CONTENTS

LIST OF TABLES -REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT

Report of the Board of Directors and Management

GENERAL OVERVIEW, GOALS AND STRATEGY

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT AS AT SEPTEMBER 30, 2016

The meeting of the Board of Directors held on November 17, 2016, 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 at September 30, 2016.

GENERAL OVERVIEW, GOALS AND STRATEGY

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 and PAGI sub-division, which conducts all operations relating to private customers of the Bank, including private banking, households and small business. The division operates through 101 branches, including PAGI branches which specialize in the religious and orthodox sector and the branches of Ubank specializing in the private and capital market banking, while in addition, Otzar Hachayal Bank operates 47 branches and Massad Bank operates 22 branches (a total of 170 branches in the whole Group).
- 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 addition to the Bank, the Group operates today two additional commercial banks in Israel, which cater to unique customer populations: Otzar Hachayal Bank, specializing in services to retail and commercial customers, mostly employees and retirees of Israel's Ministry of Defense agencies; and Massad Bank, specializing in providing services to to teaching staff population in Israel. The Group has a subsidiary in Switzerland - FIBI Bank (Swiss) - located in Zurich and specializing in private banking.

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 the annual report for 2015.

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.

PRINCIPAL CHANGES IN THE PASSING PERIOD

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.

In continuation of the efficiency measures that were adopted by the Bank in recent years, the Board of Directors approved on November 17, 2016, a revision of the strategic program of the Bank concerning the efficiency measures aspect. The efficiency measures include, inter alia, the continuing expansion of operations by digital means; a reduction in the number of branches and improvement in the work processes in the branches and at the head office. As a result of these efficiency measures, a reduction in office space is expected, as well as a gradual reduction in the manpower position of the Bank Group by an average of 130 employees per year (of which a voluntary early retirement of 45 employees, which will continue on the basis of specific offers and with respect to the matter of each case), making in total approximately 650 employees until the end of 2020.

The Supervisor of Banks has granted the Bank an approval in principle, in respect of the calculation of the capital adequacy, for the spreading of the cost of the said measures over a period of five years by the "straight line" method.

The cost of the benefits to employees within the framework of the efficiency measures in the period from 2016 to 2020 is estimated at NIS 207 million, before the tax effect, of which expenses in the amount of NIS 25 million, in respect of the gradual discontinuation of operations, were recognized in the second quarter of the year (the cost is based on actuarial assumptions, inter alia with respect to the cost of employee retirement). The effect of the said efficiency measures on the ratio of equity capital to risk assets is estimated at a reduction of 0.19%, which, as stated, will be recognized in installments over a period of five years.

Accounting treatment principles

The cost of updating the actuarial liabilities to employees in respect to the efficiency measures, are treated as an actuarial loss and recognized in other comprehensive profit, with the exception of the costs of the gradual discontinuation of operations, which are recognized in profit and loss.
The costs of the efficiency measures would be amortized to profit and loss in subsequent periods, as part of the actuarial profits and losses, by the "straight line" method over the remaining average period of service of the employees. To the extent that in a particular year the total payments in respect of severance compensation would exceed the cost of service and the cost of interest recognized in that year, settlement accounting would be applied, and accordingly the rate of amortization of the "actuarial profits and losses" for that period would be accelerated to agree with the rate of settlement of the actuarial obligations in that period.

It is noted that the data and estimates presented above in this report, are considered forward looking information within the meaning of the Securities Act 1968. The scope of the efficiency measures and the ability of the Bank to realize them, their actual implementation and their impact on profit and loss and on the ratio of equity capital to risk assets, depend, inter alia, on the efficiency measures of the Bank, the timing of employee retirement and the characteristics of the retired employee group (seniority, age, gender and level of salary). Accordingly, the actual results of these actions may be materially different from the data presented above

DEVELOPMENT IN THE FINANCIAL RESULTS

Net profit attributed to the Bank's shareholders amounted to NIS 409 million in the first nine months of 2016, compared with NIS 329 million in the same period last year, an increase of 24.3%.

Net return on equity attributed to the Bank's shareholders amounted to 7.6% compared with 6.4% in the same period last year and 6.5% in 2015.

Set out below are the central factors which affected the profit of the Group in the first nine months of 2016 compared with the same period last year:

- Increase in interest income, net, in the amount of NIS 159 million (10.9%), derived mainly from the increase in the volume of credit to the public.
- Decline in non-interest financing income of NIS 26 million, due mainly to the decrease in gains on realization of bonds and profits from investment in shares amounting to NIS 30 million.
- Decrease of NIS 59 million in commission income (5.7%).
- Increase in other income in the amount of NIS 46 million, deriving mainly from the Bank's share in the proceeds from the transaction of the sale of Visa Europe shares (see Note 17 to the financial statements).
- Increase in salaries and related expenses in the amount of NIS 38 million explained by one time reduction in the salaries expenses in the amount of NIS 72 million in the same period last year from the implementation of the special collective labor agreement. Excluding this effect, a decrease in the salaries and related expenses occurred in the amount of NIS 34 million, deriving, among other things, from the decrease of the manpower in the group (partialy off-set by selective payroll increase) and from a decrease deriving from the conversion of jubilee rights (see note 16 to the financial statements).
- Decrease in operating and other expenses, excluding salaries and related expenses, in the amount of NIS 30 million (3.7%), mainly due to efficiency processes in the group.
- A one time increase in the taxes on income expense in the amount of NIS 37 million.
- An increase of the Bank's share in the profit of investee company in the amount of NIS 34 million, deriving mainly from the investee company's share in the proceeds from the transaction of the sale of Visa Europe shares (see note 17 to the financial statements), partialy off-set by one time provision recorded in the financial statements of ICC.

Basic earnings per NIS 0.05 share amounted to NIS 4.08 in the first nine months of the year compared with NIS 3.28 in the same period last year.

The Bank Group's total assets on September 30, 2016 amounted to NIS 126,071 million compared with NIS 122,858 million on September 30, 2015 and NIS 125,476 on December 31, 2015, an increase of 2.6% and 0.5%, respectivly.

Credit to the public, net on September 30, 2016 amounted to NIS 78,079 million compared with NIS 69,878 million on September 30, 2015 and NIS 72,555 million at the end of 2015, an increase of 11.7% and 7.6%, respectivly.

Deposits from the public on September 30, 2016 amounted to NIS 104,549 million, compared with NIS 100,652 million on September 30, 2015 and NIS 103,262 million at the end of 2015, an increase of 3.9% and 1.2%, respectivly.

Capital attributed to shareholders totaled NIS 7,411 million on September 30, 2016, compared with NIS 7,035 million on September 30, 2015 and NIS 7,073 million at the end of 2015, an increase of 5.3% and 4.8%, respectivly.

The ratio of Tier I equity capital to risk component as of September 30, 2016 amounted to 10.05% as compared to 9.81% at the end of 2015.
The ratio of comprehensive capital to risk components as of September 30, 2016 amounted to 13.43% as compared to 13.26% at the end of 2015.

Net profit attributed to the Bank's shareholders amounted to NIS 128 million in the third quarter of 2016, compared with NIS 86 million in the same period last year, an increase of 48.8%.

Net return on equity attributed to the Bank's shareholders annualized amounted to 7.1% compared with 5.0% in the same period last year.

Set out below are the central factors which affected the profit of the Group in the third quarter of 2016 compared with the same period last year:

- Increase in interest income, net, in the amount of NIS 56 million (11.2%).
- Decrease in commission income in the amount of NIS 14 million (4.1%), derived mainly from the decrease in the volume of activity in the capital market.
- Decrease in operating and other expenses, in the amount of NIS 24 million (3.5%), derived from the efficiency process in the group.
- An decrease of the Bank's share in the profit of investee company in the amount of NIS 7 million, affected by a one rime nature of provision recorded in the financial statements of ICC. The Bank's share in this provision amounted to NIS 13 million, net after tax effect.

PRINCIPAL DATA

Profit and profitability	For the nine months ended		
	30.9.16	30.9.15	Change
		NIS million	%
Net financing profit[1]	**1,704**	1,571	8.5
Fees and other income	**1,041**	1,054	(1.2)
Total income	**2,745**	2,625	4.6
Of which: Fees	**982**	1,041	(5.7)
Expenses from credit losses	**46**	35	31.4
Salaries and related expenses	**1,243**	1,205	3.2
Operating and other expenses (excluding salaries and related expenses)	**775**	805	(3.7)
Net profit attributed to the shareholders of the bank	**409**	329	24.3

Balance Sheet			As of		Change vs.
	30.9.16	30.9.15	31.12.15	30.9.15	31.12.15
			NIS million		%
Total assets (Total Balance Sheet)	**126,071**	122,858	125,476	2.6	0.5
Credit to the public, net	**78,079**	69,878	72,555	11.7	7.6
Securities	**16,127**	13,605	16,439	18.5	(1.9)
Deposits from the public	**104,549**	100,652	103,262	3.9	1.2
Bonds and subordinated notes	**5,597**	5,950	5,862	(5.9)	(4.5)
Capital attributed to the shareholders of the bank	**7,411**	7,035	7,073	5.3	4.8
Problematic credit risk	**1,798**	2,362	2,219	(23.9)	(19.0)

	For the nine months ended		For the year ended
Main financial ratios	30.9.16	30.9.15	31.12.15
Capital attributed to shareholders of the bank to total assets	**5.9%**	5.7%	5.6%
Expenses from credit losses to credit to the public, net[2]	**0.08%**	0.07%	0.02%
Ratio of equity capital tier 1 to risk assets	**10.05%**	9.73%	9.81%
Ratio of total capital to risk assets	**13.43%**	13.24%	13.26%
Leverage ratio	**5.66%**	5.46%	5.43%
Liquidity coverage ratio	**109%**	99%	104%
Credit to the public, net to total assets	**61.9%**	56.9%	57.8%
Deposits from the public to total assets	**82.9%**	81.9%	82.3%
Deposits from the public to credit to the public, net	**133.9%**	144.0%	142.3%
Operating and other expenses to total income	**73.5%**	76.6%	77.6%
Net return on equity attributed to shareholders of the bank[2]	**7.6%**	6.4%	6.5%

(1) Net financing profit includes net interest income and non-interest financing income.
(2) 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 and compliance and money laundering risks.

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 Bank sees in the cyber risks, information technology risk and regulatory risk, leading evolving material risks. For additional information see chapter general overview, objectives and strategy, which was published in the annual financial statements for 2015.

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. 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.

On November 17, 2016 the Board of Directors approved the update of the strategic plan of the Bank in the asspect of the efficiency measures (see chapter "main changes in the period").

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

THE PRINCIPAL ECONOMIC DEVELOPMENTS IN ISRAEL

Non-financial developments

The published indicators for non-financial activity are positive and indicate that the Israeli economy continued to grow in the first half of 2016, at a moderate rate that marked it in recent years. According to the most recent assessment published by the Central Statistical Bureau (hereinafter – "CSB") an improvement in the growth rate occurred in October 2016. The economy grew in the second quarter of 2016 by 3.2% in annualized terms, following a growth of 2.0% in the second half of 2015 and a growth of 2.7% in the first half of 2015. The growth of the product in the first half of the year reflects an increase in the private consumption expenditure, in public consumption expenditure, in investments in fixed assets, and in the export of goods and services.

The composite state-of-the-economy index of Bank of Israel indicates a certain slowdown in the growth rate, when during the first eight months of 2016 this index rose by 1.55%, in contrast to a rise of 1.65% in the first eight months of 2015.

The Research Division of Bank of Israel raised in September 2016 the product growth forecast for 2016 to 2.8%, in contrast to 2.4% in the previous forecast published in June 2016. Moreover, the growth forecast for 2017 has also been raised to 3.1% in contrast to 2.9% in the previous forecast, on background of the rise in the growth forecast for both private and public consumption.

The State budget

The first nine months of 2016 saw a growth in the Government's budgetary operations deficit amounting to NIS 6.1 billion, in comparison with a deficit of NIS 4.2 billion in the corresponding period last year. The planned deficit for 2016 amounts to NIS 35 billion, comprising 2.9% of GDP, while in the last twelve months (October 2015 to September 2016) the State budgetary deficit amounted to only 2.2% of GDP. In the first nine months of the year, the expenditure of the civilian Government Ministries increased by 8.9% (in contrast to the planned higher increase in the budget for 2016 of 11.4%) while the expenditure of the Defense Ministry increased by 2.2% (in contrast to a planned reduction of 3.7% in the budget for 2016), in comparison with the corresponding period last year.

Tax revenues in the period from January to September 2016 totaled NIS 216.1 billion, a nominal increase of 4.5%, in comparison with the corresponding period last year. The growth in revenues related to both direct and indirect taxes.

During the month of April, Fitch rating agency raised the forecast for the credit rating of the State of Israel regarding its foreign currency debt from "stable" to "positive" and ratified it at a level of "A". The upward updating of this forecast stems from the further strengthening of Israel's foreign accounts (a growing surplus on the current account and an increase in the foreign currency balances of Bank of Israel) and the improvement in the reduction of the ratio of the public debt to the product, while emphasizing the political risks burdening the credit rating.

Inflation

The inflationary environment in the economy continues to be relatively low. The Consumer Price Index (CPI) remained unchanged during the first nine months of 2016. A reduction was mostly recorded in the apparel and footwear items – 11.9%, and in the furniture and household equipment item – 1.3%. On the other hand increases were recorded in the housing item – 1.9%, and in the education culture and entertainment items – 1.7%. A negative inflation rate of 0.4% was recorded in the last twelve months, while the CPI, excluding the housing item, declined by 1.2%.

The Research department of Bank of Israel estimated in September 2016, that the inflationary environment in 2016 will continue to be negative though at a lower level. Inflation is expected to gradually rise in 2017 up to an annual level of 1.1%, still near to the lower limit of the inflationary target, mostly on background of expectations for the halt in the decline in commodities prices and expectations for an increase in the global level of inflation. Moreover, the fact that the Israeli economy is nearing full employment is also expected to support a rise in inflation.

As of September 2016, the inflationary expectations derived from the capital market for the next twelve months, are still low amounting to 0.5%.

The housing market

According to assessments of the housing price index of the CSB published in September 2016, a moderate increase of 0.4% was recorded in the price of housing in the months July-August 2016, as compared with June-July 2016, while in the period of twelve months ended in August 2016, housing prices rose steeply by 6.8%.

The construction of 24,090 new housing units began in the first nine months of 2016 (a reduction of 6.9% in comparison with the corresponding period last year) while construction of 19,880 housing units was completed (a reduction of 11.5%, in comparison with the corresponding period last year). The second quarter of 2016, was the ffifth consecutive quarter marking a reduction in the number of completed housing units. In the months January- August 2016, 20,230 new units were sold, a reduction of 9.5%, in comparison with the corresponding period last year.

In August 2016, the public took mortgage loans amounting to NIS 5.5 million, slightly higher than the average monthly amount in the past twelve months of NIS 5.1 billion. The rate of mortgage loans taken for the purchase of housing units as an investment continues to decline, amounting in August 2016 to 13.7%, in comparison with an average of 14.9% in the last twelve months.

Labor market

Unemployment data continue to be positive and even to improve. The unemployment rate in August 2016 (among those aged 15 and above) dropped to 4.6%, in contrast to 4.7% in July. Among the principal working age (25-64) the rate of unemployed in August was 4.0%, similarly to that of July 2016.

Exchange rate

The exchange rate of the shekel against the US dollar weakened in the first nine months of 2016 by 3.7%, while the exchange rate against the Euro weakened by 1.0%.

During the first nine months of 2016, Bank of Israel purchased an amount of US$4.6 billion (of which US$1.2 billion were purchases offsetting the effect of the natural gas production in Israel on the shekel exchange rate).

In November 2015, Bank of Israel announced that within the framework of the plan designed to offset the effect of the gas production in Israel on the exchange rate, it would purchase in 2016 an amount of US$1.8 billion.

	Exchange rate as of			Change %	
	30.9.16	**31.12.15**	**30.9.15**	**January-September 2016**	**January-September 2015**
Dollar	**3.76**	3.90	3.92	(3.7%)	0.9%
Euro	**4.20**	4.25	4.40	(1.0%)	(6.8%)

Bank of Israel interest rate

The monetary committee of Bank of Israel decided in February 2015 to reduce the interest rate for the month of March to a level of 0.1%. This decision was taken on background of the growing rate of appreciation of the shekel and its possible implications on economic activity and inflation, and inter alia, was intended to return the inflation rate back into the price stability target. Since then, the interest rate remained unchanged, on background of the low inflation. The committee estimated that the monetary policy would remain expansionary for a considerable period of time.

The Research Department of Bank of Israel estimated in September 2016 that the Bank of Israel interest rate is expected to remain at its present level throughout 2016, and would gradually rise only as from the third quarter of 2017.

The global environment

The trend of moderation in the global economic activity continues, especially in the developed markets. The global economic growth forecast of the International Monetary Fund for 2016, remained in October 2016 at the level of 3.1%. The forecast for 2017 remained also at the level of 3.4%. The growth rate forecast for 2016 of the the US economy was reduced to 1.6%, from a level of 2.2% in the previous forecast. For the year 2017 the forecast was reduced to 2.2% from a level of 2.5% in the previous forecast. The growth forecast for the Israeli economy remained at the level of 2.8% for 2016 and at the level of 3% for 2017.

The global economy continues to grow at a slow rate, and the growth rate of global trading continues to decline, its growth rate in the last year being less than 1%. Central banks around the world continue to apply a very expansionary monetary policy, the inflation rate remaining at a very low level, though certain of the deflationary factors show signs of moderation.

In the US, expectations based on the GDPNOW Index indicate a growth of 2.9% in the third quarter of 2016, a growth rate hardly compensating the low growth rate of the previous two quarter. Private consumption continues to lead economic activity, while weakness continues in the industrial sector and estimates show that the labor market is nearing full employment.

In Europe, the data continue to indicate a low growth rate and the ECB expects a growth rate of 1.6% in the years 2017-2018. Political developments comprise the main risk to economic growth. In Britain, the Purchase Managers Index dropped sharply following the Referendum, though it reverted later to levels indicating expansion. However, most estimates point at impairment in economic activity, the magnitude of which depends on the agreements to be reached.

Economic growth in Japan remained infinitesimal and the central bank announced the "control of the interest curve" program, within the framework of which it would strive to maintain returns on government bonds for ten years near their present level of around 0%. Moreover, the bank has promised to continue monetary expansion also after the inflation rate would reach 2%. Most of the emerging markets showed a certain improvement in estimate of economic activity, and most of the recently published economic data in China were positive. The Production Costs Index (PPI) in China remains at a level of 0.8% since the beginning of the year, and its continued stability may reduce global deflationary pressure.

The capital markets

The principal share indices of the local capital market dropped in the first nine months of 2016. The TA 100 index fell by 4.0% and the TA 25 index fell by 5.6%. The comprehensive bond index rose by 2.6%.
The trading turnover in shares included in the TA 25 index fell by 7.8%, with a parralel reduction of 5.3% in trading turnover of shares included in the TA 100 index, in comparison with the corresponding period last year. The trading turnover of bonds declined by a rate of 14.1%.

	Rate of change		Average daily trading turnover	
	in %		NIS million	
	January-September 2016	**January-September 2015**	**January-September 2016**	**January-September 2015**
Tel Aviv 25 index	**(5.6%)**	1.8%	**632**	686
Tel Aviv 100 index	**(4.0%)**	0.9%	**826**	872
Comprehensive bond index	**2.6%**	1.5%	**3,776**	4394

The total amount of capital funds (shares and bonds) raised during the first nine months of 2016, increased by 53%, in comparison with the corresponding period last year. This growth was due mainly to a private placement made by TEVA Pharmaceuticals in connection with its acquisition of the generic activity of Allergan plc in the amount of NIS 21 billion..

	Funds raising volume		
	NIS million		
	January-September 2016	**January-September 2015**	**Rate of change**
Shares and convertibles	**28,122**	4,814	484.2%
Government bonds	**36,822**	29,276	25.8%
Corporate bonds (including institutions)	**56,761**	45,564	24.6%
Total	**121,705**	79,654	52.8%

The S&P 500 index rose by 6.1% during the first nine months of 2016. In Europe, the Eurostock 600 index dropped by 6.3% and the developing countries index (the EM-MSCI) rose by 13.8%.

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 409 million in the first nine months of 2016, as compared to NIS 329 million in the same period last year, an increase of 24.3%.

The basic net profit per share of NIS 0.05 amounted to NIS 4.08 in the first nine months of the year, as compared to NIS 3.28 in the same period last year.

The return of net profit to the capital attributed to the shareholders of the Bank amounted to 7.6% annualy in the period January – September 2016, as compared to 6.4% in the same period last year and 6.5% in 2015.

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:

			2016				**2015**
	Q3	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
							NIS million
Interest income	**682**	**670**	**547**	527	621	730	382
Interest expenses (income)	**129**	**136**	**21**	28	124	217	(62)
Net interest income	**553**	**534**	**526**	499	497	513	444
Non-interest financing income	**24**	**33**	**34**	32	14	28	75
Net financing earnings	**577**	**567**	**560**	531	511	541	519

		Nine months
	2016	**2015**
		NIS million
Interest income	**1,899**	1,733
Interest expenses	**286**	279
Net interest income	**1,613**	1,454
Non-interest financing income	**91**	117
Net financing earnings	**1,704**	1,571

Set out below is an analysis of net financing earnings:

	2016			2015			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
							NIS million
Earnings from current activity	**555**	**536**	**540**	507	500	499	470
Reconciliations to fair value of derivative instruments	**10**	**3**	**(2)**	10	9	18	(17)
Income from realization and reconciliations to fair value of bonds	**3**	**21**	**13**	7	23	-	54
Earnings from investments in shares:							
Expense from verdict on lawsuit	**-**	**-**	**-**	-	(37)	-	-
Other	**9**	**7**	**9**	7	16	24	12
Net financing earnings	**577**	**567**	**560**	531	511	541	519

	Nine months	
	2016	2015
		NIS million
Earnings from current activity	**1,631**	1,469
Reconciliations to fair value of derivative instruments	**11**	10
Income from realization and reconciliations to fair value of bonds	**37**	77
Earnings from investments in shares		
Expense from verdict on lawsuit	**-**	(37)
Other	**25**	52
Net financing earnings	**1,704**	1,571

The increase in the earnings from current operations compared with the nine months of 2015 in partly explained by increase in the average balance sheet balances and partly from interest begin previous years.

