Financial Statements
31.3.2017

FIBI FIRST INTERNATIONAL BANK OF ISRAEL

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REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT AS OF MARCH 31, 2017

The meeting of the Board of Directors held on May 23, 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 March 31, 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 with respect to provident funds and mutual funds.
- Trusteeship services for private and institutional customers through the Bank's trust company.

The Bank Group operates through three principal business divisions:

- The corporate division, which conducts all operations relating to corporate and middle-market customers, as well as business and institutional customers active on the capital market. Operating within this division is the business region, covering the operation of all business branches of the Bank.
- The banking division, which conducts all operations relating to private customers of the Bank, including private banking, households and small business. 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-division 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 uniqe 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.

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 166 million in the first three months of 2017, compared with NIS 147 million in the same period last year, an increase of 12.9%.
Net return on equity attributed to the Bank's shareholders amounted to 9.3% (annualized) compared with 8.5% 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 three months of 2017 compared with the same period last year:

- Increase in interest income, net, in the amount of NIS 36 million (6.8%).
- Decline in non-interest financing income of NIS 22 million, due mainly to the decrease in gains on realization of bonds and shares amounting to NIS 11 million.
- The expenses inrespect of credit losses amounted to NIS 34 million, compared with an income from credit losses of NIS 67 million in the same period last year. In the period last year an income from collective provision for credit losses were recorded in the amount of NIS 77 million, mainly derived from the reduction in the coefficients of the collective provision due to excluding the data for the year 2011 from the computation of the coefficients. The rate of expense for credit losses was 0.18% at the reported period.
- Increase in other income in the amount of NIS 30 million, derived from increase in capital gains from the sale of buildings and equipment.
- Increase of NIS 7 million in commission income (2.1%).
- Decrease in salaries and related expenses in the amount of NIS 20 million (4.6%) 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 24 million (9.1%) derived mainly from the efficiency measures.

Basic earnings per NIS 0.05 share amounted to NIS 1.65 in the first three months of the year compared with NIS 1.46 in the same period last year.

The Bank Group's total assets on March 31, 2017 amounted to NIS 128,518 million compared with NIS 126,608 million on March 31, 2016 and NIS 127,907 on December 31, 2016, an increase of 1.5% and 0.5%, respectivly.

Credit to the public, net on March 31, 2017 amounted to NIS 77,993 million compared with NIS 74,534 million on March 31, 2016 and NIS 77,328 million at the end of 2016, an increase of 4.6% and 0.9%, respectivly.

Deposits from the public on March 31, 2017 amounted to NIS 106,198 million, compared with NIS 103,853 million on March 31, 2016 and NIS 105,817 million at the end of 2016, an increase of 2.3% and 0.4% respectivly.

Capital attributed to shareholders totaled NIS 7,456 million on March 31, 2017, compared with NIS 7,216 million on March 31, 2016 and NIS 7,321 million at the end of 2016, an increase of 3.3% and 1.8%, respectivly.

The ratio of comprehensive capital to risk components amounted to 13.63%, as compared to 13.79% at the end of 2016.
The ratio of Tier I equity capital to risk component as of March 31, 2017 amounted to 10.12%, as compared to 10.09% at the end of 2016.

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

Principal financial ratios	**For the three months ended**		**For the year ended**
	31.3.17	**31.3.16**	**31.12.16**
			in %
Execution indices			
Return on equity[1]	**9.3%**	8.5%	7.2%
Return on assets[1]	**0.5%**	0.5%	0.4%
Ratio of fees to assets[1]	**1.0%**	1.0%	1.0%
Ratio of equity capital tier 1	**10.12%**	9.92%	10.09%
Leverage ratio	**5.54%**	5.44%	5.52%
Liquidity coverage ratio	**128%**	105%	123%
Efficiency ratio	**68.8%**	77.6%	73.5%
Credit quality indices			
Ratio of provision for credit losses to credit to the public	**1.05%**	1.04%	1.08%
Ratio of impaired debts or in arrears of 90 days or more to credit to the public	**1.20%**	1.30%	1.02%
Ratio of provision for credit losses to total impaired credit to the public	**111%**	104%	147%

Principal data from the statement of income	**For the three months ended**		
	31.3.17	**31.3.16**	**Change**
		NIS million	%
Net profit attributed to shareholders of the Bank	**166**	147	12.9%
Interest Income, net	**562**	526	6.8%
Expenses (income) from credit losses	**34**	(67)	
Total non Interest income	**388**	373	4.0%
Of which: Fees	**334**	327	2.1%
Total operating and other expenses	**654**	698	(6.3%)
Of which: Salaries and related expenses	**414**	434	(4.6%)
Primary net profit per share of NIS 0.05 par value (NIS)	**1.65**	1.46	13.0%

Principal data from the balance sheet			**As of**		**Change vs.**
	31.3.17	**31.3.16**	**31.12.16**	**31.3.16**	**31.12.16**
			NIS million		%
Total assets	**128,518**	126,608	127,907	1.5%	0.5%
of which: Cash and deposits with banks	**30,255**	29,336	29,150	3.1%	3.8%
Securities	**14,675**	16,599	15,776	(11.6%)	(7.0%)
Credit to the public, net	**77,993**	74,534	77,328	4.6%	0.9%
Total liabilities	**120,442**	118,800	119,973	1.4%	0.4%
of which: Deposits from banks	**716**	1,624	755	(55.9%)	(5.2%)
Deposits from the public	**106,198**	103,853	105,817	2.3%	0.4%
Bonds and subordinated capital notes	**5,575**	5,697	5,801	(2.1%)	(3.9%)
Capital attributed to the shareholders of the Bank	**7,456**	7,216	7,321	3.3%	1.8%

Additional data			**As of**
	31.3.17	**31.3.16**	**31.12.16**
Share price (0.01 NIS)	**5,895**	4,657	5,650
Dividend per share (NIS)	**0.70**	-	1.99

(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 (a cross-system 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 in online banking, 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 in 2016. 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.

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 quarter of 2017.

Growth

Nonfinancial economic activity indicators, published at the beginning of 2017, continue to be positive indicating that the economy continued growing also at the beginning of 2017. The preliminary data produced by the companies review shows that for several months the industrial purchase managers' index already indicates economic expansion, and Bank of Israel's Composite State-of-the-Economy Index rose in the first two months of 2017 by 0.6%. The product data published for the second half of 2016 indicate an annualized growth of 5.1%, following a growth of 3.9% in the first half of 2016.

The review dated April 2017, issued by the Research Division of Bank of Israel, decreased the product growth forecast for 2017 to 2.8% (from 3.2%), while the growth forecast for 2018 was raised to 3.3% (from 3.1%).

The State budget

A deficit in the amount of NIS 2.4 billion was measured in the first quarter of 2017, in the budgetary operations of the Government, in contrast to a surplus of NIS 0.9 billion in the corresponding period last year.

Inflation

The inflationary environment continues to be relatively low, and this following a rise of 0.1% in the Consumer Price Index (CPI for the month) in the first three months of 2017. The "known CPI" fell by 0.2%. Bank of Israel estimates state that in 2017 the rate of inflation will reach 0.8%, slightly under the lower limit of the price stability target of the Government (1%-3%), and that in 2017 the inflation rate will reach 1.5%. As of March 2017, the inflationary expectations for the coming twelve months, derived from the capital market, indicate a negative 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 0.1% was recorded in prices of housing units in the months of January and February 2017, in comparison to the months of December 2016 and January 2017. The prices of transactions in December 2016 and January 2017 increased by 6.2% in comparison to the corresponding months last year.

In parallel, stability was recorded in the number of housing units the construction of which had begun, while the number of completed housing units increased.

Labor market

Unemployment data continues to be positive and stable. The rate of unemployment in February 2017 was 4.3%.

Exchange rate

The exchanged rate of the shekel as against the US dollar weakened by 5.5% in the first quarter of 2017, and as against the Euro the exchange rate weakened by 4.0%. 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 quarter of 2017 at the rate of 0.1%. Bank of Israel estimates that the interest rate is expected to remain at its present level until the first quarter of 2018, rising in the second quarter of 2018 to 0.25%. Bank of Israel expects an additional increase in the interest rate to a level of 0.5% in the fourth quarter of 2018.

The global environment

A review made by the International Monetary Fund (IMF) indicates the continuation of a moderate growth of the global economy, with a light improvement on growth rate. The growth forecast for 2017 stands at 3.5%, while the forecast for 2018 is 3.6%. The economic growth forecast of the United States for 2017 is 2.3%. The economic growth forecast for the developed economies for 2017 is 2.0%. In the opinion of the IMF, the global economic activity is improving with a periodic recovery in investments, in industrial production, in trading and in global demand, with expectations for price increases on the capital market.

The capital markets

The principal equities indices in the local capital market in the first quarter of 2017 fell, as follows: the TA-125 Index fell by 2.6% and the TA-35 Index fell by 5.0%. The general bond Index rose by 0.6%.

The S&P-500 Index rose by 5.5% during the first quarter of 2017. In Europe, the Eurostocks-600 Index rose by 5.5% and the developing countries Index (the EM-MSCI Index) rose by 11.1%.

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 166 million in the first quarter of 2017, as compared to NIS 147 million in the same period last year, an increase of 12.9%.

The basic net profit per share of NIS 0.05 amounted to NIS 1.65 in the first three months of the year, as compared to NIS 1.46 in the same period last year.

The return of net profit to the capital attributed to the shareholders of the Bank (annualized) amounted to 9.3% in the period January – March 2017, as compared to 8.5% 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
	Q1	Q4	Q3	Q2	Q1
					NIS million
Interest income	**640**	627	682	670	547
Interest expenses	**78**	71	129	136	21
Net interest income	**562**	556	553	534	526
Non-interest financing income	**12**	24	24	33	34
Net financing earnings	**574**	580	577	567	560

Set out below is an analysis of net financing earnings:

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

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

	For the three months ended March 31,	
	2017	2016
		in %
Income rate on asset bearing interest	**2.26**	1.95
Expense rate on liabilities bearing interest	**0.44**	0.11
Total interest spread	**1.82**	1.84
Ratio between net interest income and assets bearing interest balance	**1.98**	1.88

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 periodlast 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 34 million compared with income of NIS 67 million in the same period last year. The income in the first quarter of last year were recorded due to a one-time decrease in the group provision in the amount of NIS 77 million, derived mainly from a reduction in the coefficients of the collective provision due to excluding the data for 2011 from the calculation of the coefficients.

Expenses from credit losses as a ratio of total credit to the public amounted to a rate of 0.18% compared with negative rate of a 0.36% in the same period last year and 0.10% in 2016.

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

	For the three months ended March 31,	
	2017	**2016**
		NIS million
Individual expense in respect of credit losses	**63**	54
Decrease in individual expense in respect of credit losses and collection of debts written off in accounting	**(60)**	(44)
Individual expense, net in respect of credit losses	**3**	10
Collective expense (income) in respect of credit losses	**31**	(77)
Total expenses (income) in respect of credit losses	**34**	(67)
Of which:		
Expense (income) in respect of commercial credit	**27**	(78)
Expense in respect of housing credit	**-**	3
Expense in respect of other private credit	**7**	8
Ratio of individual expense in respect of credit losses to average total credit to the public(1)	**0.02%**	0.05%
Ratio of collective expense (income) in respect of credit losses to average total credit to the public(1)	**0.16%**	(0.41%)
Ratio of total expenses (income) in respect of credit losses to average total credit to the public(1)	**0.18%**	(0.36%)
Ratio of gross total expenses (income) in respect of credit losses to average total credit to the public(1)(2)	**0.48%**	(0.12%)

(1) Annualized.

(2) The gross expenses in respect of credit losses are the total expenses of credit losses excluding the decrease in individual provision and collection of debts written off in accounting.

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

Fees totaled NIS 334 million, compared with NIS 327 million in the same period last year, an increase of 2.1%.

Set out below are details of fees income:

	For the three months ended			Change from the three months ended	
	31.3.17	**31.12.16**	**31.3.16**	**31.12.16**	**31.3.16**
			NIS million	%	
Fees:					
Account management	**64**	64	62	-	3.2
Credit cards	**26**	28	25	(7.1)	4.0
Transactions in securities	**111**	99	112	12.1	(0.9)
Financial product distribution fees	**18**	18	18	-	-
Management, operation and trusteeship for institutional investors	**24**	22	22	9.1	9.1
Credit processing	**4**	4	4	-	-
Conversion differentials	**36**	34	32	5.9	12.5
Foreign trade activity	**14**	13	15	7.7	(6.7)
Fees from financing transactions	**24**	22	21	9.1	14.3
Other Fees	**13**	14	16	(7.1)	(18.8)
Total Fees	**334**	318	327	5.0	2.1

Other income totaled NIS 42 million, compared with NIS 12 million in the same period last year, an increase stemming from the gain from realization of assets.

On March 30, 2017 the transaction for the sale of the Bank's leasing rightsin the areas in an office building in Tel Aviv was consumated, for a proceed of NIS of 84 million. The gain from the sale of these rights amounts to NIS 41 million, before tax effect.

Operating and other expenses totaled NIS 654 million compared with NIS 698 million in the same period last year, a decrease of 6.3%.

Set out below are details of operating and other expenses:

	For the three months ended			change from the three months ended	
	31.3.17	**31.12.16**	**31.3.16**	**31.12.16**	**31.3.16**
			NIS million	in %	
Salaries and related expenses	**414**	413	434	0.2	(4.6)
Maintenance and depreciation of premises and equipment	**99**	100	106	(1.0)	(6.6)
Amortization of intangible assets	**23**	23	31	-	(25.8)
Other expenses	**118**	129	127	(8.5)	(7.1)
Total operating and other expenses	**654**	665	698	(1.7)	(6.3)

Salaries and related expenses totaled NIS 414 million compared with NIS 434 million in the same period last tear, a decrease of 4.6% 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 99 million, compared to NIS 106 million in the same period last year, a decrease of 6.6%, due mainly from the efficiency measures including closure and consolidation of branches and head-office areas.

Amortizations of intangible assets totaled NIS 23 million compared to NIS 31 million in the same period last year, a deacrease 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 97 million compared with NIS 118 million in the same period last year. The effective tax rate as a proportion of earnings before taxes amounted to 37.0%, compared with the statutory rate of tax of 35.0%.
In the same period last year, the provision for taxes on income included a one-time increase in the amount of NIS 16 million, in respect of the law for amendment of the Income Tax Ordinance (amendment No. 216), 2016 which stipulated, among other things, the decrease in the corporate tax rate as from 2016 by 1.5%.

The Bank's share in the operating earnings of investee company after the tax effect amounted to NIS 10 million, similar to the same period last year.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 201 million. This amount was affected by the net profit for the quarter attributed to the shareholders of the Bank of NIS 166 million, by adjustments in respect of available-for-sale securities in an amount of NIS 20 million, and by other comprehensive profit in respect of employee benefits of NIS 15 million.

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

The consolidated balance sheet as of March 31, 2017 amounted to NIS 128,518 million compared with NIS 126,608 million as of March 31, 2016 and NIS 127,907 million as of December 31, 2016, an increase of 1.5% and 0.5%, respectively.

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

	31.3.17	31.12.16	Change
		NIS million	%
Credit to the public, net	**77,993**	77,328	0.9
Securities	**14,675**	15,776	(7.0)
Cash and deposits with banks	**30,255**	29,150	3.8
Premises and equipment	**1,113**	1,133	(1.8)
Deposits from the public	**106,198**	105,817	0.4
Bonds and subordinated capital notes	**5,575**	5,801	(3.9)
Shareholders' equity	**7,456**	7,321	1.8

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

	31.3. 17	31.12.16	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**130**	119	9.2
Guarantees and other liabilities	**7,842**	7,960	(1.5)
Unutilized credit lines for derivatives instruments	**2,663**	2,857	(6.8)
Unutilized revolving credit and other on-call credit facilities	**10,397**	10,806	(3.8)
Unutilized credit lines for credit card facilities and Facilities for the lending of securities	**6,824**	6,551	4.2
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**5,977**	6,636	(9.9)
Total	**33,833**	34,929	(3.1)

Derivative financial instruments:

	March 31, 2017			December 31, 2016		
	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value	Face value
						NIS million
Interest contracts	**237**	**249**	**16,216**	261	282	18,464
Currency contracts	**658**	**769**	**61,461**	445	464	67,412
Contracts in respect of shares	**444**	**444**	**55,746**	625	625	62,914
Commodities and other contracts	**1**	**1**	**152**	1	1	106
Total	**1,340**	**1,463**	**133,575**	1,332	1,372	148,896

Credit to the public, net as of March 31, 2017 amounted to NIS 77,993 million compared with NIS 77,328 million as of December 31, 2016, an increase of 0.9%.

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

	As of		Change		Segment's share of credit to the public as of	
	31.3.17	**31.12.16**		**Change**	**31.3.17**	**31.12.16**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**63,331**	62,356	975	1.6	**81.2**	80.7
- CPI-linked	**9,933**	10,142	(209)	(2.1)	**12.8**	13.1
Foreign currency (including f-c linked)	**4,245**	4,381	(136)	(3.1)	**5.4**	5.6
Non-monetary items	**484**	449	35	7.8	**0.6**	0.6
Total	**77,993**	77,328	665	0.9	**100.0**	100.0

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

			As of		Change
	31.3.17	**31.12.16**	**31.3.16**	**31.12.16**	**31.3.16**
			NIS million	%	
Corporate banking segment	**17,560**	18,186	**17,713**	(3.4)	(0.9)
Middlemarket banking segment	**4,553**	4,517	4,409	0.8	3.3
Small and minute business segment	**15,712**	15,133	14,464	3.8	8.6
Household segment	**40,407**	39,608	37,673	2.0	7.3
Private banking segement	**51**	47	421	8.5	* (87.9)
Institutional entities	**537**	684	641	(21.5)	(16.2)
Total	**78,820**	78,175	75,321	0.8	4.6
Of which, consumer credit excluding housing loans and credit cards:					
Household segment	**15,241**	14,934	14,180	2.7	8.3
Private banking segment	**21**	18	393	14.2	(94.7)
Total	**15,262**	14,953	14,573	2.7	5.4
Housing loans in Israel:					
Household segment	**22,058**	21,741	20,612	1.5	7.0
Total	**22,058**	21,741	20,612	1.5	7.0

* NIS 240 million of the reduction in this segment derives from the classification of the credit of FIBI Swiss as assets held for sale.

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 113,395 million on March 31, 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 March 31, 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)	**14,351**	**12.6**	14,585	12.9	(1.6)
Construction and real estate	**15,015**	**13.2**	15,175	13.4	(1.1)
Industry	**10,728**	**9.5**	10,860	9.6	(1.2)
Commerce	**8,683**	**7.7**	9,121	8.0	(4.8)
Information and communications	**2,450**	**2.2**	2,508	2.2	(2.3)
Private customer, including housing loans	**52,638**	**46.4**	52,019	45.9	1.2
Others	**9,530**	**8.4**	9,068	8.0	5.1
Total	**113,395**	**100.0**	113,336	100.0	0.1

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 March 31, 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	**1,961**	**359**	**2,320**	**846**
2.	Financial services	**701**	**5**	**706**	**706**
3.	Electricity and water supply	**551**	**17**	**568**	**216**
4.	Industry	**2**	**532**	**534**	**534**
5.	Financial services	**57**	**360**	**417**	**118**
6.	Financial services	**321**	**70**	**391**	**354**

		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 14,675 million compared with NIS 15,776 million at the end of 2016, a decrease of 7.0%.

Set out below is the composition of the portfolio:

	As of		Share of total securities	
	31.3.17	31.12.16	31.3.17	31.12.16
		NIS million		%
Government bonds	**10,862**	11,619	**74.0**	73.6
Banks' bonds(1)	**1,600**	2,052	**10.9**	13.0
Other bonds (corporate and asset-backed)	**1,144**	1,060	**7.8**	6.7
Other bonds (corporate and asset-backed) guaranteed by governments	**887**	867	**6.1**	5.6
Shares(2)	**182**	178	**1.2**	1.1
Total	**14,675**	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 1,088 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 107 million, perpetual capital notes amounting to NIS 4 million, investment in foreign currency shares of NIS 56 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 9 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		Change		Segment's share of total securities	
	31.3.17	31.12.16		Change	31.3.17	31.12.16
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**6,041**	6,966	(925)	(13.3)	**41.2**	44.2
- CPI-linked	**1,594**	1,667	(73)	(4.4)	**10.9**	10.6
Foreign currency denominated & linked	**6,858**	6,965	(107)	(1.5)	**46.7**	44.1
Non-monetary items	**182**	178	4	2.2	**1.2**	1.1
Total	**14,675**	15,776	(1,101)	(7.0)	**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 March 31, 2017:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**59**	**4**	**119**	**182**
Local currency government bonds	**6,513**	**-**	**-**	**6,513**
Local currency corporate bonds	**812**	**310**	**-**	**1,122**
Non-asset backed foreign-currency and f-c linked bonds	**54**	**6,478**	**-**	**6,532**
MBS bonds	**-**	**316**	**-**	**316**
Others (structured and credit-based structured)	**-**	**-**	**10**	**10**
Total	**7,438**	**7,108**	**129**	**14,675**
% of portfolio	**50.7%**	**48.4%**	**0.9%**	**100.0%**

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

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

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

	As of	
	31.3.17	31.12.16
		NIS million
Israel (incl. Israel Government-31.3.17 - NIS 2,346 million, 31.12.16 - NIS 1,961 million)	**2,548**	2,140
USA (incl. USA Government-31.3.17 - NIS 1,889 million, 31.12.16 - NIS 2,001 million)	**2,163**	2,325
France	**351**	314
UK	**160**	228
Europe - others * (31.3.17 - 5 countries; 31.12.16 - 6 countries)	**476**	474
Australia	**17**	88
Canada	**97**	129
Germany (incl. Germany Government or guaranteed by it -31.3.17 - NIS 473 million, 31.12.16 - NIS 527 million)	**494**	582
Netherlands	**-**	66
Far East, New Zealand* and others (31.3.17 - 5 countries; 31.12.16 - 5 countries)	**226**	199
Total	**6,532**	6,545

It should be noted that there is no issuer (except the Israel Government and USA Government) whose bond balance exceeds 4% of the shareholders' equity of the Bank.

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

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

	As of	
	31.3.17	31.12.16
		NIS million
Financial services	**74**	69
Banks	**242**	262
Industry	**35**	34
Electricity and water	***522**	*515
Construction and real estate	**112**	108
Communications and computer services	**19**	19
Commerce	**13**	20
Public and community services	**16**	20
Transportation	**74**	74
Hotels, hospitality and food services	**15**	15
Total	**1,122**	1,136

* Including NIS 352 million guaranteed by the Israel Government (31.12.16 - NIS 351 million).

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

- **Non asset-backed bonds denominated in or linked to foreign currency**-amounting to NIS 6,532 million (Dollar 1,798 million) (includes foreign corporations amounting to NIS 1,982 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 201 million, foreign currency denominated Israel Government bonds amounting to NIS 2,346 million and foreign government bonds amounting to NIS 2,003 million). All of the foreign bonds are investment grade and 96% of the portfolio is rated A or higher; 4.2% 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 does not exceed 0.5% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 2.7 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 15 million (Dollar 4 million) compared with NIS 2 million (Dollar 0.5 million) on December 31, 2016.
- **Mortgage Backed Securities (MBS)** - amount to NIS 316 million (Dollar 87 million).

  The bonds were issued by federal agencies in the USA. Of these, NIS 308 million (Dollar 85 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 8 million (Dollar 2 million) was issued by the US federal agencies Fannie Mae and Freddie Mac.

  Set out below is a sensitivity analysis as of March 31, 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	**(3.6)**	**(6.1)**
Increase of 100 base points	**(3.0)**	**(3.0)**
Decrease of 100 base points	**10.6**	**2.0**
Decrease of 200 base points	**25.6**	**2.3**

- **Private equity funds -** investments in private equity funds amounted to NIS 107 million (Dollar 30 million). The balance of Commitments to invest in private equity funds amounted to NIS 52 million as of March 31, 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 March 31, 2017, amounted to NIS 12 million.

Cash and deposits at banks on March 31, 2017 totaled NIS 30,255 million compared with NIS 29,150 million at the end of 2016, an increase of 3.8%

Deposits from the public on March 31, 2017 totaled NIS 106,198 million compared with NIS 105,817 million at the end of 2016, an increase of 0.4%.

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	
	31.3.17	**31.12.16**		**Change**	**31.3.17**	**31.12.16**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**80,372**	77,324	3,048	3.9	**75.7**	73.1
- CPI-linked	**6,065**	6,125	(60)	(1.0)	**5.7**	5.8
Foreign currency denominated & linked	**19,263**	21,906	(2,643)	(12.1)	**18.1**	20.7
Non-monetary items	**498**	462	36	7.8	**0.5**	0.4
Total	**106,198**	105,817	381	0.4	**100.0**	100.0

Deposits from the public by segment of activity

			As of		Change
	31.3.17	**31.12.16**	**31.3.16**	**31.12.16**	**31.3.16**
			NIS million		%
Corporate banking segment	**9,794**	10,392	9,862	(5.8)	(0.7)
Middlemarket banking segment	**5,315**	5,584	4,933	(4.8)	7.7
Small and minute business segment	**15,782**	16,359	15,880	(3.5)	(0.6)
Household segment	**45,761**	45,709	44,155	0.1	3.6
Private banking segment	**7,743**	8,325	7,985	(7.0)	(3.0)
Institutional entities	**21,803**	19,448	21,038	12.1	3.6
Total	**106,198**	105,817	103,853	0.4	2.3

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of March 31, 2017, amounted to NIS 332 billion, as compared to NIS 331 billion at the end of 2016.

Bonds and deferred debt notes amounted at March 31, 2017 to NIS 5,575 million, as compared with NIS 5,801 million at December 31, 2016, a decrease of 3.9%.

