (income)
		NIS million	%		NIS million	%
Liabilities bearing interest						
Deposits from the public						
- In Israel						
Demand	**5,614**	**-**	**-**	6,538	-	-
Fixed-term	**56,589**	**163**	**0.38**	58,059	144	0.33
Total	**62,203**	**163**	**0.35**	64,597	144	0.30
Deposits from the Government						
- In Israel	**264**	**3**	**1.52**	273	4	1.96
Total	**264**	**3**	**1.52**	273	4	1.96
Deposits from banks						
- In Israel	**2,186**	**2**	**0.12**	1,358	-	-
Total	**2,186**	**2**	**0.12**	1,358	-	-
Bonds						
- In Israel	**5,390**	**126**	**3.13**	5,691	135	3.18
Total	**5,390**	**126**	**3.13**	5,691	135	3.18
Other liabilities						
- In Israel	**284**	**4**	**1.88**	214	3	1.87
Total	**284**	**4**	**1.88**	214	3	1.87
Total liabilities bearing interest	**70,327**	**298**	**0.57**	72,133	286	0.53
Deposits from the public non-bearing interest	**44,738**			40,474		
Creditors in respect of credit cards non-bearing interest	**2,480**			3,097		
Other liabilities non-bearing interest (6)	**4,169**			3,333		
Total liabilities	**121,714**			119,037		
Total capital resources	**8,062**			7,798		
Total liabilities and capital resources	**129,776**			126,835		
Interest spread			**1.76**			1.74
Net return on assets bearing interest (7)						
- In Israel	**115,055**	**1,707**	**1.98**	111,016	1,606	1.93
- Outside Israel	**365**	**3**	**1.10**	801	7	1.17
Total	**115,420**	**1,710**	**1.98**	111,817	1,613	1.93
Total liabilities bearing interest attributed to activity outside Israel	**-**	**-**	**-**	-	-	-

See notes in page 222.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

C. Average balances and income rates - additional information on interest bearing assets and liabilities attributed to activity in Israel

	For the three months ended September 30, 2017			For the three months ended September 30, 2016		
	Average balance(1)	Income (expense) interest	Income (expense) ratio	Average balance (1)	Income (expense) interest	Income (expense) ratio
		NIS million	%		NIS million	%
Non-linked Israeli currency						
Total assets bearing interest	**92,438**	**531**	**2.32**	85,056	493	2.34
Total liabilities bearing interest	**52,419**	**(24)**	**(0.19)**	48,682	(20)	(0.16)
Interest spread			**2.13**			2.18
Israeli currency linked to the CPI						
Total assets bearing interest	**11,295**	**26**	**0.92**	12,441	127	4.15
Total liabilities bearing interest	**10,261**	**(9)**	**(0.35)**	11,375	(96)	(3.42)
Interest spread			**0.57**			0.73
Foreign currency (including linked to f-c)						
Total assets bearing interest	**12,310**	**58**	**1.90**	13,253	60	1.82
Total liabilities bearing interest	**7,387**	**(17)**	**(0.92)**	11,088	(13)	(0.47)
Interest spread			**0.98**			1.35
Total activity in Israel						
Total assets bearing interest	**116,043**	**615**	**2.14**	110,750	680	2.48
Total liabilities bearing interest	**70,067**	**(50)**	**(0.29)**	71,145	(129)	(0.73)
Interest spread			**1.85**			1.75

	For the nine months ended September 30, 2017			For the nine months ended September 30, 2016		
	Average balance(1)	Income (expense) interest	Income (expense) ratio	Average balance (1)	Income (expense) interest	Income (expense) ratio
		NIS million	%		NIS million	%
Non-linked Israeli currency						
Total assets bearing interest	**90,822**	**1,577**	**2.32**	84,326	1,473	2.34
Total liabilities bearing interest	**51,773**	**(72)**	**(0.19)**	49,050	(59)	(0.16)
Interest spread			**2.13**			2.18
Israeli currency linked to the CPI						
Total assets bearing interest	**11,745**	**261**	**2.97**	12,511	249	2.66
Total liabilities bearing interest	**10,539**	**(183)**	**(2.32)**	11,175	(185)	(2.21)
Interest spread			**0.65**			0.45
Foreign currency (including linked to f-c)						
Total assets bearing interest	**12,488**	**167**	**1.79**	14,179	170	1.60
Total liabilities bearing interest	**8,015**	**(43)**	**(0.72)**	11,908	(42)	(0.47)
Interest spread			**1.07**			1.13
Total activity in Israel						
Total assets bearing interest	**115,055**	**2,005**	**2.33**	111,016	1,892	2.28
Total liabilities bearing interest	**70,327**	**(298)**	**(0.57)**	72,133	(286)	(0.53)
Interest spread			**1.76**			1.75

See notes in page 222.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analaysis of changes in interest income and expenses

	For the three months ended September 30, 2017 compared with the same period last year			For the nine months ended September 30, 2017 compared with the same period last year		
	Increase (decrease) due to the change			Increase (decrease) due to the change		
	Quantity	Price	Net change	Quantity	Price	Net change
			NIS million			NIS million
Interest bearing assets						
Credit to the public						
- In Israel	**23**	**(75)**	**(52)**	**73**	**35**	**108**
- Outside Israel	**(1)**	**(1)**	**(2)**	**(3)**	**(3)**	**(6)**
Total	**22**	**(76)**	**(54)**	**70**	**32**	**102**
Other interest bearing assets						
- In Israel	**2**	**(15)**	**(13)**	**4**	**1**	**5**
- Outside Israel	**-**	**-**	**-**	**(1)**	**3**	**2**
Total	**2**	**(15)**	**(13)**	**3**	**4**	**7**
Total interest income	**24**	**(91)**	**(67)**	**73**	**36**	**109**
Interest bearing liabilities						
Deposits from the public						
- In Israel						
Fixed-term	**-**	**(28)**	**(28)**	**(4)**	**23**	**19**
Total	**-**	**(28)**	**(28)**	**(4)**	**23**	**19**
Other interest bearing liabilities						
- In Israel	**1**	**(52)**	**(51)**	**10**	**(17)**	**(7)**
Total	**1**	**(52)**	**(51)**	**10**	**(17)**	**(7)**
Total interest expenses	**1**	**(80)**	**(79)**	**6**	**6**	**12**
Total interest income less interest expenses	**23**	**(11)**	**12**	**67**	**30**	**97**

NOTES:

(1) On the basis of monthly opening balances, excluding the non-linked Shekel segment in which calculated on daily balances.

(2) Before deduction of the average balance of provisions for credit losses including impaired debts which are non-bearing interest income.

(3) From the average balance of available for sale bonds was deducted the average balance of unrealized gains from adjustments to fair value of bonds, included in other comprehensive profit in the item "adjustments to fair value of available for sale securities" for the three and nine months ended on September 30, 2017 in the amount of NIS 50 million and NIS 22 million, respectively (for the three and nine months ended September 30, 2016 balance of NIS 7 million was deducted and NIS 13 million was added, respectively).

(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.

(5) Fees in the amount of NIS 23 million and NIS 23 million were included in interest income for the three months ended September 30, 2017 and September 30, 2016, respectively and amount of NIS 82 million and NIS 73 million were included in interest income for the nine months ended September 30, 2017 and September 30, 2016, respectively

(6) Including derivative instruments.

(7) Net return - net interest income to total interest bearing assets.

(8) Change attributed to quantity was calculated by multiplying the price in the reported period by the change in the quantity in the compared periods.
Change attributed to price was calculated by multiplying the quantity in the previous period by the change in the price in the compared periods.