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

	For the nine months ended September 30	
	2016	2015
		in %
Income rate on asset bearing interest	**2.27**	2.19
Expense rate on liabilities bearing interest	**0.53**	0.52
Total interest spread	**1.74**	1.67
Ratio between net interest income and assets bearing interest balance	**1.93**	1.84

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 46 million compared with NIS 35 million in the same period last year.

Expenses from credit losses as a ratio of total credit to the public amounted to 0.08% compared with 0.07% in the same period last year and 0.02% in 2015.

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

	For the nine months ended September 30	
	2016	**2015**
		NIS million
Individual expense in respect of credit losses	**4**	84
Group expense (income) in respect of credit losses	**42**	(49)
Total Expense in respect of credit losses	**46**	35
Of which:		
Expense (income) in respect of commercial credit	**22**	(1)
Expense in respect of housing credit	**1**	6
Expense in respect of other private credit	**23**	30
Ratio of individual expense in respect of credit losses to the average stated balance of the credit to the public*	**0.01%**	0.16%
Ratio of group expense (income) in respect of credit losses to the average stated balance of the credit to the public*	**0.07%**	(0.09%)
Ratio of total expense in respect of credit losses to the average stated balance of the credit to the public*	**0.08%**	0.07%

* Annualized

For additional information regarding expenses for credit loss, see Chapter "Structure and developments of assets and liabilities, capital and capital adequacy" and Chapter "Review of Risks" below.

Fees and other income totaled NIS 1,041 million, compared to NIS 1,054 million in the same period last year.

Set out below are details of fees income and other income:

	For the nine months ended	
	30.9.16	**30.9.15**
		NIS million
Fees:		
Account management	**186**	197
Credit cards	**79**	78
Transactions in securities	**319**	345
Financial product distribution fees	**55**	62
Management, operation and trusteeship for institutional investors	**71**	81
Credit processing	**21**	26
Conversion differentials	**106**	107
Foreign trade activity	**44**	42
Fees from financing transactions	**59**	58
Other Fees	**42**	45
Total Fees	**982**	1,041
Other income	**59**	13
Total Fees and other income	**1,041**	1,054

Fees totaled to NIS 982 million, compared with NIS 1,041 million in the same period last year.
NIS 43 million of the decrease is explained by decline in the activity in the capital market due to the decrease in the volume of activity in the capital markets.

Other income totaled NIS 59 million, compared with NIS 13 million in the same period last year, an increase stemming mainly from the share of the Bank in the proceed of the sale of Visa Europe shares to Visa Inc. due the Bank being a Principal Member in Visa Europe (see note 17 to the financial statements) and from gain from the realization of buildings.

Operating and other expenses totaled NIS 2,018 million compared with NIS 2,010 million in the same period last year. Offseting this one-time effect, detailed bellow, operating and other expenses declined in the amount of NIS 64 million (3.1%).

Salaries and related expenses totaled NIS 1,243 million compared with NIS 1,205 million in the same period last tear, an increase of 3.2 % explained mainly from a one-time decline in the salaries and related expenses in the amount of NIS 72 million in the same period last year deriving by the implementation of the special collective agreement. Offseting this effect, a decrease of NIS 34 million occurred deriving from, among other things, reduction in the number of employees in the group, partialy offset by selective patroll increase, and from the coversion of jubillee grants (see note 16 to the financial statements).

Expenses on depreciation and maintenance of premises and equipment totaled NIS 309 million, compared to NIS 323 million in the same period last year, a decrease of 4.3 %. The decrease stems from efficiency moves including the merger and closure of branches.

Amortizations of intangible assets totaled NIS 93 million compared with NIS 99 million in the same period last year. Amortization of the excess of cost of the acquisition attributed to customer relations which was included in this item amounted to NIS 31 million, compared with NIS 33 million in the same period last year. Since amortization of the excess of cost of the acquisition is not a recognized expense for tax purposes, it has the effect of reducing net earnings by the full amount of the amortization. The amortization of excess of cost of acquisition of Otzar Hachayal ended on August 17, 2016 and amounted to NIS 23 million in the first nine months of the year.

The provision for taxes on operating earnings amounted to NIS 303 million compared with NIS 255 million in the same period last year. The effective tax rate as a proportion of earnings before taxes amounted to 44.5 %, compared with the statutory rate of tax of 35.9 %.

Set out bellow is the reasons effecting the effective tax rate:

- On January 4 the plenum of the Knesset approved the law amending the Income Tax Ordinance (amendment No. 216), 2016, which stipulated, among other things, the decline in the corporate tax starting with 2016 and onwards in a rate of 1.5%, that the rate will be 25%. In light of the said change in legislation, the statutorical tax rate as from 2016 is 35.89%. The effect of the change is a one-time increase in the tax expenses in the amount of NIS 16 million.
- A one-time expense in the reporting of deffered taxes liability in the amount of NIS 21 million in respect of temporary differences steming from previous years profits.
- Unrecognized expenses, mainly the amortization of intangible assets.

The Bank's share in the operating earnings of investee company after the tax effect amounted to NIS 62 million, compare to NIS 28 million in the same period last year. Most of the increase is explained by the share of the investee company in the proceeds of the sale of Visa Europe (see note 17 to the financial statements), partialy offset by a one time nature provision.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 340 million. This amount was affected by the net profit for the period attributed to the shareholders of the Bank of NIS 409 million, by adjustments in respect of available-for-sale securities in an amount of NIS 23 million, and by other comprehensive loss in respect of employee benefits of NIS 91 million, deriving mainly from the update of the strategic plan of the Bank regarding long-term effciency measures (see note 7a(c) to the financial statements).

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

The consolidated balance sheet as of September 30, 2016 amounted to NIS 126,071 million compared with NIS 122,858 million as of September 30, 2015 and NIS 125,476 million as of December 31, 2015, an increase of 2.6 % and 0.5%, respectively.

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

	30.9.16	31.12.15	Change
		NIS million	%
Credit to the public, net	**78,079**	72,555	7.6
Securities	**16,127**	16,439	(1.9)
Cash and deposits with banks	**26,672**	30,727	(13.2)
Premises and equipment	**1,144**	1,229	(6.9)
Deposits from the public	**104,549**	103,262	1.2
Deposits from banks	**789**	1,565	(49.6)
Bonds and subordinated capital notes	**5,597**	5,862	(4.5)
Shareholders' equity	**7,411**	7,073	4.8

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

	30.9.16	31.12.15	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**108**	130	(16.9)
Guarantees and other liabilities	**7,973**	7,473	6.7
Unutilized credit lines for derivatives instruments	**34,039**	32,967	3.3
Unutilized revolving credit and other on-call credit facilities	**10,619**	11,560	(8.1)
Unutilized credit lines for credit card facilities and Facilities for the lending of securities	**6,320**	6,619	(4.5)
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**6,712**	5,108	31.4
Total	**65,771**	63,857	3.0

Derivative financial instruments:

	As of September 30, 2016			As of December 31, 2015		
	Possitive fair value	Negative fair value	Face value	Possitive fair value	Negative fair value	Face value
						NIS million
Interest rate contracts	**269**	**392**	**16,763**	261	339	19,274
Foreign currency contracts	**415**	**471**	**62,390**	513	469	79,514
Contracts of shares	**453**	**453**	**55,259**	859	859	104,863
Commodities and other contracts	**2**	**2**	**685**	3	2	329
Total	**1,139**	**1,318**	**135,097**	1,636	1,669	203,980

Credit to the public, net as of September 30, 2016 amounted to NIS 78,079 million compared with NIS 72,555 million as of December 31, 2015, an increase of 7.6%.

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

	As of				Segment's share of credit to the public as of	
	30.9.16	31.12.15		Change	30.9.16	31.12.15
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**61,483**	55,908	5,575	10.0	**78.7**	77.1
- CPI-linked	**10,271**	10,700	(429)	(4.0)	**13.2**	14.7
Foreign currency (including f-c linked)	**5,766**	5,316	450	8.5	**7.4**	7.3
Non-monetary items	**559**	631	(72)	(11.4)	**0.7**	0.9
Total	**78,079**	72,555	5,524	7.6	**100.0**	100.0

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

	As of		
	30.9.16	31.12.15	Change
		NIS million	%
Corporate banking segment	**19,109**	16,591	15.2
Middlemarket banking segment	**4,562**	4,294	6.2
Small and minute business segment	**14,820**	14,280	3.8
Household segment	**39,613**	37,331	6.1
Private banking segement	**122**	99	23.2
Institutional entities	**718**	784	(8.4)
Total	**78,944**	73,379	7.6
Of which, consumer credit excluding housing loans and credit cards:			
Household segment	**15,267**	14,407	6.0
Private banking segment	**93**	72	28.7
Total	**15,360**	14,479	6.1
Housing loans in Israel:			
Household segment	**21,388**	20,032	6.8
Total	**21,388**	20,032	6.8

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 113,961 million on September 30, 2016 compared with NIS 108,451 million on December 31, 2015.

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

Sector	As of September 30, 2016		As of December 31, 2015		
	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)	**14,312**	**12.5**	14,710	13.6	(2.7)
Construction and real estate	**15,537**	**13.6**	14,263	13.1	8.9
Industry	**11,246**	**9.9**	10,938	10.1	2.8
Commerce	**9,228**	**8.1**	8,693	8.0	6.2
Information and communications	**2,574**	**2.3**	2,414	2.2	6.6
Private customer, including housing loans	**51,752**	**45.4**	48,993	45.2	5.6
Others	**9,312**	**8.2**	8,440	7.8	10.3
Total	**113,961**	**100.0**	108,451	100.0	5.1

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

		As of September 30, 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	**1,416**	**297**	**1,713**	**781**
2.	Financial services	**808**	**3**	**811**	**141**
3.	Electricity and water supply	**546**	**19**	**565**	**213**
4.	Industry	**352**	**173**	**525**	**431**
5.	Financial services	**499**	**-**	**499**	**-**
6.	Commerce	**493**	**3**	**496**	**496**

		As of December 31, 2015			
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	1,238	316	1,554	681
2.	Financial services	999	3	1,002	106
3.	Electricity and water supply	534	19	553	199
4.	Financial services	236	307	543	273
5.	Commerce	450	5	455	455
6.	Industry	449	-	449	-

* 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 16,127 million compared with NIS 16,439 million at the end of 2015, a decrease of 1.9 %.

Set out below is the composition of the portfolio:

	As of		Share of total securities	
	30.9.16	31.12.15	30.9.16	31.12.15
		NIS million		%
Government bonds	**12,347**	11,637	**76.5**	70.8
Banks' bonds(1)	**1,836**	2,368	**11.4**	14.4
Other bonds (corporate and asset-backed)	**898**	1,490	**5.6**	9.0
Other bonds (corporate and asset-backed) guaranteed by governments	**850**	683	**5.3**	4.2
Shares(2)	**196**	261	**1.2**	1.6
Total	**16,127**	16,439	**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 895 million (December 31, 2015 - NIS 98 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 117 million, perpetual capital notes amounting to NIS 4 million, investment in foreign currency shares of NIS 58 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 11 million (31.12.15 - investment in private equity funds amounting to NIS 115 million, perpetual capital notes amounting to NIS 19 million, investment in foreign currency shares of NIS 57 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 64 million).

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

	As of		Change		Segment's share of total securities	
	30.9.16	31.12.15			30.9.16	31.12.15
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**6,771**	6,915	(144)	(2.1)	**42.0**	42.0
- CPI-linked	**1,827**	1,655	172	10.4	**11.3**	10.1
Foreign currency denominated & linked	**7,333**	7,608	(275)	(3.6)	**45.5**	46.3
Non-monetary items	**196**	261	(65)	(24.9)	**1.2**	1.6
Total	**16,127**	16,439	(312)	(1.9)	**100.0**	100.0

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on September 30, 2016:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**59**	**4**	**133**	**196**
Local currency government bonds	**7,335**	**-**	**-**	**7,335**
Local currency corporate bonds	**947**	**316**	**-**	**1,263**
Non-asset backed foreign-currency and f-c linked bonds	**3**	**6,806**	**-**	**6,809**
MBS bonds	**-**	**507**	**-**	**507**
Others (structured and credit-based structured)	**-**	**-**	**17**	**17**
Total	**8,344**	**7,633**	**150**	**16,127**
% of portfolio	**51.8**	**47.3**	**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	
	30.9.16	31.12.15
		NIS million
Israel (incl. Israel Government - 30.9.16 - NIS 2,261 million, 31.12.15 - NIS 1,377 million)	**2,461**	1,617
USA	**2,420**	3,672
France	**307**	150
UK	**280**	247
Europe - others * (30.9.16 - 6 countries; 31.12.15 - 5 countries)	**495**	343
Australia	**129**	275
Canada	**52**	14
Germany	**344**	158
Netherlands	**104**	288
Far East, New Zealand* and others (30.9.16 - 5 countries; 31.12.15 - 6 countries)	**217**	322
Total	**6,809**	7,086

It should be noted that there is no issuer (except the Israel Government and US goverment) whose bond balance exceeds 3% of the shareholders' equity of the Bank.

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

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

	As of	
	30.9.16	31.12.15
		NIS million
Financial services	**68**	77
Banks	**311**	527
Industry	**48**	119
Electricity and water	***530**	*520
Construction and real estate	**116**	198
Communications and computer services	**49**	41
Commerce	**42**	41
Public services	**7**	11
Transportation	**77**	21
Hotels, hospitality and food services	**15**	-
Total	**1,263**	1,555

* Including NIS 351 million guaranteed by the Israel Government (31.12.15 - NIS 354 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 6,809 million (Dollar 1,812 million) (includes foreign corporations amounting to NIS 1,597 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 200 million, foreign currency denominated Israel Government bonds amounting to NIS 2,261 million and foreign government bonds amounting to NIS 2,751 million). All of the foreign bonds are investment grade and 94% of the portfolio is rated A or higher; 9% 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 3% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 2.4 years. The balance of unrealized gross gains (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 losses of NIS 20 million (Dollar 5 million) on December 31, 2015.
- **Mortgage Backed Securities (MBS)** - amount to NIS 507 million (Dollar 135 million).
  The bonds were issued by federal agencies in the USA. Of these, NIS 498 million (Dollar 133 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 9 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 September 30, 2016 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 100 base points	**(14.1)**	**(2.6)**
Decrease of 100 base points	**17.6**	**0.5**

  The credit risk inherent in the portfolio is managed by economic hedging.
- **Private equity funds -** investments in private equity funds amounted to NIS 117 million (Dollar 30 million). The balance of Commitments to invest in private equity funds amounted to NIS 59 million as of September 30, 2016.

The balance of gains, net (before the tax effect), included in other cumulative comprehensive profit, in respect of the difference between the fair value of securities included in the available-for-sale portfolio and their amortized cost, as of September 30, 2016, amounted to NIS 6 million, compared with balance of losses in the amount of NIS 47 million at the end of 2015.

Cash and deposits with banks on September 30, 2016 totaled NIS 26,672 million compared with NIS 30,727 million at the end of 2015, a decrease of 13.2%.

Deposits from the public on September 30, 2016 totaled NIS 104,549 million compared with NIS 103,262 million at the end of 2015, an increase of 1.2%.

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

	As of				Segment's share of total deposits from the public on	
	30.9.16	**31.12.15**	Change		**30.9.16**	**31.12.15**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**75,755**	70,392	5,363	7.6	**72.5**	68.2
- CPI-linked	**6,436**	7,095	(659)	(9.3)	**6.2**	6.9
Foreign currency denominated & linked	**21,785**	25,135	(3,350)	(13.3)	**20.8**	24.3
Non-monetary items	**573**	640	(67)	(10.5)	**0.5**	0.6
Total	**104,549**	103,262	1,287	1.2	**100.0**	100.0

Deposits from the public by segment of activity

	As of		
	30.9.16	**31.12.15**	**Change**
		NIS million	%
Corporate banking segment	**11,184**	10,693	4.6
Middlemarket banking segment	**5,512**	5,342	3.2
Small and minute business segment	**15,061**	14,710	2.4
Household segment	**44,326**	41,782	6.1
Private banking segment	**8,687**	8,287	4.8
Institutional entities	**19,779**	22,448	(11.9)
Total	**104,549**	103,262	1.2

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of September 30, 2016, amounted to NIS 243 billion, as compared to NIS 246 billion at the end of 2015.

Bonds and deferred debt notes amounted at September 30, 2016 to NIS 5,597 million, as compared with NIS 5,862 million at December 31, 2015, a decrease of 4.5%.

On June 26, 2016 the First International Issuance Ltd, a wholy owned subsidiary of the Bank, issued on public issuance, subordinated capital notes with mechanism of loss absorbance, for the proceeds of NIS 580 million. The proceeds of the issuance was deposited at the Bank. The Bank is obligated to fulfill the conditions of the issued subordinated capital notes (see note 8f. to the financial statements).

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on September 30, 2016 to NIS 7,411 million, as compared with NIS 7,073 million on December 31, 2015, an increase of 4.8%.
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 3 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, so that the minimum ratio of Tier I equity capital required by the Supervisor of Banks as of September 30, 2016, shall not be lass than 9.21%, and the minimum ratio of the comprehensive capital shall no be less than 12.71%. This requirement is applied gradually over eight quarters until January 1, 2017.

The internal capital goals, which have been set by the Board of Directors, are as follows:

- In a regular business situation - the ratio of Tier I equity capital shall be no less than 9.30%, and the ratio of the comprehensive capital, will be identical to the regulatory ratio.
- 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, 2016, the rate of deductions from the regulatory capital amounts to 60%, and the maximum rate of instruments qualified as supervisory capital amounts to 60%.

Operational efficiency

On January 12, 2016 Bank of Israel letter was circulated in respect of operational efficiency of the banking system in Israel. According to the letter, the board of directors of banking entity will outline a multi-year efficiency plan. Banking entity which will fulfill the condition stipulated in the letter will receive a relief according to which it will be able to spread the effect of the plan in a straight line period of five years.

The Board of Directors approved on November 17, 2016, a revision of the strategic program of the Bank concerning the efficiency measures aspect, which is estimated at NIS 207 million, before the tax effect. The effect of the said efficiency measures on the ratio of equity capital to risk assets is estimated at a reduction of 0.19%, as of September 30, 2016.

Implementation of the instructions

As stated above, in accordance with Bank of Israel instructions, the Bank started to implement the Basel 3 instructions as from January 1, 2014.

Pillar I –the Bank is implementing the standard approach in accordance with Bank of Israel instructions for the credit and operational risks.

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, 2015, 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.

		As of	
		30.9.16	**31.12.15**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments**		
	Tier 1 capital, after deductions and supervisory adjustments	**7,772**	7,349
	Tier 2 capital	**2,614**	2,580
	Total capital	**10,386**	9,929
2.	**Weighted balances of risk assets**		
	Credit risk	**70,220**	67,766
	Market risk	**1,002**	995
	Operational risk	**6,108**	6,141
	Total weighted balances of risk assets	**77,330**	74,902
3.	**Ratio of capital to risk assets**		
	Raito of tier 1 equity capital to risk assets	**10.05%**	9.81%
	Total ratio of capital to risk assets	**13.43%**	13.26%
	Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.21%**	9.10%
	Minimal ratio of capital required by the Supervisor of Banks	**12.71%**	12.60%

The Tier I equity capital ratio as of September 30, 2016, amounted to 10.05%, in comparison with 9.81% on December 31, 2015. The ratio of comprehensive capital to risk components as of September 30, 2016, amounted to 13.43%, in comparison with 13.26% on December 31, 2015. The comprehensive capital as of September 30, 2016 amounted to NIS 10,386 million, in comparison with NIS 9,929 million on December 31, 2015. The increase in the capital base stemmed mostly from an issuance of subordinated capital notes with loss absorbtion mechanism through principal delete in the amount of NIS 580 million and the profits for the period in the amount of NIS 409 million. This increase was partly offset by reduction of NIS 553 million in instruments issued by the Bank qualified for inclusion in the supervisory capital. Risk assets as of September 30, 2016 amounted to NIS 77,330 million as compared with NIS 74,902 million on December 31, 2015.

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:

	30.9.16	31.12.15
		In percent
Significant subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of Tier 1 capital to risk assets	**10.81**	9.83
Ratio of overall capital to risk assets	**13.84**	13.25
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**13.02**	13.76
Ratio of overall capital to risk assets	**14.16**	15.01

Leverage ratio in accordance with instructions of the Supervisor of Banks - On April 28, 2015, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio. The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the prescribed transitional arrangements. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis. A banking corporation, the total consolidated stated assets of which equals or exceeds 20% of total stated assets of the banking sector as a whole, should attain a leverage ratio of no less than 6%. In accordance with the above, the minimum leverage ratio required from the Bank is 5%. The minimum leverage ratio for a banking corporation applies as from January 1, 2018 and thereafter. The leverage ratio of the Bank at September 30, 2016, amounts to 5.66%.

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 2015.

After balance-sheet date, on November 17, 2016, the Board of Directors of the Bank resoved to distribute cash dividend to the shareholders of the Bank in the amount of NIS 200 million. The determination date will be November 27, 2016 and the payment date will be December 5, 2016. The dividend amount is before any tax, including deduction at source, which the Bank has to deduct in accordance to the law.

SUPERVISORY SEGMENTS OF OPERATIONS

A. General

According to the letter of the Supervisor of Banks dated November 7, 2014, requires that, as from the financial report for the year 2015, the report on segments of operation would be in accordance with the format and classifications determined in the public reporting instructions of the Supervisor of Banks.
The supervisory segments of operations were defined by the Bank of Israel in an amendment to the directive based on the characteristics of their customers, such as operation character (regarding private customers) or commercial turnover (regarding commercial customers).