On February 8, 2017 the First International Issuance Ltd., a wholly owned subsidiary of the Bank, issued on private placement, subordinated capital notes with loss absorbtion mechanizm, at par value of NIS 50 million in proceed of NIS 52 million. 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 March 31, 2017 to NIS 7,456 million, as compared with NIS 7,321 million on December 31, 2016, an increase of 1.8%.
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". In accordance with these instructions, the minimum capital targets are as follows:

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

An additional instruction was published by the Supervisor of Banks on September 28, 2014. According to this instruction and to the transitional instructions for the year 2014, an additional capital requirement was added as from January 1, 2015, to the minimum capital ratios at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date. 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 approvement 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 March 31, 2017 would have reduced the capital adequacy ratio by 0.18%.

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, 2015 data, and have started to conduct the process in relation to the December 31, 2016 data.

		As of	
		31.3.17	**31.12.16**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments**		
	Tier 1 capital, after deductions and supervisory adjustments	**7,738**	7,684
	Tier 2 capital	**2,682**	2,819
	Total capital	**10,420**	10,503
2.	**Weighted balances of risk assets**		
	Credit risk	**69,693**	69,262
	Market risk	**804**	748
	Operational risk	**5,955**	6,168
	Total weighted balances of risk assets	**76,452**	76,178
3.	**Ratio of capital to risk assets**		
	Raito of tier 1 equity capital to risk assets	**10.12%**	10.09%
	Total ratio of capital to risk assets	**13.63%**	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 March 31, 2017, amounted to 10.12%, in comparison with 10.09% on December 31, 2016. The ratio of comprehensive capital to risk components as of March 31, 2017, amounted to 13.63%, in comparison with 13.79% on December 31, 2016. The comprehensive capital as of March 31, 2017 amounted to NIS 10,420 million, in comparison with NIS 10,503 million on December 31, 2016. The reduction in the capital base stemmed mostly from a reduction of NIS 149 million in instruments issued by the Bank qualified for inclusion in the supervisory capital and from dividend paid in the amount of NIS 70 million. This reduction was partly offset by the profits for the quarter in the amount of NIS 166 million. Risk assets as of March 31, 2017 amounted to NIS 76,452 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:

	March 31, 2017	December 31, 2016
		In percent
Significant subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of Tier 1 capital to risk assets	**10.68**	10.63
Ratio of overall capital to risk assets	**13.28**	13.39
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**12.93**	13.17
Ratio of overall capital to risk assets	**14.03**	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 March 31, 2017, amounts to 5.54%.

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.

On March 15, 2017, the Board of Directors decided on distribution of cash dividend to the shareholders of the Bank in a total amount of NIS 70 million. The determination date in respect of the dividend payment was March 23, 2017 and payment date was April 2, 2017. The amount of the dividend is before any tax, including witholding tax which the Bank has to deduct according to the law.

The decisions and reasons are detailed in the immediate report of the Bank dated March 16, 2017 (reference no. 2017-01-021802). The said in these reports is included by way of reference.

After balance sheet date, on May 23, 2017, the Board of Directors decided on distribution of cash dividend to the shareholders of the Bank in a total amount of NIS 70 million. The determination date in respect of the dividend payment is June 6, 2017 and payment date is June 14, 2017. The amount of the dividend is before any tax, including witholding tax which the Bank has to deduct according to the law.

SUPERVISORY SEGMENTS OF OPERATIONS

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 then or equals NIS 10 million, and is less than NIS 50 million.
- **Middle-market business** - a business the turnover of which is higher then or equals NIS 50 million, and is less than NIS 250 million.
- **Large business** - a business the turnover of which is higher then or equals NIS 250 million.
- **Istitutional 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 comercial 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 the total assets in the balance sheet of the business, and in the event that this information is also unavailable, the bank is entitled to classify the customer according to its total financial assets at the bank (including financial deposits, securities portfolio and other financial assets), where instead of total balance sheet assets the classification will be according to total 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.
- Minority interest in net earnings - The charging of minority interest in the different segments of activity is calculated on the basis of the net earnings of subsidiaries with minority interest, as these earnings are attributed to the different segments of activity.

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

a. Total income*

	For the three months ended March 31,			Segment's share of total income	
	2017	**2016**	**Change**	**31.3.17**	**31.3.16**
		NIS million	%		%
Large business segment	**111**	101	9.9	**11.7**	11.2
Medium business segment	**51**	50	2.0	**5.4**	5.6
Small and minute business segment	**225**	204	10.3	**23.7**	22.7
Household segment	**383**	405	(5.4)	**40.3**	45.1
Private banking segment	**25**	26	(3.8)	**2.6**	2.9
Institutional entities	**54**	60	(10.0)	**5.7**	6.7
Financial management segment	**101**	53	90.6	**10.6**	5.8
Total	**950**	899	5.7	**100.0**	100.0

b. Net profit attributed to the shareholders of the bank

	For the three months ended March 31,	
	2017	**2016**
		NIS million
Large business segment	**44**	54
Medium business segment	**7**	16
Small and minute business segment	**25**	35
Household segment	**13**	1
Private banking segment	**5**	3
Institutional entities	**7**	6
Financial management segment	**65**	32
Total	**166**	147

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Total assets				
	For the three months ended March 31,			% of total assets	
	2017	**2016**	**Change**	**31.3.17**	**31.3.16**
		NIS million	%	%	%
Large business segment	**17,328**	17,724	(2.2)	**13.6**	13.9
Medium business segment	**4,439**	4,289	3.5	**3.5**	3.4
Small and minute business segment	**15,393**	14,331	7.4	**12.1**	11.3
Household segment	**39,612**	37,023	7.0	**31.1**	29.1
Private banking segment	**317**	411	(22.9)	**0.2**	0.3
Institutional entities	**635**	690	(8.0)	**0.5**	0.5
Financial management segment	**49,835**	52,637	(5.3)	**39.0**	41.5
Total	**127,559**	127,105	0.4	**100.0**	100.0

	Total liabilities				
	For the three months ended March 31,			% of total liabilities	
	2016	**2017**	**Change**	**31.3.17**	**31.3.16**
		NIS million	%	%	%
Large business segment	**11,606**	11,166	3.9	**9.7**	9.3
Medium business segment	**5,495**	4,976	10.4	**4.6**	4.2
Small and minute business segment	**16,054**	16,033	0.1	**13.4**	13.4
Household segment	**45,919**	43,539	5.5	**38.4**	36.5
Private banking segment	**8,069**	8,126	(0.7)	**6.8**	6.8
Institutional entities	**20,493**	23,572	(13.1)	**17.1**	19.7
Financial management segment	**11,948**	12,026	(0.6)	**10.0**	10.1
Total	**119,584**	119,438	0.1	**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 March 31, 2017				For the three months ended March 31, 2016			
	Small and minute bussiness segment	Medium bussiness segment	Large bussiness segment	Total	Small and minute bussiness segment	Medium bussiness segment	Large bussiness segment	Total
								NIS million
Net interest income	**145**	**35**	**74**	**254**	129	33	69	231
Non-interest income	**80**	**16**	**37**	**133**	75	17	32	124
Total income	**225**	**51**	**111**	**387**	204	50	101	355
Expenses (income) from credit losses	**21**	**12**	**(10)**	**23**	(21)	(8)	(49)	(78)
Operating and other expenses	**161**	**26**	**48**	**235**	157	28	49	234
Net profit attributed to the shareholders of the Bank	**25**	**7**	**44**	**76**	35	16	54	105
Average balance of assets	**15,393**	**4,439**	**17,328**	**37,160**	14,331	4,289	17,724	36,344
Balance of credit to the public at the end of the reported period	**15,712**	**4,553**	**17,560**	**37,825**	14,464	4,409	17,713	36,586
Average balance of liabilities	**16,054**	**5,495**	**11,606**	**33,155**	16,033	4,976	11,166	32,175
Balance of deposits from the public at the end of the reported period	**15,782**	**5,315**	**9,794**	**30,891**	15,370	4,933	9,862	30,165

Total net interest income amounted to NIS 254 million, compared with NIS 231 million in the same period last year, an increase of 10.0% explained mainly by the increase in the volume of credit to the public in these segments.

The operating and other expenses amounted to NIS 235 million, compared to NIS 234 million in the corresponding period last year.

The net profit attributed to the shareholders of the Bank in respect of the small and minute, medium sized and large businesses, amounted to NIS 76 million, in comparison with NIS 105 million in the same period last year. The decrease in profit is explained by the increase in expense for credit losses attributed to the business segments, which derived from a one-time income recorded in the corresponding period last year due to a reduction in the collective provision coefficients. This decrease was partially offset by increase in income.

Credit to the public as of March 31, 2017 amounted to NIS 37,825 million, in comparison with NIS 36,586 million on March 31, 2016, an increase of 3.4%.

Deposits from the public as of March 31, 2017 amounted to NIS 30,891 million, in comparison with NIS 30,165 million on March 31, 2016, an increase of 2.4%.

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 March 31, 2017			For the three months ended March 31, 2016		
	household segment	private banking segment	Total	household segment	private banking segment	Total
						NIS million
Net interest income	**240**	**6**	**246**	259	5	264
Non-interest income	**143**	**14**	**157**	146	13	159
Total income	**383**	**20**	**403**	405	18	423
Expenses (income) from credit losses	**11**	**-**	**11**	13	(1)	12
Operating and other expenses	**345**	**14**	**359**	379	14	393
Net profit attributed to the shareholders of the Bank	**13**	**4**	**17**	1	3	4
Average balance of assets	**39,612**	**49**	**39,661**	37,023	47	37,070
Balance of credit to the public at the end of the reported period	**40,407**	**51**	**40,458**	37,673	45	37,718
Average balance of liabilities	**45,919**	**8,069**	**53,988**	43,539	7,296	50,835
Balance of deposits from the public at the end of the reported period	**45,761**	**7,743**	**53,504**	44,155	7,201	51,356

Total net interest income amounted to NIS 246 million, as compared with NIS 264 million in the corresponding period last year. This decrease is explained by interest recognized in respect of prior years. This decrease was partialy offset by an increase in interest income due to increase in the credit balances

Non-interest income amounted to NIS 157 million, in comparison with NIS 159 million in the corresponding period last year.

Operating and other expenses amounted to NIS 359 million, as compared to NIS 393 million in the corresponding period last year, a decrease of 8.7%. 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 17 million, compared with NIS 4 million in the corresponding period last year. The growth in profits stems mainly from a decrease in other and operating expenses.

Credit to the public as of March 31, 2017 amounted to NIS 40,458 million, in comparison with NIS 37,718 million on March 31, 2016, an increase of 7.3%.

Deposits from the public as of March 31, 2017 amounted to NIS 53,504 million, in comparison with NIS 51,356 million on March 31, 2016, an increase of 4.1%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 101 million compared with NIS 53 million in the corresponding period last year.

The net earnings of the Financial Management Segment amounted to NIS 65 million compared with NIS 32 million in the corresponding period last year.

The increase in net profit, is explained mainly by an increase in capital gains from the sale of buidings and equipments, which amounted to NIS 41 million, before the tax effect, compared to NIS 11 milion in the corresponding period last year.

PRINCIPAL INVESTEE COMPANIES

INVESTEE COMPANIES IN ISRAEL

The Bank's investments in investee companies in Israel totaled NIS 2,359 million on March 31, 2017, compared with NIS 2,330 million on December 31, 2016, a increase of 1.2%.
The Bank's share in the net earnings of investee companies in Israel amounted to NIS 32 million compared with NIS 41 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 1,230 million on March 31, 2017. Total assets of Otsar Hahayal on March 31, 2017 amounted to NIS 20,980 million compared with NIS 20,774 million on December 31, 2016, an increase of 1.0%. Shareholders' equity of Otsar Hahayal on March 31, 2017 amounted to NIS 1,230 million compared with NIS 1,209 million on December 31, 2016, an increase of 1.7%.
Net earnings of Otsar Hahayal amounted to NIS 16.4 million compared with NIS 39.0 million in the same period last year, a decrease of 57.9%.
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, partialy offset by an increase in the spread of credit and increase in the volume of activity.
B. Increase in the expenses from credit losses derived mainly by the change in the coefficient in the collective provision.

Net return on equity amounted to 5.5% compared with 14.1% in the same period last year.
The ratio of capital to risk assets amounted to 13.28% compared with 13.39% at the end of 2016. The Tier 1 equity capital ratio amounted to 10.68% compared with 10.63% at the end of 2016.
On April 2016, The Board of Directors of Otsar Hahayal resolved after discussion of the ICAAP document regarding the evaluation of the capital adequacy, that during 2016 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 9.32%.

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 310 million on March 31, 2017. Total assets of Massad on March 31, 2017 amounted to NIS 7,185 million compared with NIS 7,115 million on December 31, 2016, an increase of 1.0%. Shareholders' equity of Massad on March 31, 2017, totaled NIS 590 million compared with NIS 577 million on December 31, 2016, an increase of 2.3%.
Net earnings of Massad totaled NIS 11.5 million compared with NIS 10.2 million in the same period last year, a increase of 12.7%.
The Bank's share in Massad's operating results, net of amortization of excess of cost of the acquisition, amounted to NIS 3.7 million compared with NIS 3.0 million in the same period last year.
The unamortized balance of the excess of cost of the acquisition of Massad amounted to NIS 9 million on March 31, 2017.
Net return on equity amounted to 8.1% compared with 7.8% in the same period last year. The ratio of capital to risk assets amounted to 14.03%, compared with 14.31% at the end of 2016. The Tier 1 capital ratio amounted to 12.93% compare with 13.17% at the end of 2016.
In the framework of the ICAAP process for the data of December 31, 2015 the minimal capital targets were set: tier 1 equity capital ratio will not be less than 10.5% until December 31, 2018 and the comprehensive capital ratio was set gradually and will be no less than 13.25% until December 31, 2018.

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 518 million on March 31, 2017.
The ratio of capital to risk assets on March 31, 2017 amounted to 15.4%, compare with 15.8% at the end of 2016.
The Bank’s share in the net earnings of ICC before the tax effect amounted to NIS 12.7 million compared with NIS 11.8 million in the same period last year, an increase of 7.6%.

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.

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 (cross system 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 performes an indepth process of identifying additional risks focals and challenging the risks focals identified in the first pillar. If needed the Group makes an additional capital allocation in respect of Pillar 1 risks and other risks.

b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group and at increasing its earnings expectancy by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.

c. The 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 apetite, 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 incharge 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;

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

   Mr. Amnon Beck served as the CEO of MATAF until February 19, 2017 was the IT risk manager. At his place Mr. Ron Grisaro should be appointed, after receiving the approval of the Bank of Israel. At this stage and up to the appointment of replacement, Mrs. Iris Levanon serves as the stand-in for the CEO and IT risk officer.

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

   Adv. Dalia Blank, Chief Legal Counsel-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. In accordance with the Supervisor of Banks' directive on "the Chief Risk Manager and the risk management function," a Chief Risk Manager was appointed at each banking subsidiary, subordinate to the subsidiary's CEO and guided professionally by the Bank's Chief Risk Manager.
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 March 31, 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 to 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 1,981 million compared with NIS 2,069 million at the end of 2016, a decrease of 4.3%

The ratio of problematic credit risk to total credit risk at the group amounted to 1.7% at the end of march 2017, compared with 1.8% at the end of 2016. 17.5% of problematic credit risk at the group are attributed to the manufacturing sector, 10.7% to the real estate sector, 22.8% to the commerce sector, 13.4% to the public services sector, and 25.4% to the private customers including housing loans. The ratio of problematic credit risk to total credit to the public amounted to 2.2%, compared with 2.3% at the end of 2016.

1. Problematic credit risk

	March 31, 2017			March 31, 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	**749**	**143**	**892**	767	204	971	582	174	756
Inferior credit risk	**235**	**19**	**254**	158	20	178	475	21	496
Credit under special supervision risk	**764**	**71**	**835**	775	211	986	740	77	817
Total problematic credit risk*	**1,748**	**233**	**1,981**	1,700	435	2,135	1,797	272	2,069
* Of which: Non-impaired debts in arrears of 90 days or more	**201**	**-**	**201**	220	-	220	221	-	221

	Balance on March 31, 2017	Balance on March 31, 2016	Balance on December 31, 2016
			NIS million
2. Non-performing assets			
Impaired credit to the public not accruing interest income:	**696**	730	541
3. Performing impaired assets			
Impaired debts undergoing problematic debts restructuring and accruing interest income	**48**	28	36
Impaired bonds accruing interest income	**5**	9	5
Total performing impaired assets	**53**	37	41

	For the three months ended March 31, 2017	For the three months ended March 31, 2016	For the year ended December 31, 2016
			NIS million
4. Changes in impaired debts			
Balance of impaired debts at beginning of year	**577**	**764**	764
Classified as impaired	**291**	**88**	243
Removed from impaired classification	**(33)**	**(48)**	(61)
Collection of debts	**(49)**	**(37)**	(258)
Accounting wirte-offs	**(42)**	**(9)**	(111)
Balance of impaired debts at end of period	**744**	**758**	577

	For the three months ended March 31		For the year ended December 31
	2017	**2016**	**2016**
5. Risk Indices			
Ratio of impaired credit to the public to total credit to the public	**0.9%**	1.0%	0.7%
Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public	**0.3%**	0.3%	0.3%
Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public	**1.7%**	1.9%	1.8%
Ratio of expenses (income) for credit losses to average total credit to the public	**0.18%**	(0.36%)	0.10%
Ratio of net write-offs in respect of credit to the public to average total credit to the public	**0.30%**	(0.01%)	0.09%

The increase in the rate of the impaired credit to the public from the credit to the public in the first quarter of the year compared with the year ended December 31, 2016, is explained by a ckassification of a borrower from inferior credit to impaired credit.

The increase in the epenses 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 quarter of 2017 the collective provision amounted to NIS 31 million, compared with an income of NIS 67 million in the corresponding period last year, stemming from the reduction in the collective provision coefficients due to the exclusion of the 2011 data from the calculation of the coefficient.

Provision for credit losses

The Bank operates in the subject of expenses for credit losses and problematic debts according to the directives of the Supervisor of Banks that went into effect on January 1, 2011 and its amendments since that date. The Bank estimates, forecasts and updates the level of provision to credit losses in each calendar year, according to the economic forecasts, estimates regarding the different markets and past experience.

For additional information regarding provisions for credit losses see note 6.

	Balance on March 31, 2017	Balance on March 31, 2016	Balance on December 31, 2016
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.0%**	1.0%	1.1%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**111.2%**	103.8%	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	**87.5%**	80.5%	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	**31.1%**	(0.5%)	7.9%

* Annualized.

Total credit risk according to economic sectors
(NIS million)

	as at March 31, 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 write-offs	Provision for Credit losses
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	548	505	25	547	432	25	7	-	-	10
Mining and quarrying	153	151	1	67	54	1	-	-	-	-
Industry	10,351	9,683	346	10,090	7,381	346	137	4	19	134
Construction and Real estate - construction(7)	9,720	9,341	129	9,669	3,783	128	89	1	2	89
Construction and Real estate - real estate activities	5,240	5,027	82	5,134	4,608	82	74	(4)	(2)	22
Electricity and water supply	1,549	1,481	3	959	700	3	1	-	-	5
Commerce	8,681	7,860	452	8,575	7,322	452	184	18	20	180
Hotels, hospitality and food services	954	868	23	937	778	23	7	1	8	11
Transport and storage	1,052	977	38	942	759	33	11	2	1	14
Information and communications	2,435	2,339	31	2,337	1,328	31	18	(2)	-	12
Financial services	13,220	12,829	266	9,687	7,283	266	228	7	1	36
Other business services	2,580	2,405	24	2,540	1,658	24	7	2	1	13
Public and community services	2,493	2,335	49	2,458	1,868	49	20	(2)	(1)	9
Total commercial(8)	58,976	55,801	1,469	53,942	37,954	1,463	783	27	49	535
Private individuals - housing loans	23,176	22,609	158	23,176	22,058	158	11	-	2	113
Private individuals - others	29,459	27,765	346	29,435	18,150	346	85	7	7	245
Total public - ectivity in Israel	111,611	106,175	1,973	106,553	78,162	1,967	879	34	58	893
Banks in Israel	1,181	1,181	-	670	670	-	-	-	-	-
Israeli government	10,003	10,003	-	652	648	-	-	-	-	-
Total activity in Israel	122,795	117,359	1,973	107,875	79,480	1,967	879	34	58	893
In respect of borrowers abroad										
Public-Commercial:										
Mining and quarrying	75	75	-	-	-	-	-	-	-	-
Industry	377	377	-	355	354	-	-	-	-	-
Construction and Real estate - construction	2	2	-	2	2	-	-	-	-	-
Construction and Real estate - real estate activities	53	53	-	53	51	-	-	-	-	-
Commerce	2	2	-	-	-	-	-	-	-	-
Transport and storage	17	9	8	17	10	8	8	-	-	-
Information and communications	15	15	-	4	3	-	-	-	-	-
Financial services*	1,131	1,131	-	239	238	-	-	-	-	1
Public and community services	109	109	-	-	-	-	-	-	-	-
Total commercial	1,781	1,773	8	670	658	8	8	-	-	1
Private individuals - others	3	3	-	-	-	-	-	-	-	-
Total public - ectivity abroad	1,784	1,776	8	670	658	8	8	-	-	1
Banks abroad	3,511	3,511	-	1,537	1,537	-	-	-	-	-
Foreign governments	2,003	2,003	-	-	-	-	-	-	-	-
Total activity abroad	7,298	7,290	8	2,207	2,195	8	8	-	-	1
Total public	113,395	107,951	1,981	107,223	78,820	1,975	887	34	58	894
Total banks	4,692	4,692	-	2,207	2,207	-	-	-	-	-
Total governments	12,006	12,006	-	652	648	-	-	-	-	-
Total	130,093	124,649	1,981	110,082	81,675	1,975	887	34	58	894

See note on page 46.

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

(NIS million)

	as at March 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 charge-offs	Provision for Credit losses
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	537	458	14	532	427	14	6	3	-	6
Mining and quarrying	268	266	-	76	61	-	-	-	-	-
Industry	10,455	9,357	653	10,195	7,652	653	254	(52)	(1)	162
Construction and Real estate - construction(7)	9,758	9,272	199	9,686	3,494	198	156	(24)	1	56
Construction and Real estate - real estate activities	5,041	4,812	98	4,909	4,373	98	77	-	(2)	24
Electricity and water supply	1,318	1,290	3	751	475	3	-	(2)	-	1
Commerce	8,673	7,572	417	8,576	7,156	417	262	(2)	3	153
Hotels, hospitality and food services	842	617	29	838	693	29	13	1	-	19
Transport and storage	888	767	24	873	717	15	7	(1)	-	10
Information and communications	2,457	2,208	68	2,331	1,305	68	22	(2)	(2)	11
Financial services	13,699	13,383	29	9,907	7,303	29	12	-	-	24
Other business services	2,059	1,804	26	2,043	1,261	26	9	1	(1)	12
Public and community services	2,143	1,898	46	2,097	1,599	46	20	(1)	-	7
Total commercial(8)	58,138	53,704	1,606	52,814	36,516	1,596	838	(79)	(2)	485
Private individuals - housing loans	22,535	21,930	197	22,535	20,612	197	20	3	1	121
Private individuals - others	26,781	25,119	311	26,741	17,113	311	83	8	-	229
Total public - ectivity in Israel	107,454	100,753	2,114	102,090	74,241	2,104	941	(68)	(1)	835
Banks in Israel	1,977	1,977	-	1,228	1,228	-	-	-	-	-
Israeli government	10,567	10,567	-	646	645	-	-	-	-	-
Total activity in Israel	119,998	113,297	2,114	103,964	76,114	2,104	941	(68)	(1)	835
In respect of borrowers abroad										
Public-Commercial:										
Agriculture	14	14	-	14	10	-	-	-	-	-
Mining and quarrying	133	133	-	-	-	-	-	-	-	-
Industry	449	449	-	371	354	-	-	1	-	1
Construction and Real estate - construction	22	22	-	22	4	-	-	-	-	1
Construction and Real estate - real estate activities	231	218	13	231	229	13	13	-	-	3
Electricity and water supply	19	19	-	-	-	-	-	-	-	-
Commerce	162	162	-	104	51	-	-	-	-	-
Hotels, hospitality and food services	8	8	-	8	8	-	-	-	-	-
Transport and storage	17	9	8	17	10	8	8	-	-	-
Information and communications	55	55	-	6	4	-	-	-	-	-
Financial services*	1,032	1,032	-	304	278	-	-	-	-	2
Other business services	289	289	-	289	89	-	-	-	-	-
Total commercial	2,431	2,410	21	1,366	1,037	21	21	1	-	7
Private individuals - others	125	125	-	121	43	-	-	-	-	1
Total public - ectivity abroad	2,556	2,535	21	1,487	1,080	21	21	1	-	8
Banks abroad	4,526	4,526	-	1,585	1,585	-	-	-	-	-
Foreign governments	2,742	2,742	-	-	-	-	-	-	-	-
Total activity abroad	9,824	9,803	21	3,072	2,665	21	21	1	-	8
Total public	110,010	103,288	2,135	103,577	75,321	2,125	962	(67)	(1)	843
Total banks	6,503	6,503	-	2,813	2,813	-	-	-	-	-
Total governments	13,309	13,309	-	646	645	-	-	-	-	-
Total	129,822	123,100	2,135	107,036	78,779	2,125	962	(67)	(1)	843

See note on page 46.

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 charge-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 - ectivity 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
Other business 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 - ectivity 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 46.

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

NOTES:

* Of which, NIS 316 million of investments in mortgage-backed bonds (31.3.16 - NIS 562 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 81,675, 14,493, 492, 1,340 and 32,093 million respectively (31.3.16 - NIS 78,779, 16,382, 726, 1,872 and 32,063 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.

(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 first quarter of 2016 is explained by improvement in the Bank's credit rating systems.

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

(7) Including balance sheet credit risk amounting to NIS 250 million, and non-utilized credit facilities amounting to NIS 667 million, in respect of loans extended to certain purchasing groups currently in the process of constuction (31.3.16 - NIS 326 million and NIS 984 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 2,298 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currencty in the process of constructions (31.3.16 - NIS 2,147 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	As of March 31, 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-	**850**	**96**	**946**	945	100	1,045
A+ to A-	**1,409**	**65**	**1,474**	1,161	14	1,175
BBB+ to BBB-	**38**	**9**	**47**	205	14	219
BB+ to B-	**99**	**-**	**99**	64	-	64
Unrated	**53**	**6**	**59**	55	8	63
Total credit exposure to foreign financial institutions	**2,449**	**176**	**2,625**	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. As of March, 2016 the investment in shares in respect of foreign financial institutions amounted to NIS 48 million (December 31, 2015, NIS 47 million).

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

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

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

GENERAL NOTES:

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

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

c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 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 321 million on March 31, 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 (93%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 44% of the total exposure is rated in the range between AAA to AA-.

The Group's balance-sheet credit exposure to foreign financial institutions includes an NIS 0.3 billion investment in foreign currency bonds. All these bonds are investment grade bonds, 81% of which are rated A- or higher. The average duration of the portfolio is two years.

In addition, balance-sheet credit risk includes NIS 1.5 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of March 31, 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 1,563 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.

The Bank holds inter alia NIS 74 million of Italian government bond rated BBB- and due for redemption in June 2017.

The interest payments on the bond are being paid as required.

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 March 31, 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	2,201	1,090	485	-	-	-
Spain	-	3	9	-	-	-
Italy	74	1	30	-	-	-
Ireland	-	-	12	-	-	-
Greece	-	-	1	-	-	-
Portugal	-	-	2	-	-	-
Other	36	2,079	1,887	251	28	223
Total exposure to foreign countries	2,311	3,173	2,426	251	28	223
Total exposure to LDC countries	-	77	202	-	-	-

(1) On the basis of final risk, after effect of guaruntees, 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
3,776	2	-	97	-	3,349	427
12	-	-	15	-	11	1
105	-	-	3	-	103	2
12	-	-	1	-	11	1
1	-	-	-	-	1	-
2	-	-	-	-	2	-
4,225	13	2	685	-	3,180	822
8,133	15	2	801	-	6,657	1,253
279	-	-	118	-	260	19

	As at March 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	3,083	1,208	724	-	-	-
UK	-	907	307	-	-	-
Spain	-	4	5	-	-	-
Italy	80	4	33	-	-	-
Ireland	-	-	19	-	-	-
Greece	-	-	-	-	-	-
Portugal	-	-	2	-	-	-
Other	38	1,861	999	252	29	223
Total exposure to foreign countries	3,201	3,984	2,089	252	29	223
Total exposure to LDC countries	-	81	250	-	-	-

	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	-	-	-

			Off-Balance sheet exposure(2)(3)		Cross-border balance sheet exposure(2)	
Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Total off-balance sheet exposure	Of which: off-balance sheet problematic credit risk	Maturity up to one year	Maturity over one year
5,015	-	-	80	-	3,058	1,957
1,214	14	13	142	-	934	280
9	1	-	20	-	7	2
117	-	-	2	-	33	84
19	-	-	1	-	6	13
-	-	-	1	-	-	-
2	-	-	-	-	2	-
3,121	18	6	319	-	1,285	1,613
9,497	33	19	565	-	5,325	3,949
331	4	-	54	-	192	139

			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
3,782	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

Balance-sheet exposures:

Balance-sheet balances	Balance-sheet balances	Balance-sheet balances
March 31, 2017	**March 31, 2016**	**December 31, 2016**
United Kingdom 870	-	United Kingdom 880

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

	For the three months ended									
	March 31, 2017					March 31, 2016				
	Greece	Ireland	Portugal	Puerto Rico	Venezuela	Hungary	Iceland	Romania	Portugal	Puerto Rico
Total exposure at beginning of the reported period	**-**	**14**	**2**	**2**	**2**	1	10	4	1	3
Short-term changes in total exposure, net	**1**	**(2)**	**-**	**2**	**-**	-	-	1	1	(1)
Total exposure at end of the reported period	**1**	**12**	**2**	**4**	**2**	1	10	5	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, 982 million in the first three months of 2017 compared with NIS 1,283 million in the same period last year, a decrease of 23.5%. These data include housing loans from the Bank's own sources (excluding credit from Treasury funds) in the amount of NIS 981 million compared with NIS 1,282 million in the same period last year, a decrease of 23.5%. Rollovers deriving from early repayments in the first three months of 2017, totaled NIS 44 million compared with NIS 152 million in the same period last year, a decrease of 71.1%.

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

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

When granting credit to purchase groups, the Bank focuses on groups that are building in demand areas. The Supervisor of Banks' directives concerning purchase groups are fully applied at the Bank. Apart from conducting current examinations, the Bank holds a quarterly discussion on all purchase groups' portfolios, examines the projects in question, and ascertains whether an allowance for credit losses is necessary with respect to the purchase groups, over and above the individual risk of each member of the groups. During the forth quarter of 2016 the handaling of purchase group new and existing (over 10 units) in which performance rate is less 50%, to the construction and real estate sector in the corporate division.

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 March 31, 2017 amounted to NIS 21,937 million, including 71% of credit granted at an LTV of up to 60% compared to 70% on March 31, 2016. 95% of total loans were granted at an LTV of up to 75%, similar to March 31, 2016.

Housing loan extensions from the Bank's sources in the first three months of 2017 including 77% of credit granted at an LTV of up to 60%, compared with 68% 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 March 31, 2017 included 79% of credit granted at a debt-income ratio of up to 35% compared with 78% on March 31, 2016. 90% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, similar to March 31, 2016.

Housing loan extensions from the Bank's sources in the first three months of 2017 included 83% of credit granted at a debt-income ratio of up to 35% compared with 85% in the same period last year. 90% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% compared to 93% in the same period last year.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of March 31, 2017 includes 63% of credit that was granted at floating-rate interest and amounts to NIS 13,801 million.

Housing loan extensions from the Bank's sources in the first three months of 2017 include NIS 320 million of credit granted at floating-rate interest of up to five years constituting 33% of extentions. An amount of NIS 217 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 March 31, 2017 includes 62% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 13,702 million.

Housing loan extensions from the Bank's sources in the first three months of 2017 include 48% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 473 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
31.3.17	**4,670**	**23.3**	**8,719**	**43.6**	**2,860**	**14.3**	**3,703**	**18.5**	**63**	**0.3**	**20,015**	**1,922**	**21,937**
31.12.16	4,494	22.8	8,530	43.4	2,873	14.6	3,708	18.8	72	0.4	19,677	1,947	21,624

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

	Three months 2017	2016	2015	2014	2013
Total housing loan extensions (NIS million)	**981**	4,337	4,796	3,707	3,550
Rate of change in housing loan extensions compared with previous year	**(23%)**	(10%)	29%	4%	(5%)
Rate of expense (income) on credit losses relative to mortgages at the Bank's risk	**(0.05%)**	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%**	0.55%	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 risl 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
	31.3.17	31.3.16	31.12.16	31.3.16	31.12.16
			NIS million		%
Current account and utilized balances of credit cards	**4,622**	4,453	4,598	3.8	0.5
Other loans	**13,528**	12,660	13,339	6.9	1.4
Total balance credit risk	**18,150**	17,113	17,937	6.1	1.2
Unutillized current acount credit lines	**3,925**	3,775	3,805	4.0	3.2
Unutillized credit lines in credit cards	**5,702**	5,177	5,561	10.1	2.5
Other off-balance credit risks	**1,682**	716	1,817	134.9	(7.4)
Total off-balance credit risk	**11,309**	9,668	11,183	17.0	1.1
Total credit risk	**29,459**	26,781	29,120	10.0	1.2
Average volume of credit, including overdrafts, credit cards and loans	**17,808**	16,504	17,756	7.9	0.3

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

			As of		Change
	31.3.17	31.3.16	31.12.16	31.3.16	31.12.16
			NIS million		%
Impaired credit risks	**85**	83	84	2.4	1.2
Unimpaired credit risk	**261**	311	258	14.5	1.2
Non-problematic credit risk	**29,113**	26,470	28,778	10.0	1.2
Total credit risk	**29,459**	26,781	29,120	10.0	1.2
Of which: unimpaired debts in arrears of 90 days or more	**39**	35	41	11.4	(4.9)
Balance of restructured debts out of the problematic credit	**71**	73	71	(2.7)	-
Expense rate of credit losses out of total credit to the public	**0.16%**	0.16%	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 acceptane of credit risk. This concept is well reflected in quantitative and qualitative linitations, 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 tne 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, and reduces exposure accordingly.

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 March 31, 2017	**Overall credit risk(1)**				
	Projects not yet completed				
	Open land	**Property under construction**	**Completed building projects**	**Other(2)**	**Total**
					NIS million
	1,179	**5,142**	**3,830**	**4,809**	**14,960**

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 5,028 million, Credit secured by industrial property in the amount of NIS 389 million and credit secured by commercial property in the amount of NIS 4,734 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 March 31, 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 1,382 million, compared to NIS 1,232 million on March 31, 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	
	March 31, 2017	**December 31, 2016**
Non-linked local currency(*)	**(0.19)**	(0.90)
CPI-linked local currency	**(1.66)**	(1.57)
Foreign currency and foreign-currency linked	**(0.58)**	(0.60)

(*) The main decline in the exposure data compared with the data for December 31, 2016 derives from the swich to discounting cash flows by the money prices curve of the Bank.

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 March 31, 2017	Local currency		Foreign currency (2)			
	Non-linked	CPI-linked	Dollar	Euro	Other	Total
						NIS million
Financial assets (1)	**97,863**	**12,626**	**9,686**	**2,630**	**944**	**123,749**
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	**22,881**	**291**	**25,672**	**5,451**	**3,974**	**58,269**
Financial liabilities (1)(5)	**86,889**	**11,424**	**15,900**	**3,196**	**1,240**	**118,649**
Amounts payable in respect of derivative financial and off-balance-sheet instruments	**30,009**	**532**	**19,298**	**4,915**	**3,638**	**58,392**
Net fair value of financial instruments	**3,846**	**961**	**160**	**(30)**	**40**	**4,977**

As of March 31, 2016	Local currency*		Foreign currency (2)			
	Non-linked	CPI-linked	Dollar	Euro	Other	Total
						NIS million
Financial assets (1)	92,383	13,798	12,530	1,992	811	121,514
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	27,634	400	33,403	5,989	5,056	72,482
Financial liabilities (1)	79,699	12,094	18,449	3,717	1,518	115,477
Amounts payable in respect of derivative financial and off-balance-sheet instruments	35,677	815	27,415	4,294	4,462	72,663
Net fair value of financial instruments	4,641	1,289	69	(30)	(113)	5,856

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 March 31, 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	**3,520**	**872**	**124**	**(37)**	**35**	**-**	**4,514**	**(463)**	**(9.30)**
Immediate parallel increase of 0.1 percent	**3,811**	**952**	**156**	**(31)**	**40**	**-**	**4,928**	**(49)**	**(0.98)**
Immediate parallel decrease of one percent	**4,165**	**1,081**	**196**	**(22)**	**45**	**-**	**5,465**	**488**	**9.81**

As of March 31, 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	4,226	1,190	28	(37)	(113)	-	5,294	(562)	(9.60)
Immediate parallel increase of 0.1 percent	4,598	1,277	61	(27)	(113)	-	5,796	(60)	(1.02)
Immediate parallel decrease of one percent	5,131	1,410	99	(15)	(113)	-	6,512	565	11.20

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 1,135 million and not including the value of the assets of the program (31.12.16- NIS 1,166 million). Comparative data as of March 31, 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 71 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 17 million in a scenario of increase in interest of 1% (31.12.16 - NIS 16 million). Comparative data as of March 31, 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)	**78,051**	**3,501**	**3,730**	**5,091**	**3,010**	**3,295**
Derivative financial instruments (except options)	**6,715**	**7,911**	**3,373**	**1,866**	**919**	**928**
Options (in terms of the underlying asset)	**153**	**402**	**614**	**-**	**-**	**-**
Total fair value	**84,919**	**11,814**	**7,717**	**6,957**	**3,929**	**4,223**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**73,284**	**1,664**	**5,335**	**3,532**	**1,713**	**226**
Derivative financial instruments (except options)	**12,443**	**7,721**	**4,315**	**1,864**	**1,159**	**1,301**
Options (in terms of the underlying asset)	**219**	**443**	**543**	**1**	**-**	**-**
Total fair value	**85,946**	**9,828**	**10,193**	**5,397**	**2,872**	**1,527**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(1,027)**	**1,986**	**(2,476)**	**1,560**	**1,057**	**2,696**
Cumulative exposure in the segment	**(1,027)**	**959**	**(1,517)**	**43**	**1,100**	**3,796**
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)	**886**	**498**	**2,053**	**4,460**	**2,557**	**1,403**
Derivative financial instruments (except options)	**3**	**49**	**40**	**39**	**134**	**26**
Total fair value	**889**	**547**	**2,093**	**4,499**	**2,691**	**1,429**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**863**	**645**	**1,219**	**5,059**	**2,503**	**912**
Derivative financial instruments (except options)	**-**	**44**	**179**	**267**	**16**	**26**
Total fair value	**863**	**689**	**1,398**	**5,326**	**2,519**	**938**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**26**	**(142)**	**695**	**(827)**	**172**	**491**
Cumulative exposure in the segment	**26**	**(116)**	**579**	**(248)**	**(76)**	**415**

See notes in page 66.

Ten to twenty years	Over twenty years	With no repayment period	March 31, 2017 Total fair value	March 31, 2017 Internal rate of return	March 31, 2017 Effective duration	March 31, 2016 Total fair value	March 31, 2016 Internal rate of return	March 31, 2016 Effective duration	December 31, 2016 Total fair value	December 31, 2016 Internal rate of return	December 31, 2016 Effective duration
			NIS million	%	years	NIS million	%	years	NIS million	%	years
1,012	**77**	**96**	**97,863**	**3.35**	**0.66**	*92,383	*2.57	*0.70	96,462	3.26	0.71
-	**-**	**-**	**21,712**		**0.75**	25,649		0.67	20,643		0.79
-	**-**	**-**	**1,169**		**0.45**	1,985		0.13	1,063		0.36
1,012	**77**	**96**	**120,744**		(2)**0.67**	120,017		(2)0.69	118,168		(2)0.72
-	**-**	**-**	**85,754**	**0.91**	**0.22**	79,699	*0.94	0.21	82,326	1.12	0.22
-	**-**	**-**	**28,803**		**0.72**	34,067		0.64	30,342		0.76
-	**-**	**-**	**1,206**		**0.41**	1,610		0.17	793		0.40
-	**-**	**-**	**115,763**		(2)**0.34**	115,376		(2)0.33	113,461		(2)0.36
1,012	**77**										
4,808	**4,885**										
694	**75**	**-**	**12,626**	**3.22**	**3.17**	*13,798	*2.62	*3.26	12,801	3.15	3.18
-	**-**	**-**	**291**		**2.92**	400		2.63	375		2.38
694	**75**	**-**	**12,917**		(2)**3.16**	14,198		(2)3.24	13,176		(2)3.15
216	**7**	**-**	**11,424**	**1.02**	**2.66**	12,094	0.85	2.69	11,802	1.11	2.82
-	**-**	**-**	**532**		**1.51**	815		1.60	603		1.56
216	**7**	**-**	**11,956**		(2)**2.61**	12,909		(2)2.62	12,405		(2)2.76
478	**68**										
893	**961**										

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]	**4,720**	**1,540**	**3,500**	**943**	**431**	**2,106**
Derivative financial instruments (except options)	**18,623**	**8,610**	**5,200**	**685**	**217**	**413**
Options (in terms of the underlying asset)	**237**	**456**	**653**	**3**	**-**	**-**
Total fair value	**23,580**	**10,606**	**9,353**	**1,631**	**648**	**2,519**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities[1]	**15,874**	**2,543**	**1,691**	**180**	**15**	**28**
Derivative financial instruments (except options)	**11,847**	**7,072**	**3,897**	**969**	**333**	**2,329**
Options (in terms of the underlying asset)	**172**	**412**	**726**	**2**	**-**	**-**
Total fair value	**27,893**	**10,027**	**6,314**	**1,151**	**348**	**2,357**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(4,313)**	**579**	**3,039**	**480**	**300**	**162**
Cumulative exposure in the segment	**(4,313)**	**(3,734)**	**(695)**	**(215)**	**85**	**247**

See notes in page 66.

				March 31, 2017			March 31, 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
17	**3**	**-**	**13,260**	**2.02**	**1.57**	15,333	1.99	1.21	13,594	2.15	1.31
-	**-**	**-**	**33,748**		**0.28**	42,143		0.33	40,155		0.24
-	**-**	**-**	**1,349**		**0.40**	2,305		0.23	933		0.37
17	**3**	**-**	**48,357**		[2]**0.64**	59,781		[2]0.55	54,682		[2]0.51
5	**-**	**-**	**20,336**	**1.48**	**0.09**	23,684	1.09	0.09	23,104	1.33	0.09
92	**-**	**-**	**26,539**		**0.88**	33,511		0.74	30,277		0.68
-	**-**	**-**	**1,312**		**0.43**	2,660		0.18	1,194		0.32
97	**-**	**-**	**48,187**		[2]**0.54**	59,855		[2]0.46	54,575		[2]0.42
(80)	**3**										
167	**170**										

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)	**83,657**	**5,539**	**9,283**	**10,494**	**5,998**	**6,804**
Derivative financial instruments (except options)	**25,341**	**16,570**	**8,613**	**2,590**	**1,270**	**1,367**
Options (in terms of the underlying asset)	**390**	**858**	**1,267**	**3**	**-**	**-**
Total fair value	**109,388**	**22,967**	**19,163**	**13,087**	**7,268**	**8,171**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**90,021**	**4,852**	**8,245**	**8,771**	**4,231**	**1,166**
Derivative financial instruments (except options)	**24,290**	**14,837**	**8,391**	**3,100**	**1,508**	**3,656**
Options (in terms of the underlying asset)	**391**	**855**	**1,269**	**3**	**-**	**-**
Total fair value	**114,702**	**20,544**	**17,905**	**11,874**	**5,739**	**4,822**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(5,314)**	**2,423**	**1,258**	**1,213**	**1,529**	**3,349**
Cumulative exposure in the segment	**(5,314)**	**(2,891)**	**(1,633)**	**(420)**	**1,109**	**4,458**
In addition, exposure to interest rates in respect of liabilities for employee rights, gross - pension and severance pay	**16**	**24**	**102**	**241**	**143**	**239**

* 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 Statments.
- 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 precent, in the fair value of the group of financial instruments which whould 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.

Ten to twenty years	Over twenty years	With no repayment period	March 31, 2017 Total fair value	Internal rate of return	Effective duration	March 31, 2016 Total fair value	Internal rate of return	Effective duration	December 31, 2016 Total fair value	Internal rate of return	Effective duration
			NIS million	%	years	NIS million	%	years	NIS million	%	years
1,723	**155**	**1,131**	**124,784**	**3.09**	**1.01**	122,563	2.50	1.06	123,717	3.07	1.04
-	**-**	**60**	**55,811**		**0.48**	68,425		0.47	61,235		0.44
-	**-**	**385**	**2,903**		**0.42**	4,811		0.18	2,560		0.36
1,723	**155**	**1,576**	**183,498**		[2]**0.84**	195,799		[2]0.83	187,512		[2]0.83
221	**7**	**849**	**118,363**	**0.99**	**0.43**	116,308	0.77	0.44	117,911	1.12	0.46
92	**-**	**60**	**55,934**		**0.80**	68,626		0.70	61,284		0.73
-	**-**	**385**	**2,903**		**0.42**	4,791		0.18	2,551		0.35
313	**7**	**1,294**	**177,200**		[2]**0.55**	189,725		[2]0.53	181,746		[2]0.55
1,410	**148**										
5,868	**6,016**										
295	**75**	**-**	**1,135**	**1.70**	**14.89**				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
	31.3.17	31.12.16	31.3.17	31.12.16
Non-linked local currency	**4,915**	4,943	**81**	85
CPI-linked local currency	**964**	814	**16**	14
Foreign currency and f-C linked	**156**	78	**3**	1

The Bank adopts an economic approach in the management of basis risk and reconciliations are made taking into account the economic nature. In its current management, the Bank takes into account the lack of reconciliation that sometimes arises between the accounting exposure and the economic exposure in order to hedge the reported accounting profit.

Sensitivity of capital to changes in the exchange rate

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

Most of the activity in derivative financial instruments is carried in the currency derivatives Shekel/Dollar for the Bank's customers. The Bank is not 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 March 31, 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	**(7)**	**3**
10% decrease	**(14)**	**7**
5% increase	**7**	**(2)**
10% increase	**17**	**(3)**

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 March 31,	As of December 31,
	2017	2016
Hedging transactions:		
Interest rate contracts	**2,745**	2,943
Foreign currency contracts	**241**	241
ALM and other transactions:		
Interest rate contracts	**13,471**	15,521
Foreign currency contracts (including spot)	**61,220**	67,171
Contracts on shares, share indexes, commodities and other contracts	**55,898**	63,020
Total derivative financial instruments	**133,575**	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 43.1 billion on March 31, 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 30.3 billion, and NIS 12.8 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public on March 31, 2017 amounted to 136.2% compared with 136.8% on December 31, 2016.

At the end of March 2017, deposits from the public, bonds and subordinated notes totaled NIS 111.8 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 964 million.

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

	As of March 31, 2017	As of December 31, 2016
		NIS million
1	**3,042**	3,308
2	**2,585**	1,856
3	**1,675**	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 risls 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 quarter 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 March 31, 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 first quarter ending on March 31, 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, May 23, 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 March 31, 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 reasonbly 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, May 23, 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 March 31, 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 reasonbly 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, May 23, 2017

Nachman Nitzan
Executive Vice President,
Chief Accountant

FINANCIAL STATMENTS

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

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 March 31, 2017 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months period 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 0.6% of total consolidated assets as of March 31, 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 three 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.)

May 23, 2017

CONSOLIDATED STATEMENT OF INCOME

(NIS million)

		For the three months ended March 31		For the year Ended December 31
	NOTE	2017	2016	2016
		(unaudited)	(unaudited)	(audited)
Interest Income	2	**640**	547	2,526
Interest Expenses	2	**78**	21	357
Interest Income, net		**562**	526	2,169
Expenses (income) from credit losses	6,12	**34**	(67)	80
Net Interest Income after expenses from credit losses		**528**	593	2,089
Non Interest Income				
Non Interest Financing income	3	**12**	34	115
Fees		**334**	327	1,300
Other income		**42**	12	65
Total non Interest income		**388**	373	1,480
Operating and other expenses				
Salaries and related expenses		**414**	434	1,656
Maintenance and depreciation of premises and equipment		**99**	106	409
Amortizations and impairment of intangible assets		**23**	31	116
Other expenses		**118**	127	502
Total operating and other expenses		**654**	698	2,683
Profit before taxes		**262**	268	886
Provision for taxes on profit		**97**	118	398
Profit after taxes		**165**	150	488
The bank's share in profit of equity-basis investee, after taxes		**10**	10	72
Net profit:				
Before attribution to noncontrolling interests		**175**	160	560
Attributed to noncontrolling interests		**(9)**	(13)	(39)
Attributed to shareholders of the Bank		**166**	147	521

			NIS
Primary profit per share attributed to the shareholders of the Bank			
Net profit per share of NIS 0.05 par value	**1.65**	1.46	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, 23 May, 2017

STATEMENT OF COMPREHENSIVE INCOME

(NIS million)

	For the three months ended March 31		For the year Ended December 31
	2017	**2016**	**2016**
	(unaudited)	(unaudited)	(audited)
Net profit before attribution to noncontrolling interests	**175**	160	560
Net profit attributed to noncontrolling interests	**(9)**	(13)	(39)
Net profit attributed to the shareholders of the Bank	**166**	147	521
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale securities to fair value, net	**32**	20	14
Adjustments from translation of financial statements(1) net after the effect of hedges(2)	**-**	-	(3)
Adjustments of liabilities in respect of employee benefits(3)	**24**	(39)	(131)
Other comprehensive loss before taxes	**56**	(19)	(120)
Related tax effect	**(19)**	6	38
Other comprehensive income (loss) before attribution to noncontrolling interests, after taxes	**37**	(13)	(82)
Less other comprehensive (income) loss attributed to noncontrolling interests	**(2)**	-	10
Other comprehensiveincome (loss) attributed to the shareholders of the Bank, after taxes	**35**	(13)	(72)
Comprehensive income before attribution to noncontrolling interests	**212**	147	478
Comprehensive income attributed to noncontrolling interests	**(11)**	(13)	(29)
Comprehensive income attributed to the shareholders of the Bank	**201**	134	449

(1) See note 4.
(2) Adjustments from translation of financial statements of foreign operations which their currency of operations 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	31.3.17 (unaudited)	31.3.16 (unaudited)	31.12.16 (audited)
Assets				
Cash and deposits with banks		**30,255**	29,336	29,150
Securities	5	**14,675**	16,599	15,776
Securities which were borrowed		**492**	726	414
Credit to the public	6,12	**78,820**	75,321	78,175
Provision for Credit losses	6,12	**(827)**	(787)	(847)
Credit to the public, net		**77,993**	74,534	77,328
Credit to the government		**648**	645	654
Investments in investee company		**518**	450	514
Premises and equipment		**1,113**	1,206	1,133
Intangible assets		**240**	255	243
Assets in respect of derivative instruments	10	**1,340**	1,872	1,332
Other assets(2)		**1,002**	985	1,020
Assets held for sale		**242**	-	343
Total assets		**128,518**	126,608	127,907
Liabilities, temporary equity and Shareholders' Equity				
Deposits from the public	7	**106,198**	103,853	105,817
Deposits from banks		**716**	1,624	755
Deposits from the Government		**593**	669	570
Bonds and subordinated capital notes		**5,575**	5,697	5,801
Liabilities in respect of derivative instruments	10	**1,447**	2,041	1,356
Other liabilities(1)(3)		**5,222**	4,916	4,929
Liabilities held for sale		**691**	-	745
Total liabilities		**120,442**	118,800	119,973
Temporary equity - noncontroling interests		**331**	323	330
Capital attributed to the shareholders of the Bank		**7,456**	7,216	7,321
Noncontrolling interests		**289**	269	283
Total equity		**7,745**	7,485	7,604
Total liabilities, temporary equity and shareholders' equity		**128,518**	126,608	127,907

(1) Of which: provision for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 67 million and NIS 56 million and NIS 71 million at 31.3.17, 31.3.16 and 31.12.16, respectively.