B. Definitions and characteristic of the supervisory segments of operations

- **Private banking segment** - private individuals the balance of their financial asset portfolio exceeds NIS 3 million.
- **Households** - private individualsthe balance of their financial asset portfolio is less than NIS 3 million.
- **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.
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 300 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 following is a summary of the results of activity by segments:

a. Total income*

	For the three months ended			Segment's share of total income	
	30.9.16	**30.9.15**	**Change**	**30.9.16**	**30.9.15**
		NIS million	%		%
Corporate banking segment	**117**	103	13.6	**12.9**	12.0
Commercial banking segment	**45**	48	(6.3)	**5.0**	5.6
Small and minute business segment	**208**	201	3.5	**22.9**	23.5
Household segment	**361**	346	4.3	**39.8**	40.5
Private banking segment	**27**	27	-	**3.0**	3.2
Institutional entities	**51**	58	(12.1)	**5.6**	6.8
Financial management segment	**99**	72	37.5	**10.8**	8.4
Total	**908**	855	6.2	**100.0**	100.0

	For the nine months ended			Segment's share of total income	
	30.9.16	**30.9.15**	**Change**	**30.9.16**	**30.9.15**
		NIS million	%		%
Corporate banking segment	**324**	303	6.9	**11.8**	11.5
Commercial banking segment	**134**	138	(2.9)	**4.9**	5.3
Small and minute business segment	**636**	634	0.3	**23.2**	24.2
Household segment	**1,120**	1,041	7.6	**40.8**	39.7
Private banking segment	**81**	79	2.5	**3.0**	3.0
Institutional entities	**157**	173	(9.2)	**5.7**	6.6
Financial management segment	**293**	257	14.0	**10.6**	9.7
Total	**2,745**	2,625	4.6	**100.0**	100.0

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

	For the three months ended	
	30.9.16	**30.9.15**
		NIS million
Corporate banking segment	**35**	27
Commercial banking segment	**17**	9
Small and minute business segment	**14**	19
Household segment	**6**	(7)
Private banking segment	**(1)**	(5)
Institutional entities	**6**	5
Financial management segment	**51**	38
Total	**128**	86

	For the nine months ended	
	30.9.16	**30.9.15**
		NIS million
Corporate banking segment	**95**	80
Commercial banking segment	**33**	36
Small and minute business segment	**74**	97
Household segment	**7**	(28)
Private banking segment	**3**	(1)
Institutional entities	**4**	20
Financial management segment	**193**	125
Total	**409**	329

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Total assets				
	For the nine months ended			% of total assets	
	30.9.16	**30.9.15**	**Change**	**30.9.16**	**30.9.15**
		NIS million	%	%	%
Corporate banking segment	**18,217**	15,892	14.6	**14.4**	13.2
Commercial banking segment	**4,463**	4,430	0.7	**3.5**	3.7
Small and minute business segment	**14,502**	14,081	3.0	**11.4**	11.7
Household segment	**38,161**	35,165	8.5	**30.1**	29.3
Private banking segment	**115**	112	2.7	**0.1**	0.1
Institutional entities	**652**	882	(26.1)	**0.5**	0.7
Financial management segment	**50,712**	49,644	2.2	**40.0**	41.3
Total	**126,822**	120,206	5.5	**100.0**	100

	Total liabilities				
	For the nine months ended			% of total liabilities	
	30.9.15	**30.9.16**	**Change**	**30.9.15**	**30.9.16**
		NIS million	%	%	%
Corporate banking segment	**9,534**	8,646	10.3	**8.0**	7.7
Commercial banking segment	**5,538**	5,245	5.6	**4.7**	4.6
Small and minute business segment	**15,482**	14,659	5.6	**13.0**	13.0
Household segment	**44,071**	39,528	11.5	**37.0**	35.0
Private banking segment	**8,434**	7,308	15.4	**7.1**	6.5
Institutional entities	**22,190**	23,715	(6.4)	**18.6**	21.0
Financial management segment	**13,788**	13,735	0.4	**11.6**	12.2
Total	**119,037**	112,836	5.5	**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.

Operational supervision segment information

	For the three months ended September 30, 2016 (unaudited)							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium business	Large business	Institutional entities	Financial Mangement	Total activity in Israel
	(NIS million)							
Interest income from external	320	1	136	30	92	3	97	679
Interest expense from external	30	7	13	4	6	10	59	129
Net interest income								
- From external	290	(6)	123	26	86	(7)	38	550
- Inter - segment	(72)	11	7	3	(2)	16	37	-
Total net interest income	218	5	130	29	84	9	75	550
Non interest income	143	14	78	16	33	42	24	350
Total income	361	19	208	45	117	51	99	900
Expenses (income) in respect of credit losses	6	-	21	(9)	3	-	-	21
Operating and other expenses	340	20	163	24	51	41	15	654
Operating profit (loss) before taxes	15	(1)	24	30	63	10	84	225
Provision for taxes (tax saving) on operating profit (loss)	5	(1)	8	13	27	4	35	91
Operating profit (loss) after taxes	10	-	16	17	36	6	49	134
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	3	3
Net profit (loss) Before attribution to noncontrolling interests	10	-	16	17	36	6	52	137
Attributed to noncontrolling interests	(4)	(1)	(2)	-	(1)	-	(1)	(9)
Net profit (loss) attributed to shareholders of the Bank	6	(1)	14	17	35	6	51	128
Average balance of assets	38,813	50	14,186	4,573	19,029	604	49,708	126,963
of which: Investee Company	-	-	-	-	-	-	506	506
of which: Average balance of credit to the public	38,813	50	14,186	4,573	19,029	604	-	77,255
Balance of credit to the public	39,613	56	14,820	4,242	19,109	718	-	78,558
Balance of impaired debts	93	-	197	129	224	-	-	643
Balance in arrears over 90 days	190	-	24	-	-	-	-	214
Average balance of liabilities	44,521	7,780	15,894	6,546	9,016	21,098	13,944	118,799
of which: Average balance of deposits from the public	44,521	7,780	15,894	6,546	9,016	21,098	-	104,855
Balance of deposits from the public	44,326	7,942	15,061	5,512	11,184	19,779	-	103,804
Average balance of risk assets	28,494	75	14,386	4,471	19,081	396	9,438	76,341
Balance of risk assets	27,621	156	15,446	5,156	19,220	832	8,241	76,672
Average balance of assets under management	34,333	14,321	14,174	2,866	21,417	157,412	-	244,523
Segmentation of net interest income:								
- Earnings from credit - granting activity	199	-	127	28	86	4	-	444
- Earnings from deposits - taking activity	28	5	7	2	4	5	-	51
- Other	(9)	-	(4)	(1)	(6)	-	75	55
Total net interest income	218	5	130	29	84	9	75	550

Operational supervision segment information (CON'T)

	For the three months ended September 30, 2016 (unaudited)			
		Activity abroad		
	Private individuals	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	3	-	3	682
Interest expense from external	-	-	-	129
Net interest income				
- From external	3	-	3	553
- Inter - segment	-	-	-	-
Total net interest income	3	-	3	553
Non interest income	5	-	5	355
Total income	8	-	8	908
Expenses in respect of credit losses	-	-	-	21
Operating and other expenses	8	-	8	662
Operating profit before taxes	-	-	-	225
Provision for taxes on operating profit	-	-	-	91
Operating profit after taxes	-	-	-	134
Bank's share in operating profit of investee companies after tax effect	-	-	-	3
Net profit before attribution to noncontrolling interests	-	-	-	137
Attributed to noncontrolling interests	-	-	-	(9)
Net profit attributed to shareholders of the Bank	-	-	-	128
Average balance of assets	115	318	433	127,396
of which: Investee Company	-	-	-	506
of which: Average balance of credit to the public	115	318	433	77,688
Balance of credit to the public	66	320	386	78,944
Balance of impaired debts	-	-	-	643
Balance in arrears over 90 days	-	-	-	214
Average balance of liabilities	738	-	738	119,537
of which: Average balance of deposits from the public	738	-	738	105,593
Balance of deposits from the public	745	-	745	104,549
Average balance of risk assets	182	456	638	76,979
Balance of risk assets	112	546	658	77,330
Average balance of assets under management	-	-	-	244,523
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	444
- Earnings from deposits - taking activity	3	-	3	54
- Other	-	-	-	55
Total net interest income	3	-	3	553

Operational supervision segment information (CON'T)

	For the three months ended September 30, 2015 (unaudited)							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium business	Large business	Institutional entities	Financial Mangement	Total activity in Israel
	(NIS million)							
Interest income from external	276	-	109	32	81	4	116	618
Interest expense from external	27	5	9	3	4	9	66	123
Net interest income								
- From external	249	(5)	100	29	77	(5)	50	495
- Inter - segment	(57)	9	20	4	(4)	16	12	-
Total net interest income	192	4	120	33	73	11	62	495
Non interest income	154	14	81	15	30	47	10	351
Total income	346	18	201	48	103	58	72	846
Expenses (Income) in respect of credit losses	13	-	(5)	3	(1)	(1)	-	9
Operating and other expenses	342	28	165	28	50	49	16	678
Operating profit (loss) before taxes	(9)	(10)	41	17	54	10	56	159
Provision for taxes (tax saving) on operating profit (loss)	(5)	(4)	19	8	26	5	28	77
Operating profit (loss) after taxes	(4)	(6)	22	9	28	5	28	82
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	10	10
Net profit (loss) before attribution to noncontrolling interests	(4)	(6)	22	9	28	5	38	92
Attributed to noncontrolling interests	(3)	-	(3)	-	(1)	-	-	(7)
Net profit (loss) attributed to shareholders of the Bank	(7)	(6)	19	9	27	5	38	85
Average balance of assets	36,137	63	12,435	4,502	16,908	924	50,243	121,212
of which: Investee Company	-	-	-	-	-	-	378	378
of which: Average balance of credit to the public	36,137	63	12,435	4,502	16,908	924	-	70,969
Balance of credit to the public	36,915	53	14,340	3,786	14,659	563	-	70,316
Balance of impaired debts	128	-	279	163	307	-	-	877
Balance in arrears over 90 days	206	6	4	-	-	-	-	216
Average balance of liabilities	39,112	7,031	14,815	7,025	8,694	24,109	12,313	113,099
of which: Average balance of deposits from the public	39,112	7,031	14,815	7,025	8,694	24,109	-	100,786
Balance of deposits from the public	40,027	7,888	14,293	5,054	9,411	22,907	-	99,580
Average balance of risk assets	27,101	89	14,311	4,699	16,362	474	11,384	74,420
Balance of risk assets	26,754	145	15,256	4,874	16,711	986	9,419	74,145
Average balance of assets under management	37,451	14,145	13,919	3,542	21,625	162,384	-	253,066
Segmentation of net interest income:								
- Earnings from credit - granting activity	177	-	119	32	77	4	-	409
- Earnings from deposits - taking activity	22	4	6	2	2	6	-	42
- Other	(7)	-	(5)	(1)	(6)	1	62	44
Total net interest income	192	4	120	33	73	11	62	495

Operational supervision segment information (CON'T)

	For the three months ended September 30, 2015 (unaudited)			
	Activity abroad			
	Private individuals	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	3	-	3	621
Interest expense from external	1	-	1	124
Net interest income				
- From external	2	-	2	497
- Inter - segment	-	-	-	-
Total net interest income	2	-	2	497
Non interest income	7	-	7	358
Total income	9	-	9	855
Expenses in respect of credit losses	-	-	-	9
Operating and other expenses	8	-	8	686
Operating profit before taxes	1	-	1	160
Provision for taxes on operating profit	-	-	-	77
Operating profit after taxes	1	-	1	83
Bank's share in operating profit of investee companies after tax effect	-	-	-	10
Net profit before attribution to noncontrolling interests	1	-	1	93
Attributed to noncontrolling interests	-	-	-	(7)
Net profit attributed to shareholders of the Bank	1	-	1	86
Average balance of assets	47	352	399	121,611
of which: Investee Company	-	-	-	378
of which: Average balance of credit to the public	47	352	399	71,368
Balance of credit to the public	63	347	410	70,726
Balance of impaired debts	-	-	-	877
Balance in arrears over 90 days	-	-	-	216
Average balance of liabilities	1,045	-	1,045	114,144
of which: Average balance of deposits from the public	1,045	-	1,045	101,831
Balance of deposits from the public	1,072	-	1,072	100,652
Average balance of risk assets	122	833	955	75,375
Balance of risk assets	116	633	749	74,894
Average balance of assets under management	-	-	-	253,066
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	409
- Earnings from deposits - taking activity	2	-	2	44
- Other	-	-	-	44
Total net interest income	2	-	2	497

Operational supervision segment information

	For the nine months ended September 30, 2016 (unaudited)							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium business	Large business	Institutional entities	Financial Mangement	Total activity in Israel
	(NIS million)							
Interest income from external	906	1	432	97	260	12	183	1,891
Interest expense from external	71	17	26	9	12	22	129	286
Net interest income								
- From external	835	(16)	406	88	248	(10)	54	1,605
- Inter - segment	(145)	31	(11)	2	(23)	37	109	-
Total net interest income	690	15	395	90	225	27	163	1,605
Non interest income	430	41	241	44	99	130	130	1,115
Total income	1,120	56	636	134	324	157	293	2,720
Expenses (Income) in respect of credit losses	27	-	25	-	(6)	-	-	46
Operating and other expenses	1,058	48	466	73	152	150	45	1,992
Operating profit before taxes	35	8	145	61	178	7	248	682
Provision for taxes on operating profit	11	3	65	27	81	3	113	303
Operating profit after taxes	24	5	80	34	97	4	135	379
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	62	62
Net profit Before attribution to noncontrolling interests	24	5	80	34	97	4	197	441
Attributed to noncontrolling interests	(17)	(1)	(6)	(1)	(2)	-	(4)	(31)
Net profit attributed to shareholders of the Bank	7	4	74	33	95	4	193	410
Average balance of assets	38,161	48	14,502	4,137	18,217	652	50,712	126,429
of which: Investee Company	-	-	-	-	-	-	474	474
of which: Average balance of credit to the public	38,161	48	14,502	4,137	18,217	652	-	75,717
Balance of credit to the public	39,613	56	14,820	4,242	19,109	718	-	78,558
Balance of impaired debts	93	-	197	129	224	-	-	643
Balance in arrears over 90 days	190	-	24	-	-	-	-	214
Average balance of liabilities	44,071	7,636	15,482	5,538	9,534	22,190	13,788	118,239
of which: Average balance of deposits from the public	44,071	7,636	15,482	5,538	9,534	22,190	-	104,451
Balance of deposits from the public	44,326	7,942	15,061	5,512	11,184	19,779	-	103,804
Average balance of risk assets	27,264	145	15,160	4,871	18,245	866	8,566	75,117
Balance of risk assets	27,621	156	15,446	5,156	19,220	832	8,241	76,672
Average balance of assets under management	35,053	13,683	11,670	3,478	22,599	154,744	-	241,227
Segmentation of net interest income:								
- Earnings from credit - granting activity	629	-	386	87	231	11	-	1,344
- Earnings from deposits - taking activity	83	15	22	7	10	17	-	154
- Other	(22)	-	(13)	(4)	(16)	(1)	163	107
Total net interest income	690	15	395	90	225	27	163	1,605

Operational supervision segment information (CON'T)

	For the nine months ended September 30, 2016 (unaudited)			
	Activity abroad			
	Private individuals	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	8	-	8	1,899
Interest expense from external	-	-	-	286
Net interest income				
- From external	8	-	8	1,613
- Inter - segment	-	-	-	-
Total net interest income	8	-	8	1,613
Non interest income	17	-	17	1,132
Total income	25	-	25	2,745
Expenses in respect of credit losses	-	-	-	46
Operating and other expenses	26	-	26	2,018
Operating profit (loss) before taxes	(1)	-	(1)	681
Provision for taxes on operating profit	-	-	-	303
Operating profit (loss) after taxes	(1)	-	(1)	378
Bank's share in operating profit of investee companies after tax effect	-	-	-	62
Net profit (loss) before attribution to noncontrolling interests	(1)	-	(1)	440
Attributed to noncontrolling interests	-	-	-	(31)
Net profit (loss) attributed to shareholders of the Bank	(1)	-	(1)	409
Average balance of assets	67	326	393	126,822
of which: Investee Company	-	-	-	474
of which: Average balance of credit to the public	67	326	393	76,110
Balance of credit to the public	66	320	386	78,944
Balance of impaired debts	-	-	-	643
Balance in arrears over 90 days	-	-	-	214
Average balance of liabilities	798	-	798	119,037
of which: Average balance of deposits from the public	798	-	798	105,249
Balance of deposits from the public	745	-	745	104,549
Average balance of risk assets	112	546	658	75,775
Balance of risk assets	112	546	658	77,330
Average balance of assets under management	-	-	-	241,227
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	1,344
- Earnings from deposits - taking activity	8	-	8	162
- Other	-	-	-	107
Total net interest income	8	-	8	1,613

Operational supervision segment information (CON'T)

	For the nine months ended September 30, 2015 (unaudited)							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium business	Large business	Institutional entities	Financial Mangement	Total activity in Israel
								(NIS million)
Interest income from external	743	-	418	101	242	14	206	1,724
Interest expense from external	67	11	22	7	10	24	136	277
Net interest income								
- From external	676	(11)	396	94	232	(10)	70	1,447
- Inter - segment	(112)	21	(13)	(1)	(21)	41	85	-
Total net interest income	564	10	383	93	211	31	155	1,447
Non interest income	477	40	251	45	92	142	102	1,149
Total income	1,041	50	634	138	303	173	257	2,596
Expenses (Income) in respect of credit losses	38	-	(15)	(3)	15	-	-	35
Operating and other expenses	1,044	54	463	73	139	135	74	1,982
Operating profit (loss) before taxes	(41)	(4)	186	68	149	38	183	579
Provision for taxes (tax saving) on operating profit (loss)	(19)	(2)	81	30	67	18	80	255
Operating profit (loss) after taxes	(22)	(2)	105	38	82	20	103	324
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	28	28
Net profit (loss) before attribution to noncontrolling interests	(22)	(2)	105	38	82	20	131	352
Attributed to noncontrolling interests	(6)	-	(8)	(2)	(2)	-	(6)	(24)
Net profit (loss) attributed to shareholders of the Bank	(28)	(2)	97	36	80	20	125	328
Average balance of assets	35,165	51	14,081	4,098	15,892	882	49,644	119,813
of which: Investee Company	-	-	-	-	-	-	415	415
of which: Average balance of credit to the public	35,165	51	14,081	4,098	15,892	882	-	70,169
Balance of credit to the public	36,915	53	14,340	3,786	14,659	563	-	70,316
Balance of impaired debts	128	-	279	163	307	-	-	877
Balance in arrears over 90 days	206	6	4	-	-	-	-	216
Average balance of liabilities	39,528	6,203	14,659	5,245	8,646	23,715	13,735	111,731
of which: Average balance of deposits from the public	39,528	6,203	14,659	5,245	8,646	23,715	-	97,996
Balance of deposits from the public	40,027	7,888	14,293	5,054	9,411	22,907	-	99,580
Average balance of risk assets	26,045	141	15,399	4,953	17,024	1,032	9,280	73,874
Balance of risk assets	26,754	145	15,256	4,874	16,711	986	9,419	74,145
Average balance of assets under management	40,863	13,051	12,591	3,822	22,135	164,436	-	256,898
Segmentation of net interest income:								
- Earnings from credit - granting activity	510	-	377	91	220	13	-	1,211
- Earnings from deposits - taking activity	74	10	19	6	8	19	-	136
- Other	(20)	-	(13)	(4)	(17)	(1)	155	100
Total net interest income	564	10	383	93	211	31	155	1,447

Operational supervision segment information (CON'T)

	For the nine months ended September 30, 2015 (unaudited)			
	Activity abroad			
	Private individuals	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	9	-	9	1,733
Interest expense from external	2	-	2	279
Net interest income				
- From external	7	-	7	1,454
- Inter - segment	-	-	-	-
Total net interest income	7	-	7	1,454
Non interest income	22	-	22	1,171
Total income	29	-	29	2,625
Expenses in respect of credit losses	-	-	-	35
Operating and other expenses	28	-	28	2,010
Operating profit before taxes	1	-	1	580
Provision for taxes on operating profit	-	-	-	255
Operating profit after taxes	1	-	1	325
Bank's share in operating profit of investee companies after tax effect	-	-	-	28
Net profit before attribution to noncontrolling interests	1	-	1	353
Attributed to noncontrolling interests	-	-	-	(24)
Net profit attributed to shareholders of the Bank	1	-	1	329
Average balance of assets	61	332	393	120,206
of which: Investee Company	-	-	-	415
of which: Average balance of credit to the public	61	332	393	70,562
Balance of credit to the public	63	347	410	70,726
Balance of impaired debts	-	-	-	877
Balance in arrears over 90 days	-	-	-	216
Average balance of liabilities	1,105	-	1,105	112,836
of which: Average balance of deposits from the public	1,105	-	1,105	99,101
Balance of deposits from the public	1,072	-	1,072	100,652
Average balance of risk assets	116	633	749	74,623
Balance of risk assets	116	633	749	74,894
Average balance of assets under management	-	-	-	256,898
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	1,211
- Earnings from deposits - taking activity	7	-	7	143
- Other	-	-	-	100
Total net interest income	7	-	7	1,454

PRIVATE INDIVIDUALS – HOUSEHOLDS AND PRIVATE BANKING – ACTIVITY IN ISRAEL

Principal changes in result of activity in the first nine months of 2016 compared with the same period last year

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 11 million compared with a loss of NIS 30 million in the corresponding period last year. The growth in profits stems mainly from an increase in income, which was partly offset by an increase in operating expenses, stemming from a decrease in payroll expenses in the corresponding period last year as a result of the implementation of the special collective labor agreement.

Total net interest income amounted to NIS 705 million, as compared with NIS 574 million in the corresponding period last year. This increase is partly explained by the growth in credit balances and partly by interest recognized in respect of prior years.

Non-interest income amounted to NIS 471 million, in comparison with NIS 517 million in the corresponding period last year. Most of the decrease in this income is explained by a reduction in capital market activity stemming from a decline in the scope of operation.

Operating and other expenses amounted to NIS 1,106 million, as compared to NIS 1,098 million in the corresponding period last year, a growth stemming from the increase in payroll expenses, as explained above.

Credit to the public as of September 30, 2016 amounted to NIS 39,669 million, in comparison with NIS 36,968 million on September 30, 2015.

Deposits from the public as of September 30, 2016 amounted to NIS 52,268 million, in comparison with NIS 47,915 million on September 30, 2015.

SMALL AND MINUTE BUSINESSES, MEDIUM SIZED AND LARGE BUSINESSES - ACTIVITY IN ISRAEL

Principal changes in result of activity in the first nine months of 2016 compared with the same 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 202 million, in comparison with NIS 213 million in the corresponding period last year. The decrease in profits is explained by the increase in the provision for credit losses and in operating expenses stemming from the reduction in payroll expenses in the corresponding period last year as a result of implementation of the special collective agreement.

Total net interest income amounted to NIS 710 million, as compared with NIS 687 million in the corresponding period last year, an increase of 3.3%, explained mainly by the increase in the volume of credit in these segments.

Non-interest income amounted to NIS 384 million, in comparison with NIS 388 million in the corresponding period last year.

Operating and other expenses amounted to NIS 691 million, compared with NIS 675 million in the coresponding period last year, a growth stemming from the increase in payroll expenses, as a result of implementation of the special collective agreement.

Credit to the public as of September 30, 2016 amounted to NIS 38,171 million, in comparison with NIS 32,785 million on September 30, 2015.