(2) Of which: other assets measured at fair value in the amount of NIS 375 million and NIS 261 million and NIS 238 million at 31.3.17, 31.3.16 and 31.12.16, respectively.

(3) Of which: other liabilities measured at fair value in the amount of NIS 690 million and NIS 444 million and NIS 491 million at 31.3.17, 31.3.16 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 March 31, 2017 (unaudited)					
	Share capital and premium (1)	Accumulated other comprehensive income (loss)	Retained earnings (2)	Total share-holders' equity	Non-controling 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	**-**	**-**	**166**	**166**	**6**	**172**
Dividend	**-**	**-**	**(70)**	**(70)**	**-**	**(70)**
Other comprehensive income, after tax effect	**-**	**35**	**-**	**35**	**-**	**35**
Temporary equity - noncontroling interest.	**-**	**-**	**4**	**4**	**-**	**4**
Balance as at March 31, 2017	**927**	**(142)**	**6,671**	**7,456**	**289**	**7,745**

	For the three months ended March 31, 2016 (unaudited)					
	Share capital and premium (1)	Accumulated other comprehensive loss	Retained earnings (2)	Total share-holders' equity	Non-controling 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	-	-	147	147	5	152
Other comprehensive loss, after tax effect	-	(13)	-	(13)	-	(13)
Temporary equity - noncontroling interest.	-	-	9	9	-	9
Balance as at March 31, 2016	927	(118)	6,407	7,216	269	7,485

	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-controling 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 - noncontroling interest.	-	-	(1)	(1)	-	(1)
Balance as at 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 can not 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 March 31,		For the year ended December 31
	2017	2016	2016
	(unaudited)	(unaudited)	(audited)
Cash flows from (for) operating activities:			
Net profit for the period	**175**	160	560
Adjustments to reconcile cash provided by operating activities:			
The Bank's share in profit of equity-basis investee	**(10)**	(10)	(72)
Depreciation of premises and equipment	**20**	27	93
Amortization of intangible assets	**23**	31	116
Gain on sale of premises and equipment	**(41)**	(11)	(24)
Expenses (income) from credit losses	**34**	(67)	80
Gain from sale and adjustment in value of available for sale securities	**7**	20	50
Realized and non-realized gains from adjustment to fair value of trading securities	**3**	3	3
Deferred taxes, net	**2**	57	118
Defined benefit severance pay and pension schemes	**16**	12	96
Inflationary erosion of bonds and capital notes	**380**	169	90
Effect on cash balances of changes in exchange rates	**149**	84	91
Net change in current assets:			
Deposits in banks	**1,362**	(127)	(1,060)
Securities held for trading	**180**	128	9
Securities which were borrowed from Treasury	**(78)**	(373)	(61)
Credit to the public	**(563)**	(984)	(4,155)
Change in credit to the public held for sale	**58**	-	-
Credit to government	**6**	24	15
Other assets	**(7)**	121	53
Assets in respect of derivative instruments	**(9)**	(268)	334
Net change in current liabilities:			
Deposits from the public	**(268)**	(24)	2,931
Change in other liabilities held for sale	**(54)**	-	-
Deposits from banks	**(39)**	59	(810)
Deposits from the government	**(4)**	12	246
Other liabilities	**312**	(86)	(244)
Liabilities in respect of derivative instruments	**99**	382	(297)
Net cash from (for) operating activity	**1,753**	(661)	(1,838)

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

	For the three months ended March 31,		For the year ended December 31
	2017	**2016**	**2016**
	(unaudited)	(unaudited)	(audited)
Cash flows for investing activity			
Purchase of held to maturity and available for sale securities	**(1,466)**	(4,441)	(13,132)
Proceeds from redemption of bonds held to maturity	**28**	42	80
Proceeds from sale of available for sale securities	**1,342**	2,366	8,203
Redemption of available for sale securities	**1,121**	1,383	4,551
Acquisition of premises and equipment	**(7)**	(13)	(55)
Proceeds of sale of premises, equipment and other assets	**84**	18	38
Investment in intangible assets	**(20)**	(17)	(94)
Dividend received from equity-basis investee	**8**	-	-
Net cash for investing activity	**1,090**	(662)	(409)
Cash flows for financing activity			
Issue of bonds and subordinate debt notes	**52**	-	834
Redemption of bonds and subordinate debt notes	**(257)**	(111)	(907)
Dividend paid to shareholders	**-**	-	(200)
Net cash for financing activity	**(205)**	(111)	(273)
Increase (decrease) in cash	**2,638**	(1,434)	(2,520)
Cash balances at beginning of year	**27,638**	30,265	30,265
Effect of changes in exchange rates on cash balances	**(163)**	(84)	(107)
Cash balances at end of period	**30,113**	28,747	27,638
Interest and taxes paid and/or received:			
Interest received	**746**	970	2,970
Interest paid	**184**	220	736
Dividends received	**15**	5	19
Income tax paid	**97**	79	313
Income tax received	**27**	89	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 March 31, 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 investees. The condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in Israel ("Israeli GAAP") and in accordance with directives and guidelines of the Supervisor of Banks, and they 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 May 23, 2017.

As explained in Note 1A, 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.

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.

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 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). 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. In the opinion of the Bank, 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. In the opinion of the Bank, 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. In the opinion of the Bank, the application of the instructions would have no material effect on the financial statements of the Bank.

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

1. 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.

These changes apply as from July 1, 2017 and thereafter. Implementation of the changes may change the mode of classification of debts and the amount of the provision stated on the books of the Bank. The Bank is studying the possible implications stemming from the implementation of the instruction.

2. 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.

3. 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 also the public reporting instructions and adopts US accepted accounting standards in matters of: non-current assets held for sale and discontinued operations, fixed assets and investment real estate, per share income, cash flows statement, interim period reporting and additional subjects.

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.

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 matters of non-current assets held for sale and discontinued operations, as adopted in the public reporting instructions:

- **Definition of a discontinued operation**

  A discontinued operation is: (1) a component of an entity that had been realized or classified as held for sale, and the transfer of which has a material effect on the operations of the entity and its financial statements; or (2) a business operation or a not-for-profit operation which at date of acquisition has been classified as held for sale.
- **Examination of impairment**

  The amortized cost for the purpose of the examination of impairment, does not include exchange differences in respect of the translation of financial statements, which had been recognized in other comprehensive profit and accumulated as a separate component of capital, to the extent that it is expected that these would be reclassified from capital to profit and loss upon realization.
- **Appreciation in value**

  The profit on the appreciation in value in respect of any following increase in fair value, net of sale costs, but not in excess of the cumulative loss on impairment recognized since the classification of the asset as held for sale (whether it is a single asset or a realization group). At date of sale, the balance of profit or loss not recognized in the past would be recognized.

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

- **Recognition and measurement**

  Fixed assets and real estate items held as an investment are measured at the cost model.
- **Significant components**

  Where significant parts of fixed assets (including costs of significant periodic examinations) have different life span, the entity may, but not required to treat such parts as separate items (significant components) of fixed assets.
- **Depreciation**

  Assessments regarding the depreciation method, the useful lives of the assets and their residual value are re-examined only when events occur, which indicate that the present assessments are no longer valid.
- **Impairment**
- Impairment has to be examined when events or changes in circumstances indicate that the depreciated value is not recoverable.
- Impairment of each asset has to be specifically examined as part of a group of assets or at the reporting unit level. A group of assets is the lowest level that produces cash flows, which are basically independent of cash flows of other groups of assets; a reporting unit is a segment of operation, or in certain circumstances, one level below it.
- Examination should be made as to whether the stated value of the asset (or group of assets) is higher than the non-capitalized amount of cash flows expected to be produced by it. If that is so, impairment is to be recognized in the amount of the difference between the stated value in the books and the fair value of the asset (or group of assets).
- Losses on impairment may not be reversed.

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:

For the purpose of computing the cash flows from current operations, the indirect method is to be used, according to which, the starting point is the net profit. Notwithstanding the above, presentation of cash flows from current operations by the direct method is not precluded. Net profit, with the addition or deduction of the required adjustments, amounts to total cash flows from current operations.

- **Interest and dividends**

  Interest receipts and payments (after deducting capitalized interest, where relevant) and receipts of dividends are classified to current operations. Also dividend payments are classified as financing operations.

- **Taxes on income**

  Tax payments are classified to current operations.

- **Hedge instrument**

  Cash flows produced by a derivative serving as hedge instrument may be classified to the operations to which are classified the cash flows from the hedged item, providing disclosure of this policy, if chosen. In cases where hedge accounting had been discontinued, the cash flows arising subsequently to the discontinuation of the hedge shall be classified in accordance with the substance of the instrument.

- **Discontinued operation**

  One of the following disclosures should be provided in the financial statements or in the notes thereto: total cash flows attributed to current operations and investment operations of the discontinued operation; or, depreciation, amortizations, capital expenditure, material current operation and material investment operations, which are not cash transactions attributed to the discontinued operation.

- **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 interim period reporting, as adopted in the public reporting instructions:

- Recognition and measurement

  As a general rule, each interim period should be considered an integral part of the annual period to which it belongs,

- Taxes in income

  - Tax expenses and tax benefits related to ordinary operations are recognized at the annual effective tax rate (even if the operations are subject to a number of tax authorities or to different tax rates). Tax expenses and benefits relating to the remaining operations are computed separately and recognized in the interim period in which the profit or loss was incurred.
  - A change in the estimate of an uncertain tax position recognized in prior years shall be discreetly treated in the period in which the change in estimate was made. In contrast, a change in the estimate of an uncertain tax position recognized in a prior interim period of the same year shall be taken into account in computing the annual effective tax rate.
  - In the event that the standard does not instruct a specific allocation of the amount of the tax expense (in whole or in part) to a specific item in the financial statements, the allocation is made by the "with and without" approach (also known as the "supplementary approach"). According to this approach, the amount of the tax expense remaining after allocation to continuing operations, shall be allocated to the other items on a pro-rata basis.

- Tax expenses or benefits stemming from a change in the tax rate are recognized in profit and loss from continuing operations in the interim period in which the change in the tax rate occurred. The effective annual tax rate for following interim periods shall be re-estimated in accordance with the updated tax rate.

- **Fourth quarter**

  In the absence of a separate report for the fourth quarter of the year, or of a disclosure of the fourth quarter results in the annual report, disclosure should be given in the notes to the annual report regarding the realization of a component of the entity; components recognized which do not occur frequently or are not regular in nature; cumulative effect of year-end adjustments that are material for the quarter's results; the effect on the fourth quarter of change in policy or in assessments.

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 ASC450, 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 an 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 has not yet begun to examine the effect of the letter on its financial statements.

4. A new update of the standard regarding business combinations

In January 2017, the US Financial Accounting Standards Board ("FASB") published update 2017-01, comprising an amendment of the ASC 805 rules regarding business combinations (hereinafter – "the Amendment"). The object of the amendment is to clarify the definition of business.

In accordance with the Amendment, where the consideration given for the assets comprises in substance, consideration for one single identifiable asset, or a group of identical identifiable assets, the integrated system of assets and operations does not fulfill the definition of a business.

According to the Amendment, in order for an integrated system of assets and operations to comply with the definition of business, it has to include at least one input and a material process which together contribute significantly to the creation of output.

Moreover, the Amendment removes the requirement of assessing whether a participant in the market is able to complement the missing inputs and processes and presents a framework of criteria that assist the entity in examining whether the integrated system of assets and operations is in fact a business. Furthermore, the Amendment details different criteria for systems having an output and systems having no output (despite the fact that it is not required that the system should have an output in order to be considered a business, outputs are generally considered an essential part of a business, and therefore the criteria required in order to comply with the definition of a business for systems having no outputs are stricter than those applied in the case of systems having outputs).

Also, the Amendment reduced the definition of output so as to agree with its definition according to ASC 606.

The changes required by this Amendment are to be applied by the "from now onwards" method.

The above rules apply to public entities in the US as from the annual and quarterly financial statements for periods beginning after December 15, 2017. Earlier application is possible for certain transactions.

5. 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 ASC610-20 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 ASC606.

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.

6. 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.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

		For the three months ended March 31 (unaudited)	
		2017	**2016**
A.	**Interest income** (1)		
	From credit to the public	**601**	517
	From deposits with banks	**3**	2
	From deposits with Bank of Israel and From cash	**5**	6
	From bonds(2)	**31**	21
	From other assets	**-**	1
	Total interest income	**640**	547
B.	**Interest expenses** (1)		
	On deposits from the public	**43**	15
	On deposits from the Government	**1**	1
	On deposits from banks	**1**	1
	On bonds and subordinated capital notes	**32**	3
	On other liabilities	**1**	1
	Total interest expenses	**78**	21
	Total interest income, net	**562**	526
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**		
	Interest expense(3)	**(7)**	(7)
D.	**Details of interest income from bonds on cumulative basis**		
	Held to maturity	**8**	4
	Available for sale	**21**	16
	Held for trading	**2**	1
	Total included in interest income	**31**	21

(1) Including effective component in hedging relations.

(2) Including Interest income on mortgage-backed bond (MBS) in the amount of NIS 1 million (31.3.2016 - NIS 1 million).

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

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	For the three months ended March 31 (unaudited)	
	2017	**2016**
A. Non-interest financing income 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 expenses in respect of ALM derivative instruments(2)	**(398)**	(216)
Total from activity in derivative instruments	**(396)**	(215)
2. From investments in bonds		
Profits from sale of bonds available for sale(3)	**6**	14
Losses from sale of bonds available for sale(3)	**-**	(1)
Total from investment in bonds	**6**	13
3. Net exchange differences	**392**	224
4. Gains from investment in shares		
Gains from sale of shares available for sale(3)	**1**	8
Losses from sale of shares available for sale(3)	**-**	(1)
Dividend from shares available for sale	**7**	5
Total from investment in shares	**8**	12
Total non-interest financing income in respect of non-trading activities	**10**	34

(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) Reclassified from comulative other comprehensive income.

	For the three months ended March 31 (unaudited)	
	2017	**2016**
B. Net income in respect of non-interest financing activity for trading(3)		
Net income in respect of other derivative instruments	**5**	3
Net realized and unrealized losses from adjustments to fair value of bonds held for trading(1)	**(3)**	-
Net realized and unrealized losses from adjustments to fair value of shares held for trading(2)	**-**	(3)
Total non-interst financing income from trading activities(4)	**2**	-
Total non-interest financing income	**12**	34
Details on non-interest financing income in respect of trading activities, by risk exposure		
Interest rate exposure	**-**	(1)
Exposure to shares	**2**	1
Total	**2**	-
C. Uneffective part in hedging ratios- foreign activity(5)		
Uneffectiveness 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) No gains in respect of trading bonds on hand at balance sheet date.
(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 noncontrolling 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 noncontrolling interests	Other comprehensive loss attributed to the Bank's shareholders
Balance as of December 31, 2016 (audited)	**(13)**	**(2)**	**(174)**	**(189)**	**(12)**	**(177)**
Net change during the period	**21**	**-**	**16**	**37**	**2**	**35**
Balance as of March 31, 2017 (unaudited)	**8**	**(2)**	**(158)**	**(152)**	**(10)**	**(142)**
Balance as of December 31, 2015 (audited)	(22)	(1)	(84)	(107)	(2)	(105)
Net change during the period	13	-	(26)	(13)	-	(13)
Balance as of March 31, 2016 (unaudited)	(9)	(1)	(110)	(120)	(2)	(118)
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 March 31 (unaudited)						For the year ended December 31, 2016 (audited)		
	2017			2016					
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests									
Adjustments in respect of available for sale securities presentation according to fair value									
Unrealized net gains from adjustments to fair value	**37**	**(13)**	**24**	78	(28)	50	34	(12)	22
Gains in respect of available for sale securities reclassified to income statement(1)	**(5)**	**2**	**(3)**	(58)	21	(37)	(20)	7	(13)
Net change during the period	**32**	**(11)**	**21**	20	(7)	13	14	(5)	9
Translation adjustments*									
Adjustments from translation of financial statements	**(8)**	**3**	**(5)**	-	-	-	(10)	5	(5)
Hedges**	**8**	**(3)**	**5**	-	-	-	7	(3)	4
Net change during the period	**-**	**-**	**-**	-	-	-	(3)	2	(1)
Employee benefits:									
Net actuarial gain (loss) for the period	**17**	**(6)**	**11**	(44)	15	(29)	(163)	53	(110)
Net losses reclassified to the statement of profit and loss(2)	**7**	**(2)**	**5**	5	(2)	3	32	(12)	20
Net change during the period	**24**	**(8)**	**16**	(39)	13	(26)	(131)	41	(90)
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests									
Total change during the period	**2**	**-**	**2**	-	-	-	(15)	5	(10)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total change during the period	**54**	**(19)**	**35**	(19)	6	(13)	(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)

					March 31, 2017 (unaudited)
A. Debentures held to maturity	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Of Israeli government	**1,068**	**1,068**	**19**	**-**	**1,087**
Of financial institutions in Israel	**60**	**60**	**9**	**-**	**69**
Of foreign financial institutions	**41**	**41**	**-**	**-**	**41**
Of others in Israel	**265**	**265**	**18**	**-**	**283**
Total debentures held to maturity	**1,434**	**1,434**	**46**	**-**	**1,480**

			Cumulative other comprehensive income		
B. Securities available for sale	**Book value**	**Amortized cost (in shares cost)**	**Profits**	**Losses**	**Fair value** (1)
Debentures and bonds -					
Of Israeli government	**7,100**	**7,080**	**28**	**8**	**7,100**
Of foreign governments	**2,003**	**2,006**	**-**	**3**	**2,003**
Of financial institutions in Israel	**246**	**248**	**-**	**2**	**246**
Of foreign financial institutions	(7)**1,282**	**1,284**	**-**	**2**	**1,282**
Mortgage backed (MBS) securities(6)	**316**	**320**	**1**	**5**	**316**
Of others in Israel	**720**	**715**	**8**	**3**	**720**
Of foreign others	**613**	**614**	**-**	**1**	**613**
Total debentures and bonds available for sale	**12,280**	**12,267**	**37**	**24**	**12,280**
Shares -	(4)(5)**170**	**171**	**3**	**4**	**170**
Total securities available for sale	**12,450**	**12,438**	(2)**40**	(2)**28**	**12,450**

C. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Debentures and bonds -					
Of Israeli government	**691**	**690**	**1**	**-**	**691**
Of foreign financial institutions	**51**	**51**	**-**	**-**	**51**
Of others in Israel	**33**	**33**	**-**	**-**	**33**
Of foreign others	**4**	**4**	**-**	**-**	**4**
Total trading debentures and bonds	**779**	**778**	**1**	**-**	**779**
Shares -	**12**	**12**	**-**	**-**	**12**
Total trading securities	**791**	**790**	(3)**1**	(3)**-**	**791**
Total securities	**14,675**	**14,662**	**87**	**28**	**14,721**

(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 107 million and 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 119 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 797 million and securities owned and have specified government guraunte of NIS 290 million.

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

	March 31, 2016 (unaudited)				
A. Debentures held to maturity	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	911	911	25	-	936
Of financial institutions in Israel	61	61	11	-	72
Of foreign financial institutions	62	62	-	-	62
Of others in Israel	259	259	20	-	279
Total debentures held to maturity	1,293	1,293	56	-	1,349

			Cumulative other comprehensive income		
B. Securities available for sale	Book value	Amortized cost (in shares cost)	Profits	Losses	Fair value (1)
Debentures and bonds -					
Of Israeli government	7,486	7,488	17	19	7,486
Of foreign governments	2,742	2,743	1	2	2,742
Of financial institutions in Israel	401	404	-	3	401
Of foreign financial institutions	(7)1,940	1,955	-	15	1,940
Mortgage backed (MBS) securities(6)	562	561	3	2	562
Of others in Israel	789	792	8	11	789
Of foreign others	316	314	2	-	316
Total debentures and bonds available for sale	14,236	14,257	31	52	14,236
Shares -	(4)(5)217	209	14	6	217
Total securities available for sale	14,453	14,466	(2)45	(2)58	14,453

C. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Debentures and bonds -					
Of Israeli government	797	794	3	-	797
Of financial institution in Israel	27	27	-	-	27
Of others in Israel	29	29	-	-	29
Total trading securities	853	850	(3)3	(3)-	853
Total securities	16,599	16,609	104	58	16,655

(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 12 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 114 million, perpetual capital notes of NIS 12 million.
(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 128 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 515 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 adjustment to fair value	Unrealized losses from adjustment 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)	Profits	Losses	Fair value (1)
Debentures and 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 debentures and 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 adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Debentures and 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 debentures and 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	March 31, 2017	March 31, 2016	December 31, 2016
	(unaudited)	(unaudited)	(audited)
The recorded debt balance of Impaired bonds accruing interest income	**5**	9	5
Total recorded debt balances	**5**	9	5

* Reclassified.

(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 gaurantee 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

	March 31, 2017 (unaudited)							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses			Fair Value	Unrealized losses		
		0-20%	20%-40%	Total		0-20%	20%-40%	Total
Securities available for sale								
Debentures and Bonds								
Of Israeli government	**1,876**	**6**	**-**	**6**	**742**	**2**	**-**	**2**
Of foreign governments	**1,929**	**3**	**-**	**3**	**-**	**-**	**-**	**-**
Of Israeli financial institutions	**-**	**-**	**-**	**-**	**148**	**2**	**-**	**2**
Of foreign financial institutions	**1,088**	**2**	**-**	**2**	**-**	**-**	**-**	**-**
Mortgage backed (MBS) securities	**308**	**5**	**-**	**5**	**-**	**-**	**-**	**-**
Of others in Israel	**-**	**-**	**-**	**-**	**373**	**3**	**-**	**3**
Of foreign others	**573**	**1**	**-**	**1**	**-**	**-**	**-**	**-**
Shares	**-**	**-**	**-**	**-**	**24**	**2**	**2**	**4**
Total securities available for sale	**5,774**	**17**	**-**	**17**	**1,287**	**9**	**2**	**11**

	March 31, 2016 (unaudited)							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses			Fair Value	Unrealized losses		
		0-20%	20%-40%	Total		0-20%	20%-40%	Total
Securities available for sale								
Debentures and Bonds								
Of Israeli government	3,264	17	-	17	977	2	-	2
Of foreign government	1,775	1	-	1	80	1	-	1
Of Israeli financial institutions	296	3	-	3	-	-	-	-
Of foreign financial institutions	1,125	9	-	9	522	6	-	6
Mortgage backed (MBS) securities	49	-	1	1	75	1	-	1
Of others in Israel	211	6	-	6	348	5	-	5
Shares	48	6	-	6	-	-	-	-
Total securities available for sale	6,768	42	1	43	2,002	15	-	15

	December 31, 2016 (audited)							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses			Fair Value	Unrealized losses		
		0-20%	20%-40%	Total		0-20%	20%-40%	Total
								(NIS million)
Held to maturity bonds of Israeli Government(1)	403	3	-	3	-	-	-	-
Securities available for sale								
Debentures and Bonds								
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) 312.12.16 - 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)

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

	March 31, 2017 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governements	Total
Recorded balance:						
Debts examined on an individual basis	**33,640**	**-**	**207**	**33,847**	**2,855**	**36,702**
Debts examined on a collective basis	**4,972**	**22,058**	**17,943**	**44,973**	**-**	**44,973**
Of which: according to the extent of arrears	**250**	**22,058**	**-**	**22,308**	**-**	**22,308**
Total	**38,612**	**22,058**	**18,150**	**78,820**	**2,855**	**81,675**
Of which:						
Debts restructuring	**351**	**-**	**71**	**422**	**-**	**422**
Other impaired debts	**298**	**11**	**13**	**322**	**-**	**322**
Total impaired debts	**649**	**11**	**84**	**744**	**-**	**744**
Debts in arrears of 90 days or more	**29**	**133**	**39**	**201**	**-**	**201**
Other problematic debts	**584**	**14**	**199**	**797**	**-**	**797**
Total problematic debts	**1,262**	**158**	**322**	**1,742**	**-**	**1,742**
Provision for credit losses:						
In respect of debts examined on an individual basis	**429**	**-**	**27**	**456**	**-**	**456**
In respect of debts examined on a collective basis	**54**	**113**	**204**	**371**	**-**	**371**
Of which: according to the extent of arrears	**1**	**113**	**-**	**114**	**-**	**114**
Total	**483**	**113**	**231**	**827**	**-**	**827**
Of which: in respect of impaired debts	**145**	**-**	**21**	**166**	**-**	**166**

	March 31, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governements	Total
Recorded balance:						
Debts examined on an individual basis	32,961	-	412	33,373	3,458	36,831
Debts examined on a collective basis	4,592	20,612	16,744	41,948	-	41,948
Of which: according to the extent of arrears	310	20,612	-	20,922	-	20,922
Total	37,553	20,612	17,156	75,321	3,458	78,779
Of which:						
Debts restructuring	155	-	73	228	-	228
Other impaired debts	501	20	9	530	-	530
Total impaired debts	656	20	82	758	-	758
Debts in arrears of 90 days or more	27	*158	35	220	-	220
Other problematic debts	523	*19	170	712	-	712
Total problematic debts	1,206	197	287	1,690	-	1,690
Provision for credit losses:						
In respect of debts examined on an individual basis	405	-	18	423	-	423
In respect of debts examined on a collective basis	45	121	198	364	-	364
Of which: according to the extent of arrears	1	121	-	122	-	122
Total	450	121	216	787	-	787
Of which: in respect of impaired debts	215	-	9	224	-	224

* 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 Governements	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 March 31, 2017 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governements	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	**31**	**-**	**7**	**38**	**-**	**38**
Accounting write-offs	**(73)**	**(2)**	**(30)**	**(105)**	**-**	**(105)**
Collection of debts written off in accounting in previous years	**24**	**-**	**23**	**47**	**-**	**47**
Net accounting write-offs	**(49)**	**(2)**	**(7)**	**(58)**	**-**	**(58)**
Provision for credit losses at end of the period	**483**	**113**	**231**	**827**	**-**	**827**
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	**(4)**	**-**	**-**	**(4)**	**-**	**(4)**
Provision in respect of off-balance sheet credit instruments at end of the period	**53**	**-**	**14**	**67**	**-**	**67**
Total provision for credit losses - debts and off-balance sheet credit instruments	**536**	**113**	**245**	**894**	**-**	**894**

	For the three months ended March 31, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governements	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year	498	119	207	824	-	824
Expenses (income) in respect of credit losses	(50)	3	9	(38)	-	(38)
Accounting write-offs	(20)	(1)	(36)	(57)	-	(57)
Collection of debts written off in accounting in previous years	22	-	36	58	-	58
Net accounting write-offs	2	(1)	-	1	-	1
Provision for credit losses at end of the period	450	121	216	787	-	787
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	(28)	-	(1)	(29)	-	(29)
Provision in respect of off-balance sheet credit instruments at end of the period	42	-	14	56	-	56
Total provision for credit losses - debts and off-balance sheet credit instruments	492	121	230	843	-	843

NOTE 7 - DEPOSITS FROM THE PUBLIC
(NIS million)

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

	March 31, 2017	March 31, 2016	December 31, 2016
		(unaudited)	(audited)
In Israel			
Demand			
- Non- bearing interest	**41,186**	36,738	43,051
- Bearing interest	**5,942**	6,389	5,273
Total demand	**47,128**	43,127	48,324
Fixed-term*	**59,070**	59,942	57,493
Total deposits in Israel**	**106,198**	103,069	105,817
Outside Israel			
Demand			
- Non- bearing interest	**-**	784	-
Total deposits outside Israel	**-**	784	-
Total deposits from the public	**106,198**	103,853	105,817
* Of which: non-bearing interest deposits	**2,566**	2,188	1,986
** Of which:			
Deposits of private individuals	**53,504**	51,355	54,034
Deposits of institutional entities	**21,803**	21,039	19,448
Deposits of corporates and others	**30,891**	30,675	32,335

B. Deposits of the public by size

	March 31, 2017	March 31, 2016	December 31, 2016
Maximum amount of deposit		(unaudited)	(audited)
Up to 1	**41,540**	38,735	40,864
From 1 to 10	**25,447**	25,414	26,400
From 10 to 100	**14,639**	14,525	15,627
From 100 to 500	**4,774**	4,787	5,802
Over 500	**19,798**	20,392	17,124
Total	**106,198**	103,853	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 compensation, 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 subsidiaries are entitled to an award in respect of unutilized sick leave. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

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 March 31,		For the year ended December 31,
	2017	**2016**	**2016**
		(unaudited)	(audited)
			(NIS million)
A. Change in liability regarding anticipated benefits			
Liability regarding anticipated benefit at beginning of period	**1,166**	1,079	1,079
Cost of service	**6**	6	24
Cost of interest	**10**	10	38
Actuarial (profit) loss	**(15)**	23	**125
Benefits paid	**(32)**	(38)	(133)
Other, including loss from reduction and structural changes	**-**	1	33
Liability regarding anticipated benefit at end of period	**1,135**	1,081	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	**750**	794	794
Actual return on assets of the scheme	**6**	-	17
Deposits in the scheme by the Bank	**3**	3	17
Benefits paid	**(15)**	(22)	(78)
Fair value of assets of the scheme at end of period	**744**	775	750
Financing situation – net liability recognized at end of period*	**391**	306	416

* Included in the item "other assets/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.