Deposits from the public as of September 30, 2016 amounted to NIS 31,757 million, in comparison with NIS 28,758 million on September 30, 2015.

FINANCIAL MANAGEMENT SEGMENT

Principal changes in result of activity in the first nine months of 2016 compared with the same period last year

Total income attributed to this segment amounted to NIS 293 million compared with NIS 257 million in the same period in 2015.

The net earnings of the Financial Management Segment amounted to NIS 193 million compared with NIS 125 million in the same period in 2015. The increase in earnings is attributed to an increase in non interest income and in the Bank's share in the profit of investee company due to its share in the proceeds of the Visa Europe sale transaction (see note 17 to the financial statements).

PRINCIPAL INVESTEE COMPANIES

INVESTEE COMPANIES IN ISRAEL

The Bank's investments in investee companies in Israel totaled NIS 2,330 million on September 30, 2016, compared with NIS 2,765 million on December 31, 2015, a decrease of 15.7%. The decrease in investments of the Bank in investee companies in Israel stems from the merger of PAGI, a wholly owned subsidiary, with and into the Bank.
The Bank's share in the net earnings of investee companies in Israel amounted to NIS 122 million compared with NIS 97 million in the same period last year. The increase is explained by the share of ICC in the proceeds of the sale of Visa Europe transaction.

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 1,199 million on September 30, 2016. Total assets of Otsar Hahayal on September 30, 2016 amounted to NIS 20,398 million compared with NIS 19,172 million on December 31, 2015, an increase of 6.4%. Shareholders' equity of Otsar Hahayal on September 30, 2016 amounted to NIS 1,199 million compared with NIS 1,165 million on December 31, 2015, an increase of 1,165 %.
Net earnings of Otsar Hahayal amounted to NIS 74.4 million compared with NIS 48.2 million in the same period last year, an increase of 54.4%. The increase is mainly explained by increase in interest income derived mainly from interest income in respect of previous years partially offset by decline in gain from realization of securities and from an increase in the provision for credit losses, as a result of a gap in the effect of changes in the coefficients of the group provision. The Bank's share of Otsar Hahayal's results, net of amortization of excess of cost of the acquisition, amounted to NIS 35.4 million compared with NIS 12.2 million in the same period last year. The amortization of the excess of cost of the acquisition of Otsar Hahayal ended on August 17, 2016.
Net return on equity amounted to 8.4% compared with 5.7% in the same period last year.
The ratio of capital to risk assets in accordance with the Proper Conduct of Banking Business Regulations concerning capital measurement and capital adequacy (Basel) amounted to 13.84% compared with 13.25% at the end of 2015. The Tier 1 equity capital ratio amounted to 10.81% compared with 9.83% at the end of 2015.
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 12.5%, and that the Tier 1 equity capital ratio will not be less than 9.3%.

Bank Massad Ltd. (hereinafter - "Massad") - in which the Bank owns 51.0% of share capital, is a commercial bank which operates a network of 22 branches and sub-branches.
The Bank's investment in Massad amounted to NIS 302 million on September 30, 2016. Total assets of Massad on September 30, 2016 amounted to NIS 7,013 million compared with NIS 6,421 million on December 31, 2015, an increase of 9.2%. Shareholders' equity of Massad on September 30, 2016, totaled NIS 566 million compared with NIS 538 million on December 31, 2015, an increase of 5.2%.
Net earnings of Massad totaled NIS 29.6 million compared with NIS 26.7 million in the same period last year, an increase of 10.9%.
The Bank's share in Massad's operating results, net of amortization of excess of cost of the acquisition, amounted to NIS 8.6 million compared with NIS 7.1 million in the same period last year.
The unamortized balance of the excess of cost of the acquisition of Massad amounted to NIS 13 million on September 30, 2016.
Net return on equity amounted to 7.2% compared with 7.0% in the same period last year. The ratio of capital to risk assets calculated in accordance with the Proper Conduct of Banking Business Regulations concerning capital measurement and capital adequacy (Basel), amounted to 14.16%, compared with 15.01% at the end of 2015. The Tier 1 capital ratio amounted to 13.02% compared with 13.76% in the end of 2015.
As part of the ICCAP process for December 31, 2015 data and in line with the definition of capital targets, the Tier 1 equity capital ratio will be no less than 10.5% until December 31, 2018 and the overall capital ratio was set gradualy at 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 505 million on September 30, 2016.
The ratio of capital to risk assets on September 30, 2016, calculated in accordance with the Proper Conduct of Banking Business Regulations concerning capital measurement and capital adequacy (Basel), amounted to 15.8%, compared to 15.4% at the end of 2015.
The Bank's share in the net earnings of ICC before the tax effect amounted to NIS 70.7 million compared with NIS 31.8 million in the same period last year, an increase of 122.3%. Most of the increase is explained by ICC's share in the proceeds in the sale of Visa Europe transaction, partialy offset by a one time provision (see below regarding the signing of a conditioned agrement)..
On November 2, 2015, VISA Inc. (Hereinafter – "VISA Inc.") and VISA Europe Ltd. (hereinafter – "VISA Europe") announced the entry into an agreement, by which VISA Inc. will acquire VISA Europe (hereinafter- "the transaction" from the principal members holdings its shares.
On June 21, 2016, after consumation of obtaining regulatory approvals, the proceed of the transaction was received, including immediate proceed in cash of Euro 71 million. A future proceed of Euro 6 million is expected in the terms set out in the agreement. In addition, ICC received prefferal shares blocked for a period of 4 to 12 years, convertible to Visa Inc. shares, which value at the date of the transaction is estimated at Euro 26 million (naive value). It is clarified that the convertible ratio of the preffered shares may decrease in the future, in specific conditions.

The proceed of the transaction was distributed between ICC (68% of the proceed) Discount bank and the Bank, all in the position of Principal Members in Visa Europe.

The distribution is carried out and will be carried out according to agreed mechanism. The distribution mechanism was approved by the competant organism of the parties.

ICC acknowledged an income of NIS 262 million in the second quarter regarding the transaction.

According to a preliminary estimation of ICC, on the base of the facts known today, the purchase of VISA Europe by VISA Inc, is not anticipated to effect the relationship between VISA organization and ICC, except for the ownership in Visa Europe.

Following the notice received by ICC from the State Prosecutor Office on December 3, 2014, according to which, the Prosecutor is considering the service of an indictment against ICC, a conditional arrangement was signed on 3, November, 2016, between the Economic Department of the State Prosecutor Office and ICC, which would lead to the closing down of the investigation file by way of an arrangement replacing criminal proceedings. Within the framework of the arrangement, ICC admitted the facts related to two cases of international electronic clearing conducted by ICC International (a subsidiary of ICC which was merged with ICC in December 2009) in the years 2007 to 2009. The arrangement clarifies that the facts to which ICC referred in the arrangement, had not been personally known to the officers who approved the arrangement, and that they were made aware of these facts only through the letter of suspicion served to ICC by the Prosecutor Office. The said arrangement was approved after consideration of other alternatives and bearing in mind the benefit of the company. The parties agreed that ICC would deposit an amount of NIS 85 million for the purpose of its forfeiture. ICC recognized on its books a provision in the amount of the said deposit.

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.

On April 20, 2015 the Supervisor of Banks notified ICC, that in light of the notice from the State Prosecution as above and the "letter of suspicions" attached to it, he instruct ICC not to distribute dividends until the end of the procedure, clarification of its results and its implementation on ICC financial situation.

In its report for the Nine months of 2016, ICC reported as set out below:

In the second half of 2009 and the beginning of 2010, ICC faced claims made by VISA Europe and International MasterCard Organization (hereinafter – "the international organizations") regarding alleged violations of the rules of these international organizations with respect to the clearing of international electronic trade, applying to transactions cleared by a subsidiary of ICC – ICC International – since then merged with and into ICC. In this respect, fines have been imposed on ICC and its activity in this field has been restricted for a period of several months. ICC has taken immediate action for the implementation of the risk reduction plan in order to comply with the demands of the intenational organizations. The plan adopted various measures, including changes in the Management of ICC.

Several trading houses and coordinators have raised claims regarding monetary sanctions that had been charged to them and regarding the reduction in international electronic trade clearing operations relating to them, which, as alleged by them, had caused them heavy damage.

OVERSEAS SUBSIDIARY

FIBI Bank (Switzerland) Ltd. - is a wholly owned banking subsidiary of the Bank, operating in Zurich. The company's principal area of specialization is private banking and capital market activity.

The activity of this subsidiary is regulated by the Swiss FINMA (Financial Market Supervisory Authority) by means of an external CPA office that audits the company and serves as the long arm of the Swiss regulator. The Bank's investment in FIBI Bank (Switzerland) amounted to NIS 237 million on September 30, 2016. Total assets of FIBI Bank (Switzerland) on September 30, 2016 amounted to CHF 259 million compared to CHF 296 million as of December 31, 2015 a decrease of 12.5%. Total customer assets under management on September 30, 2016 amounted to CHF 876 million compared with CHF 916 million on December 31, 2015.

Net loss amounted to CHF 630 thousand compared with a loss of CHF 62 thousand in the same period last year.

REVIEW OF RISKS

REVIEW OF RISKS

This chapter was written in great detail in the financial statements for 2015. Therefore it should be read together with the chapter of the risk review published in the financial statements for 2015.

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 and compliance risk and AML 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 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- 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 and Settlement Risk Manager;
   Mr. Avi Sterenshous- head of the financial sub-division- serves as financial 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.
   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;
   Amnon Beck- CEO of MATAF- IT risk manager;

Mr. Yehoshua Peleg, manager of cyber defence and information security- cyber risks manager;
Adv. Dalia Belnek, Chief Legal Counsel-Legal Risk Manager.

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. In addition, the Bank applies stress scenarios for reviewing capital adequacy. In this respect, the Bank also examines stress scenarios in the area of interest risks (as well as scenarios combining the materialization of interest risks and several other risks simultaneously). Here, 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 include sensitivity tests, historic scenarios, hypothetical scenarios and macro-economics scenarios. The scenarios infrastructure includes various scenarios, amongst them global holistic scenario, domestic holistic scenario and reverse scenario.
The results and significance of the scenarios are reported once a quarter to the Management, the Risk Management Committee and the Board of Directors.

l. The management risks division challenges the working plan of the Bank in order to support its propriety by performing stress tests. Stress tests are conducted on the planed working paln and it is tested if the group conforms with the capital targets that were set up under stress tests.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, published in the annual financial statements of the Bank for 2015.

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.

CREDIT RISK

Significant exposures to borrower groups

As of September 30, 2016 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 1,798 million compared with NIS 2,219 million at the end of 2015, a decrease of 19.0%

The ratio of problematic credit risk to total credit risk at the group amounted to 1.6% at the end of September 2016, compared with 2.0% at the end of 2015. 18.1% of problematic credit risk at the group are attributed to the manufacturing sector, 16.0% to the real estate sector, 26.9% to the private customers sector including housing loans, 25.3% to the commerce sector, and 2.7% to the communications and computer services sector. The ratio of problematic credit risk to total credit to the public amounted to 1.9%, compared with 2.4% at the end of 2015.

1. Problematic credit risk

	September 30, 2016			September 30, 2015			December 31, 2015		
	Balance-sheet	Off-balance-sheet	Total	Balance-sheet	Off-balance-sheet	Total	Balance-sheet	Off-balance-sheet	Total
									NIS million
Impaired credit risk	**650**	**236**	**886**	884	153	1,037	771	151	922
Inferior credit risk	**220**	**22**	**242**	126	41	167	220	45	265
Credit under special supervision risk	**610**	**60**	**670**	887	271	1,158	770	262	1,032
Total problematic credit risk*	**1,480**	**318**	**1,798**	1,897	465	2,362	1,761	458	2,219
* Of which: Non-impaired debts in arrears of 90 days or more	**214**	**-**	**214**	216	-	216	234	-	234

	Balance on September 30, 2016	Balance on September 30, 2015	Balance on December 31, 2015
			NIS million
2. Non-performing assets			
Impaired credit to the public not accruing interest income:	**611**	850	735
3. Performing impaired assets			
Impaired debts undergoing problematic debts restructuring and accruing interest income	**32**	27	29
Impaired bonds accruing interest income	**7**	7	7
Total performing impaired assets	**39**	34	36

	For the three months ended September 30, 2016	For the nine months ended September 30, 2016	For the year ended December 31, 2015
			NIS million
4. Changes in impaired debts			
Balance of impaired debts at beginning of period	**743**	**764**	799
Classified as impaired	**41**	**220**	435
Removed from impaired classification	**(8)**	**(61)**	(73)
Collection of debts	**(93)**	**(210)**	(212)
Accounting wirte-offs	**(40)**	**(70)**	(185)
Balance of impaired debts at end of period	**643**	**643**	764

	For the nine months ended September 30		For the year ended December 31
	2016	**2015**	**2015**
5. Risk Indices			
Ratio of impaired credit to the public to total credit to the public	**0.8%**	1.2%	1.0%
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	**1.6%**	2.2%	2.0%
Ratio of expenses for credit losses to average total credit to the public *	**0.08%**	0.07%	0.03%
Ratio of net write-offs in respect of credit to the public to average total credit to the public*	**0.03%**	0.15%	0.15%

Provision for credit losses

	Balance on September 30, 2016	Balance on September 30, 2015	Balance on December 31, 2015
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.1%**	1.2%	1.1%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**134.5%**	96.7%	107.9%
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	**100.9%**	77.6%	82.6%
Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public*	**2.78%**	12.93%	12.74%

* annualized

Total credit risk according to economic sectors

	Total credit risk(1)		
In respect of borrowers in Israel	Total	Credit execution rating(5)	Problematic(6)
Public-Commercial:			
Agriculture	**591**	**517**	**25**
Mining and quarrying	**178**	**176**	**-**
Industry	**11,036**	**10,357**	**325**
Construction and Real estate - construction(7)	**10,213**	**9,571**	**195**
Construction and Real estate - real estate activities	**5,089**	**4,914**	**92**
Electricity and water supply	**1,519**	**1,447**	**3**
Commerce	**9,138**	**8,131**	**455**
Hotels, hospitality and food services	**916**	**778**	**26**
Transport and storage	**1,063**	**970**	**31**
Information and communications	**2,557**	**2,367**	**49**
Financial services	**13,363**	**13,186**	**33**
Other business services	**2,344**	**2,158**	**25**
Public and community services	**2,341**	**2,161**	**47**
Total commercial(8)	**60,348**	**56,733**	**1,306**
Private individuals - housing loans	**22,539**	**21,996**	**168**
Private individuals - others	**29,065**	**27,258**	**316**
Total public - ectivity in Israel	**111,952**	**105,987**	**1,790**
Banks in Israel	**1,348**	**1,348**	**-**
Israeli government	**10,760**	**10,760**	**-**
Total activity in Israel	**124,060**	**118,095**	**1,790**

(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 79,612, 11,043, 505, 755 and 32,145 million respectively.

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

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

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

(5) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(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 327 million, and non-utilized credit facilities amounting to NIS 936 million, in respect of loans extended to certain purchasing groups currently in the process of constuction.

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

as at September 30, 2016						
Debts(2) and off-balance credit risk (excluding derivatives)(3)						
				Credit losses(4)		
Total	Of which: Debts(2)	Problematic(6)	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
NIS millions						
588	484	25	6	10	2	12
82	68	-	-	-	-	-
10,791	8,338	325	231	(37)	(3)	175
10,167	3,807	194	155	(11)	(21)	91
4,956	4,442	92	78	(4)	(4)	22
936	665	3	-	1	-	4
9,029	7,804	455	226	61	31	187
898	741	26	14	2	2	17
946	767	24	6	2	-	13
2,405	1,235	49	21	1	(1)	13
9,924	7,257	33	15	(3)	-	25
2,310	1,422	25	7	1	(1)	11
2,315	1,781	47	18	2	1	10
55,347	38,811	1,298	777	25	6	580
22,539	21,388	168	10	1	2	118
29,036	17,954	316	84	23	12	232
106,922	78,153	1,782	871	49	20	930
806	806	-	-	-	-	-
654	653	-	-	-	-	-
108,382	79,612	1,782	871	49	20	930

Total credit risk according to economic sectors (CONT'D)

	Total credit risk(1)		
In respect of borrowers in Israel	**Total**	**Credit execution rating(5)**	**Problematic(6)**
Public-Commercial:			
Agriculture	537	450	15
Mining and quarrying	251	241	-
Industry	9,984	8,731	760
Construction and Real estate - construction(7)	9,495	9,003	229
Construction and Real estate - real estate activities	4,732	4,647	85
Electricity and water supply	1,262	1,240	2
Commerce	8,620	7,653	413
Hotels, hospitality and food services	838	626	34
Transport and storage	874	718	29
Information and communications	2,432	2,160	73
Financial services	12,299	11,970	107
Other business services	2,095	1,827	25
Public and community services	2,082	1,821	46
Total commercial(8)	55,501	51,087	1,818
Private individuals - housing loans	20,796	20,180	217
Private individuals - others	26,870	23,904	303
Total public - ectivity in Israel	103,167	95,171	2,338
Banks in Israel	1,992	1,992	-
Israeli government	9,025	9,025	-
Total activity in Israel	114,184	106,188	2,338

(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 71,809, 9,800, 332, 1,687 and 30,556 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.
(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 371 million, and non-utilized credit facilities amounting to NIS 786 million, in respect of loans extended to certain purchasing groups currently in the process of constuction.
(8) The balance of commercial debts includes housing loans in the amount of NIS 2,049 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currencty in the process of constructions.

as at September 30, 2015[9]						
Debts[2] and off-balance credit risk (excluding derivatives)[3]						
				Credit losses[4]		
Total	Of which: Debts[2]	Problematic[6]	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
						NIS millions
531	432	15	10	(1)	1	5
72	61	-	-	-	-	-
9,613	6,884	760	279	81	40	209
9,399	3,230	228	71	(52)	4	91
4,541	4,177	85	80	(19)	(25)	23
681	415	2	1	1	-	3
8,534	7,181	413	297	12	11	159
836	702	34	26	8	4	17
840	676	22	16	(3)	8	24
2,343	1,383	73	24	(25)	(4)	14
8,557	5,614	107	35	6	(1)	24
2,060	1,267	25	11	3	5	11
2,050	1,624	46	28	(3)	(1)	10
50,057	33,646	1,810	878	8	42	590
20,796	19,864	217	14	6	15	123
26,835	16,596	303	114	30	24	229
97,688	70,106	2,330	1,006	44	81	942
1,041	1,041	-	-	-	-	-
664	662	-	-	-	-	-
99,393	71,809	2,330	1,006	44	81	942

Total credit risk according to economic sectors (CONT'D)

	Total credit risk(1)		
In respect of borrowers in Israel	Total	Credit execution rating(5)	Problematic(6)
Public-Commercial:			
Agriculture	564	475	12
Mining and quarrying	273	266	-
Industry	10,767	9,622	704
Construction and Real estate - construction(7)	9,443	8,953	218
Construction and Real estate - real estate activities	4,604	4,389	113
Electricity and water supply	1,242	1,228	3
Commerce	8,525	7,609	419
Hotels, hospitality and food services	816	636	30
Transport and storage	859	717	21
Information and communications	2,359	2,163	63
Financial services	13,729	13,424	44
Other business services	2,140	1,890	26
Public and community services	2,000	1,746	45
Total commercial(8)	57,321	53,118	1,698
Private individuals - housing loans	21,724	21,138	194
Private individuals - others	27,115	23,690	304
Total public - ectivity in Israel	106,160	97,946	2,196
Banks in Israel	2,149	2,149	-
Israeli government	9,416	9,416	-
Total activity in Israel	117,725	109,511	2,196

(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 74,714, 10,188, 353, 1,220 and 31,250 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.
(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 397 million, and non-utilized credit facilities amounting to NIS 890 million, in respect of loans extended to certain purchasing groups currently in the process of constuction.
(8) The balance of commercial debts includes housing loans in the amount of NIS 2,256 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currencty in the process of constructions..

as at December 31, 2015						
Debts(2) and off-balance credit risk (excluding derivatives)(3)						
				Credit losses(4)		
Total	Of which: Debts(2)	Problematic(6)	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
NIS millions						
559	456	12	7	(1)	2	4
75	63	-	-	-	-	-
10,450	7,547	704	274	76	33	212
9,342	3,285	216	64	(69)	(4)	82
4,460	4,160	113	109	(20)	(23)	21
669	432	3	-	1	-	3
8,420	7,083	419	253	36	37	158
815	678	30	14	12	8	17
826	674	14	6	(17)	6	11
2,258	1,216	63	22	(30)	(6)	12
10,042	7,400	44	25	2	(5)	22
2,127	1,342	26	10	3	5	11
1,967	1,464	45	22	(4)	(1)	8
52,010	35,800	1,689	806	(11)	52	561
21,724	20,032	194	10	3	16	119
27,074	16,851	304	76	39	41	221
100,808	72,683	2,187	892	31	109	901
1,362	1,362	-	-	-	-	-
670	669	-	-	-	-	-
102,840	74,714	2,187	892	31	109	901

Total credit risk according to economic sectors (CONT'D)

		Total credit risk(1)	
In respect of borrowers abroad	**Total**	**Credit execution rating(5)**	**Problematic(6)**
Public-Commercial:			
Agriculture	13	13	-
Mining and quarrying	26	26	-
Industry	210	210	-
Construction and Real estate - construction	26	26	-
Construction and Real estate - real estate activities	209	209	-
Electricity and water supply	-	-	-
Commerce	90	90	-
Hotels, hospitality and food services	-	-	-
Transport and storage	18	10	8
Information and communications	17	17	-
Financial services*	949	949	-
Other business services	303	303	-
Total commercial	1,861	1,853	8
Private individuals - others	148	148	-
Total public - ectivity abroad	2,009	2,001	8
Banks abroad	3,896	3,896	-
Foreign governments	2,751	2,751	-
Total activity abroad	8,656	8,648	8

* Of which, NIS 507 million of investments in mortgage-backed bonds.

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, 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 2,586, 4,888, 384 and 798 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 "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.