	31.3.17	**31.3.16**	**31.12.16**
		(unaudited)	(audited)
			(NIS million)
C. Amounts recognized in the consolidated balance sheet			
Amounts recognized in the item "other liabilities"	**391**	306	416
Net liability recognized at end of period	**391**	306	416
D. Amounts recognized in other cumulative comprehensive loss, before the tax effect			
Actuarial loss, net	**180**	110	200
Liability net, in respect of transition*	**26**	41	28
Closing balance in other cumulative comprehensive profit	**206**	151	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 March 31,		For the year ended December 31,
		2017	2016	2016
			(unaudited)	(audited)
				(NIS million)
A.	**Cost components of net benefit recognized in profit and loss***			
	Cost of service	**6**	6	24
	Cost of interest	**10**	10	38
	Anticipated return on assets of the scheme	**(6)**	(8)	(28)
	Amortization of non-recognized amounts:			
	Net actuarial loss	**3**	1	8
	Other, including loss from reduction or dismissal and stractural changes	**4**	4	57
	Capitalization of software costs	**(1)**	(1)	(3)
	Total cost of benefits, net	**16**	12	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	**(15)**	31	136
	Amortization of actuarial loss	**(3)**	(1)	(8)
	Dismissal	**(4)**	(3)	(24)
	Total recognized in other comprehensive profit	**(22)**	27	104
	Total net cost of benefit	**16**	12	96
	Total net cost of benefit for the period recognized in other comprehensive profit	**(6)**	39	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	**29**
	Total amount expected to be amortized from other cumulative comprehensive profit	**29**

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

	March 31,		December 31,
	2017	2016	2016
		(unaudited)	(audited)
			percent
1. Principal guidelines used to determine the liability for benefits			
Discounting rate	**1.7**	1.6	1.7

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
		(unaudited)	(audited)
			percent
2. Principal guidelines used to measure the net cost of benefits for the period			
Discounting rate	**1.7**	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		
	March 31,		December 31,	March 31,		December 31,
	2017	2016	2016	2017	2016	2016
		(unaudited)	(audited)		(unaudited)	(audited)
			(NIS million)			(NIS million)
Discounting rate	**(71)**	(82)	(74)	**85**	99	88

C. Cash flows

(1) Deposits

	Forecast	Actual deposits		
		For the three months ended March 31,		For the year ended December 31,
	*2017	2017	2016	2016
	(unaudited)		(unaudited)	(audited)
	(NIS million)			(NIS million)
Deposits	12	**3**	3	17

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

NOTE 8 - CAPITAL ADEQUACY ACCORDING TO DIRECTIVE 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 interest that is not qualified to be included in the regulatory capital, shall be gradually deducted from capital at the rate of 20% in each year starting with January 1, 2014 and until January 1, 2018. The capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. As of 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, 2013, 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%. In addition according to the directive of the Supervisor of Banks regarding "restrictions on extension of housing loans", the banking entities are demanded to increase the targeted tier 1 capital in a rate constituting 1% of the balance of the housing loans. 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 ration of 12.79%, as determined in accordance with the expected regulatory requirement upon approval of the capital target in the IGAAP 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":

	March 31, 2017	March 31, 2016	December 31, 2016
	(unaudited)	(unaudited)	(audited)
a. Consolidated			
1. Capital for calculation of capital ratio			
Tier 1 capital, after supervisory adjustments and deductions	**7,738**	7,432	7,684
Tier 2 capital after deductions	**2,682**	2,247	2,819
Total overall capital	**10,420**	9,679	10,503
2. Weighted balances of risk assets			
Credit risk	(3)**69,693**	67,942	(3)69,262
Market risk	**804**	880	748
Operational risk	**5,955**	6,110	6,168
Total weighted balances of risk assets	**76,452**	74,932	76,178
			percent
3. Ratio of capital to risk assets			
Ratio of tier 1 capital to risk assets	**10.12%**	9.92%	10.09%
Total ratio of capital to risk assets	**13.63%**	12.92%	13.79%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.29%**	(1)9.14%	(1)9.25%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.79%**	(1)12.64%	(1)12.75%
B. Significant Subsidiaries			
Bank Otsar Hahayal Ltd.			
Ratio of tier 1 capital to risk assets	**10.68%**	10.96%	10.63%
Total ratio of capital to risk assets	**13.28%**	14.39%	13.39%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.02%**	(1)9.01%	(1)9.02%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.52%**	(1)12.51%	(1)12.52%
Bank Massad Ltd.			
Ratio of tier 1 capital to risk assets	**12.93%**	13.76%	13.17%
Total ratio of capital to risk assets	**14.03%**	14.94%	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)

	March 31, 2017	March 31, 2016	December 31, 2016
	(unaudited)	(unaudited)	(audited)
1. Equity capital tier 1			
Capital attributed to shareholders	**7,456**	7,216	7,321
Differences between capital attributed to shareholders and equity capital tier 1			
Minority interests	(2)**438**	(2)442	(2)458
Application of the transitional instructions in respect of the adoption of accepted accounting principles in the matter of employee rights	**14**	48	29
Total equity capital tier 1 before regulatory adjustments and deductions	**7,908**	7,706	7,808
Regulatory adjustments and deductions:			
Intangible assets	**(112)**	(140)	(114)
Commitment to invest in shares	(2)**(172)**	(2)(131)	(2)(128)
Regulatory adjustments and other deductions- equity capital tier 1	**(5)**	(3)	(5)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures - equity capital tier 1	**(289)**	(274)	(247)
Total adjustments in respect of efficiency measures- Tier 1 equity capital	**119**	-	123
Total equity capital tier 1 after regulatory adjustments and deductions	**7,738**	7,432	7,684
2. Tier 2 capital			
Tier 2 capital: instruments before deductions	**1,956**	1,631	2,105
Tier 2 capital: provisions before deductions	**726**	616	714
Total tier 2 capital before deductions	**2,682**	2,247	2,819
Deductions:			
Total deductions- tier 2 capital	**-**	-	-
Total tier 2 capital	**2,682**	2,247	2,819

	March 31, 2017	March 31, 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	**9.82%**	9.65%	9.67%
Effect of transitional instructions	**0.12%**	0.27%	0.23%
Ratio of tier 1 equity capital to risk assets before effect of adjustments in respect of efficiency measures	**9.94%**	9.92%	9.90%
Effect of adjustments in respect of efficiency measures	**0.18%**	-	0.19%
Ratio of tier 1 equity capital to risk assets	**10.12%**	9.92%	10.09%

(1) Minimal capital ratio requested according to the Supervisor of Banks' directives effective from January 1, 2015 until December 31, 2016. 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 gradualy until January 1, 2017.

(2) As for the amount of NIS 56 million, with coordination of the Supervisor of Banks, the Bank implemented the transition instructions of Basel regarding the PUT option granted to noncontrolling interests (31.3.16 - NIS 106 million, 31.12.16 - NIS 110 million).

(3) An amount of NIS 167 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures.

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 March 31, 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	**0.85%**	**0.83%**
Massad Bank	**2.22%**	**2.37%**

(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. 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 as was in directive 203 prior to its amendment. 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). However, in the directive there is a minimum fromula that might lead to multiplication of the trading exposure to risk weight of 20%.
- Exposures of a banking corporation to customer who is active in the stock exchange. As mentioned above, with respect to customers active on the MAOF exchange, the computation of the exposure will be according to scenario method, this until the supervision in Israel will adopt the new method of calculation (the SA-CCR method) adopted by the Basel committee.
- 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, while until June 30, 2017, it is possible to consider the Tel Aviv Stock Exchange as a qualified central counterparty.

The effect of implementation of the directive is at balance sheet date is a decrease of 0.07% in the ratio of tier 1 capital and a decrease of 0.10% in the overall capital ratio of the Bank. It should be noted that the computation was made with the assumption that the clearing houses of the MAOF and the Tel Aviv stock exchange meet the required qualification conditions and are known as qualified central counterparty.

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

(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. 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.

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)

	March 31, 2017 (unaudited)	March 31, 2016 (unaudited)	December 31, 2016 (audited)
	NIS million		
A. Consolidated			
Tier 1 capital*	**7,738**	7,432	7,684
Total exposures	**139,554**	136,557	139,207
			percent
Leverage ratio	**5.54%**	5.44%	5.52%
B. Significant Subsidiaries			
Bank Otsar Hahayal Ltd.			
Leverage ratio	**5.61%**	5.77%	5.56%
Bank Massad Ltd.			
Leverage ratio	**7.48%**	7.44%	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 (4) above.

A banking corporation is required to maintain the minimum leverage ratio as from January 1, 2018. A banking corporation, which at date of publication of the Directive maintains already the minimum leverage ratio applying to it, shall not reduce the ratio below the minimum determined by the Directive. A banking corporation, which at date of publication of the Directive did not attain the minimum leverage ratio requirement applying to it, is required to increase the leverage ratio by fixed quarterly installments until January 1, 2018.

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		
	March 31,	March 31,	December 31
	2017	2016	2016
	(unaudited)	(unaudited)	(audited)
			percent
A. Consolidated*			
Liquidity coverage ratio	**128%**	105%	123%
B. The bank**			
Liquidity coverage ratio	**127%**	103%	120%
Significant Subsidiaries**			
Bank Otsar Hahayal Ltd.			
Liquidity coverage ratio	**315%**	441%	352%
Bank Massad Ltd.			
Liquidity coverage ratio	**241%**	354%	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 during the reported quarter.

*** The liquidity coverage ratio increased gradualy 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.

Subsequent to balance sheet date, 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. The amount of the dividend is prior to any tax, including the tax that the Bank has to withhold under the law.

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

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

(NIS million)

Other contingent liabilities and special commitments

		31.3.17	31.3.16	31.12.16
		(unaudited)	(unaudited)	(audited)
A.	Improvements to premises and acquisition of new premises, equipment and software	**5**	8	11
	Commitments to invest in private investment funds	**52**	65	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:

	31.3.17	31.3.16	31.12.16
	(unaudited)	(unaudited)	(audited)
First year	***52**	*58	73
Second year	**68**	75	63
Third year	**64**	66	61
Fourth year	**61**	64	59
Fifth year	**55**	60	54
Sixth year and thereafter	**329**	387	325
Total	**629**	710	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.

The additional exposure of the Bank and of the subsidiary companies as of March 31, 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 73 million.

D. Moreover, pending against the Bank is a motion for approval of a class action, as detailed below. In the opinion of the Managements of the Bank, based on Counsel's opinion, it is not possible at this stage to assess the prospects of this actions and no provision has been included in respect thereof:

On February 19, 2017, the Bank received notice of an action filed against the Bank, Bank Leumi le'Israel Ltd., Hapoalim Bank Ltd., Mizrahi-Tfachot Bank Ltd. and Israel Discount Bank Ltd. (hereinafter together – "the banks") together with a motion for approval of the action as a class action. The Appellants assesses the amount of the claim at approximately NIS 50 million. The action refers to the disclosure provided by the banks regarding the service of depositing funds in foreign currency accounts or the withdrawal of funds from foreign currency accounts, as required by Part 5, Item 2 of the full pricelist (hereinafter – "the commission"). As alleged by the Appellant, details of the commission presented in the full pricelist may be stated either as an amount or as a percentage, because this matter remains open in the full pricelist. In practice, as alleged by the Appellant, the banks do not provide details of the commission in the full pricelist, as required (neither in amount nor as a percentage) and as a result thereof, customers have no knowledge of the cost of this service nor the ability to compare it, in order to choose the most beneficial supplier of this service.

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

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, charges the account of the holder of an "Active" credit card with only a minimal amount out of the amounts accumulated to the debit of the credit card, the remaining balance turning into a loan carrying interest at especially high rates. It is further argued that upon the marketing of this scheme, ICC refrained from emphasizing to the customers that cancellation of the credit requires an explicit request by the customer, and also refrained from providing information as to the cost of the credit granted. Encumbering the customers with a revolving credit mechanism and charging them with interest, has been done with no valid contractual basis while impairing the autonomy of customer.

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

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

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

The District Court decided to postpone the hearing of the motion until after the Supreme Court decides in the Appeal submitted by the Appellant against the decision of the lower Court for the dismissal *in limine* of the motion for approval of the class action against Israel Discount Bank Ltd. A memorandum hearing of the case was held on December 2, 2015, and interrogation of the attestors in the motion took place on April 13, 2016.

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 has to submit his summing-up brief by May 16, 2017, and ICC has to submit its summing-up briefs no later than July 16, 2017. Response on behalf of the Appellant is to be submitted by September 17, 2017. A hearing by the Court is fixed for February 5, 2018.

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 1,255 million.

3. Pending against ICC are motions for approval of lawsuits as class action suits as well as other lawsuits, as detailed below. ICC notes in its financial statements that in the opinion of Management of ICC, based on Counsel's opinion, it is not possible at this stage to assess their prospects and therefore no provision has been included in respect thereof:

A. 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 new Appellant and his representative, and to instruct the continuation of the proceedings through the new Appellant.

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

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

Following 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 additional preliminary hearing is fixed for October 29, 2017.

B. As detailed to ICC by Israel Discount Bank Ltd. (hereinafter - -"Discount"), Discount received notice on May 7, 2015, of a lawsuit and a motion for its approval as a 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 who officiated in the relevant period at ICC and at ICC international Ltd. (including former officers in Discount and the Bank), which on December 31, 2009 was merged into ICC and struck-off the Companies Register and the damage expected to be caused to it, as alleged, in connection with the international clearing activity of ICC and of ICC International in the years 2006-2009.

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

In accordance with a procedural arrangement reached by the parties, an action and a motion for approval of the action as a multi-party derivative action was filed on May 8, 2017, with the Tel Aviv Yaffo District Court. The amended motion included, inter alia, a cause of action relating to the conditional arrangement that had been signed between ICC and the State Prosecutor Office on November 3, 2016, in respect of which an amount of NIS 85 million was paid by ICC, and the arguments of the Appellant as well as the alleged amount of damage were respectively amended.

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

		March 31, 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	-	-	241	-	-	241
	SWAPS	-	2,745	-	-	-	2,745
	Total	-	2,745	241	-	-	2,986
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,745	-	-	-	2,745
B.	**ALM derivatives[1][2]**						
	Futures contracts	-	55	-	-	-	55
	Forward contracts	336	500	36,916	-	-	37,752
	Option contracts traded on an exchange:						
	- Options written	-	-	232	-	-	232
	- Purchased options	-	-	380	-	-	380
	Other option contracts:						
	- Options written	-	-	2,635	-	-	2,635
	- Purchased options	-	-	2,730	-	-	2,730
	SWAPS	75	9,432	329	-	-	9,836
	Total	411	9,987	43,222	-	-	53,620
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	5,391	-	-	-	5,466
C.	**Other derivatives[1]**						
	Futures contracts	-	1,733	497	9,503	116	11,849
	Option contracts traded on an exchange:						
	- Options written	-	-	7,714	22,078	-	29,792
	- Purchased options	-	-	7,714	22,078	-	29,792
	Other option contracts:						
	- Options written	-	-	477	1,219	-	1,696
	- Purchased options	-	-	452	868	-	1,320
	SWAPS	-	1,340	131	-	-	1,471
	Total	-	3,073	16,985	55,746	116	75,920
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	670	-	-	-	670
D.	**Credit derivatives and spot swap foreign currency contacts**						
	Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	36	36
	Foreign currency spot swap contracts	-	-	1,013	-	-	1,013

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

(2) Derivatives constituting part of the bank's assest 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)

	March 31, 2016 (unaudited)					
	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	-	-	402	-	-	402
SWAPS	-	2,875	-	-	-	2,875
Total	-	2,875	402	-	-	3,277
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,875	-	-	-	2,875
B. ALM derivatives(1)(2)						
Futures contracts	-	-	-	-	33	33
Forward contracts	651	1,800	45,364	-	-	47,815
Option contracts traded on an exchange:						
- Options written	-	-	773	-	-	773
- Purchased options	-	-	1,119	-	-	1,119
Other option contracts:						
- Options written	-	-	4,370	-	-	4,370
- Purchased options	-	-	4,124	-	-	4,124
SWAPS	75	9,780	420	-	-	10,275
Total	726	11,580	56,170	-	33	68,509
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	5,543	-	-	-	5,618
C. Other derivatives(1)						
Futures contracts	-	3,197	293	15,136	338	18,964
Forward contracts	-	-	-	-	4	4
Option contracts traded on an exchange:						
- Options written	-	-	7,344	32,414	-	39,758
- Purchased options	-	-	7,344	32,414	-	39,758
Other option contracts:						
- Options written	-	-	498	833	-	1,331
- Purchased options	-	-	473	575	-	1,048
SWAPS	-	430	149	-	-	579
Total	-	3,627	16,101	81,372	342	101,442
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	215	-	-	-	215
D. Credit derivatives and spot swap foreign currency contacts						
Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	113	113
Foreign currency spot swap contracts	-	-	3,223	-	-	3,223

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

(2) Derivatives constituting part of the bank's assest 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					
		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	-	2,943	-	-	-	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 assest 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)

	March 31, 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	-	26	16	-	-	42
Gross negative fair value	-	20	-	-	-	20
B. ALM derivatives[1][2]						
Gross positive fair value	22	180	489	-	-	691
Gross negative fair value	1	220	616	-	-	837
C. Other derivatives[1]						
Gross positive fair value	-	9	153	444	1	607
Gross negative fair value	-	8	153	444	1	606
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:	-	-	-	-	-	-
Gross positive fair value	-	-	-	-	-	-
E. Total						
Gross positive fair value	22	215	658	444	1	1,340
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments*	22	215	658	444	1	1,340
* 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]	1	248	769	444	1	1,463
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments*[3]	1	248	769	444	1	1,463
* Of which: balance sheet balance of assets 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)

A. Volume of activity (CONT'D)

	March 31, 2016 (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	-	1	9	-	-	10
Gross negative fair value	-	75	-	-	-	75
B. ALM derivatives[1][2]						
Gross positive fair value	31	242	691	-	-	964
Gross negative fair value	8	316	758	-	-	1,082
C. Other derivatives[1]						
Gross positive fair value	-	11	132	751	3	897
Gross negative fair value	-	11	131	751	3	896
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	-	-	-	-	1	1
E. Total						
Gross positive fair value	31	254	832	751	4	1,872
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments*	31	254	832	751	4	1,872
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-
Gross negative fair value [3]	8	402	889	751	3	2,053
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments*[3]	8	402	889	751	3	2,053
* Of which: balance sheet balance of assets 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 12 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 assets 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

	March 31, 2017 (unaudited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	127	472	108	-	633	1,340
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(295)	(34)		(13)	(342)
Credit risk mitigation in respect of cash collateral received	-	(91)	(13)	-	-	(104)
Net amount of assets in respect of derivative instruments	127	86	61	-	620	894
Off balance sheet credit risk in respect of derivative instruments (2)	-	372	-	-	942	1,314
Off balance sheet credit risk mitigation	-	(121)	-	-	(78)	(199)
Net off balance sheet credit risk in respect of derivative instruments	-	251	-	-	864	1,115
Total credit risk in respect of derivative instruments	127	337	61	-	1,484	2,009
Balance sheet balance of liabilities in respect of derivative instruments (1)						
Gross amounts not offset in the balance sheet:	126	442	208	-	687	1,463
Financial instruments	-	(295)	(34)	-	(13)	(342)
Cash collateral which was attached by a lien	-	(72)	-	-	-	(72)
Net amount of liabilities in respect of derivative instruments	126	75	174	-	674	1,049

	March 31, 2016 (unaudited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	163	639	326	1	743	1,872
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(435)	(8)	-	-	(443)
Credit risk mitigation in respect of cash collateral received	-	(67)	-	-	-	(67)
Net amount of assets in respect of derivative instruments	163	137	318	1	743	1,362
Off balance sheet credit risk in respect of derivative instruments (2)	-	382	13	-	667	1,062
Off balance sheet credit risk mitigation	-	(158)	(8)	-	(1)	(167)
Net off balance sheet credit risk in respect of derivative instruments	-	224	5	-	666	895
Total credit risk in respect of derivative instruments	163	361	323	1	1,409	2,257
Balance sheet balance of liabilities in respect of derivative instruments (1)	135	681	273	-	964	2,053
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(435)	(8)	-	-	(443)
Cash collateral which was attached by a lien	-	(134)	(20)	-	-	(154)
Net amount of liabilities in respect of derivative instruments	135	112	245	-	964	1,456

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 (cont'd)

	December 31, 2016 (audited)					
	Exchanges	**Banks**	**Dealers/ brokers**	**Government and central banks**	**Others**	**Total**
Balance sheet balance of assets in respect of derivative instruments	191	380	115	-	646	1,332
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(234)	(18)	-	-	(252)
Credit risk mitigation in respect of cash collateral received	-	(61)	(13)	-	-	(74)
Net amount of assets in respect of derivative instruments	191	85	84	-	646	1,006
Off balance sheet credit risk in respect of derivative instruments (2)	-	355	26	3	555	939
Off balance sheet credit risk mitigation	-	(141)	(6)	-	(1)	(148)
Net off balance sheet credit risk in respect of derivative instruments	-	214	20	3	554	791
Total credit risk in respect of derivative instruments	191	299	104	3	1,200	1,797
Balance sheet balance of liabilities in respect of derivative instruments (1)	173	404	206	8	581	1,372
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(234)	(18)	-	-	(252)
Cash collateral which was attached by a lien	-	(46)	-	-	-	(46)
Net amount of liabilities in respect of derivative instruments	173	124	188	8	581	1,074

(1) Of which negative gross value of embedded derivative instruments is NIS 16 million (31.3.16 - NIS 12 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.