(6) Balance sheet and off-blance sheet credit risk which is impaired, inferior or in special supervision.

as at September 30, 2016						
Debts[2] and off-balance credit risk (excluding derivatives)[3]						
				Credit losses[4]		
Total	Of which: Debts[2]	Problematic[5]	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
						NIS millions
13	8	-	-	-	-	-
-	-	-	-	-	-	-
167	156	-	-	1	(1)	2
26	3	-	-	-	-	1
209	208	-	-	(4)	(1)	-
-	-	-	-	-	-	-
88	60	-	-	-	-	-
-	-	-	-	-	-	-
18	8	8	8	-	-	-
6	4	-	-	-	-	-
219	189	-	-	-	-	1
303	89	-	-	-	-	2
1,049	725	8	8	(3)	(2)	6
146	66	-	-	-	-	1
1,195	791	8	8	(3)	(2)	7
1,795	1,795	-	-	-	-	-
-	-	-	-	-	-	-
2,990	2,586	8	8	(3)	(2)	7

Total credit risk according to economic sectors (CONT'D)

In respect of borrowers abroad	Total credit risk(1) Total	Credit execution rating(5)	Problematic(6)
Public-Commercial:			
Agriculture	17	17	-
Industry	59	59	-
Construction and Real estate - construction	156	155	9
Construction and Real estate - real estate activities	44	44	-
Electricity and water supply	144	128	15
Commerce	20	20	-
Hotels, hospitality and food services	143	142	-
Transport and storage	77	77	-
Information and communications	9	9	-
Financial services*	56	52	-
Other business services	796	795	-
Public and community services	285	285	-
Total commercial	1,806	1,783	24
Private individuals - others	162	162	-
Total public - ectivity abroad	1,968	1,945	24
Banks abroad	5,377	5,377	-
Foreign governments	1,093	1,093	-
Total activity abroad	8,438	8,415	24

* Of which, NIS 452 million of investments in mortgage-backed bonds.

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, 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 3516, 3,557, 502 and 863 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 "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.
(6) Balance sheet and off-blance sheet credit risk which is impaired, inferior or in special supervision.

	as at September 30, 2015						
	Debts(2) and off-balance credit risk (excluding derivatives)(3)						
					Credit losses(4)		
	Total	Of which: Debts(2)	Problematic(5)	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
	NIS millions						
	17	11	-	-	-	-	-
	-	-	-	-	-	-	-
	45	27	9	9	-	-	1
	44	-	-	-	-	-	1
	144	143	15	15	(9)	-	3
	-	-	-	-	-	-	-
	137	62	-	-	-	-	-
	77	77	-	-	-	-	-
	9	-	-	-	-	-	-
	6	5	-	-	-	-	-
	156	127	-	-	-	-	-
	285	105	-	-	-	-	2
	920	557	24	24	(9)	-	7
	153	63	-	-	-	-	1
	1,073	620	24	24	(9)	-	8
	2,896	2,896	-	-	-	-	-
	-	-	-	-	-	-	-
	3,969	3,516	24	24	(9)	-	8

Total credit risk according to economic sectors (CONT'D)

	Total credit risk(1)		
In respect of borrowers abroad	**Total**	**Credit execution rating(5)**	**Problematic(6)**
Public-Commercial:			
Agriculture	13	13	-
Mining and quarrying	181	181	-
Industry	171	162	9
Construction and Real estate - construction	64	64	-
Construction and Real estate - real estate activities	152	138	14
Electricity and water supply	20	20	-
Commerce	168	167	-
Hotels, hospitality and food services	10	10	-
Transport and storage	9	9	-
Information and communications	55	55	-
Financial services*	981	980	-
Other business services	313	313	-
Total commercial	2,137	2,112	23
Private individuals - others	154	154	-
Total public - ectivity abroad	2,291	2,266	23
Banks abroad	4,744	4,744	-
Foreign governments	3,244	3,244	-
Total activity abroad	10,279	10,254	23

* Of which, NIS 510 million of investments in mortgage-backed bonds.

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, 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 2,945, 5,990, 416 and 928 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 "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.
(6) Balance sheet and off-blance sheet credit risk which is impaired, inferior or in special supervision.

	as at December 31, 2015						
	Debts(2) and off-balance credit risk (excluding derivatives)(3)						
					Credit losses(4)		
	Total	Of which: Debts(2)	Problematic(5)	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
							NIS millions
	13	10	-	-	-	-	-
	-	-	-	-	-	-	-
	54	31	9	9	(3)	(3)	1
	64	-	-	-	-	-	1
	140	138	14	14	(9)	-	3
	-	-	-	-	-	-	-
	163	107	-	-	-	-	-
	10	10	-	-	-	-	-
	9	2	-	-	-	-	-
	6	5	-	-	-	-	-
	290	262	-	-	(1)	(1)	-
	313	83	-	-	-	-	2
	1,062	648	23	23	(13)	(4)	7
	150	48	-	-	-	-	1
	1,212	696	23	23	(13)	(4)	8
	2,249	2,249	-	-	-	-	-
	-	-	-	-	-	-	-
	3,461	2,945	23	23	(13)	(4)	8

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 September 30, 2016			As of December 31, 2015		
	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-	**1,150**	**3**	**1,153**	*1,258	3	1,261
A+ to A-	**1,387**	**14**	**1,401**	2,543	17	2,560
BBB+ to BBB-	**182**	**7**	**189**	707	16	723
BB+ to B-	**40**	**-**	**40**	53	-	53
Unrated	**61**	**8**	**69**	33	7	40
Total credit exposure to foreign financial institutions	**2,820**	**32**	**2,852**	4,594	43	4,637
Of which: Balance of problem loans (4)	**-**	**-**	**-**	-	-	-

* Restated

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 September 30, 2016 the investment in shares in respect of foreign financial institutions amounted to NIS 53 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 274 million on September 30, 2016 (December 31, 2015 - NIS 308 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 (90%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 40% 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 0.6 billion investment in foreign currency bonds. All these bonds are investment grade bonds, 82% of which are rated A- or higher. The average duration of the portfolio is two years.
In addition, balance-sheet credit risk includes NIS 1.9 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of September 30, 2016 there is no country with credit exposure exceeding 15% of the Bank's equity capital, which amounted to NIS 1,558 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 79 million of Italian government bond rated BBB- and due for redemption in 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 September 30, 2016					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	2,577	1,171	298	-	-	-
Spain	-	5	30	-	-	-
Italy	79	1	20	-	-	-
Ireland	-	-	15	-	-	-
Greece	-	-	-	-	-	-
Portugal	-	-	2	-	-	-
Other	594	2,378	1,098	204	24	180
Total exposure to foreign countries	3,250	3,555	1,463	204	24	180
Total exposure to LDC countries	-	89	206	-	-	-

(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 the exposure includes factoring credit insured by credit insurance in an insurance company.

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

	As at September 30, 2015					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	1,191	2,576	649	-	-	-
Spain	42	2	4	-	-	-
Italy	85	2	9	-	-	-
Ireland	-	-	23	-	-	-
Greece	-	-	-	-	-	-
Other	-	2,470	1,127	291	35	256
Total exposure to foreign countries	1,318	5,050	1,812	291	35	256
Total exposure to LDC countries	-	3	224	-	-	-

	As at December 31, 2015					
	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	3,417	1,760	748	-	-	-
UK	-	909	283	-	-	-
Spain	42	3	4	-	-	-
Italy	82	1	8	-	-	-
Ireland	-	-	19	-	-	-
Greece	-	-	-	-	-	-
Portugal	-	-	1	-	-	-
Other	-	1,699	1,085	300	30	270
Total exposure to foreign countries	3,541	4,372	2,148	300	30	270
Total exposure to LDC countries	-	-	251	-	-	-

Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Off-Balance sheet exposure(2)(3) Total off-balance sheet exposure	Of which: off-balance sheet problematic credit risk	Cross-border balance sheet exposure(2) Maturity up to one year	Maturity over one year
4,416	2	-	162	-	3,309	1,107
48	-	-	10	-	4	44
96	-	-	4	-	7	89
23	-	-	2	-	10	13
-	-	-	1	-	-	-
3,853	38	15	530	-	1,879	1,718
8,436	40	15	709	-	5,209	2,971
227	9	-	31	-	164	63

Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Off-Balance sheet exposure(2)(3) Total off-balance sheet exposure	Of which: off-balance sheet problematic credit risk	Cross-border balance sheet exposure(2) Maturity up to one year	Maturity over one year
5,925	2	-	76	-	3,662	2,263
1,192	15	14	184	-	888	304
49	-	-	11	-	5	44
91	-	-	3	-	4	87
19	-	-	2	-	6	13
-	-	-	1	-	-	-
1	-	-	-	-	1	-
3,054	18	6	327	-	1,227	1,557
10,331	35	20	604	-	5,793	4,268
251	5	-	56	-	189	62

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
September 30, 2016	**September 30, 2015**	**December 31, 2015**
UK 984	-	-

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

	For the three months ended									
	September 30, 2016				September 30, 2015					
	Iceland	Cyprus	Portugal	Puerto Rico	Cyprus	Hungary	Iceland	Romania	Greece	Puerto Rico
Total exposure at beginning of the reported period	**17**	**6**	**1**	**3**	1	-	10	1	-	4
Short-term changes in total exposure, net	**(2)**	**-**	**1**	**(1)**	-	-	-	-	-	(2)
Additional exposures	**-**	**-**	**-**	**-**	-	1	-	1	-	-
Other changes (including provisions and write-offs)	**-**	**-**	**-**	**-**	(1)	-	-	-	-	-
Total exposure at end of the reported period	**15**	**6**	**2**	**2**	-	1	10	2	-	2

	For the nine months ended									
	September 30, 2016				September 30, 2015					
	Iceland	Cyprus	Portugal	Puerto Rico	Cyprus	Hungary	Iceland	Romania	Greece	Puerto Rico
Total exposure at beginning of the reported period	**19**	**-**	**1**	**3**	-	-	10	-	-	2
Short-term changes in total exposure, net	**(4)**	**-**	**1**	**(1)**	-	-	-	-	-	(1)
Additional exposures	**-**	**6**	**-**	**-**	1	1	-	2	5	1
Other changes (including provisions and write-offs)	**-**	**-**	**-**	**-**	(1)	-	-	-	(5)	-
Total exposure at end of the reported period	**15**	**6**	**2**	**2**	-	1	10	2	-	2

	Year ended December 31, 2015						
	Cyprus	**Hungary**	**Iceland**	**Romania**	**Greece**	**Portugal**	**Puerto Rico**
Total exposure at beginning of the reported year	-	-	10	-	-	-	2
Short-term changes in total exposure, net	-	-	-	1	-	-	(1)
Additional exposures	1	1	-	3	5	1	2
Other changes (including provisions and write-offs)	(1)	-	-	-	(5)	-	-
Total exposure at end of the reported year	-	1	10	4	-	1	3

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 3,394 million in the first nine months of 2016 compared with NIS 3,831 million in the same period last year, a decrease of 11%. These data include housing loans from the Bank's own sources (excluding credit from Treasury funds) in the amount of NIS 3,393 million compared with NIS 3,828 million in the same period last year, a decrease of 11%. Rollovers deriving from early repayments in the first nine months of 2016, totaled NIS 304 million compared with NIS 1,013 million in the same period last year, a decrease of 70%.

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. 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.

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

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

Loan to value

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

The portfolio of housing loans extended from the Bank's sources on September 30, 2016 amounted to NIS 21,356 million, including 70% of credit granted at an LTV of up to 60% compared to 70% at September 30, 2015. 95% of total loans were granted at an LTV of up to 75%, compared to 94% on September 30, 2015.

Housing loan extensions from the Bank's sources in the first nine months of 2016 totaled NIS 3,393 million, including 72% of credit granted at an LTV of up to 60%, compared with 71% in the same period last year. All loan extensions were granted at an LTV of up to 75%, similar to the same period last year.

Debt-income ratio

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

The portfolio of housing loans extended from the Bank's sources as of September 30, 2016 included 79% of credit granted at a debt-income ratio of up to 35% compared with 77% on September 30, 2015. 90% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, compared with 88% on September 30, 2015.

Housing loan extensions from the Bank's sources in the first nine months of 2016 included 84% of credit granted at a debt-income ratio of up to 35% compared with 82% in the same period last year. 92% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% compared with 91% in the same period last year. This information includes loans secured by residential apartments.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of September 30, 2016 includes 63% of credit that was granted at floating-rate interest and amounts to NIS 13,541 million.

Housing loan extensions from the Bank's sources in the first nine months of 2016 include NIS 1,085 million of credit granted at floating-rate interest of up to five years constituting 32% of extentions. An amount of NIS 688 million (20% of the extensions) is floating-rate credit five years and above.

Long-term loans

The portfolio of housing loans from the Bank's sources as of September 30, 2016 includes 64% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 13,715 million.

Housing loan extensions from the Bank's sources in the first nine months of 2016 include 51% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 1,727 million.

Amendment of Proper Conduct of Banking Business Regulation No. 329- restriction on housing loans extensions

On May 1, 2016 the Supervisor of Banks published an amendment to Proper conduct of banking business regulation no. 329- restrictions on housing loans extensions. The amendment includes the addition of reference to "appartment at reduced price" such as "target price" and "resident price" and the determination of rules for calculating the asset value in a loan for the purchase of an appartment in a reduced price (base on apraisor evaluation instead of the purchase price for appartments the value of which is less than NIS 1.8 million).

Changes in the assitence rules for entitled individuals with no appartment according to amendment no. 13 to housing loans law

Starting with May 15, 2016 the mechanism for determining the interest was changed, the threshhold of the minimal points for entitlement was reduced, a change in the repayment period was made and new settelements grants were determined.

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	Total
	Unlinked segment				CPI-linked segment				Foreign-currency linked segment		Total		
	Fixed-rate		Floating rate		Fixed-rate		Floating rate		Floating rate				
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Balance	Balance
	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	NIS million	NIS million
30.9.16	**4,299**	**22.1**	**8,353**	**43.1**	**2,946**	**15.2**	**3,718**	**19.2**	**76**	**0.4**	**19,392**	**1,964**	**21,356**
31.12.15	3,463	19.1	7,666	42.3	3,019	16.7	3,854	21.3	100	0.6	18,102	2,000	20,102

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

	Nine months 2016	2015	2014	2013	2012
Total housing loan extensions (NIS million)	**3,393**	4,796	3,707	3,550	3,744
Rate of change in housing loan extensions compared with previous year	**(11%)**	29%	4%	(5%)	8%
Rate of expense on credit losses relative to mortgages at the Bank's risk	**-**	0.01%	0.01%	0.20%	0.08%
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.57%**	0.60%	0.74%	0.86%	0.76%

Leveraged Finance

In accordance with Bank of Israel Directive No. 327, which took effect on January 1, 2016, the Bank has revised the definition of leveraged finance. As a general rule, Leveraged finance is defined as credit used for the finance of capital transactions made by corporations (as defined in Bank of Israel Directive No. 323), which agrees with certain tests, and credit granted to borrowers characterized by high financial leverage levels. In particular, the Bank considers leveraged finance as credit included in one of the four following groups:

A. Credit granted for the purpose of a capital transaction, as defined in Bank of Israel Directive No. 323 (the acquisition of another corporation, the purchase of own shares by a corporation and the distribution of capital), which agrees with certain tests regarding the scope of credit, the ratio of financing involved therein and the scope of tangible security as determined by the Bank.

B. Credit for different business transactions, which agrees with certain tests indicating weak financial data, as determined by the Bank.

C. Credit for the financing of income producing real estate, which agrees with certain tests as to the scope of credit, the ratio of financing involved therein and the scope of tangible security as determined by the Bank.

D. Credit for the purpose of closed finance building projects, which agrees with certain tests as to the scope of credit, the ratio of financing involved therein and the scope of tangible security and the possible exposure of the Bank to this transaction as determined by the Bank.

In view of the high risk profile involved in leveraged finance, the credit policy of the Bank prescribes strict underwriting guidelines and restrictions on the scope of exposure to leveraged finance.

As of September 30, 2016, the total combined credit balances (net stated credit and off-balance sheet credit, after deducting provisions for credit losses and deductible collateral) considered as leveraged finance, amounted to NIS 1,433 million.

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.

Risk appetite

The Bank Board of Directors has determined that total exposure to market risk, as reflected by the Value at Risk (VaR), shall not exceed 5% of total capital on the basis of a horizon of 21 days under the historical method.
As of September 30, 2016 the Group's historical VaR amounted to NIS 40 million.
The VaR as percentage of total capital, as of September 30, 2016, amounted to 0.5%.

Back Testing

The Bank consistently operates to improve the quality of the prediction of the historical VaR by current back testing.
The back testing of the historical VaR shows that during the year ended September 30, 2016 no incidents were recorded where the daily theoretical loss exceeds the VaR value anticipated**.**

According to the test the model meets the criteria as defined by the Basel Committee.

Interest exposure

Risk appetite

- The Board of Directors of the Bank has determined restrictions on the overall exposure to interest risk by limiting the maximum exposure to the erosion in the fair value of equity capital resulting from a parallel change of 1% in the interest rate curve in the CPI-linked segment, in the non-linked shekel segment and in the foreign currency segment. Under these restrictions, the maximum permitted exposure to erosion in the fair value of equity capital is 3.5% in the CPI-linked segment, 3.5% in the non-linked shekel segment and 2% in the foreign currency segment. The restriction on the overall exposure is 4.5%.
- Apart from determining restrictions on the overall risk appetite for exposure interest risks at the level of fair value exposure, the Board of Directors of the Bank has determined restrictions on the extent of interest exposure at the level of the dealing rooms and the interest-risk generating units.
- Stress scenarios- The Board of Directors of the Bank has determined a restriction on the maximum erosion in fair value in respect of the running of a number of stress scenarios in the area of exposure to market risks-including interest risks as well as restriction on the effect of interest standard crisis (2%) on the banking portfolio. This restriction has been set at up to 10% of shareholders' equity.

Actual exposure on the report date

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

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:

	September 30, 2016		December 31, 2015	
	% actual exposure	% restriction	% actual exposure	% restriction
Non-linked local currency	**(0.05)**	**(3.50)**	(0.24)	(3.50)
CPI-linked local currency	**(1.81)**	**(3.50)**	(1.69)	(4.00)
Foreign currency and foreign-currency linked	**(0.68)**	**(2.00)**	(0.74)	(1.00)

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

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

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

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

As of September 30, 2016	**Local currency**		**Foreign currency (2)**			
	Non-linked	**CPI-linked**	**Dollar**	**Euro**	**Other**	**Total**
						NIS million
Financial assets (1)	**93,274**	**12,892**	**12,195**	**2,256**	**994**	**121,611**
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	**23,079**	**383**	**27,367**	**5,306**	**4,518**	**60,653**
Financial liabilities (1)	**81,198**	**11,943**	**17,341**	**3,573**	**1,286**	**115,341**
Amounts payable in respect of derivative financial and off-balance-sheet instruments	**29,909**	**674**	**22,036**	**4,051**	**4,162**	**60,832**
Net fair value of financial instruments	**5,246**	**658**	**185**	**(62)**	**64**	**6,091**

As of September 30, 2015	**Local currency**		**Foreign currency (2)**			
	Non-linked	**CPI-linked**	**Dollar**	**Euro**	**Other**	**Total**
						NIS million
Financial assets (1)	88,005	14,131	11,558	2,672	917	117,283
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	26,944	497	36,784	7,339	6,022	77,586
Financial liabilities (1)	73,496	13,489	19,382	3,811	1,555	111,733
Amounts payable in respect of derivative financial and off-balance-sheet instruments	35,813	1,254	28,752	6,221	5,513	77,553
Net fair value of financial instruments	5,640	(115)	208	(21)	(129)	5,583

As of December 31, 2015	Local currency		Foreign currency (2)			
	Non-linked	CPI-linked	Dollar	Euro	Other	Total
						NIS million
Financial assets (1)	91,408	13,505	12,809	2,096	816	120,634
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	29,040	450	36,748	6,921	4,369	77,528
Financial liabilities (1)	76,334	12,884	20,478	3,625	1,458	114,779
Amounts payable in respect of derivative financial and off-balance-sheet instruments	38,380	962	28,965	5,403	3,851	77,561
Net fair value of financial instruments	5,734	109	114	(11)	(124)	5,822

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

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

As of September 30, 2016	Net fair value of financial instruments, after effect of changes in interest rates (4)								
	Local currency		Foreign currency (2)						
	Non-linked	Linked	Dollar	Euro	Other	Offsetting effects	Total	Total change in fair value	
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	**4,840**	**625**	**140**	**(70)**	**63**	**-**	**5,598**	**(493)**	**(8.09)**
Immediate parallel increase of 0.1 percent	**5,203**	**654**	**180**	**(63)**	**64**	**-**	**6,038**	**(53)**	**(0.87)**
Immediate parallel decrease of one percent	**5,696**	**707**	**231**	**(72)**	**65**	**-**	**6,627**	**536**	**8.80**

As of September 30, 2015	Net fair value of financial instruments, after effect of changes in interest rates (4)								
	Local currency		Foreign currency (2)						
	Non-linked	Linked	Dollar	Euro	Other	Offsetting effects	Total	Total change in fair value	
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	5,256	(210)	192	(29)	(132)	-	5,077	(506)	(9.06)
Immediate parallel increase of 0.1 percent	5,600	(126)	208	(22)	(132)	-	5,528	(55)	(0.99)
Immediate parallel decrease of one percent	6,097	3	233	(12)	(131)	-	6,190	607	10.87

As of December 31, 2015	Net fair value of financial instruments, after effect of changes in interest rates (4)								
	Local currency		Foreign currency (2)						
	Non-linked	Linked	Dollar	Euro	Other	Offsetting effects	Total	Total change in fair value	
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	5,387	27	64	(18)	(125)	-	5,335	(487)	(8.36)
Immediate parallel increase of 0.1 percent	5,698	99	109	(11)	(125)	-	5,770	(52)	(0.89)
Immediate parallel decrease of one percent	6,151	214	166	14	(124)	-	6,421	599	10.29

(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.

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)	**72,798**	**4,115**	**3,842**	**4,763**	**3,220**	**2,910**
Derivative financial instruments (except options)	**6,288**	**7,590**	**4,302**	**1,980**	**672**	**892**
Options (in terms of the underlying asset)	**161**	**855**	**336**	**3**	**-**	**-**
Total fair value	**79,247**	**12,560**	**8,480**	**6,746**	**3,892**	**3,802**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**67,947**	**3,015**	**5,012**	**2,622**	**2,358**	**137**
Derivative financial instruments (except options)	**10,481**	**9,464**	**4,811**	**2,128**	**646**	**1,422**
Options (in terms of the underlying asset)	**208**	**546**	**203**	**-**	**-**	**-**
Total fair value	**78,636**	**13,025**	**10,026**	**4,750**	**3,004**	**1,559**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**611**	**(465)**	**(1,546)**	**1,996**	**888**	**2,243**
Cumulative exposure in the segment	**611**	**146**	**(1,400)**	**596**	**1,484**	**3,727**
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)	**771**	**412**	**2,167**	**4,484**	**2,865**	**1,438**
Derivative financial instruments (except options)	**-**	**7**	**158**	**48**	**139**	**31**
Total fair value	**771**	**419**	**2,325**	**4,532**	**3,004**	**1,469**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**848**	**345**	**1,804**	**4,767**	**1,863**	**2,182**
Derivative financial instruments (except options)	**-**	**68**	**137**	**421**	**17**	**31**
Total fair value	**848**	**413**	**1,941**	**5,188**	**1,880**	**2,213**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(77)**	**6**	**384**	**(656)**	**1,124**	**(744)**
Cumulative exposure in the segment	**(77)**	**(71)**	**313**	**(343)**	**781**	**37**

See notes in page 90.

Ten to twenty years	Over twenty years	With no repayment period	September 30, 2016 Total fair value	September 30, 2016 Internal rate of return	September 30, 2016 Effective duration	September 30, 2015 Total fair value	September 30, 2015 Internal rate of return	September 30, 2015 Effective duration	December 31, 2015 Total fair value	December 31, 2015 Internal rate of return	December 31, 2015 Effective duration
			NIS million	%	years	NIS million	%	years	NIS million	%	years
1,405	**98**	**123**	**93,274**	**2.62**	**0.72**	88,005	2.29	0.56	91,408	2.36	0.58
-	**-**	**-**	**21,724**		**0.74**	25,458		0.63	27,889		0.62
-	**-**	**-**	**1,355**		**0.24**	1,486		0.12	1,151		0.15
1,405	**98**	**123**	**116,353**		**(2)0.72**	114,949		(2)0.57	120,448		(2)0.59
107	**-**	**-**	**81,198**	**0.96**	**0.22**	73,496	0.67	0.12	76,334	0.99	0.20
-	**-**	**-**	**28,952**		**0.74**	33,994		0.49	37,057		0.52
-	**-**	**-**	**957**		**0.22**	1,819		0.15	1,323		0.23
107	**-**	**-**	**111,107**		**(2)0.35**	109,309		(2)0.24	114,714		(2)0.30
1,298	**98**										
5,025	**5,123**										
671	**83**	**1**	**12,892**	**2.87**	**3.19**	14,131	2.00	3.64	13,505	2.27	3.42
-	**-**	**-**	**383**		**2.78**	497		3.12	450		2.88
671	**83**	**1**	**13,275**		**(2)3.18**	14,628		(2)3.62	13,955		(2)3.41
134	**-**	**-**	**11,943**	**1.10**	**3.09**	13,489	0.83	2.96	12,884	0.95	2.81
-	**-**	**-**	**674**		**1.67**	1,254		1.74	962		1.84
134	**-**	**-**	**12,617**		**(2)3.01**	14,743		(2)2.86	13,846		(2)2.74
537	**83**										
574	**657**										

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)	**5,805**	**1,696**	**3,454**	**2,320**	**628**	**1,522**
Derivative financial instruments (except options)	**15,053**	**11,883**	**7,616**	**829**	**245**	**501**
Options (in terms of the underlying asset)	**252**	**572**	**239**	**1**	**-**	**-**
Total fair value	**21,110**	**14,151**	**11,309**	**3,150**	**873**	**2,023**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**17,731**	**2,149**	**1,966**	**283**	**31**	**31**
Derivative financial instruments (except options)	**10,170**	**7,866**	**6,810**	**1,320**	**681**	**1,958**
Options (in terms of the underlying asset)	**203**	**869**	**368**	**4**	**-**	**-**
Total fair value	**28,104**	**10,884**	**9,144**	**1,607**	**712**	**1,989**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(6,994)**	**3,267**	**2,165**	**1,543**	**161**	**34**
Cumulative exposure in the segment	**(6,994)**	**(3,727)**	**(1,562)**	**(19)**	**142**	**176**

See notes in page 90.

			September 30, 2016			September 30, 2015			December 31, 2015		
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
19	**1**	**-**	**15,445**	**1.63**	**1.23**	15,147	2.30	0.97	15,721	2.32	1.18
-	**-**	**-**	**36,127**		**0.34**	47,914		0.37	46,203		0.31
-	**-**	**-**	**1,064**		**0.23**	2,231		0.09	1,835		0.16
19	**1**	**-**	**52,636**		[2]**0.60**	65,292		[2]0.50	63,759		[2]0.52
9	**-**	**-**	**22,200**	**1.00**	**0.10**	24,748	0.94	0.07	25,561	1.14	0.09
-	**-**	**-**	**28,805**		**0.81**	38,617		0.71	36,573		0.69
-	**-**	**-**	**1,444**		**0.25**	1,869		0.06	1,646		0.10
9	**-**	**-**	**52,449**		[2]**0.49**	65,234		[2]0.45	63,780		[2]0.43
10	**1**										
186	**187**										

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)	**79,374**	**6,223**	**9,463**	**11,567**	**6,713**	**5,870**
Derivative financial instruments (except options)	**21,341**	**19,480**	**12,076**	**2,857**	**1,056**	**1,424**
Options (in terms of the underlying asset)	**413**	**1,427**	**575**	**4**	**-**	**-**
Total fair value	**101,128**	**27,130**	**22,114**	**14,428**	**7,769**	**7,294**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**86,526**	**5,509**	**8,782**	**7,672**	**4,252**	**2,350**
Derivative financial instruments (except options)	**20,651**	**17,398**	**11,758**	**3,869**	**1,344**	**3,411**
Options (in terms of the underlying asset)	**411**	**1,415**	**571**	**4**	**-**	**-**
Total fair value	**107,588**	**24,322**	**21,111**	**11,545**	**5,596**	**5,761**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(6,460)**	**2,808**	**1,003**	**2,883**	**2,173**	**1,533**
Cumulative exposure in the segment	**(6,460)**	**(3,652)**	**(2,649)**	**234**	**2,407**	**3,940**

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.

				September 30, 2016			September 30, 2015			December 31, 2015		
	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
	2,095	**182**	**1,133**	**122,620**	**2.55**	**1.05**	118,663	2.16	0.99	121,828	2.32	0.98
	-	**-**	**63**	**58,297**		**0.51**	74,088		0.47	74,772		0.44
	-	**-**	**392**	**2,811**		**0.24**	4,579		0.10	3,617		0.15
	2,095	**182**	**1,588**	**183,728**		(2)**0.86**	197,330		(2)0.78	200,217		(2)0.77
	250	**-**	**810**	**116,151**	**1.05**	**0.49**	112,864	0.81	0.45	115,710	0.97	0.47
	-	**-**	**63**	**58,494**		**0.79**	74,084		0.62	74,822		0.62
	-	**-**	**392**	**2,793**		**0.24**	4,550		0.11	3,600		0.16
	250	**-**	**1,265**	**177,438**		(2)**0.59**	191,498		(2)0.51	194,132		(2)0.52
	1,845	**182**										
	5,785	**5,967**										

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		Approved exposure limit as % of active capital
		As of		As of	
	30.9.16	**31.12.15**	**30.9.16**	**31.12.15**	
Non-linked local currency	**4,805**	5,290	**81**	96	NON
CPI-linked local currency	**943**	197	**16**	4	(30)-60
Foreign currency and f-C linked	**168**	(10)	**3**	-	(10)-10

NOTES:

(1) The negative rates express a surplus of liabilities over assets as a percentage of active capital.

(2) 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 September 30, 2016 (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)**	**5**
10% decrease	**(17)**	**13**
5% increase	**9**	**3**
10% increase	**25**	**14**

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

Dealing rooms

The Bank's dealing rooms are intended for diverse capital market and foreign currency activities. The foreign currency dealing room trades in a wide variety of financial instruments, and is one of the most active dealing rooms in the banking system in derivative instruments as well, including market making in currencies and government bonds. The Bank engages inter alia in MAOF activity on the stock exchange.

The exposure created in the base and in the interest rate as a result of this activity is included within the restrictions approved by the Board of Directors for base and interest exposures.

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

	As of September 30, 2016	As of December 31, 2015
Hedging transactions:		
Interest rate contracts	**2,697**	2,350
Foreign currency contracts	**241**	402
ALM and other transactions:		
Interest rate contracts	**14,066**	16,924
Foreign currency contracts (including spot)	**62,149**	79,112
Contracts on shares, share indexes, commodities and other contracts	**55,944**	105,192
Total derivative financial instruments	**135,097**	203,980

LIQUIDITY AND FINANCING 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 40.8 billion on September 30, 2016, compared with NIS 43.3 billion at the end of 2015. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 26.7 billion, and NIS 14.1 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public on September 30, 2016 amounted to 133.9% compared with 142.3% on December 31, 2015.

At the end of September 2016, deposits from the public, bonds and subordinated notes totaled NIS 110.1 billion compared with NIS 109.1 billion at the end of 2015.

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.

The Bank monitors the volume and concentration of the sources according to different criteria, such as: size, duration on a current basis and sets goals and restrictions to the volume of the large deposits and the mix of the sources.

The Bank operates in derivatives and is required for securities in the different clearing houses in respect of this activity. The requirement for securities has low effect on the level of liquidity and the liquidity coverage ratio of the group.

During the reported period actions were taken to meet higher coverage ratios than required in the Proper Conduct of Banking Business Regulations 221 and 342.

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

	As of September 30, 2016	As of December 31, 2015
		NIS million
1.	**2,642**	3,369
2.	**1,864**	3,742
3.	**1,728**	1,921

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.

DISCUSSION OF RISK FACTORS

There were no changes in the risk factors table compared with the table reported on the financial statements of 2015, except for legislation and regulation risk for which the level rose from "low-medium" to "medium", in light of the continuance of the strengthening of the regulation, its volume and frequency for all concerning the banking system, including core issues of the system and the needed preparations for implementation of the regulation.

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 2015 and no change has occurred.

CONTROLS AND PROCEDURES

ASSESSMENT OF CONTROLS AND PROCEDURES CONCERNING DISCLOSURE IN THE FINANCIAL REPORT

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

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

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

The Management of the Bank, in cooperation with the CEO of the Bank and the Chief Accountant, assessed for September 30, 2016 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 third quarter ending on September 30, 2016, 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 except for the modification of controls with respect to the merger of PAGI with and into the Bank.

Tel Aviv, November 17, 2016	R. Hezkiyahu	Smadar Barber-Zadik
	Chairman of the Board of Directors	CEO

CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the quarter ended September 30, 2016 (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, November 17, 2016

Smadar Barber-Tsadik
Chief Executive Officer

CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the quarter ended September 30, 2016 (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, November 17, 2016

Nachman Nitzan
Executive Vice President,
Chief Accountant

FINANCIAL STATMENTS

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

Introduction

We have reviewed the accompanying financial information of The First International Bank of Israel Ltd. and its subsidiaries (hereinafter- "the Bank"), comprising of the condensed consolidated interim balance sheet as of September 30, 2016 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months and nine 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 0.7% of total consolidated assets as of September 30, 2016, and the net interest income, before expenses for credit loss, amounted to 0.4% of total consolidated net interest income, before expenses for credit loss, included in the consolidated statement of income for the period of three months and nine months then ended. The interim financial information of that company was reviewed by other auditors which their review report was presented to us and our conclusion, as it relate to the financial information of that company, is based on the review report of the other auditors.

Scope of Review

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

Conclusion

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

November 17, 2016

CONSOLIDATED STATEMENT OF INCOME
(NIS million)

	Note	Three months ended September 30		Nine months ended September 30		for the year Ended December 31
		2016	**2015**	**2016**	**2015**	**2015**
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Interest Income	2	**682**	621	**1,899**	1,733	2,260
Interest Expenses	2	**129**	124	**286**	279	307
Interest Income, net		**553**	497	**1,613**	1,454	1,953
Expenses from credit losses	6, 12	**21**	9	**46**	35	18
Net Interest Income after expenses from credit losses		**532**	488	**1,567**	1,419	1,935
Non Interest Income						
Non Interest Financing income	3	**24**	14	**91**	117	149
Commissions		**326**	340	**982**	1,041	1,378
Other income		**5**	4	**59**	13	14
Total non Interest income		**355**	358	**1,132**	1,171	1,541
Operating and other expenses						
Salaries and related expenses		**404**	419	**1,243**	1,205	1,629
Maintenance and depreciation of premises and equipment		**104**	110	**309**	323	428
Amortizations and impairment of intangible assets		**31**	31	**93**	99	131
Other expenses		**123**	126	**373**	383	522
Total operating and other expenses		**662**	686	**2,018**	2,010	2,710
Profit before taxes		**225**	160	**681**	580	766
Provision for taxes on profit		**91**	77	**303**	255	326
Profit after taxes		**134**	83	**378**	325	440
The bank's share in profit of equity-basis investees, after taxes		**3**	10	**62**	28	38
Net profit:						
Before attribution to noncontrolling interests		**137**	93	**440**	353	478
Attributed to noncontrolling interests		**(9)**	(7)	**(31)**	(24)	(32)
Attributed to shareholders of the Bank		**128**	86	**409**	329	446
						NIS
Primary earnings per share attributed to the shareholders of the Bank						
Net earnings per share of NIS 0.05 par value		**1.27**	0.86	**4.08**	3.28	4.45

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

Rony Hizkiaho
Chairman of the Board of Directors

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, November 17, 2016

STATEMENT OF COMPREHENSIVE INCOME

(NIS million)

	Three months ended September 30		Nine months ended September 30		for the year Ended December 31
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Net profit before attribution to noncontrolling interests	**137**	93	**440**	353	478
Net profit attributed to noncontrolling interests	**(9)**	(7)	**(31)**	(24)	(32)
Net profit attributed to the shareholders of the Bank	**128**	86	**409**	329	446
Other comprehensive income (loss) before taxes:					
Adjustments of available for sale securities to fair value, net	**4**	(10)	**40**	(70)	(75)
Adjustments from translation of financial statements(1) net after the effect of hedges (2)	**(1)**	1	**(1)**	(3)	-
Adjustments of liabilities in respect of employee benefits(3)	**(93)**	(13)	**(158)**	20	11
Other comprehensive loss before taxes	**(90)**	(22)	**(119)**	(53)	(64)
Related tax effect	**31**	8	**40**	22	24
Other comprehensive loss before attribution to noncontrolling interests, after taxes	**(59)**	(14)	**(79)**	(31)	(40)
Less other comprehensive loss (income) attributed to noncontrolling interests	**11**	(3)	**10**	2	2
Other comprehensive loss attributed to the shareholders of the Bank, after taxes	**(48)**	(17)	**(69)**	(29)	(38)
Comprehensive income before attribution to noncontrolling interests	**78**	79	**361**	322	438
Comprehensive loss (income) attributed to noncontrolling interests	**2**	(10)	**(21)**	(22)	(30)
Comprehensive income attributed to the shareholders of the Bank	**80**	69	**340**	300	408

(1) Adjustments from translation of financial statements of foreign operations which their currency of operations is different from the currency of operation of the Bank.

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

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

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

CONSOLIDATED BALANCE SHEET
(NIS million)

	NOTE	30.9.16 (unaudited)	30.9.15 (unaudited)	31.12.15 (audited)
Assets				
Cash and deposits with banks		**26,672**	33,046	30,727
Securities	5	**16,127**	13,605	16,439
Securities which were borrowed		**505**	332	353
Credit to the public	6,12	**78,944**	70,726	73,379
Provision for Credit losses	6,12	**(865)**	(848)	(824)
Credit to the public, net		**78,079**	69,878	72,555
Credit to the government		**653**	662	669
Investments in investee company		**505**	427	438
Premises and equipment		**1,144**	1,220	1,229
Intangible assets		**223**	273	272
Assets in respect of derivative instruments	10	**1,139**	2,189	1,636
Other assets(2)		**980**	1,226	1,158
Assets held for sale		**44**	-	-
Total assets		**126,071**	122,858	125,476
Liabilities, temporary equity and Shareholders' Equity				
Deposits from the public	7	**104,549**	100,652	103,262
Deposits from banks		**789**	938	1,565
Deposits from the Government		**515**	402	511
Bonds and subordinated capital notes		**5,597**	5,950	5,862
Liabilities in respect of derivative instruments	10	**1,300**	2,149	1,659
Other liabilities(1)(3)		**5,304**	5,149	4,954
Total liabilities		**118,054**	115,240	117,813
Temporary equity - noncontroling interests		**329**	324	326
Capital attributed to the shareholders of the Bank		**7,411**	7,035	7,073
Noncontrolling interests		**277**	259	264
Total equity		**7,688**	7,294	7,337
Total liabilities, temporary equity and shareholders' equity		**126,071**	122,858	125,476

(1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 72 million and NIS 102 million and NIS 85 million at 30.9.16, 30.9.15 and 31.12.15, respectively.
(2) Of which: other assets measured at fair value in the amount of NIS 260 million and NIS 331 million and NIS 317 million at 30.9.16, 30.9.15 and 31.12.15, respectively.
(3) Of which: other liabilities measured at fair value in the amount of NIS 569 million and NIS 676 million and NIS 495 million at 30.9.16, 30.9.15 and 31.12.15, respectively.

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

STATEMENT OF CHANGES IN EQUITY

(NIS million)

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

	For the three months ended September 30, 2015 (unaudited)					
	Share capital and premium[(1)]	Other comprehensive income (loss)	Accumulated earnings [(2)]	Total	Non-controlling interests	Total equity
Balance as of June 30, 2015	927	(79)	6,118	6,966	253	7,219
Net profit for the period	-	-	86	86	4	90
Other comprehensive income (loss), net, after tax effect	-	(17)	-	(17)	2	(15)
Temporary equity - noncontrolling interests	-	-	-	-	-	-
Balance as of September 30, 2015	927	(96)	6,204	7,035	259	7,294

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

	For the nine months ended September 30, 2015 (unaudited)					
	Share capital and premium[(1)]	Other comprehensive income (loss)	Accumulated earnings [(2)]	Total	Non-controlling interests	Total equity
Balance at the beginning of the year (audited)	927	(67)	5,937	6,797	246	7,043
Net profit for the period	-	-	329	329	13	342
Dividend	-	-	(60)	(60)	-	(60)
Other comprehensive loss, net, after tax effect	-	(29)	-	(29)	-	(29)
Temporary equity - noncontrolling interests	-	-	(2)	(2)	-	(2)
Balance as of September 30, 2015	927	(96)	6,204	7,035	259	7,294

STATEMENT OF CHANGES IN EQUITY (CONT'D)
(NIS million)

	For the year ended December 31, 2015 (audited)					
	Share capital and premium (1)	Accumulated other comprehensive gain (loss)	Retained earnings (2)	Total share-holders' equity	Non-controling interests	Total equity
Balance at the beginning of the year	927	(67)	5,937	6,797	246	7,043
Net profit for the year	-	-	446	446	18	464
Dividend	-	-	(130)	(130)	-	(130)
Other comprehensive loss, after tax effect	-	(38)	-	(38)	-	(38)
Temporary equity - noncontroling interest.	-	-	(2)	(2)	-	(2)
Balance as at December 31, 2015	927	(105)	6,251	7,073	264	7,337

(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)

	Three months ended September 30		Nine months ended September 30		for the year Ended December 31
	2016	**2015**	**2016**	**2015**	**2015**
		(Unaudited)		(Unaudited)	(Audited)
Cash flows from operating activities:					
Net profit for the period	**137**	93	**440**	353	478
Adjustments to reconcile cash provided by operating activities:					
The Bank's share in retained earnings of investee company, net	**(3)**	(10)	**(62)**	(28)	(38)
Depreciation of premises and equipment	**22**	21	**68**	65	89
Amortization of intangible assets	**31**	31	**93**	99	131
Gain on sale of premises and equipment	**(3)**	(7)	**(21)**	(7)	(6)
Expenses from credit losses	**21**	9	**46**	35	18
Loss (gain) on adjustment in value of held to maturity securities and on sale and adjustment in value of available for sale securities	**92**	(307)	**142**	69	139
Realized and non-realized loss (gain) from adjustment to fair value of trading securities	**3**	(7)	**5**	4	3
Deferred taxes, net	**(21)**	3	**104**	72	62
Severance pay - decrease in excess of funding over provisions	**18**	14	**71**	50	65
Inflationary erosion of bonds and capital notes	**19**	16	**(6)**	10	5
Effect on cash balances of changes in exchange rates	**72**	(150)	**101**	86	218
Net change in current assets:					
Deposits in banks	**(45)**	(254)	**(130)**	33	98
Securities held for trading	**(106)**	(67)	**10**	554	272
Securities which were borrowed from Treasury	**97**	217	**(152)**	145	124
Credit to the public	**(2,009)**	416	**(5,087)**	(1,509)	(3,529)
Credit to government	**(6)**	2	**16**	(4)	(11)
Other assets	**59**	37	**108**	(226)	(159)
Assets in respect of derivative instruments	**423**	(44)	**533**	834	1,391
Net change in current liabilities					
Deposits from the public	**(1,078)**	2,353	**959**	6,509	8,634
Deposits from banks	**(418)**	(295)	**(776)**	(531)	96
Deposits from the government	**108**	(28)	**143**	(623)	(656)
Other liabilities	**450**	26	**125**	19	(184)
Liabilities in respect of derivative instruments	**(262)**	(120)	**(357)**	(1,022)	(1,503)
Net cash from (for) operating activity	**(2,399)**	1,949	**(3,627)**	4,987	5,737

STATEMENT OF CASH FLOWS (CONT'D)

(NIS million)

	Three months ended September 30		Nine months ended September 30		for the year Ended December 31
	2016	**2015**	**2016**	**2015**	**2015**
		(Unaudited)		(Unaudited)	(Audited)
Cash flows from investing activity:					
Purchase of held to maturity and available for sale securities	**(3,751)**	(6,119)	**(10,908)**	(22,021)	(28,784)
Proceeds from redemption of bonds held to maturity	**6**	13	**59**	118	153
Proceeds from sale of available for sale securities	**1,698**	4,185	**7,348**	10,579	12,166
Redemption of available for sale securities	**657**	3,917	**3,366**	9,428	11,937
Acquisition of premises and equipment	**(16)**	(9)	**(42)**	(81)	(114)
Proceeds of sale of premises, equipment and other assets	**7**	15	**34**	18	18
Investment in intangible assets	**(18)**	(14)	**(50)**	(42)	(76)
Net cash from (for) investing activity	**(1,417)**	1,988	**(193)**	(2,001)	(4,700)
Cash flows generated by financing activity					
Issue of bonds and subordinate debt notes	**-**	-	**580**	1,352	1,352
Redemption of bonds and subordinate debt notes	**(115)**	(116)	**(839)**	(315)	(398)
Dividend paid to shareholders	**-**	-	**-**	(60)	(130)
Net cash from (for) financing activity	**(115)**	(116)	**(259)**	977	824
Increase (decrease) in cash	**(3,931)**	3,821	**(4,079)**	3,963	1,861
Cash balances at beginning of the period	**30,088**	28,544	**30,265**	28,615	28,615
Effect of changes in exchange rates on cash balances	**(76)**	147	**(105)**	(66)	(211)
Cash balances at end of period	**26,081**	32,512	**26,081**	32,512	30,265
Interest and taxes paid and/or received:					
Interest received	**673**	657	**2,295**	2,441	3,071
Interest paid	**174**	199	**605**	552	734
Dividends received	**8**	10	**14**	34	37
Income tax paid	**64**	69	**229**	278	346
Income tax received	**2**	2	**170**	43	48

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

A. General

The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The condensed consolidated interim financial statements of the Bank as of September 30, 2016 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, 2015 (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, publication of the condensed financial statements is made on a consolidated basis only. The condensed consolidated interim financial statements were approved by the Board of Directors for publication on November 17, 2016.