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

(NIS million)

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

	March 31, 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	**86**	**35**	**290**	**-**	**411**
- Other	**2,198**	**1,650**	**6,620**	**5,337**	**15,805**
Foreign currency contracts	**50,093**	**10,910**	**404**	**54**	**61,461**
Contracts of shares	**51,769**	**3,061**	**916**	**-**	**55,746**
Commodities and other contracts	**116**	**-**	**36**	**-**	**152**
Total	**104,262**	**15,656**	**8,266**	**5,391**	**133,575**

	March 31, 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	24	392	310	-	726
- Other	3,687	2,940	7,138	4,317	18,082
Foreign currency contracts	54,489	19,986	1,239	182	75,896
Contracts of shares	76,799	3,167	1,406	-	81,372
Commodities and other contracts	224	227	37	-	488
Total	135,223	26,712	10,130	4,499	176,564

	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.
- **Istitutional 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 assets in the balance sheet of the business, and in the event that this information is also unavailable, the bank is entitled to classify the customer according to its total financial assets at the bank (including financial deposits, securities portfolio and other financial assets), where instead of total balance sheet assets the classification will be according to total 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	297	122	11	1	159	39	100
Interest expense from external	25	-	7	7	10	5	15
Net interest income							
- From external	272	122	4	(6)	149	34	85
- Inter - segment	(32)	(67)	(1)	12	(4)	1	(11)
Total net interest income	240	55	3	6	145	35	74
Non interest income	143	4	21	14	80	16	37
Total income	383	59	24	20	225	51	111
Expenses (Income) in respect of credit losses	11	-	-	-	21	12	(10)
Operating and other expenses	345	32	16	14	161	26	48
Operating profit before taxes	27	27	8	6	43	13	73
Provision for taxes on operating profit	9	10	3	2	17	5	28
Operating profit after taxes	18	17	5	4	26	8	45
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	-
Net profit							
Before attribution to noncontrolling interests	18	17	5	4	26	8	45
Attributed to noncontrolling interests	(5)	-	-	-	(1)	(1)	(1)
Net profit attributed to shareholders of the Bank	13	17	5	4	25	7	44
Average balance of assets(1)	39,612	21,875	2,718	49	15,393	4,439	17,328
of which: Investee Company(1)	-	-	-	-	-	-	-
of which: Average balance of credit to the public(1)	39,612	21,875	2,718	49	15,393	4,439	17,328
Balance of credit to the public	40,407	22,058	3,108	51	15,712	4,553	17,560
Balance of impaired debts	96	11	-	-	200	98	124
Balance in arrears over 90 days	172	133	-	-	28	1	-
Average balance of liabilities(1)	45,919	-	-	8,069	16,054	5,495	11,606
of which: Average balance of deposits from the public(1)	45,919	-	-	8,069	16,054	5,495	11,606
Balance of deposits from the public	45,761	-	-	7,743	15,782	5,315	9,794
Average balance of risk assets(1)(2)	27,152	11,448	2,901	171	15,148	5,815	18,159
Balance of risk assets(2)	27,368	11,487	3,221	168	15,296	5,857	17,689
Average balance of assets under management(1)(3)	34,678	-	-	14,287	12,455	3,262	23,969
Segmentation of net interest income:							
- Earnings from credit - granting activity	217	58	3	-	140	34	76
- Earnings from deposits - taking activity	29	-	-	6	9	3	3
- Other	(6)	(3)	-	-	(4)	(2)	(5)
Total net interest income	240	55	3	6	145	35	74

(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 March 31, 2017 (unaudited)				
	Activity in Israel			Activity abroad	
	Institutional entities	Financial Mangement	Total activity in Israel	Total activity abroad	Total
					(NIS million)
	4	38	638	2	640
	8	8	78	-	78
	(4)	30	560	2	562
	12	22	-	-	-
	8	52	560	2	562
	46	49	385	3	388
	54	101	945	5	950
	-	-	34	-	34
	42	14	650	4	654
	12	87	261	1	262
	5	31	97	-	97
	7	56	164	1	165
	-	10	10	-	10
	7	66	174	1	175
	-	(1)	(9)	-	(9)
	7	65	165	1	166
	635	49,835	127,291	268	127,559
	-	516	516	-	516
	635	-	77,456	268	77,724
	537	-	78,820	-	78,820
	227	-	744	-	744
	-	-	201	-	201
	20,493	11,948	119,584	-	119,584
	20,493	-	107,636	-	107,636
	21,803	-	106,198	-	106,198
	915	8,691	76,051	449	76,500
	741	8,884	76,003	449	76,452
	151,679	-	240,330	-	240,330
	3	-	470	-	470
	6	-	56	2	58
	(1)	52	34	-	34
	8	52	560	2	562

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	261	51	8	1	138	34	79
Interest expense from external	7	-	4	2	3	1	2
Net interest income							
- From external	254	51	4	(1)	135	33	77
- Inter - segment	5	(10)	(1)	6	(6)	-	(8)
Total net interest income	259	41	3	5	129	33	69
Non interest income	146	4	21	13	75	17	32
Total income	405	45	24	18	204	50	101
Expenses (Income) in respect of credit losses	13	3	-	(1)	(21)	(8)	(49)
Operating and other expenses	379	37	17	14	157	28	49
Operating profit before taxes	13	5	7	5	68	30	101
Provision for taxes on operating profit	4	2	2	2	31	13	46
Operating profit after taxes	9	3	5	3	37	17	55
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	-
Net profit							
Before attribution to noncontrolling interests	9	3	5	3	37	17	55
Attributed to noncontrolling interests	(8)	-	-	-	(2)	(1)	(1)
Net profit attributed to shareholders of the Bank	1	3	5	3	35	16	54
Average balance of assets(1)	37,023	20,128	2,861	47	14,331	4,289	17,724
of which: Investee Company(1)	-	-	-	-	-	-	-
of which: Average balance of credit to the public(1)	37,023	20,128	2,861	47	14,331	4,289	17,724
Balance of credit to the public	37,673	20,612	2,881	45	14,464	4,409	17,713
Balance of impaired debts	102	20	-	-	225	58	365
Balance in arrears over 90 days	193	158	-	-	24	1	1
Average balance of liabilities(1)	43,539	-	-	7,296	16,033	4,976	11,166
of which: Average balance of deposits from the public(1)	43,539	-	-	7,296	16,033	4,976	11,166
Balance of deposits from the public	44,665	-	-	7,201	15,370	4,933	9,862
Average balance of risk assets(1)(2)	26,223	10,812	2,918	147	14,374	5,971	17,854
Balance of risk assets(2)	25,931	10,965	2,955	149	14,622	6,081	18,022
Average balance of assets under management(1)(3)	35,245	-	-	12,793	12,645	3,464	22,349
Segmentation of net interest income:							
- Earnings from credit - granting activity	238	44	3	-	126	32	72
- Earnings from deposits - taking activity	27	-	-	5	8	2	3
- Other	(6)	(3)	-	-	(5)	(1)	(6)
Total net interest income	259	41	3	5	129	33	69

(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 March 31, 2016 (unaudited)				
Activity in Israel			Activity abroad	
Institutional entities	Financial Mangement	Total activity in Israel	Total activity abroad	Total
				(NIS million)
3	28	544	3	547
3	3	21	-	21
-	25	523	3	526
9	(6)	-	-	-
9	19	523	3	526
51	34	368	5	373
60	53	891	8	899
(1)	-	(67)	-	(67)
50	13	690	8	698
11	40	268	-	268
5	17	118	-	118
6	23	150	-	150
-	10	10	-	10
6	33	160	-	160
-	(1)	(13)	-	(13)
6	32	147	-	147
690	52,637	126,741	364	127,105
-	433	433	-	433
690	-	74,104	364	74,468
641	-	74,945	376	75,321
8	-	758	-	758
1		220	-	220
23,572	12,026	118,608	830	119,438
23,572	-	106,582	830	107,412
21,038	-	103,069	784	103,853
1,096	8,402	74,067	658	74,725
1,107	8,362	74,274	658	74,932
153,655	-	240,151	-	240,151
4	-	472	-	472
6	-	51	3	54
(1)	19	-	-	-
9	19	523	3	526

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	-	2,950	49	14,787	4,396	18,182
Balance of credit to the public	39,608	21,741	2,933	47	15,133	4,517	18,186
Balance of impaired debts	95	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	11,516
of which: Average balance of deposits from the public(1)	44,620	-	-	7,431	16,167	5,103	11,516
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	-	-	13,336	12,828	3,429	22,109
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 Mangement	Total activity in Israel	Total activity abroad	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	12,181	118,654	768	119,422
21,636	-	106,473	768	107,241
19,448	-	105,817	-	105,817
1,044	8,587	75,542	578	76,120
1,031	8,417	75,600	578	76,178
154,684	0	241,348	-	241,348
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 March 31, 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	58	183	99	54	7	49	38	157	(83)	562
Non interest income	4	160	60	20	8	163	52	79	(158)	388
Total income	62	343	159	74	15	212	90	236	(241)	950
Expenses (income) in respect of credit losses	(3)	19	(7)	16	1	2	-	13	(7)	34
Operating and other expenses	27	314	78	40	9	178	17	179	(188)	654
Operating profit before taxes	38	10	88	18	5	32	73	44	(46)	262
Provision for taxes on operating profit	14	3	32	6	2	12	27	16	(15)	97
Operating profit after taxes	24	7	56	12	3	20	46	28	(31)	165
Bank's share in operating profit of investee company	-	-	-	-	-	-	10	-	-	10
Net profit										
Before attribution to noncontrolling interests	24	7	56	12	3	20	56	28	(31)	175
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(9)	-	(9)
Attributed to shareholders of the Bank	24	7	56	12	3	20	56	19	(31)	166
Average balance of assets	22,094	15,010	20,810	6,870	487	4,995	42,019	24,732	(9,458)	127,559
Balance of net credit to the public at the end of the reported period	21,766	15,398	21,046	6,993	498	5,203	-	16,714	(9,625)	77,993
Balance of deposits from the public at the end of the reported period	-	50,222	21,926	4,850	2,527	84,715	-	23,165	(81,207)	106,198

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	For the three months ended March 31, 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	43	166	94	46	7	48	14	188	(80)	526
Non interest income	4	156	55	17	8	161	50	80	(158)	373
Total income	47	322	149	63	15	209	64	268	(238)	899
Expenses (income) in respect of credit losses	(1)	(5)	(54)	(9)	(2)	1		(3)	6	(67)
Operating and other expenses	31	342	84	42	9	190	16	187	(203)	698
Operating profit (loss) before taxes	17	(15)	119	30	8	18	48	84	(41)	268
Provision for taxes (tax saving) on operating profit (loss)	7	(6)	50	13	4	8	21	35	(14)	118
Operating profit (loss) after taxes	10	(9)	69	17	4	10	27	49	(27)	150
Bank's share in operating profit of investee company	-	-	-	-	-	-	10	-	-	10
Net profit (loss)										
Before attribution to noncontrolling interests	10	(9)	69	17	4	10	37	49	(27)	160
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(13)	-	(13)
Attributed to shareholders of the Bank	10	(9)	69	17	4	10	37	36	(27)	147
Average balance of assets	20,337	13,366	21,719	5,894	536	5,230	45,512	23,599	(9,088)	127,105
Balance of net credit to the public at the end of the reported period	20,640	13,775	21,796	6,113	523	5,217	-	15,619	(9,149)	74,534
Balance of deposits from the public at the end of the reported period	-	48,462	24,332	4,082	2,551	83,378	-	21,375	(80,327)	103,853

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 March 31, 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	**31**	**-**	**7**	**38**	**-**	**38**
Accounting write-offs	**(73)**	**(2)**	**(30)**	**(105)**	**-**	**(105)**
Collection of debts written off in accounting in previous years	**24**	**-**	**23**	**47**	**-**	**47**
Net accounting write-offs	**(49)**	**(2)**	**(7)**	**(58)**	**-**	**(58)**
Provision for credit losses at end of the period	**483**	**113**	**231**	**827**	**-**	**827**
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	**(4)**	**-**	**-**	**(4)**	**-**	**(4)**
Provision in respect of off-balance sheet credit instruments at end of the period	**53**	**-**	**14**	**67**	**-**	**67**
Total provision for credit losses - debts and off-balance sheet credit instruments	**536**	**113**	**245**	**894**	**-**	**894**

	For the three months ended March 31, 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 (income) in respect of credit losses	(50)	3	9	(38)	-	(38)
Accounting write-offs	(20)	(1)	(36)	(57)	-	(57)
Collection of debts written off in accounting in previous years	22	-	36	58	-	58
Net accounting write-offs	2	(1)	-	1	-	1
Provision for credit losses at end of the period	450	121	216	787	-	787
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	(28)	-	(1)	(29)	-	(29)
Provision in respect of off-balance sheet credit instruments at end of the period	42	-	14	56	-	56
Total provision for credit losses - debts and off-balance sheet credit instruments	492	121	230	843	-	843

(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)

	March 31, 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	**33,640**	**-**	**207**	**33,847**	**2,855**	**36,702**
Examined on a collective basis	**4,972**	**22,058**	**17,943**	**44,973**	**-**	**44,973**
Of which: provision for which was calculated according to the extent of arrears	**250**	**22,058**	**-**	**22,308**	**-**	**22,308**
Total debts	**38,612**	**22,058**	**18,150**	**78,820**	**2,855**	**81,675**
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	**429**	**-**	**27**	**456**	**-**	**456**
Examined on a collective basis	**54**	**113**	**204**	**371**	**-**	**371**
Of which: provision for which was calculated according to the extent of arrears	**1**	(2)**113**	**-**	**114**	**-**	**114**
Total provision for credit losses	**483**	**113**	**231**	**827**	**-**	**827**

	March 31, 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	32,961	-	412	33,373	3,458	36,831
Examined on a collective basis	4,592	20,612	16,744	41,948	-	41,948
Of which: provision for which was calculated according to the extent of arrears	310	20,612	-	20,922	-	20,922
Total debts	37,553	20,612	17,156	75,321	3,458	78,779
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	405	-	18	423	-	423
Examined on a collective basis	45	121	198	364	-	364
Of which: provision for which was calculated according to the extent of arrears	1	(2)121	-	122	-	122
Total provision for credit losses	450	121	216	787	-	787

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) (Cont'd)

	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 an collective basis in the amount of approximately NIS 78 million (31.3.16 - NIS 77 million, 31.12.16 - NIS 78 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 2,298 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.3.16 - NIS 2,147 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

	March 31, 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	**3,694**	**28**	**61**	**3,783**	**4**	**5**
Construction and real estate - real estate activities	**4,574**	**8**	**26**	**4,608**	**1**	**1**
Financial services	**7,019**	**36**	**228**	**7,283**	**-**	**2**
Commercial - other	**21,413**	**541**	**326**	**22,280**	**24**	**38**
Total commercial	**36,700**	**613**	**641**	**37,954**	**29**	**46**
Private individuals - housing loans	**21,900**	**(6)147**	**11**	**22,058**	**133**	**214**
Private individuals - others	**17,828**	**238**	**84**	**18,150**	**39**	**51**
Total public - activity in Israel	**76,428**	**998**	**736**	**78,162**	**201**	**311**
Banks in Israel	**670**	**-**	**-**	**670**	**-**	**-**
Israeli government	**648**	**-**	**-**	**648**	**-**	**-**
Total activity in Israel	**77,746**	**998**	**736**	**79,480**	**201**	**311**
Borrower activity abroad						
Public - commercial						
Construction and real estate	**53**	**-**	**-**	**53**	**-**	**-**
Other commercial	**597**	**-**	**8**	**605**	**-**	**-**
Total commercial	**650**	**-**	**8**	**658**	**-**	**-**
Private individuals	**-**	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**650**	**-**	**8**	**658**	**-**	**-**
Banks abroad	**1,537**	**-**	**-**	**1,537**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**2,187**	**-**	**8**	**2,195**	**-**	**-**
Total public	**77,078**	**998**	**744**	**78,820**	**201**	**311**
Total banks	**2,207**	**-**	**-**	**2,207**	**-**	**-**
Total governments	**648**	**-**	**-**	**648**	**-**	**-**
Total	**79,933**	**998**	**744**	**81,675**	**201**	**311**

* 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 97 million (31.3.16 - NIS 98 million) were classified as unimpaired problematic debts.

(6) Includes a balance of housing loans, in the amount of approximately NIS 5 million (31.3.16 - NIS 7 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)

	March 31, 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	3,403	18	73	3,494	1	2
Construction and real estate - real estate activities	4,324	21	28	4,373	-	-
Financial services	7,277	14	12	7,303	3	6
Commercial - other	20,327	497	522	21,346	23	43
Total commercial	35,331	550	635	36,516	27	51
Private individuals - housing loans	20,415	[6]177	20	20,612	*158	*160
Private individuals - others	16,826	205	82	17,113	35	47
Total public - activity in Israel	72,572	932	737	74,241	220	258
Banks in Israel	1,228	-	-	1,228	-	-
Israeli government	645	-	-	645	-	-
Total activity in Israel	74,445	932	737	76,114	220	258
Borrower activity abroad						
Public - commercial						
Construction and real estate	220	-	13	233	-	-
Other commercial	796	-	8	804	-	-
Total commercial	1,016	-	21	1,037	-	-
Private individuals	43	-	-	43	-	-
Total public - activity abroad	1,059	-	21	1,080	-	-
Banks abroad	1,585	-	-	1,585	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	2,644	-	21	2,665	-	-
Total public	73,631	932	758	75,321	220	258
Total banks	2,813	-	-	2,813	-	-
Total governments	645	-	-	645	-	-
Total	77,089	932	758	78,779	220	258

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 or purchased under agreements to resell.

(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 are treated as nonperforming debts (debts not accruing interest income) after 90 days of arrears. With regard to debts evaluated on a collective basis, the status of arrears effects the classification of the debt (the classification is more severe for more extensive arrears) and mostly after 150 days of arrears, the Bank performs an accounting write-off of the debt 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

	March 31, 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	**45**	**27**	**16**	**61**	**850**
Construction and real estate - real estate activities	**11**	**3**	**15**	**26**	**543**
Financial services	**228**	**10**	**-**	**228**	**925**
Commercial - other	**197**	**105**	**129**	**326**	**1,946**
Total commercial	**481**	**145**	**160**	**641**	**4,264**
Private individuals - housing loans	**-**	**-**	**11**	**11**	**11**
Private individuals - others	**71**	**21**	**13**	**84**	**165**
Total public - activity in Israel	**552**	**166**	**184**	**736**	**4,440**
Banks in Israel	**-**	**-**	**-**	**-**	**-**
Israeli government	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**552**	**166**	**184**	**736**	**4,440**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**-**	**-**	**-**	**-**	**-**
Other commercial	**-**	**-**	**8**	**8**	**83**
Total commercial	**-**	**-**	**8**	**8**	**83**
Private individuals	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**-**	**-**	**8**	**8**	**83**
Banks abroad	**-**	**-**	**-**	**-**	**-**
Government abroad	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**-**	**-**	**8**	**8**	**83**
Total public	**552**	**166**	**192**	**744**	**4,523**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total(*)	**552**	**166**	**192**	**744**	**4,523**
(*) Of which:					
Measured at the present value of cash flows	**552**	**166**	**123**	**675**	
Debts in troubled debt restructuring	**357**	**37**	**65**	**422**	

(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)

					March 31, 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	22	19	51	73	790
Construction and real estate - real estate activities	-	-	28	28	470
Financial services	1	-	11	12	323
Commercial - other	397	193	125	522	2,379
Total commercial	420	212	215	635	3,962
Private individuals - housing loans	-	-	20	20	20
Private individuals - others	11	9	71	82	155
Total public - activity in Israel	431	221	306	737	4,137
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	431	221	306	737	4,137
Borrower activity abroad					
Public - commercial					
Construction and real estate	13	3	-	13	13
Other commercial	8	-	-	8	79
Total commercial	21	3	-	21	92
Private individuals	-	-	-	-	-
Total public - activity abroad	21	3	-	21	92
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	21	3	-	21	92
Total public	452	224	306	758	4,229
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	452	224	306	758	4,229
(*) Of which:					
Measured at the present value of cash flows	452	224	257	709	
Debts in troubled debt restructuring	20	9	208	228	

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 March 31					
	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	**63**	**-**	**-**	55	-	-
Construction and real estate - real estate activities	**28**	**-**	**-**	43	-	-
Financial services	**115**	**-**	**-**	17	-	-
Commercial - other	**354**	**1**	**-**	492	-	-
Total commercial	**560**	**1**	**-**	607	-	-
Private individuals - housing loans	**9**	**-**	**-**	15	-	-
Private individuals - others	**84**	**-**	**-**	64	1	-
Total public - activity in Israel	**653**	**1**	**-**	686	1	-
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**653**	**1**	**-**	686	1	-
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	**-**	14	-	-
Other commercial	**8**	**-**	**-**	8	-	-
Total commercial	**8**	**-**	**-**	22	-	-
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**8**	**-**	**-**	22	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Government abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**8**	**-**	**-**	22	-	-
Total public	**661**	**1**	**-**	708	1	-
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**661**	(4)**1**	**-**	708	(4)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 15 million was recorded in three months ended March 31, 2017 (for three months ended March 31, 2016 - NIS 16 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)

	March 31, 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	**7**	**-**	**-**	**1**	**8**
Construction and real estate - real estate activities	**8**	**-**	**-**	**1**	**9**
Financial services	**228**	**-**	**-**	**-**	**228**
Commercial - other	**74**	**-**	**-**	**24**	**98**
Total commercial	**317**	**-**	**-**	**26**	**343**
Private individuals - housing loans	**-**	**-**	**-**	**-**	**-**
Private individuals - others	**49**	**-**	**-**	**22**	**71**
Total public - activity in Israel	**366**	**-**	**-**	**48**	**414**
Banks in Israel	**-**	**-**	**-**	**-**	**-**
Israeli government	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**366**	**-**	**-**	**48**	**414**
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	**374**	**-**	**-**	**48**	**422**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**374**	**-**	**-**	**48**	**422**

(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)

	March 31, 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	17	-	-	1	18
Construction and real estate - real estate activities	8	-	-	1	9
Financial services	4	-	-	1	5
Commercial - other	103	-	-	12	115
Total commercial	132	-	-	15	147
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	60	-	-	13	73
Total public - activity in Israel	192	-	-	28	220
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	192	-	-	28	220
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	200	-	-	28	228
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	200	-	-	28	228

(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 March 31					
	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	**6**	**1**	**1**	5	5	5
Construction and real estate - real estate activities	**-**	**-**	**-**	-	-	-
Financial services	**2**	**227**	**227**	2	1	1
Commercial - other	**68**	**9**	**8**	73	11	10
Total commercial	**76**	**237**	**236**	80	17	16
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - others	**230**	**10**	**10**	283	12	12
Total public - activity in Israel	**306**	**247**	**246**	363	29	28
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**306**	**247**	**246**	363	29	28
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	**306**	**247**	**246**	363	29	28
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**306**	**247**	**246**	363	29	28

(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 March 31			
	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	**3**	**-**	6	1
Construction and real estate - real estate activities	**-**	**-**	2	1
Financial services	**-**	**-**	-	-
Commercial - other	**28**	**2**	29	11
Total commercial	**31**	**2**	37	13
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - others	**118**	**3**	128	3
Total public - activity in Israel	**149**	**5**	165	16
Banks in Israel	**-**	**-**	-	-
Israeli government	**-**	**-**	-	-
Total activity in Israel	**149**	**5**	165	16
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	**149**	**5**	165	16
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**149**	**5**	165	16

(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

	March 31, 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%	**15,757**	**395**	**9,646**	**801**
- Over 60%	**6,243**	**93**	**4,122**	**308**
Secondary lien or no lien	**58**	**1**	**33**	**9**
Total	**22,058**	**489**	**13,801**	**1,118**

	March 31, 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%	14,456	420	8,964	1,248
- Over 60%	6,013	116	4,046	654
Secondary lien or no lien	143	5	79	21
Total	20,612	541	13,089	1,923

	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		
	31.3.17	31.3.16	31.12.16	31.3.17	31.3.16	31.12.16
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)	(audited)
Transactions the balance of which represents credit risk:						
Documentary credit	**130**	267	119	**-**	-	1
Guarantees securing credit	**900**	1,019	1,022	**9**	9	10
Guarantees to home purchasers	**2,855**	2,867	2,859	**10**	6	11
Guarantees and other liabilities	**3,839**	3,586	3,833	**17**	13	17
Unutilized credit lines for derivatives instruments	**2,663**	*2,982	2,857	**-**	-	-
Unutilized revolving credit and other on-call credit facilities	**10,397**	10,948	10,806	**17**	17	17
Irrevocable commitments to grant credit, not yet executed	**4,359**	3,952	4,658	**4**	2	4
Unutilized credit lines for credit card facilities	**6,512**	5,856	6,361	**4**	4	4
Facilities for the lending of securities	**312**	115	190	**-**	-	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses	**143**	187	139	**-**	-	-
Commitments to issue guarantees	**1,618**	1,474	1,978	**6**	5	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)	**105**	102	107	**-**	-	-

* Restated. As of December 31, 2016 the balance of the forex facilities which have not been utilized are multiplied by the pothential future exposure coeficients, in accordance with the Proper Conduct of Banking Business Management Directive No. 203. The comparative data for March 31, 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)

	March 31, 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	**28,236**	**131**	**1,255**	**324**	**309**	**-**	**30,255**
Securities	**6,041**	**1,594**	**5,440**	**1,339**	**79**	**182**	**14,675**
Securities which were borrowed	**492**	**-**	**-**	**-**	**-**	**-**	**492**
Credit to the public, net[3]	**63,331**	**9,933**	**2,855**	**935**	**455**	**484**	**77,993**
Credit to the government	**30**	**618**	**-**	**-**	**-**	**-**	**648**
Investee company	**-**	**-**	**-**	**-**	**-**	**518**	**518**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**1,113**	**1,113**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**240**	**240**
Assets in respect of derivative instruments	**572**	**52**	**220**	**22**	**29**	**445**	**1,340**
Other assets	**522**	**46**	**30**	**2**	**8**	**394**	**1,002**
Assets held for sale	**27**	**-**	**88**	**31**	**95**	**1**	**242**
Total assets	**99,251**	**12,374**	**9,888**	**2,653**	**975**	**3,377**	**128,518**
Liabilities							
Deposits from the public	**80,372**	**6,065**	**15,165**	**2,981**	**1,117**	**498**	**106,198**
Deposits from banks	**422**	**51**	**188**	**44**	**11**	**-**	**716**
Deposits from the Government	**523**	**-**	**68**	**1**	**1**	**-**	**593**
Bonds and subordinated capital notes	**703**	**4,872**	**-**	**-**	**-**	**-**	**5,575**
Liabilities in respect of derivative instruments	**703**	**48**	**200**	**37**	**30**	**429**	**1,447**
Other liabilities	**4,574**	**129**	**64**	**11**	**35**	**409**	**5,222**
Liabilities held for sale	**42**	**-**	**413**	**160**	**76**	**-**	**691**
Total liabilities	**87,339**	**11,165**	**16,098**	**3,234**	**1,270**	**1,336**	**120,442**
Difference	**11,912**	**1,209**	**(6,210)**	**(581)**	**(295)**	**2,041**	**8,076**
Hedging financial instruments							
Derivative instruments (not including options)	**225**	**-**	**-**	**-**	**(225)**	**-**	**-**
Non-hedging derivatives							
Derivative instruments (not including options)	**(7,182)**	**(245)**	**6,290**	**581**	**556**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**(69)**	**-**	**103**	**(46)**	**12**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**29**	**-**	**(39)**	**16**	**(6)**	**-**	**-**
Total	**4,915**	**964**	**144**	**(30)**	**42**	**2,041**	**8,076**
Options in the money, net (present value of stated amount)	**(216)**	**-**	**196**	**(2)**	**22**	**-**	**-**
Options out of the money, net (present value of stated amount)	**(285)**	**-**	**254**	**54**	**(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 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