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

B. Financial reporting principles

The financial statements of the 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.

See Note 7A below regarding changes that have occurred in the assumptions used in determining the liability in respect of the defined benefit compensation and pension plan, being part of the efficiency program adopted by the Bank.

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, 2016, the Bank implements new accounting standards and instructions regarding the matters detailed below:

1. Reporting in accordance with US accepted accounting principles in the matter of business combinations, consolidation of financial statements and investment in investee companies.
2. Reporting in accordance with US accepted accounting principles in the matter of intangible assets.
3. Supervisory segments of operation and segment reporting according to Management's approach.
4. Collective provision for credit losses.

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 according to US accepted accounting principles in the matter of business combinations, consolidation of financial statements and investment in investee companies:

   On June 10, 2015, a circular letter was published in the matter of banking corporations and credit card companies in Israel in accordance with US generally accepted accounting principles in the matter of business combinations, consolidation of financial statements and investments in investee companies. In accordance with the letter, it is required to implement the US accepted accounting principles regarding these matters, as detailed below:

   - Presentation, measurement and disclosure principles determined in the provisions of Item 805 of the Codification regarding "business combinations";
   - Provisions of Item 810 of the Codification regarding "consolidation";
   - Provisions of Item 350-20 regarding 'intangible assets – goodwill and other assets" with respect to the accounting treatment of impairment of goodwill acquired in a business combination;
   - Accounting principles accepted by US banks in the matter of investee companies, including, presentation, measurement disclosure rules, as well as the guidelines relating to impairment determined by the provisions of Item 323 of the Codification in the matter of "investments – equity basis value and joint ventures";
   - The treatment determined in Section 74 B(b) of the public reporting instructions with respect to non-current assets held for sale according to IFRS 5, shall not apply to investments in equity base investees.

The instruction determined by the circular letter took effect as from January 1, 2016, onwards. Upon their initial implementation it is required to act in accordance with the transitional instructions applying to these matters according to the US standards, mutatis mutandis, including the retroactive restatement of the comparative data where required by the US standards in these matters. The instructions in the matter of "push down accounting" shall apply to business combinations effected as from January 1, 2016.

Following is a review of the principal new instructions applying to the implementation of the US standards in the matter of the equity basis method:

- Measurement – The entity has the option of treating the investment in investee companies at fair value instead of by the equity basis method;
- Decline in the rate of holdings – upon a decline in the rate of holdings, whether or not the holding company has lost its material influence, a profit or loss is to be recognized in the amount of the difference between the proceeds of sale and relative part of the written down cost of the sold interest.

  Upon the loss of material influence, the remaining interest in the investee shall be presented according to the stated value of the investment prior to the sale.
- Impairment – As a general rule, the amount of impairment equals the excess of the written down cost of the investment over its fair value. A recognized other than temporary impairment shall not be reversed in future periods.
- Losses – According to US standards, as a general rule, the investor has to terminate the equity basis method following the recognition of losses on the investment leading to its elimination. In consecutive periods, the investor has to reapply the equity basis method only after having made good the unrecognized losses on the investment. Notwithstanding, the investor has to recognize an additional loss where the investee's return to profitability is ensured.
- Uniform accounting policy – US standards do not require the investor and the investee to apply a uniform accounting policy, though both have to implement US GAAP.

Following is a review of the principal new instructions regarding the US standards rules in the matter of consolidation of financial statements:

- Uniform accounting policy - US standards do not require the parent company and the subsidiary companies to apply a uniform accounting policy, though preparation of the financial statements of the group must be in accordance with US GAAP.
- Non-controlling interests – As a general rule, the purchaser has to measure non-controlling rights according to their fair value. Non-controlling interests are classified as capital but are presented separately from the capital attributed to the parent company. Notwithstanding, to the extent that the non-controlling interests may be redeemed in circumstances which are not controlled by the issuer, the rules of the SEC require to present the non-controlling interests separately from the equity capital. As to changes in the rate of holdings which do not cause the loss of control, and whereas the non-controlling interests must be measured according to fair value, then goodwill must always be allocated between the parent company and the non-controlling interests.

Following is a review of the principal new instructions applying to the implementation of the US standards in the matter of business combinations:

- Allocation of goodwill created by business combination for the purpose of review of impairment – Goodwill is allocated to the entity's reporting units in accordance with the provisions of ASC 350-20.

As a general rule, a reporting unit is defined as a segment of operation or as one level below it. For impairment purposes, goodwill shall be reviewed at least once in each year or in shorter periods than one year if the existing circumstances indicate impairment.

- Review of impairment of goodwill – When impairment of goodwill is being reviewed, qualitative considerations have to be applied at first in order to assess whether it is required to perform the two stage test of impairment (the two stage test may be directly performed). In the event that the entity considers that the fair value of the reporting unit is more likely than not lower than its stated value, it is required to perform the two stage test of impairment.

  Stage one – The stated value of the reporting unit including goodwill is to be compared with its fair value. In the event that the fair value of the reporting unit is lower than its stated value, then stage two has to be performed in order to determine the amount of impairment to be recognized in respect of goodwill.

  Stage two – Impairment of goodwill shall be measured according to the amount in excess of the stated value (of the goodwill) over the difference between the fair value of the reporting unit and the fair value of the assets and liabilities included in the reporting unit ("implied fair value").

  A loss in excess of the stated value of goodwill shall not be recognized.

- Push down accounting - Companies may apply the push down accounting method in their standalone financial statements, namely, the acquired company may make adjustments to fair value and recognize them in the financial statements.

  The Bank treated the above instructions by way of retroactive application. Implementation of the letter had no material impact on the financial statements.

2. Reporting in accordance with US accepted accounting principles in the matter of intangible assets:

   A circular letter was published on October 22, 2015, in the matter of the reporting by banking corporations and credit card companies in Israel according to US accepted accounting principles in the matter of intangible assets. The letter requires the application of accounting principles accepted by US banks in the matter of intangible assets, and among other things, the presentation, measurement and disclosure rules stated in the provisions of Item 350 of the Codification regarding "intangible assets - goodwill and other". In particular, according to the letter, a banking corporation is required to apply the rules detailed in Item 350-40 of the Codification regarding "software for own use".

   Banks are required to implement the instructions as determined in the letter, as from January 1, 2016 and thereafter. Upon the initial implementation, it is required to act in accordance with the transitional instructions stated in the US Standards with respect to these matters, with the necessary modifications. The above stated includes an amendment to the data relating to prior periods, if this is required with respect to these issues.

   Following is a review of the principal new instructions applying to the implementation of the US standards in the matter of intangible assets:

   - Impairment

     Intangible assets having a defined lifespan – An intangible asset shall be reviewed when indications for impairment appear at "asset group" level. An asset group is the smallest level of assets and liabilities producing a separate cash flow.

At first, an examination is made as to whether the stated value of the asset group is higher than the non-discounted amount of cash flows expected to be produced by this group. If so, impairment shall be recognized in the amount of the difference between the stated value and the fair value of the asset group.

Impairment shall be allocated pro-rata only to the assets composing the asset group, on condition that the value of a single asset shall not fall below its fair value.

Intangible assets having no defined lifespan – An intangible asset having no defined lifespan, shall be reviewed for impairment at least once in each year. A test is made as to whether the stated value of the asset exceeds its fair value. If so, impairment shall be recognized in the amount in which the stated value exceeds the fair value.

A qualitative test (known also as "0 stage") may first be applied. Where the qualitative test leads to the conclusion that more likely than not, the fair value of the intangible asset is higher than its stated value, than there is no need for a quantitative test for impairment as described above.

- Reversal of loss on impairment – as a general rule, a loss on impairment of intangible assets may not be reversed.
- Capitalization of costs of an intangible asset – as a general rule, costs incurred in the creation of an intangible asset are recognized as an expense when incurred. However, specific rules are in effect regarding certain cases, such as costs for the development of software for own use, as described below.
- Capitalization of software development costs for own use – costs incurred in the development stage of software for own use may be capitalized on condition that Management is committed to finance the project, and that it is expected that the project would be completed and the software will serve its purpose. It is noted, that already at present, the public reporting instructions in the matter of software development costs for own use are based, among other things, on US Standard SOP 98-1 (included in ASC 350-40).

  Implementation of the letter had no material impact on the financial statements of the Bank.

3. Supervisory segments of operation and segment reporting according to Management approach

   A. Supervisory segments of operation

   A circular letter was published on November 3, 2014, in the matter of the reporting of operating segments, which revises the public reporting instructions respecting the reporting requirements regarding supervisory segments of operation, and among other things includes the change of certain definitions and guidelines, according to which banks would be required to classify customers to supervisory segments and update their reports in accordance with the uniform definitions determined by the Supervisor of Banks, which are principally based on the classification of customers according the their operating turnover.

   B. Segments of operation according to Management approach

   In addition to the uniform reporting according to supervisory segments of operation, the circular states that disclosure of "operating segments according to Management approach" shall be presented in accordance with accounting principles accepted by US banks in the matter of segments of operation

(included in ASC 280), where a material difference exists between Management approach and segment reporting according to the guidelines of the Supervisor of Banks.

An operating segment according to Management approach, based on ASC 280-10, is a component of a bank engaged in operations expected to produce income and incur expenses, which comply with the following criteria:

- The results of its operations are reviewed regularly by the principal decision makers at the bank for the purpose of making decisions as to the allocation of resources and performance evaluation; as well as
- Separate financial information exists in respect thereof.

The reporting of operating segments is in accordance with the approach of Management, while disclosing segments and reporting items as determined by the Bank.

The new rules apply in a reduced format as from the financial statements for 2015. Enlarging the report to its full format shall be made in the following manner:

- Starting with the financial report for the first quarter of 2016, full disclosure is required regarding the supervisory segments, which include segments as private banking, households, minute and small businesses, middle-market businesses, large businesses and institutional bodies, excluding the separate disclosure of the financial management segment. The comparative data shall be retroactively restated. It is permitted to present in financial statements in 2016 comparative data for only one year regarding the Note on supervisory segments of operation. For the purpose of presentation of the comparative data, it is permitted to rely on the classification of customers to supervisory segments as of January 1, 2016.
- Starting with the financial statements for the first quarter of 2017, it is required to implement in full the guidelines of the letter.

Implementation of the new instructions had no material impact on the financial statements, except for the manner of presentation and disclosure. Notes 11 and 11A have been modified in order to include the new disclosure, subject to the transitional instructions as detailed above.

4. Collective provision for credit losses

In accordance with the public reporting instructions, until the first quarter of 2016, determination of the collective provision had been based on the rate of accounting writeoffs in the past five years. For further details, see note 1.D(4) regarding the accounting policy implemented in the matter in the financial statements for 2015. In July 2016, the Supervisor of Banks instructed the banking corporations that starting with the second quarter of 2016, it is required to include the rate of accounting writeoffs from the year 2011 in the average and range of the loss rate, used as a basis for the determination of the collective provision for credit losses. In accordance therewith, determination of the collective provision in the year 2016 is based, inter alia, on the rates of accounting writeoffs in the past six years, and in 2017 on the basis of the accounting wrieoffs in the past seven years.

A review made by the Bank shows that the application of the guideline of the Supervisor of Banks, as stated above, resulted in an increase in credit loss expenses in the amount of NIS 57 million, before the tax effect. The bank has chosen to recognized this expense in the second quarter of the year.

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

1. Recognition of income from agreements with customers

A circular letter was issued on January 11, 2015, regarding the adoption of the revised accounting principles in the matter of "income from agreements with customers". The letter revises the public reporting instructions in the light of the publication of ASU 2014-09, which adopts a new standard relating to the recognition of income as part of US accepted accounting principles. This Standard states that income shall be recognized in the amount expected to be received in consideration for the delivery of goods or the granting of services to a customer. In accordance with the letter of the Supervisor of Banks regarding the transitional instructions for the year 2015, it is required to implement as from January 1, 2018, the amendments to the public reporting instructions in accordance with the circular letter regarding the adoption of the accounting principles in the matter of "income from agreements with customers", this in consequence of the revised US Standard ASU 2015-14, which deferred the date of initial application.

Upon the initial application, the Bank has the option of using the method of retroactive application with the restatement of the comparative data, or alternatively, using the "from now onwards" method, recognizing in equity at date of initial application, the cumulative effect of the change in accounting. The new Standard does not apply, among other things, to financial instruments or to contractual rights and liabilities to which Chapter 310 of the Codification applies. Furthermore, it is clarified in Bank of Israel instructions that, as a general rule, the provisions of the new standards shall not apply to the accounting treatment of interest income and expenses and of non-interest financing income.

The Bank has not yet begun to examine the impact of the Standard upon its financial statements, and has not yet elected the method for the implementation of the transitional instructions.

2. Taxes on income

A circular letter was published on October 22, 2015, in the matter of the reporting by banking corporations and credit card companies in Israel according to US accepted accounting principles in the matter of taxes on income. According to the letter, it is required to implement the accounting principals accepted by US banks in the matter of taxes on income, among other, the presentation, measurement and disclosure rules in accordance with Chapter 740 of the Codification regarding "foreign currency issues - taxes on income".

The letter requires the implementation of the new rules as from January 1, 2017. Upon the initial implementation, it is required to act in accordance with the transitional instructions determined in the US standards, including the retroactive restatement of the comparative data, where required. There is no requirement to present in the financial statements for 2017, a disclosure regarding non-recognized tax benefits.

A 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 generally accepted accounting principles. The letter contains, inter alia, certain clarifications in the matter of reporting of taxes on income according to rules applicable in the US.

The principal changes made to the public reporting instructions are as follows:

- The transitional instructions have been revised so that temporary differences in respect of prior periods will continue to be treated according to the instructions in effect until December 31, 2016;

- It is clarified that interest income and expenses in respect of taxes on income are to be classified in the "Taxes on income" item; also fines imposed by the Tax Authorities shall be classified to the "Taxes on income" item;
- It is clarified that an Act shall be considered as enacted only upon its formal publication;
- The disclosure requirement in the public reporting instructions and the disclosure format with respect to the "Provision for taxes on profit" have been modified to the requirements of the new instructions;
- The requirement for the presentation for tax purposes of information based upon nominal historical data, in accordance with Addendums C1 and C2, as required in the public reporting instructions, has been removed due to the fact that this Note does not add information to users of the financial statements.

The new instructions are to apply as from January 1, 2017, and thereafter. Moreover, it is required to reclassify the comparative data for it to agree with the manner of presentation prescribed by the new instructions.

The Bank has begun examining the implications of the letter upon its financial statements.

3. Reporting by banking corporations in Israel in accordance with US accepted accounting principles

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

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

The instructions determined in the circular shall apply as from January 1, 2017, and thereafter. Upon the initial implementation, it is required to act in accordance with the transitional instructions regarding these matters determined by the US Standards, with the necessary modifications, including the retroactive restatement of the comparative data, if required by rules of the US Standards in these matters. It is emphasized that when applying the guidelines of Item 830 of the Codification regarding "foreign currency" in reported periods until January 1, 2019, banks shall not include exchange differences in respect of available-for-sale bonds as part of the adjustments to fair value of such bonds, but should continue to treat them as required by the public reporting instructions prior to the adoption of these rules.

Furthermore, the International Accounting Standard 29 regarding "financial reporting in hyper-inflationary economies", as adopted by the public reporting instructions, shall not be implemented as from date of effect of the circular letter. It is clarified that there is no change in the date on which the adjustment to inflation of financial statements of banking corporations had been terminated, and that

the financial statements should be stated on the basis of reported amounts, unless stated otherwise in the public reporting instructions.

The Bank has not yet begun to examine the impact of the circular letter upon its financial statements.

B. 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 generally accepted accounting principles. The circular revises the public reporting instructions and adopts US accepted accounting principles regarding the following matters: non-current assets held for sale and discontinued operations, fixed assets and real estate for investment, earnings per share, statement of cash flows, interim period reporting and additional subjects.

The letter revises the public reporting instructions and adopts the US generally accepted accounting principles regarding the following matters:

- Discontinued operations in accordance with item 205-20 of the Codification in the matter of "Discontinued operations";
- Fixed assets in accordance with item 360 of the Codification in the matter of "Fixed assets";
  - Earnings per share in accordance with item 260 of the Codification in the matter of "Earnings per share";
  - Statement of cash flows in accordance with item 203-10 of the Codification in the matter of "Statement of cash flows";
  - Interim period reporting in accordance with item 270 of the Codification in the matter of "Interim period reporting";
  - Capitalization of interest costs in accordance with item 835-20 of the Codification in the matter of "Capitalization of interest" (in this respect it is clarified that in accordance with the public reporting instructions, a banking corporation shall not capitalize interest costs, without determining a policy, clear procedures and controls as regards the criteria for the recognition of assets as qualified assets and with respect capitalized interest costs);
  - Measurement and disclosure of guarantees in accordance with item 460 of the Codification in the matter of "Guarantees".

The provisions of the circular letter are to apply as from January 1, 2018. Upon the initial application, a banking corporation is required to act in accordance with the transitional instructions determined in respect of these items in the US standards, *mutatis mutandis,* including the retroactive restatement of the comparative data, where this is required by the rules of the US standards applying to these matters.

The Bank has not yet begun to examine the impact of the circular letter upon its financial statements.

4. Letter regarding the amendment to the public reporting instructions in the matter of restructured credit.

A letter was published on May 22, 2016, amending the public reporting instructions by adopting revisions in accepted accounting principles applying to US banks, in the matter of the treatment of credit that had been restructured. In particular, the amendment to the public reporting instructions includes clarifications as regards everything related to the manner of identification of debt arrangements defined as the restructure of a troubled debt, as well as stating terms, upon the existence of which, a following restructure of debts, in respect of which, a restructure of a troubled debt had been executed in the past (hereinafter –

"a following restructure") would permit banks to discontinue the treatment of such debts as restructured debts. The instructions determined in the letter adopt the revised US accounting standard (ASU 2011-02) as well as certain guidelines of the US supervisory authorities (OCC).

The principal changes made to the instructions in comparison with those in effect as of now; include, inter alia, the following changes:

- Guidelines have been stated regarding the determination as to whether during the restructuring of a debt the banking corporation has granted a waiver to the debtor.
- Determination of the fact that a renewal of a substandard debt constitutes a restructure of a troubled debt to the extent that the banking corporation does not introduce an additional underwriting process upon renewing a substandard debt, or where there is no change in the pricing of the debt, or where the pricing is not modified to reflect the risk profile of the debt, or to the extent that as part of the arrangement of the debt, the customer does not provide additional collateral in order to compensate the increase in risk stemming from the financial difficulties of the borrower.
- Markings are included in respect of the determination as to whether the borrower is in financial difficulties.
- Terms are included in respect of the discontinuation of the treatment of the debt as a restructured debt. These terms include, inter alia, the following:
  - The execution of a following restructure of the debt.
  - Upon the execution of a following restructure of a debt, the debtor is not in financial difficulties, and
  - According to the terms of the following restructure, the bank has not granted a waiver to the debtor.

Regarding debts complying with the said terms, the provision for credit loss shall be computed on a collective basis and no change would apply to the stated balance thereof, unless as part of the restructure, a cash amount had been paid or received.

- It is required that at date of restructure of a troubled debt, the provision for credit loss should not be reduced as a result of the transition from measuring the provision on a collective basis to a provision measured on a specific basis.

The revisions included in the letter shall apply to restructures made or renewed as from December 31, 2016 (though earlier application is permitted).

The Bank examines the implications of the instructions and is preparing to implement them. Implementation of the instructions is not expected to have a material impact.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

		For the three months ended September 30		For the nine months ended September 30	
		2016	**2015**	**2016**	**2015**
			(unaudited)		(unaudited)
A.	**Interest income (expenses)(1)**				
	From credit to the public	**633**	577	**1,774**	1,621
	From credit to the govermment	**-**	1	**-**	(1)
	From deposits with banks	**2**	-	**6**	8
	From deposits with Bank of Israel and From cash	**6**	6	**17**	22
	From securities borrowed	**-**	1	**-**	1
	From bonds(2)	**38**	35	**98**	79
	From other assests	**3**	1	**4**	3
	Total interest income	**682**	621	**1,899**	1,733
B.	**Interest expenses (income)(1)**				
	On deposits from the public	**62**	56	**144**	120
	On deposits from the Government	**1**	1	**4**	4
	On deposits from banks	**1**	(1)	**-**	2
	On bonds and subordinated capital notes	**64**	67	**135**	153
	On other liabilities	**1**	1	**3**	-
	Total interest expenses	**129**	124	**286**	279
	Total interest income, net	**553**	497	**1,613**	1,454
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**				
	Interest expense(3)	**(5)**	(3)	**(19)**	(15)
D.	**Details of interest income from bonds on cumulative basis**				
	Held to maturity	**10**	6	**23**	15
	Available for sale	**27**	26	**72**	58
	Held for trading	**1**	3	**3**	6
	Total included in interest income	**38**	35	**98**	79

(1) Including effective component in hedging relations.

(2) Including Interest income on mortgage-backed bond in the amount of NIS 1 million and 2 million for the three months and nine months period ended September 30, 2016, respectively (NIS 3 million for the nine months ended September 30, 2015, respectively).