	March 31, 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	27,134	110	1,542	253	297	-	29,336
Securities	7,023	1,704	7,070	470	115	217	16,599
Securities which were borrowed	726	-	-	-	-	-	726
Credit to the public, net[3]	57,394	11,016	3,896	1,268	385	575	74,534
Credit to the government	27	618	-	-	-	-	645
Investee company	-	-	-	-	-	450	450
Premises and equipment	-	-	-	-	-	1,206	1,206
Intangible assets and goodwill	-	-	-	-	-	255	255
Assets in respect of derivative instruments	731	51	164	95	78	753	1,872
Other assets	641	34	11	-	12	287	985
Total assets	93,676	13,533	12,683	2,086	887	3,743	126,608
Liabilities							
Deposits from the public	73,984	6,244	17,907	3,655	1,478	585	103,853
Deposits from banks	1,128	-	414	55	27	-	1,624
Deposits from the Government	289	303	74	2	1	-	669
Bonds and subordinated capital notes	769	4,928	-	-	-	-	5,697
Liabilities in respect of derivative instruments	836	36	235	126	67	741	2,041
Other liabilities	4,383	161	56	5	13	298	4,916
Total liabilities	81,389	11,672	18,686	3,843	1,586	1,624	118,800
Difference	12,287	1,861	(6,003)	(1,757)	(699)	2,119	7,808
Hedging financial instruments							
Derivative instruments (not including options)	393	-	-	-	(393)	-	-
Non-hedging derivatives							
Derivative instruments (not including options)	(8,689)	(430)	6,286	1,856	977	-	-
Options in the money, net (in terms of underlying asset)	568	-	(452)	(115)	(1)	-	-
Options out of the money, net (in terms of underlying asset)	(210)	-	225	(15)	-	-	-
Total	4,349	1,431	56	(31)	(116)	2,119	7,808
Options in the money, net (present value of stated amount)	585	-	(421)	(163)	(1)	-	-
Options out of the money, net (present value of stated amount)	(694)	-	774	(85)	5	-	-

(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)

	March 31, 2017 (unaudited)				
	Stated in the Balance Sheet	Fair value[1]			
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	**30,255**	**568**	**29,618**	**73**	**30,259**
Securities[2]	**14,675**	**7,464**	**7,138**	**119**	**14,721**
Securities which were borrowed	**492**	**-**	**492**	**-**	**492**
Credit to the public, net	**77,993**	**2,991**	**1,367**	**73,578**	**77,936**
Credit to the government	**648**	**-**	**23**	**618**	**641**
Assets in respect of derivative instruments	**1,340**	**563**	**481**	**296**	**1,340**
Other financial assets	**495**	**375**	**-**	**120**	**495**
Assets held for sale	**240**	**-**	**-**	**240**	**240**
Total financial assets	**[3]126,138**	**11,961**	**39,119**	**75,044**	**126,124**
Financial liabilities					
Deposits from the public	**106,198**	**2,589**	**86,990**	**16,753**	**106,332**
Deposits from Banks	**716**	**-**	**640**	**89**	**729**
Deposits from the Government	**593**	**192**	**331**	**84**	**607**
Bonds and non-convertible subordinated capital notes	**5,575**	**5,001**	**-**	**803**	**5,804**
Liabilities in respect of derivative instruments	**1,447**	**563**	**835**	**49**	**1,447**
Other financing liabilities	**4,218**	**690**	**1,367**	**2,159**	**4,216**
Liabilities held for sale	**691**	**-**	**-**	**691**	**691**
Total financial liabilities	**[3]119,438**	**9,035**	**90,163**	**20,628**	**119,826**
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	**35**	**-**	**-**	**35**	**35**
In addition, the liability in respect of employee rights, gross - pension and sverance pay[4]	**1,135**	**-**	**-**	**1,135**	**1,135**

(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 17,828 million and liabilities of NIS 4,934 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)

					March 31, 2016 (unaudited)
	Stated in the				Fair value(1)
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	29,336	586	28,553	196	29,335
Securities(2)	16,599	8,376	8,151	128	16,655
Securities which were borrowed	726	-	726	-	726
Credit to the public, net	74,534	2,767	993	*71,032	74,792
Credit to the government	645	-	27	604	631
Assets in respect of derivative instruments	1,872	860	652	360	1,872
Other financial assets	424	261	-	163	424
Total financial assets	(3)124,136	12,850	39,102	72,483	124,435
Financial liabilities					
Deposits from the public	103,853	2,200	87,220	14,723	104,143
Deposits from Banks	1,624	-	1,513	108	1,621
Deposits from the Government	669	306	285	99	690
Bonds and non-convertible subordinated capital notes	5,697	4,996	-	1,010	6,006
Liabilities held for sale	2,041	851	1,146	44	2,041
Other financing liabilities	3,861	444	994	2,422	3,860
Total financial liabilities	(3)117,745	8,797	91,158	18,406	118,361
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	36	-	-	36	36

* 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 20,078 million and liabilities of NIS 5,003 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 sverance 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

	March 31, 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	4,786	2,314	-	-	7,100
Government bonds - Foreign governments	-	2,003	-	-	2,003
Bonds of financial institutions in Israel	246	-	-	-	246
Bonds of foreign financial institutions	-	1,282	-	-	1,282
Mortgage backed (MBS)	-	316	-	-	316
Bonds of others in Israel	531	189	-	-	720
Bonds of foreign others	-	613	-	-	613
Shares of others	47	4	-	-	51
Total available for sale securities	5,610	6,721	-	-	12,331
Trading Securities:					
Government bonds -Israeli Government	691	-	-	-	691
Bonds of financial institutions in Israel	-	51	-	-	51
Bonds of others in Israel	33	-	-	-	33
Bonds of foreign others	-	4	-	-	4
Shares of others	12	-	-	-	12
Total trading securities	736	55	-	-	791
Credit in respect of security borrowing	2,991	-	-	-	2,991
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	22	-	22
Interest rate contract: other	3	203	9	-	215
Foreign currency contracts	131	262	265	-	658
Shares contracts	428	16	-	-	444
Commodities and other contracts	1	-	-	-	1
Total assets in respect of derivative instruments	563	481	296	-	1,340
Assets in respect of MAOF activity	375	-	-	-	375
Total assets	10,275	7,257	296	-	17,828
Liabilities					
Deposits in respect of borrowing between customers	2,589	-	-	-	2,589
Deposits from the Government	192	-	-	-	192
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	1	-	1
Interest rate contract: other	3	245	-	-	248
Foreign currency contracts	131	590	48	-	769
Shares contracts	428	16	-	-	444
Commodities and other contracts	1	-	-	-	1
Total liabilities in respect of derivative instruments	563	851	49	-	1,463
Other liabilities					
Liabilities in respect of activity in the maof market	375	-	-	-	375
Short selling of securities	315	-	-	-	315
Total other liabilities	690	-	-	-	690
Total liabilities	4,034	851	49	-	4,934

NOTE 14B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

A. Items measured at fair value on a recurrent basis (CONT'D)

	March 31, 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	5,682	1,804	-	-	7,486
Government bonds - Foreign governments	-	2,742	-	-	2,742
Bonds of financial institutions in Israel	401	-	-	-	401
Bonds of foreign financial institutions	-	1,940	-	-	1,940
Mortgage backed (MBS)	-	562	-	-	562
Bonds of others in Israel	544	245	-	-	789
Bonds of foreign others	-	316	-	-	316
Shares of others	77	12	-	-	89
Total available for sale securities	6,704	7,621	-	-	14,325
Trading Securities:					
Government bonds -Israeli Government	797	-	-	-	797
Bonds of financial institutions in Israel	27	-	-	-	27
Bonds of others in Israel	29	-	-	-	29
Total trading securities	853	-	-	-	853
Credit in respect of security borrowing	2,767	-	-	-	2,767
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	31	-	31
Interest rate contract: other	6	238	10	-	254
Foreign currency contracts	113	400	319	-	832
Shares contracts	738	13	-	-	751
Commodities and other contracts	3	1	-	-	4
Total assets in respect of derivative instruments	860	652	360	-	1,872
Assets in respect of MAOF activity	261	-	-	-	261
Total assets	11,445	8,273	360	-	20,078
Liabilities					
Deposits in respect of borrowing between customers	2,200	-	-	-	2,200
Deposits from the Government	306	-	-	-	306
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	8	-	8
Interest rate contract: other	6	396	-	-	402
Foreign currency contracts	104	749	36	-	889
Shares contracts	738	13	-	-	751
Commodities and other contracts	3	-	-	-	3
Total liabilities in respect of derivative instruments	851	1,158	44	-	2,053
Other liabilities					
Liabilities in respect of activity in the maof market	261	-	-	-	261
Short selling of securities	183	-	-	-	183
Total Other Liabilities	444	-	-	-	444
Total liabilities	3,801	1,158	44	-	5,003

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

	March 31, 2017 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**68**	**68**	**2**

	March 31, 2016 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	-	-	49	49	3

	December 31, 2016 (audited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	-	-	66	66	20

NOTE 14C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

	For the three months ended March 31, 2017 (unaudited)							
	Fair value as at 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 at March 31, 2017	Unrealized profits (losses) in respect of instruments held as at March 31, 2017
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**23**	**2**	**-**	**(3)**	**-**	**-**	**22**	**2**
Interest rate contracts: Other	**10**	**1**	**-**	**(2)**	**-**	**-**	**9**	**1**
Foreign currency contracts	**215**	**370**	**13**	**(333)**	**-**	**-**	**265**	**146**
Total assets	**248**	**373**	**13**	**(338)**	**-**	**-**	**296**	**149**
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**3**	**-**	**-**	**(2)**	**-**	**-**	**1**	**-**
Foreign currency contracts	**39**	**(8)**	**-**	**1**	**-**	**-**	**48**	**(8)**
Total liabilities	**42**	**(8)**	**-**	**(1)**	**-**	**-**	**49**	**(8)**

	For the three months ended March 31, 2016 (unaudited)							
	Fair value as at 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 at March 31, 2016	Unrealized profits (losses) in respect of instruments held as at March 31, 2016
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	27	4	-	-	-	-	31	5
Interest rate contracts: Other	10	3	-	(3)	-	-	10	3
Foreign currency contracts	241	674	25	(621)	-	-	319	181
Total assets	278	681	25	(624)	-	-	360	189
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	8	(1)	-	(1)	-	-	8	(1)
Foreign currency contracts	60	(1)	-	(25)	-	-	36	(1)
Total liabilities	68	(2)	-	(26)	-	-	44	(2)

(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 year ended 31, December 2016 (audited)							
	Fair value as at 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 at December 31, 2016	Unrealized profits (losses) in respect of instruments held as at 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

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
					As of March 31, 2017 (unaudited)
			(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**	**0.22**	**(0.14)-0.31**
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	**9**	**1.86**	**1.50-1.95**
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	**56**	**(0.44)**	**(1.82)-0.04**
		2. Counter-party credit risk	**209**	**1.60**	**1.05-5.01**
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	**1**	**(0.24)**	**(0.76)-0.04**
Foreign currency contracts	Discounted cash flow	CPI-linked interest	**48**	**(0.75)**	**(1.42)-(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		**68**		

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
					As of March 31, 2016 (unaudited)
			(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	31	0.09	(0.79)-2.10
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	10	1.90	1.30-1.95
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	53	(0.61)	(1.95)-0.69
		2. Counter-party credit risk	266	1.51	1.05-5.14
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	8	0.33	(0.79)-2.30
Foreign currency contracts	Discounted cash flow	CPI-linked interest	36	(0.47)	(1.80)-(0.25)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		49		

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)	(0.40)-(0.79)
Foreign currency contracts	Discounted cash flow	CPI-linked interest	39	(0.50)	(0.17)-(0.75)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		66		

LIST OF TABLES -CORPORATE GOVERNANCE

Corporate Governance, Additional Information and Appendices to the Annual Report

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 dor the year 2016 was discussed in the audit committee of the Bank on April 4, 2017.

DISCLOSURE OF THE PROCESS OF APPROVAL OF THE FINANCIAL STATEMENTS

The office-holders engaged in the preparation of the financial statements of the Bank are the CEO of the Bank, Mrs. Smadar Barber Zadik, and the Chief Accountant, Nachman Nitzan CPA.
In accordance with the SOX 302 directives, a Disclosure Committee chaired by the CEO and with the participation of the Head of the Chief Accountant's Division, heads of divisions and department managers subordinate to the CEO and/or the Board of Directors, the Chief Disclosure Coordinator and the Bank's External Auditor meet every quarter. The Disclosure Committee discusses material matters that could have an effect on the data in the financial statements, and deficiencies that were discovered in the financial reporting control system, and monitors the rectification of those deficiencies.
Before the financial statements are presented to the plenum of the Board of Directors, initial discussions concerning them are held at the Bank's Management, at the Disclosure Committee and with the participation of the CEO, the Head of the Chief Accountant's Division and the Bank's External Auditor. Discussed at this forum are material issues that may arise in the preparation of the financial statements and the accounting policy that needs to be applied.
The Board of Directors has authorized the Audit Committee to act as the Committee for the Review of the Financial Statements, in accordance with the Companies Regulations (Terms and Conditions Concerning the Process of Approval of the Financial Statements), 2010. The Audit Committee is headed by an external director and most of its members are qualified as independent directors and all its members have declared themselves capable of perusing and comprehending financial statements.

In accordance with a resolution of the Board of Directors, at least two directors with accounting and financial speciality must serve on the Board of Directors and on the Audit Committee. Currently, 12 out of the 13 members of the Board of Directors and 5 out of the 6 members of the Audit Committee have accounting and financial speciality. The Audit Committee consists of six directors:

1. **Mr. Joseph Horowitz**, Chairman of the Audit Committee, Serves as external director under the Companies Law, 1999 (and as external director under Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division), and with qualification as an independent director. Has accounting and financial speciality and the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law), in view of the following: Served for 15 years as Chief Internal Auditor and member of the management of Bank Leumi Le-Israel B.M. and previously served in various senior functions at Bank Leumi.
2. **Mrs. Pnina Bitterman-Cohen,** a member of the Audit Committee, serves as an external director in accordance with the Companies Law, 1999 (and as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division) and is qualified as an independent director. Does not have accounting and financial speciality. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: has served for over 20 years as senior office-holder at a public company traded on the Tel Aviv Stock Exchange; has served for over 20 years as director of companies operating in various fields; and has attended courses on the analysis of financial statements and risk management.

3. **Mr. Zeev Ben-Asher**, a member of the Audit Committee, serves as external director in accordance with the Companies Law, 1999 (and as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division) and is qualified as an independent director. Has accounting and financial speciality. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: MBA from Tel Aviv University; Certificate of Advanced Management Program from Harvard University. Served as a member of the Board of Management of Bank Hapoalim and the First International Bank of Israel. Served as Director at Excellence Investments Ltd. and Clal Industries Ltd; managers coach.
4. **Mr. Dov Goldfriend**, a member of the Audit Committee. Serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is not qualified as an independent director. Has accounting and financial speciality. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, BA in Economic and accounting and MA in Business Management from the University of Tel Aviv. Served as the CEO of Poaley Agudat Israel Bank Ltd, as Deputy CEO and Chief Accounting Officer and member of management at The First International Bank of Israel Ltd. and as Director of companies.
5. **Mrs. Dalia Lev**, a member of the Audit Committee. Does not serve as an external director and is not qualified as an independent director. Has accounting and financial speciality, and has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, ISMP from Harvard University, Bar-Ilan University law graduate, qualified arbitrator, risk manager. Served as Chairman of the Board of Directors at Mei Avivim Ltd. and Supersal Ltd. Served as joined CEO at IDB Development company Ltd., and as Director at: Airports Authority, Paz Oil Refinery Ashdod Ltd. Serves as Director at: Strauss Group Ltd; Paz Oil Co. Ltd; Belgal Ltd.
6. **Mr. Ilan (Eilon) Aish**, a member of the Audit Committee, serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is qualified as an independent director. Has accounting and financial speciality. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, BA in Economic and accounting from the University of Tel Aviv. Served as external director in Israel Discount Bank Ltd. Serves as director and joined CEO at Harvest Capital Markets Ltd.

As in each quarter, the Board of Directors' Audit Committee at its meeting on May 9, 2017, discussed allowances for credit losses, in order to approve these allowances and the provisions for writedown in the nostro portfolio before the financial statements were submitted for approval by the Board of Directors. The discussion was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

In addition, at its meeting on May 16, 2017 the Audit Committee discussed the findings of the Disclosure Committee in accordance with the provisions of SOX, and with the participation of the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

The Board of Directors' Audit Committee held a detailed preliminary discussion of the draft financial statements. The discussion was held on May 16, 2017, and was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank. Discussed at this meeting were material issues that may arise in the preparation of the financial statements and the accounting policy that was applied. Following the Audit Committee's discussion, the financial statements, amended as requested by the Audit Committee, were sent to the Board of Directors with the Committee's recommendation that the members of the Board approve the financial statements, since it had compiled recommendations to the Board in all the matters required in the Securities Regulations.

The Audit Committee sends its recommendations regarding the approval of the financial statements to the Board of Directors within a reasonable time period prior to their discussion at the Board of Directors, and reports any deficiency or problem discovered in the course of its review, if any.

When the Audit Committee and the Board of Directors are in the process of approving the financial statements, drafts of the financial statements and the Board of Directors Report are submitted for perusal and comments by the directors several days before the date of the meeting that is set for the discussion of the financial statements.

The Board of Directors is the ultimate control and auditing authority at the Bank.

The Board of Directors, at its meeting on May 23, 2017, discussed the approval of the financial statements of the Bank, with the participation of the members of Bank management, including the CEO, the Chief Accountant and the Bank's External Auditor. The aforementioned recommendations by the Audit Committee were submitted to the members of the Board of Directors on May 18, 2017, in due time before the plenary discussion. At the discussion by the plenum of the Board of Directors, the CEO presented the financial results of the Bank and a comparison with previous periods. At this stage, a discussion was held during which the Bank's office-holders answered the directors' questions on matters relating to the financial results and to the financial statements. At the end of the discussion, the Board of Directors resolved to adopt the aforementioned recommendations of the Audit Committee, to approve the Bank's financial statements and to authorize for the Chairman of the Board of Directors, the CEO and the Chief Accountant to sign the financial statements.

During January-March 2017, the Bank's Board of Directors held 6 meetings in plenary session and 15 meetings of its various Board Committees.

APPOINTMENTS AND RETIREMENTS

On February 19, 2017 Mr. Amnon Beck completed its term as the CEO of MATAF. In his place, Mr. Ron Grisaro is expected to be appointed, after receiving the approval of Bank of Israel.

TRANSACTIONS WITH INTERESTED PARTIES

a. Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970 - Reports on transactions with controlling shareholders.

From time to time the Bank concludes or is likely to conclude transactions in the normal course of business with controlling shareholders or their relatives or with corporations in which controlling shareholders at the Bank are likely to be regarded as having a personal interest (hereinafter: “controlling shareholders”).

Under the Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970, of 2008 (hereinafter: "the Securities Regulations"), a reporting corporation must publish an immediate report on details of a transaction with a controlling shareholder or in which a controlling shareholder has a personal interest in its approval, including the main elements of the transaction or the contractual engagement, details of the competent organ that approved the transaction and a summary of its reasons for doing so, except in connection with transactions of a type which in the most recent financial reports were determined as negligible as implied by the term in Regulation 41(a)(6)(a) of the Securities Regulations (Annual financial statements), 2010. A similar instruction is applicable on reporting such transaction in the periodic report.

Since the Supervisor’s directives concerning the compilation of annual financial reports apply to the banks, and not the said regulations, the Association of Banks approached the Securities Authority regarding the matter of applying the directive concerning a “negligible transaction” with respect to the banks and the disclosure format. As agreed between the Association of Banks and the Securities Authority, the banks received an exemption from immediate reporting with respect to banking transactions that are not exceptional, providing that the banks have determined criteria for exceptional and negligible transactions.

As a result of this approach to the Securities Authority and the meetings that were subsequently held as a result, the Authority instructed the Bank to provide disclosure in the Bank's prospectus and thereafter in the annual reports, in the format detailed below:

- Regarding banking transactions with controlling shareholders that are not exceptional transactions, the Bank will report within the framework of the prospectus and periodic reporting on balances of credit and balances of deposits, in accordance with the format appearing in the table at the end of this section.
- In the credit table, the disclosure will be split between the controlling shareholder's credit balance and the credit balance of the controlling shareholder's relatives (on a cumulative basis). Credit to any reporting corporation connected with the controlling shareholder will be reported at the level of the reporting corporation in the consolidated report.

In view of the aforementioned, the Bank’s Audit Committee determined criteria regarding the nature of the said transactions as exceptional or as unexceptional or as negligible, in connection with transactions with controlling shareholders or in which controlling shareholders have a personal interest.

The criteria will also be applied to transactions conducted in the ordinary course of business by companies that are controlled by the Bank, such as banking corporations that are controlled by the Bank.

It should be noted that the criteria are likely to be examined from time to time by the Audit Committee inter alia as the result of changes in the Bank's policy and business activities and in market conditions, and that the Audit Committee is likely to change them from time to time and/or add to them additional types of transactions and/or various criteria.

According to additional amendment of the securities regulation from 2015 (applicable from January 2016) the duty to publish an immediate report on such transaction was abolished and the requirement to report these transaction on the periodocal report remained.

Accordingly and with respect to banking transactions, the Bank published the report detailed at the end of this section.

In the matter of a non-banking transaction, the Bank has specified that a “negligible transaction” is a transaction that is conducted in the ordinary course of business at market conditions, which conforms to the criteria detailed below:

A one-time transaction for the purchase of services or products from a controlling shareholder, or a transaction as stated in which a controlling shareholder has a personal interest and whose amount does not exceed a minimum amount (as defined below) or a continuing transaction as stated (a number of essentially identical transactions with the same company) whose cumulative amount in the course of the calendar year does not exceed 0.75% of total operating and other expenses as reported in the most recent financial statements of the Bank. It is clarified that the aforementioned are not to be applied to a contractual engagement with a controlling shareholder or his relative regarding the terms of his service and employment. In this respect, the definition of the term “minimum amount” will be as defined in Proper Conduct of Banking Business Regulation 312 "Transactions of banking corporation with related persons".

Transactions involving the rental of 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 normal course of business at market conditions, which conforms to the criteria detailed below:

1. A transaction for which or as a result of which the indebtness amount does not exceed the minimum amount (as defined above).
2. Any other transaction for which its amount does not exceed the minimum amount.

An immediate report inasmuch as required under the Securities Regulations will be issued in respect of transactions as said that are not banking transactions and that are not negligible transactions.

In addition to the aforementioned, with respect to an indebtedness transaction to which Proper Conduct of Banking Business Regulation 312 does not apply, if the Bank is informed of the said transaction, the Bank undertakes to submit any such transaction for approval in accordance with Proper Conduct of Banking Business Regulation 312, and to provide disclosure on it in the Bank's annual report. The definitions “negligible transaction” and “exceptional transaction” with respect to these transactions will be the same as the above-mentioned definitions specified by the Bank with respect to the Securities Regulations.

b. Determination of criteria for the purpose of the Bank's transactions with interested parties

Under Paragraph 117 (1a) of the Companies Law, 1999 (hereinafter: "the Companies Law") which was amended as part of Amendment No. 16 to the Companies Law, the Audit Committee was charged with responsibility for deciding on the causative basis for the specification of the Bank's transactions with office-holders in it or for transactions in which office-holders have a personal interest and the Bank's transactions with controlling owners or transactions in which a controlling owner has a personal interest, whether these are exceptional or non-exceptional transactions. Paragraph 117 (1a) also stipulates that the Audit Committee may decide as said regarding a type of operation or transaction, on the basis of standards which it will determine once a year in advance.

Accordingly the Audit Committee of the Bank specified standards, and stipulated that once a year a discussion will be held for the purpose of determining or re-approving the standards.

The standards were determined on the basis of quantitative criteria, and it was stipulated that a transaction that is not exceptional is a transaction executed during the normal course of business at the Bank and at market terms. The audit committee determined standards regarding examination of market terms.

The said criteria will also apply to transactions during the normal course of business which are conducted by companies controlled by the Bank, such as banking corporations controlled by the Bank. The said criteria will not apply in connection with the Bank's transactions with corporations under its control. In addition, it is clarified that the criteria do not concern approval of terms of employment and service at the Bank.

It should be noted that the criteria are likely to be examined from time to time by the Audit Committee inter alia in view of changes in the Bank's policy and business activity or in market conditions, and that the Audit Committee is likely to change from time to time and/or add to the criteria additional types of transaction and/or criteria.

On January 2014, Paragraphs 117(1b) and 117(2a) of the Companies Law went into effect within the framework of an indirect amendment to the Companies Law, which was included in the Law for Increasing Competition and Reducing Concentration, 2013. Pursuant to the said paragraphs, the Audit Committee is required to stipulate a requirement to fulfill a competitive process with respect to transactions with controlling owners or in which a controlling owner has an interest, even if these are not extraordinary transactions, under the supervision of the committee or the person deciding in this matter and in accordance with standards that will be prescribed, or to stipulate that other process determined by the Audit Committee are to fulfilled before engagement in the said transactions, all this in accordance with the type of transaction, and is entitled to specify standards once a year in advance. In addition, pursuant to the said paragraphs, the Audit Committee is required to determine the manner in which non-negligible transactions are to be approved, and including in this respect to determine types of transactions as said which will require the Audit Committee's approval.

The Audit Committee approved standards concerning the obligation to perform competitive process according to paragraph 117(1b) to the Companies Act (they will be submitted for approval at least once a year) and the manner of approval of non-negligible transactions in accordance with paragraph 117(2a) to the Companies Act.

c. Transactions approved in accordance with Paragraph 270(4) of the Companies Law (including framework transactions still valid at the report date and transactions approved in accordance with the Companies Regulations (Relief regading Transactions with Interested Parties), 2000 (hereinafter: "the Relaxation Regulations"):

1. In view of the termination of a framework transaction dated October 2009, and following approvals of the Audit Committee, the Compensation Committee and the Board of Directors, the general meeting of shareholders of the Bank approved on June 29, 2014, the following resolutions concerning insurance for directors and officers:
   - Renewal of “directors and officers” insurance policy for a period of eighteen months beginning on July 1, 2014 (“the insurance period”) issued by Clal Insurance Co. Ltd. for the Bank and for the Bank Group, including subsidiaries of the Bank and the controlling owner, FIBI Holdings Ltd. (hereinafter – "Group companies"), which will apply to officers serving at the Bank and at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.
   - Prior approval, for the purchase by the Bank of an insurance policy, as stated above, covering the Bank and Group companies for a period of five years following the termination of the insurance period, including by way of extension of the original policies and/or by way of the purchase of new policies, which will apply with respect to officers who may serve at the Bank and at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.

     The said resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations, as well as a resolution under Section 267A of the Companies Act, as part of the compensation policy of the Bank (as long as this policy remains in effect, details of which were published in an immediate report by the Bank dated January 5, 2014, Ref. No. 004648-01-2014), as stated in item 1B(1) of the Relief Regulations.
   - Approval of the manner in which the said insurance fees are to be allocated among FIBI Holdings Ltd., the Bank and Group's companies which elect to join the insurance policy as from July 1, 2014 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 dated May 22, 2014 (Ref. No. 071067-01-2014). The contents of this report are presented here by way of reference.

According to the above, on December 1, 2015 the Bank's Board of Directors passed a resolution, after obtaining the approval of the Audit Committee and the Remuneration Committee dated November 18, 2015, and in accordance to regulations 1(3), 1a1, 1b(5) and 1b1 to the relief regulations, to approve the renewal of the policy for an 18 months period starting January 1, 2016 till June 30, 2017 ("The current insurance period") through Menora-Mivtachim Insurance Ltd. For the companies in the group, as defined above. The policy include the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest. The terms of the policy for the current insurance period are detailed in the immediate report of the Bank dated December 1, 2015 (reference no. 2015-01-170883) and the contents of this report are presented here by way of reference. 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 law which include principles of insurance settelement for directors and office holders according to regulation 1B1 of the relief regulations, which its details are detailed in section 8 to apendix A of the immediate report of the Bank (reference no. 2017-01-006415) presented here by way of reference.

2. On October 30, 2014, after obtaining the authorizations from the Compensation Committee and the Board of Directors of the Bank, the general meeting of shareholders approved the continued employment of Mrs. Yehudit Dagan, who is "a relative of a controlling shareholder" in the Bank, as a clerk in the Banking Operations Division at MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF"), a wholly owned and wholly controlled subsidiary of the Bank, for a period of up to three additional years beginning on November 15, 2014 (date of expiry of three years since date of the general meeting's approval in 2011 of her continued employment) or until her retirement, whichever is earlier, at the existing terms of Mrs. Dagan's employment which are based on collective labor agreements. Also approved were certain potential changes in the terms of her employment, as is accepted and reasonable in the employment of an employee at the Bank and at MATAF of Mrs. Dagan's seniority and grade, all this as specified in the approval of her employment.
3. On September 23, 2014, after receipt of the approval of the Compensation Committee and in accordance with Regulation 1b. of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000, the Board of Directors of the Bank reapproved the continued payment of remuneration to directors from among the controlling shareholders of the Bank on the basis of the remuneration which was approved for all the directors (excluding the Chairman of the Board of Directors) at the general meeting of the Bank's shareholders of September 14, 2008. The amounts of remuneration approved are in accordance with the policy for the compensation for officers of the Bank, the details of which as regards directors' remuneration are specified in section 7 to the immediate report of January 5, 2014, and to the corrective report of that date (reference nos. 003511-01-2014 and 004648-01-2014, respectively), the contents thereof is presented herewith by way of reference. The approved amount of remuneration and the reasons for its approval are stated in an immediate report of the Bank dated September 23, 2014 (reference no. 163920-01-2014), the contents of which is presented herewith by way of reference. On February 23, 2017 the general meeting of the Bank approved a new compensation policy to office holders of the Bank which its details as for remuneration of directors (except the Chairperson of the Board) are with no change compared with the former compensation policy, which its details are detailed in section 7 to apendix A of the immediate report of the Bank (reference no. 2017-01-006415) presented here by way of reference.

4. The provision of indemnification obligations to directors and office-holders at the Bank (including directors from among the controlling shareholders in the Bank) and its revision in 2011, as detailed in Note 25.c to the financial statements for 2016.

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. In addition, the Bank and its subsidiaries conduct transactions with interested parties in the Bank from time to time in the ordinary course of business and at market terms.
3. Set out below is a collation of data concerning banking transactions that were conducted by the Bank and companies under its control with the controlling owners at the Bank (including their relatives and companies in which controlling owners at the Bank are interested parties), including data concerning transactions conforming to the criteria that were determined with respect to negligible transactions (NIS thousand):

Indebtednesses	Credit	Investment in bonds	Fair value of derivatives	Total balance-sheet monetary indebtedness	Unutilized credit balance	Guarantees granted by Bank for securing credit to a controlling owner or to a party related thereto	Guarantees granted to Bank by controlling owner in favor of third party	Indebtedness of controlling owner in respect of transactions in derivatives	Total
									NIS thousand
March 31, 2017									
Others(2)	**71**	**-**	**-**	**71**	**198**	**-**	**84**	**-**	**353**
Total	**71**	**-**	**-**	**71**	**198**	**-**	**84**	**-**	**353**
December 31, 2016									
Paz group(1)	47,582	-	-	47,582	2,648	174	-	-	50,404
Others(2)	42	-	-	42	162	-	90	-	294
Total	47,624	-	-	47,624	2,810	174	90	-	50,698

Deposits	March 31, 2017		December 31, 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)	**-**	**-**	5,449	21,635
Others(2)	**3,098**	**4,535**	2,104	3,487
Total	**3,098**	**4,535**	7,553	25,127

(1) Paz Oil Co. Ltd. and its subsidiaries and affiliated companies. Controling 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 controling means in Paz.

According to the publication of Paz, following the sale of shares from time to time by the controling 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 controling 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 tool 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.

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 tool 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 is to submit a response brief. The hearing of evidence was fixed for June 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. With the consent of the representatives of the employees, the Bank appealed the above decision deviating from the prescribed time schedule, and at present, the parties await the decision of the National Labor Tribunal as to the admissibility of the appeal. The Bank also submitted a motion for the stay of execution of the said decision of the Regional Tribunal, and in continuation requested the withdrawal of the said motion. The response of the representatives of the employees is now awaited.

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.

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, after informing the Federation of Labor of its agreement to do so.

LIMITATIONS REGARDING LEGISLATION, STANDARDS AND SPECIAL CONSTRAINTS AFFECTING THE BANK GROUP

Set out below are brief details of legislative changes and legislative initiatives relevant to the period of the report, which have an effect on or are likely to have a material effect on the Bank's activity.

BANKING

Amendment to the Banking Rules (Customer service) (Commission fees), 2008

On April 3, 2017, Bank of Israel distributed to members of the Advisory Committee a final draft amendment of the Banking Rules (Customer service) (Commission fees) (Amendment), 2008, as was passed to the Justice Department with explanations. The draft 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, 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 far reaching 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 data 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 of an asset, in favor of another creditor, as well as for the realization of such a pledge. It is further prohibited to hold 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 was 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.

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.

The draft amendment states that 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.

It is impossible at this stage to estimate the effect of the regulation on the Bank's income from this segment.

B. Securities Law (Amendment No. 63), 2017

On April 6, 2017 the Securities Law (amendment 63), 2017, was published ("the Law Amendment"). The amendment will take effect three months after publication, except for specific issues for which special effect was 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 principal provisions of the amendment:

The amendment regulates the licensing, holding and manner of management of the Stock Exchange and/or the clearing houses following the change.

The amendment states that 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, the amendment proposes 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, 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, within four months from the date of publication of the Act, the Stock Exchange shall submit a request for the approval of the arrangement program. In the event that the Stock Exchange shall not submit to the Court such a request within the stated period, or if such a request is not approved within two months from date of submission, the Securities Authority will be entitled to take measures for the approval by the Court of the arrangement for the allocation of rights, taking into consideration the recommendations of an expert appointed by it and resolutions taken within the framework 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 background of earlier drafts of the Bill and as a preliminary stage, the General Meeting of Shareholders of the Stock Exchange approved on July 30, 2015, a proposal for an arrangement plan regarding the present members of the Stock Exchange, among themseleves and between them and 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; this by way of allottment of shares to the present members of the Stock Exchange, on the basis of an economic model, while making several adjustments (hereinafter – "the arrangement plan"). In accordance with the approved outline, the share of the Bank Group (prior to allottment of shares to employees and officers of the Stock Exchange) will amount to 21.6%.

In light of the completion of the legislative procedures, the Stock Exchange intends to submit a detailed arrangement program for approval by its members, in accordance with a procedure under Section 350 of the Companies Act.

On May 11, 2017 a petition to the high court of justice by Knesset members, asking to abolish the amendment of the law in a claim of its being unlawful, in light of its damaging in basic lawful rights part of which is the public ownership rights. They claim that in the basics of the law amendment the stands the wrong assumption that previous to the amendment the stock exchange members had capital rights in its assets and capital. The petition was submitted against the Knesset, the Ministry of Finance, the Bank of Israel and stock exchange members, including the Bank and others.

CORPORATE GOVERNANCE AND COMPANIES

Draft amendment of Proper Conduct of Banking Business Directive No. 301 - Board of Directors

On February 7, 2017, Bank of Israel published a draft amendment of Proper Conduct of Banking Business Directive No. 301. The aim of the proposed amendment is to increase effectiveness of discussions by the Board of Directors and the modification of the mix 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 amendments , it is proposed to add a requirement for the determination of the period of office of the Chairman of the Board; add additional requirements for the qualification of a Director; reduce the maximum number of Directors from fifteen to ten; cancel the need to ratify by the full Board any resolution taken by a committee of the Board. It is suggested that the amendment would take immediate effect, except for the change in the number of Directors and in the terms of qualification required, which would take effect on January 1, 2019.

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 ("American customers"). The Bank has a singular 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

Draft Proper Conduct of Banking Business Directive No. 411 in the matter of the management of Money laundering and the finance of terror risks

The regulation, 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 added within the framework of these amendments 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, wouls 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 of the directive will take effect on January 1, 2018.

The amendment to the Directive, reqires a change in the methodological and mechanized preparations for money laundering risk, which the Banking sector has to implement.

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/Stable, the Bank's short-term deposits P-1.il, its long-term deposits and senior debt Aa1.il/Stable and its subordinated notes Aa2.il/Stable.
- 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

"Turning point" - the long running community project of the Bank, in operation already for nine 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 2017 and similar to previous years, the Bank continues these projects the purpose of which is to advance wellness, the quality of life and a healthy lifestyle in the community, with a focus on children and youth in risk situations concentrating on sport instruments, quality of life and healthy lifestyle.

In addition, other activities of volunteering and aid to weak population take place, such as packaging food baskets for the holidays.

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

Indicators for nonfinancial activity, published at the beginning of 2017, continue to be positive indicating that the economy continued to grow also at the beginning of 2017. In accordance with preliminary findings of the companies review, the Industrial Purchase Managers' Index is indicating an expansion for several months, and Bank of Israel's Composite State-of-the-Economy Index rose in the first two months of 2017 by 0.6%. According to assessments published during April 2017 by the Central Bureau of Statistics (hereinafter – "the CBS"), the economy grew in the second half of 2016 by 5.1% (in annualized terms) following a growth of 3.9% in the first half of the year. The growth in the product in the second half of 2016 reflects increases in both public consumption and private consumption expenditure items, a rise in investments in fixed assets as well as a rise in exports of goods and services. Furthermore, the import of goods and services also recorded growth.

The Research Division of Bank of Israel reduced in April 2017 the product growth forecast for 2017 to 2.8%, in contrast to 3.2% in the earlier forecast. At the same time it raised the growth forecast for 2018 to 3.3%, in contrast to 3.1% in the earlier forecast.

According to the forecast of the International Monetary Fund of April 2017, economic growth in Israel in 2017 is expected to reach 2.9%, with a forecast for 2018 of 3.0%.

State budget

In accordance with a preliminary assessment of the Ministry of Finance, a Government budgetary deficit of NIS 2.4 billion was measured in the first quarter of 2017, in contrast to a surplus of NIS 0.9 billion in the corresponding period last year. The planned deficit for 2017 amounts to 36.6 billion, comprising 2.9% of the GDP. The State's budgetary deficit for the past twelve months (April 2016 to March 2017) amounted to only 2.3% of the GDP. The expenditure of the civilian Government Ministries increased by 7.3%, while the expenditure of the Defense Ministry increased by 26.5%, in comparison with the corresponding period last year.

Tax revenues in the months of January-March 2017 totaled NIS 76.2 billion, a nominal increase of 5.0% in comparison to the corresponding period last year.

During the month of April 2017, the Fitch rating agency ratified the credit rating forecast of the State of Israel regarding the foreign currency debt at the level of "A+".

Inflation

The inflationary environment in the economy continued to be relatively low, with the CPI rising in the first three months of 2017 by 0.1% (the CPI for the month). The "known" CPI fell by 0.2%. Most of the increase was recorded in the fruit and vegetable item – 3.7% and in housing maintenance – 1.4%. Most of the reduction was recorded in the apparel and footwear item – 9.8%.

The Research Division of Bank of Israel assessed in April 2017, that the level of inflation in 2017 would reach 0.8%, slightly below the lower limit of the targeted price stability range set by the Government (1% to 3%), and that in 2018 the inflation rate would reach 1.5%, within the said price stability range set by the Government.

As of March 2017, inflationary expectations for the coming twelve months, derived from the capital market amount to a negative rate of 0.1%.

Housing market

The housing market recorded moderation in the increase in prices of housing units. According to an assessment of the housing price index of the CBS published in April 2017, an increase of 0.1% was recorded in housing prices in January-February 2017, in comparison with the months of December 2016-January 2017. The price of transactions made in the months of December 2016-January 2017 increased by 6.2% in comparison with the corresponding months last year.

The construction of 52,400 new housing units began in 2016, similarly to 2015, and the construction of 45,400 housing units was completed in 2016, an increase of 4% in comparison to 2015.
7,190 new apartments were sold in the period from December 2016 to February 2017, an increase of 13.2% in comparison with the number of apartments sold in September-November 2016.

Labor market
Unemployment data continue to be positive and stable. The rate of unemployment in February 2017 (for aged 15 and over) remained at 4.3%, similarly to January 2017. With respect to the main employable ages (ages 25-64), the rate of unemployed in February 2017 was 3.7%, similarly to that of January 2017.

Exchange rate
The exchange rate of the shekel as against the US dollar weakened in the first quarter of 2017 by 5.5%. The exchange rate of the shekel as against the Euro weakened by 4.0%.
In the course of the first quarter of 2017, Bank of Israel purchased an amount of approximately US$3 billion (of which US$0.3 billion are intended to offset the effect on the exchange rate of the natural gas production in Israel). In November 2016, Bank of Israel informed that as part of this program, it will purchase an amount of US$1.5 billion in 2017.

	Exchange rate as of			Rate of change	
	31.3.17	**31.12.16**	**31.3.16**	**Quarter I 2017**	**Quarter I 2016**
US dollar	**3.63**	3.85	3.77	(5.5%)	(3.5%)
Euro	**3.88**	4.04	4.29	(4.0%)	0.9%

Bank of Israel interest rate
Since February 2015, when the Monetary Committee of Bank of Israel decided to reduce the interest rate for March 2015 to a level of 0.1%, the monetary interest rate in the market remained stable. The Committee estimated at the time that the monetary policy would remain expansionary as long as required in order to establish the inflationary environment within the target range.
The Research Division of Bank of Israel estimated in April 2017, that the Bank of Israel interest rate would remain at its present level until the first quarter of 2018, and will rise in the second quarter of 2018 to a level of 0.25%, this on background of the gradual increase expected in inflation and the expectations for a growth of 3% in the product. Bank of Israel expects an additional increase in the interest rate in the fourth quarter of 2018 to a level of 0.5%.

The global environment
The review of the International Monetary Fund published in April 2017 indicates a continuing moderate growth of the global economy, with a slight improvement in the growth rate. The growth forecast for 2017 is estimated at 3.5%, and at 3.6% for 2018.
The US growth forecast for 2017 stands at 2.3%, with a forecast of 2.5% for 2018. The growth forecast for 2017 for the developed economies is 2.0%, with an identical forecast for 2018.
The International Monetary Fund estimates that the global economic activity is improving with a cyclic recovery in investments, production, trading and in global demand, and that expectations exist for price increases on the capital markets.
The global economic activity image, as seen from recent indicators, is mostly positive, though uncertainty still exists regarding the political developments and their economic implications. The growth forecasts for certain of the developed economies have been slightly updated upwards, improvement is noticed in the growth rate of international trade, and the indices for the consumption sentiment continue to present high levels.

Positive data was published in the US regarding the employment market, private consumption, the industrial sector and the real estate sector, and the core indices for inflation are within the targeted range. The FED had increased the interest rate and it is expected to rise again in the course of the current year.

Positive data regarding employment, production, sales and expectations for future activity was obtained also from Europe, though the core inflation continues at a relatively low level with the continuation of the expansionary monetary policy.

The Purchase Managers Indices in the emerging markets indicated optimism regarding the development of economic activity, though the growth forecasts for some of these markets have been reduced.

In China, the published economic activity data indicated stability in growth. The global energy prices decreased in April 2017, on background of growing supply, and in contrast to the upward trend in energy prices recorded in the year ended in that month.

Capital markets

During the first quarter of 2017, the principal equities indices on the local capital market declined, as follows: The TA 125 Index – by 2.6%, The TA 35 Index – by 5.0%. The general bond index rose by 0.6%.

The trading turnover in shares on the local Stock Exchange recorded recovery: the average daily turnover of shares of the TA 35 Index recorded an increase of 19.3%, while shares of the TA 125 Index recorded an increase of 24.0%. In contrast, the trading turnover of bonds continued to record weakness, with a decline of 8.1%.

	Rate of change		Average daily trade turnover	
	%		NIS millions	
	January - March		January - March	
	2017	2016	2017	2016
TA 35 Index*	**(5.0%)**	(5.1%)	**861**	722
TA 125 Index*	**(2.4%)**	(4.9%)	**1,146**	924
General bond Index	**0.6%**	1.3%	**3,948**	4,298

* 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 capital raised during the first quarter of 2017 (both in shares and bonds) recorded an increase of 8%, in comparison with the corresponding period last year. This increase was due mainly to the increase in corporate bond issues.

	Amount of capital raised		
	NIS millions		
	January - March		
	2017	2016	Rate of change
Shares and convertibles	**1,566**	2,546	(38.5%)
Government bonds	**13,872**	13,984	(0.8%)
Corporate bonds (incl. institutional)	**24,161**	19,912	21.3%
Total	**39,599**	36,442	8.7%

The S&P 500 Index rose during the first quarter of 2017 by 5.5%. In Europe the Eurostocks 600 Index rose by 5.5% and the developing countries index (the MSCI_EM Index) rose by 11.1%.

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 March 31, 2017			For the three months ended March 31, 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)(5)						
- In Israel	**71,838**	**599**	**3.38**	68,525	515	3.04
- Outside Israel	**-**	**-**	**-**	364	2	2.22
Total	**71,838**	**599**	**3.38**	68,889	517	3.04
Credit to the Government						
- In Israel	**641**	**-**	**-**	646	-	-
Total	**641**	**-**	**-**	646	-	-
Deposits with banks						
- In Israel	**3,461**	**3**	**0.35**	3,713	2	0.22
- Outside Israel	**358**	**-**	**-**	342	-	-
Total	**3,819**	**3**	**0.31**	4,055	2	0.20
Deposits with central banks						
- In Israel	**21,507**	**5**	**0.10**	22,698	6	0.10
Total	**21,507**	**5**	**0.10**	22,698	6	0.10
Securities borrowed or repurchased						
- In Israel	**449**	**-**	**-**	499	-	-
Total	**449**	**-**	**-**	499	-	-
Held to maturity or available for sale bonds(3)						
- In Israel	**14,628**	**29**	**0.80**	14,889	20	0.54
- Outside Israel	**80**	**-**	**-**	112	-	-
Total	**14,708**	**29**	**0.79**	15,001	20	0.53
Trading bonds						
- In Israel	**917**	**2**	**0.88**	901	1	0.44
- Outside Israel	**-**	**-**	**-**	1	-	-
Total	**917**	**2**	**0.88**	902	1	0.44
Other assets						
- In Israel	**33**	**-**	**-**	52	1	7.92
Total	**33**	**-**	**-**	52	1	7.92
Assets held for sale						
Outside Israel	**268**	**2**	**3.02**	-	-	-
Total	**268**	**2**	**3.02**	-	-	-
Total assets bearing interest	**114,180**	**640**	**2.26**	112,742	547	1.95
Debtors regarding credit cards non-bearing interest	**2,391**			3,050		
Other assets non-bearing interest(4)	**10,997**			11,356		
Total assets	**127,568**			127,148		
Total assets bearing interest attributed to activity outside Israel	**706**	**2**	**1.14**	819	2	0.98

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 March 31, 2017			For the three months ended March 31, 2016		
	Average balace (1)	Interest expense	Rate of expense	Average balace (1)	Interest expense (income)	Rate of expense (income)
		NIS million	%		NIS million	%
Liabilities bearing interest						
Deposits from the public						
- In Israel						
Demand	**5,736**	**-**	**-**	6,937	-	-
Fixed-term	**56,545**	**43**	**0.30**	59,183	15	0.10
Total	**62,281**	**43**	**0.28**	66,120	15	0.09
Deposits from the Government						
- In Israel	**291**	**1**	**1.38**	261	1	1.54
Total	**291**	**1**	**1.38**	261	1	1.54
Deposits from banks						
- In Israel	**2,050**	**1**	**0.20**	1,147	1	0.35
Total	**2,050**	**1**	**0.20**	1,147	1	0.35
Bonds						
- In Israel	**5,662**	**32**	**2.28**	5,801	3	0.21
Total	**5,662**	**32**	**2.28**	5,801	3	0.21
Other liabilities						
- In Israel	**267**	**1**	**1.51**	185	1	2.18
Total	**267**	**1**	**1.51**	185	1	2.18
Total liabilities bearing interest	**70,551**	**78**	**0.44**	73,514	21	0.11
Deposits from the public non-bearing interest	**43,441**			39,611		
Creditors in respect of credit cards non-bearing interest	**2,391**			3,050		
Other liabilities non-bearing interest (6)	**3,201**			3,263		
Total liabilities	**119,584**			119,438		
Total capital resources	**7,984**			7,710		
Total liabilities and capital resources	**127,568**			127,148		
Interest spread			**1.82**			1.84
Net return on assets bearing interest (7)						
- In Israel	**113,474**	**560**	**1.99**	111,923	524	1.89
- Outside Israel	**706**	**2**	**1.14**	819	2	0.98
Total	**114,180**	**562**	**1.98**	112,742	526	1.88
Total liabilities bearing interest attributed to activity outside Israel	**-**	**-**	**-**	-	-	-

See notes in page 204.

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 March 31, 2017			For the three months ended March 31, 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 Istaeli currency						
Total assets bearing interest	**89,069**	**518**	**2.35**	83,811	506	2.44
Total liabilities bearing interest	**51,012**	**(23)**	**(0.18)**	48,676	(18)	(0.15)
Interest spread			**2.17**			2.29
Israeli currency linked to the CPI						
Total assets bearing interest	**12,117**	**66**	**2.20**	12,682	(17)	(0.54)
Total liabilities bearing interest	**10,858**	**(41)**	**(1.52)**	11,647	14	0.48
Interest spread			**0.68**			(0.06)
Foreign currency (including linked to f-c)						
Total assets bearing interest	**12,288**	**54**	**1.77**	15,430	56	1.46
Total liabilities bearing interest	**8,681**	**(14)**	**(0.65)**	13,191	(17)	(0.52)
Interest spread			**1.12**			0.94
Total activity in Israel						
Total assets bearing interest	**113,474**	**638**	**2.27**	111,923	545	1.96
Total liabilities bearing interest	**70,551**	**(78)**	**(0.44)**	73,514	(21)	(0.11)
Interest spread			**1.83**			1.85

See notes in page 204.

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 March 31, 2017 compared with the same period last year		
	Increase (decrease) due to the change		
	Quantity	Price	Net change
			NIS million
Interest bearing assets			
Credit to the public			
- In Israel	28	56	84
- Outside Israel	(1)	(1)	(2)
Total	27	55	82
Other interest bearing assets			
- In Israel	(2)	11	9
- Outside Israel	1	1	2
Total	(1)	12	11
Total interest income	26	67	93
Interest bearing liabilities			
Deposits from the public			
- In Israel			
Demand	-	-	-
Fixed-term	(2)	30	28
Total	(2)	30	28
Other interest bearing liabilities			
- In Israel	4	25	29
Total	4	25	29
Total interest expenses	2	55	57
Total interest income less interest expenses	24	12	36

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 months ended on March 31, 2017 in the amount of NIS 9 million. (for the three months ended March 31, 2016 balance of NIS 43 million, was deducted).

(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.

(5) Fees in the amount of NIS 32 million and NIS 26 million were included in interest income for the three months ended March 31, 2017 and March 31, 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.