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

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	For the three months ended September 30		For the nine months ended September 30	
	2016	**2015**	**2016**	**2015**
		(unaudited)		(unaudited)
A. Non-interest financing income (expenses) in respect of non-trading activities				
1. From activity in derivative instruments				
Non-effective part of hedging ratios (see C below)(1)	**-**	1	**1**	1
Net income (expenses) in respect of ALM derivative instruments(2)	**(182)**	300	**(325)**	65
Total from activity in derivative instruments	**(182)**	301	**(324)**	66
2. From investments in bonds				
Profits from sale of bonds available for sale(4)	**7**	16	**42**	81
Losses from sale of bonds available for sale(3) (4)	**(2)**	-	**(3)**	-
Total from investment in bonds	**5**	16	**39**	81
3. Net exchange differences	**190**	(291)	**342**	(52)
4. From investment in shares				
Profits from sale of shares available for sale(3)	**2**	6	**15**	24
Losses from sale of shares available for sale(3)	**-**	(5)(37)	**(1)**	(5)(44)
Dividend from shares available for sale	**8**	10	**14**	35
Total from investment in shares	**10**	(21)	**28**	15
Total non-interest financing income in respect of non-trading activities	**23**	5	**85**	110

(1) Excluding the effective component of hedging ratios
(2) Derivative instruments constituting part of the asset and liability management network of the Bank, which are not designated for hedging ratios.
(3) Including provision for impairment in the amount of NIS 2 million for the three months and nine months ended on September 30, 2016.
(4) Reclassified from comulative other comprehensive income.
(5) Including a loss in the amount of NIS 37 million in respect of a verdict received on a lawsuit.

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

(NIS million)

	For the three months ended September 30		For the nine months ended September 30	
	2016	**2015**	**2016**	**2015**
		(unaudited)		(unaudited)
B. Net income in respect of non-interest financing activity for trading[3]				
Net income in respect of other derivative instruments	**4**	2	**11**	11
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[1]	**(2)**	7	**(2)**	(4)
Net realized and unrealized losses from adjustments to fair value of shares held for trading[2]	**(1)**	-	**(3)**	-
Total non-interst financing income from trading activities[4]	**1**	9	**6**	7
Total non-interest financing income	**24**	14	**91**	117
Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure				
Interest rate exposure	**(1)**	7	**2**	(1)
Exposure to shares	**1**	2	**3**	8
Exposure to foreign currency	**1**	-	**1**	-
Total	**1**	9	**6**	7
C. Uneffective part in hedging ratios[5]				
Uneffectiveness of hedging	**-**	-	**-**	-
Gain element in respect of derivative instruments, excluded for the assessment of the effectiveness of the hedge	**-**	1	**1**	1
Total	**-**	1	**1**	1

(1) Of which losses in respect of trading bonds on hand at balance sheet date in the amount of NIS 1 million and NIS 2 million for the three months and nine months ended September 30, 2016, respectively (for the three months and nine months ended September 30, 2015 gains of NIS 6 million and losses of NIS 1 million, respectively).
(2) No gains/losses exist in respect of trading shares on hand at balance sheet date.
(3) Including exchange differences arising from trading activity.
(4) See Note 2 for details on income from investment in trading bonds.
(5) See Note 2 for disclosure of the net effect of hedge derivative instruments on interest income and expenses.

NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

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

	Other comprehensive income (loss) before attribution to minority interests					
	Adjustment in respect of reporting available for sale securities in fair value	Translation adjustments net after the effect of hedges	Adjustments in respect of employee benefits	Total	Other comprehensive income (loss) attributed to minority interests	Other comprehensive income (loss) attributed to the Bank's shareholders
	For the three months ended September 30, 2016					
Balance as of June 30, 2016 (unaudited)	**1**	**(1)**	**(127)**	**(127)**	**(1)**	**(126)**
Net change during the period	**2**	**(1)**	**(60)**	**(59)**	**(11)**	**(48)**
Balance as of September 30, 2016 (unaudited)	**3**	**(2)**	**(187)**	**(186)**	**(12)**	**(174)**
	For the three months ended September 30, 2015					
Balance as of **June 30**, 2015 (unaudited)	(12)	(1)	(71)	(84)	(5)	(79)
Net change during the period	(6)	-	(8)	(14)	3	(17)
Balance as of September 30, 2015 (unaudited)	(18)	(1)	(79)	(98)	(2)	(96)
	For the nine months ended September 30, 2016					
Balance as of December 31, 2015 (audited)	**(22)**	**(1)**	**(84)**	**(107)**	**(2)**	**(105)**
Net change during the period	**25**	**(1)**	**(103)**	**(79)**	**(10)**	**(69)**
Balance as of September 30, 2016 (unaudited)	**3**	**(2)**	**(187)**	**(186)**	**(12)**	**(174)**
	For the nine months ended September 30, 2015					
Balance as of December 31, 2014 (audited)	25	(1)	(91)	(67)	-	(67)
Net change during the period	(43)	-	12	(31)	(2)	(29)
Balance as of September 30, 2015 (unaudited)	(18)	(1)	(79)	(98)	(2)	(96)
	For the year ended December 31, 2015					
Balance as of December 31, 2014 (audited)	25	(1)	(91)	(67)	-	(67)
Net change during 2015	(47)	-	7	(40)	(2)	(38)
Balance as of December 31, 2015 (audited)	(22)	(1)	(84)	(107)	(2)	(105)

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

(NIS million)

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

	For the three months ended September 30, 2016			For the three months ended September 30, 2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
			(unaudited)			(unaudited)
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 losses from adjustments to fair value	**(7)**	**2**	**(5)**	(6)	3	(3)
Gains (losses) in respect of available for sale securities reclassified to income statement (1)	**11**	**(4)**	**7**	(4)	1	(3)
Net changes during the period	**4**	**(2)**	**2**	(10)	4	(6)
Translation adjustments *						
Adjustments from translation of financial statements	**(4)**	**1**	**(3)**	(2)	-	(2)
Hedges **	**3**	**(1)**	**2**	3	(1)	2
Net changes during the period	**(1)**	**-**	**(1)**	1	(1)	-
Employee benefits:						
Net actuarial loss for the period	**(102)**	**35**	**(67)**	(14)	5	(9)
Net losses reclassified to the income statement (2)	**9**	**(2)**	**7**	1	-	1
Net change during the period	**(93)**	**33**	**(60)**	(13)	5	(8)
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests						
Total changes during the period	**(17)**	**6**	**(11)**	5	(2)	3
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders						
Total changes during the period	**(73)**	**25**	**(48)**	(27)	10	(17)

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

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

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

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

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

(NIS million)

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

	For the nine months ended September 30, 2016			For the nine months ended September 30, 2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
			(unaudited)			(unaudited)
Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests						
Adjustments in respect of available for sale securities presentation according to fair value						
Unrealized net gains (losses) from adjustments to fair value	**131**	**(47)**	**84**	(4)	2	(2)
Gains (losses) in respect of available for sale securities reclassified to income statement (1)	**(91)**	**32**	**(59)**	(66)	25	(41)
Net changes during the period	**40**	**(15)**	**25**	(70)	27	(43)
Translation adjustments *						
Adjustments from translation of financial statements	**(3)**	**1**	**(2)**	6	-	6
Hedges **	**2**	**(1)**	**1**	(9)	3	(6)
Net changes during the period	**(1)**	**-**	**(1)**	(3)	3	-
Employee benefits:						
Net actuarial profit (loss) for the period	**(176)**	**61**	**(115)**	17	(7)	10
Net losses reclassified to the statement of profit and loss(2)	**18**	**(6)**	**12**	3	(1)	2
Net change during the period	**(158)**	**55**	**(103)**	20	(8)	12
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests						
Total changes during the period	**(15)**	**5**	**(10)**	(3)	1	(2)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders						
Total changes during the period	**(104)**	**35**	**(69)**	(50)	21	(29)

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

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

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

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

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

(NIS million)

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

	For the year ended December 31,		
	2015		
	(audited)		
	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests			
Adjustments in respect of available for sale securities presentation according to fair value			
Unrealized net losses from adjustments to fair value	(21)	8	(13)
Gains in respect of available for sale securities reclassified to income statement(1)	(54)	20	(34)
Net changes during the period	(75)	28	(47)
Translation adjustments*			
Adjustments from translation of financial statements	-	-	-
Hedges**	-	-	-
Net changes during the period	-	-	-
Employee benefits:			
Net actuarial loss for the period	-	-	-
Net losses reclassified to the statment of profit and loss(2)	11	(4)	7
Net changes during the period	11	(4)	7
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests			
Total changes during the period	(3)	1	(2)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders			
Total changes during the period	(61)	23	(38)

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

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

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

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

NOTE 5 - SECURITIES

(NIS million)

					September 30, 2016 (unaudited)
A. Bonds 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	941	941	28	-	969
Of financial institutions in Israel	60	60	10	-	70
Of foreign financial institutions	55	55	-	-	55
Of others in Israel	266	266	20	-	286
Total debentures held to maturity	1,322	1,322	58	-	1,380

			Cumulative other comprehensive income		
B. Securities available for sale	Book value	Amortized cost (in shares cost)	Gains	Losses	Fair value (1)
Bonds and debentures -					
Of Israeli government	7,901	7,890	24	13	7,901
Of foreign governments	2,728	2,728	1	1	2,728
Of financial institutions in Israel	297	299	-	2	297
Of foreign financial institutions	1,431	1,436	-	5	1,431
Mortgage backed (MBS) securities(6)	507	507	2	2	507
Of others in Israel	751	751	7	7	751
Of foreign others	23	23	-	-	23
Total debentures and bonds available for sale	13,638	13,634	34	30	13,638
Shares -	(4)(5)196	194	7	5	196
Total securities available for sale	13,834	13,828	(2)41	(2)35	13,834

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

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.
(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value", except for securities amounting to NIS 4 million, which include an embedded derivative measured according to fair value while reflecting changes in fair value in profit and loss.
(3) Recorded in the Statement of Income.
(4) Including investments in private equity funds in the amount of NIS 117 million 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 133 million.
(6) Securities guaranteed by GNMA and securities issued by FNMA & FHLMC.

NOTE 5 - SECURITIES (CON'T)

(NIS million)

	September 30, 2015 (unaudited)				
A. Bonds 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	538	538	24	-	562
Of financial institutions in Israel	63	63	15	-	78
Of foreign financial institutions	60	60	-	-	60
Of others in Israel	220	220	14	1	233
Total debentures held to maturity	881	881	53	1	933

			Cumulative other comprehensive income		
B. Securities available for sale	Book value	Amortized cost (in shares cost)	Gains	Losses	Fair value (1)
Bonds and debentures -					
Of Israeli government	6,978	6,994	18	34	6,978
Of foreign governments	1,093	1,094	-	1	1,093
Of financial institutions in Israel	461	464	1	4	461
Of foreign financial institutions	1,653	1,665	-	12	1,653
Mortgage backed (MBS) securities(6)	452	455	2	5	452
Of others in Israel	899	904	10	15	899
Of foreign others	237	237	-	-	237
Total debentures and bonds available for sale	11,773	11,813	31	71	11,773
Shares -	(4)(5)247	234	17	4	247
Total securities available for sale	12,020	12,047	(2)48	(2)75	12,020

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)
Bonds and debentures -					
Of Israeli government	513	509	4	-	513
Of financial institution in Israel	80	80	1	1	80
Of foreign financial institutions	58	58	-	-	58
Of others in Israel	48	49	-	1	48
Of foreign others	4	4	-	-	4
Total trading bonds and debentures	703	700	5	2	703
Shares -	1	1	-	-	1
Total trading securities	704	701	(3)5	(3)2	704
Total securities	13,605	13,629	106	78	13,657

(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 20 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 109 million, perpetual capital notes of NIS 20 million.
(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 125 million.
(6) Securities guaranteed by GNMA and securities issued by FNMA & FHLMC.

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

	December 31, 2015 (audited)				
A. Bonds 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	539	539	21	-	560
Of financial institutions in Israel	63	63	11	-	74
Of foreign financial institutions	75	75	-	-	75
Of others in Israel	243	243	19	1	261
Total debentures held to maturity	920	920	51	1	970

B. Securities available for sale	**Book value**	**Amortized cost (in shares cost)**	**Cumulative other comprehensive income**		**Fair value (1)**
			Gains	**Losses**	
Bonds and debentures -					
Of Israeli government	7,080	7,091	15	26	7,080
Of foreign governments	3,244	3,253	-	9	3,244
Of financial institutions in Israel	458	463	1	6	458
Of foreign financial institutions	1,709	1,718	1	10	1,709
Mortgage backed (MBS) securities(6)	510	518	1	9	510
Of others in Israel	915	917	11	13	915
Of foreign others	360	361	-	1	360
Total debentures and bonds available for sale	14,276	14,321	29	74	14,276
Shares -	(4)(5)258	244	18	4	258
Total securities available for sale	14,534	14,565	(2)47	(2)78	14,534

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)**
Bonds and debentures -					
Of Israeli government	774	771	3	-	774
Of financial institution in Israel	69	70	-	1	69
Of foreign financial institutions	72	72	-	-	72
Of others in Israel	47	47	-	-	47
Of foreign others	20	20	-	-	20
Total trading debentures and bonds	982	980	3	1	982
Shares -	3	3	-	-	3
Total trading securities	985	983	(3)3	(3)1	985
Total securities	16,439	16,468	101	80	16,489

(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 19 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 115 million, perpetual capital notes of NIS 19 million and capital hedge funds of NIS 1 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.

NOTE 5 - SECURITIES (CON'T)

(NIS million)

D. Data regarding impaired bonds	September 30, 2016	September 30, 2015	December 31, 2015
	(unaudited)	(unaudited)	(audited)
The recorded debt balance of Impaired bonds accruing interest income	**7**	7	7
Total recorded debt balances	**7**	7	7

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

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

	September 30, 2015 (unaudited)							
	Less than 12 months				12 months and above			
	Fair	Unrealized losses			Fair	Unrealized losses		
	Value	0-20%	20%-40%	Total	Value	0-20%	20%-40%	Total
Securities available for sale								
Bonds and debentures -								
Of Israeli government	3,986	34	-	34	-	-	-	-
Of foreign governments	-	-	-	-	127	1	-	1
Of Israeli financial institutions	354	4	-	4	-	-	-	-
Of foreign financial institutions	1,319	9	-	9	239	3	-	3
Mortgage backed (MBS) securities	108	1	2	3	135	2	-	2
Of others in Israel	634	13	2	15	-	-	-	-
Shares	23	4	-	4	-	-	-	-
Total securities available for sale	6,424	65	4	69	501	6	-	6

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

Consolidated								December 31, 2015 (audited)
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses 0-20%	Unrealized losses 20%-40%	Total	Fair Value	Unrealized losses 0-20%	Unrealized losses 20%-40%	Total
								(NIS million)
Held to maturity bonds of other in Israel[(1)]	90	1	-	1	-	-	-	-
Securities available for sale								
Bonds and debentures -								
Of Israeli government	4,125	25	-	25	732	1	-	1
Of foreign governments	3,120	7	-	7	124	2	-	2
Of Israeli financial institutions	344	6	-	6	-	-	-	-
Of foreign financial institutions	1,127	6	-	6	369	4	-	4
Mortgage backed (MBS) securities	367	4	1	5	127	4	-	4
Of others in Israel	190	3	-	3	387	8	2	10
Of foreign others	322	1	-	1	-	-	-	-
Shares	41	4	-	4	-	-	-	-
Total securities available for sale	9,636	56	1	57	1,739	19	2	21

(1) As of 31.12.15, the balance of the amortized cost of bonds held to maturity amounts to NIS 91 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

	September 30, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governements	Total
Recorded balance:						
Debts examined on an individual basis	**34,849**	**-**	**443**	**35,292**	**3,254**	**38,546**
Debts examined on a collective basis	**4,687**	**21,388**	**17,577**	**43,652**	**-**	**43,652**
Of which: according to the extent of arrears	**327**	**21,388**	**-**	**21,715**	**-**	**21,715**
Total	**39,536**	**21,388**	**18,020**	**78,944**	**3,254**	**82,198**
Of which:						
Debts restructuring	**171**	**-**	**70**	**241**	**-**	**241**
Other impaired debts	**379**	**10**	**13**	**402**	**-**	**402**
Total impaired debts	**550**	**10**	**83**	**643**	**-**	**643**
Debts in arrears of 90 days or more	**25**	**156**	**33**	**214**	**-**	**214**
Other problematic debts	**437**	**2**	**176**	**615**	**-**	**615**
Total problematic debts	**1,012**	**168**	**292**	**1,472**	**-**	**1,472**
Provision for credit losses:						
In respect of debts examined on an individual basis	**473**	**-**	**20**	**493**	**-**	**493**
In respect of debts examined on a collective basis	**55**	**118**	**199**	**372**	**-**	**372**
Of which: according to the extent of arrears	**1**	**118**	**-**	**119**	**-**	**119**
Total	**528**	**118**	**219**	**865**	**-**	**865**
Of which: in respect of impaired debts	**211**	**-**	**12**	**223**	**-**	**223**

	September 30, 2015 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governements	Total
Recorded balance:						
Debts examined on an individual basis	30,213	-	473	30,686	4,599	35,285
Debts examined on a collective basis	3,990	19,864	16,186	40,040	-	40,040
Of which: according to the extent of arrears	371	19,864	-	20,235	-	20,235
Total	34,203	19,864	16,659	70,726	4,599	75,235
Of which:						
Debts restructuring	162	-	66	228	-	228
Other impaired debts	589	14	46	649	-	649
Total impaired debts	751	14	112	877	-	877
Debts in arrears of 90 days or more	5	203	8	216	-	216
Other problematic debts	636	-	160	796	-	796
Total problematic debts	1,392	217	280	1,889	-	1,889
Provision for credit losses:						
In respect of debts examined on an individual basis	464	-	36	500	-	500
In respect of debts examined on a collective basis	45	123	180	348	-	348
Of which: according to the extent of arrears	1	123	-	124	-	124
Total	509	123	216	848	-	848
Of which: in respect of impaired debts	215	-	27	242	-	242

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

(NIS million)

	December 31, 2015 (audited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governements	Total
Recorded balance:						
Debts examined on an individual basis	32,066	-	426	32,492	4,280	36,772
Debts examined on a collective basis	4,382	20,032	16,473	40,887	-	40,887
Of which: according to the extent of arrears	397	20,032	-	20,429	-	20,429
Total	36,448	20,032	16,899	73,379	4,280	77,659
Of which:						
Debts restructuring	160	-	69	229	-	229
Other impaired debts	519	10	6	535	-	535
Total impaired debts	679	10	75	764	-	764
Debts in arrears of 90 days or more	21	182	31	234	-	234
Other problematic debts	579	2	173	754	-	754
Total problematic debts	1,279	194	279	1,752	-	1,752
Provision for credit losses:						
In respect of debts examined on an individual basis	449	-	15	464	-	464
In respect of debts examined on a collective basis	49	119	192	360	-	360
Of which: according to the extent of arrears	1	119	-	120	-	120
Total	498	119	207	824	-	824
Of which: in respect of impaired debts	190	-	7	197	-	197

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

2. Change in provision for credit losses

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

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

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

(NIS million)

2. Change in provision for credit losses (CONT'D)

	For the three months ended September 30, 2015 (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	495	124	215	834	-	834
Expenses (income) in respect of credit losses	(1)	3	12	14	-	14
Accounting write-offs	(21)	(4)	(27)	(52)	-	(52)
Collection of debts written off in accounting in previous years	36	-	16	52	-	52
Net accounting write-offs	15	(4)	(11)	-	-	-
Provision for credit losses at end of the period	509	123	216	848	-	848
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	93	-	14	107	-	107
Decrease in the provision	(5)	-	-	(5)	-	(5)
Provision in respect of off-balance sheet credit instruments at end of the period	88	-	14	102	-	102
Total provision for credit losses - debts and off-balance sheet credit instruments	597	123	230	950	-	950

	For the nine months ended September 30, 2015 (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	534	132	210	876	-	876
Expenses in respect of credit losses	17	6	30	53	-	53
Accounting write-offs	(155)	(15)	(76)	(246)	-	(246)
Collection of debts written off in accounting in previous years	113	-	52	165	-	165
Net accounting write-offs2	(42)	(15)	(24)	(81)	-	(81)
Provision for credit losses at end of the period	509	123	216	848	-	848
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	106	-	14	120	-	120
Decrease in the provision	(18)	-	-	(18)	-	(18)
Provision in respect of off-balance sheet credit instruments at end of the period	88	-	14	102	-	102
Total provision for credit losses - debts and off-balance sheet credit instruments	597	123	230	950	-	950

NOTE 7 - DEPOSITS FROM THE PUBLIC

(NIS million)

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

	September 30, 2016	September 30, 2015	December 31, 2015
		(unaudited)	(audited)
In Israel			
Demand			
- Non- bearing interest	**39,086**	35,992	36,754
- Bearing interest	**6,345**	6,827	6,161
Total demand	**45,431**	42,819	42,915
Fixed-term*	**58,373**	56,761	59,463
Total deposits in Israel**	**103,804**	99,580	102,378
Outside Israel			
Demand			
- Non- bearing interest	**745**	1,072	884
Total deposits outside Israel	**745**	1,072	884
Total deposits from the public	**104,549**	100,652	103,262
* Of which: non-bearing interest deposits	**1,917**	1,356	1,566
** Of which:			
Deposits of private individuals	**53,095**	48,027	50,253
Deposits of institutional entities	**19,779**	22,907	22,448
Deposits of corporates and others	**30,930**	28,646	29,677

B. Deposits of the public by size

	September 30, 2016	September 30, 2015	December 31, 2015
Maximum amount of deposit		(unaudited)	(audited)
Up to 1	**40,724**	36,744	37,450
From 1 to 10	**25,897**	24,791	25,120
From 10 to 100	**14,535**	15,015	14,624
From 100 to 500	**4,914**	5,782	4,732
Over 500	**18,479**	18,320	21,336
Total	**104,549**	100,652	103,262

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. Benefits in respect of seniority

Employees of consolidated subsidiaries are entitled to special bonus upon complition of defined working period. This liability is measured on an actuarial basis, using actuarial and other assumptions, including the discounting rate, increase in compensation, mortality and retirement 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 upon retirement. 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.
After reporting date, a consolidated subsidiary carried out an early redemption of the bonus in respect of unutilized sick leave, as was calculated and accumulated as of December 31, 2015. Starting with this date, the employees of the consolidated subsidiary are no longer entitled to additional accumulation regarding this benefit.

5. Other post-retirement benefits

Employees of the group are entitled to certain post-retirement benefits. 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 16 as to the conversion of employee rights to jubillee awards.

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

C. 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.

In continuation of the efficiency measures that were adopted by the Bank in recent years, the Board of Directors approved on November 17, 2016, a revision of the strategic program of the Bank concerning the efficiency measures aspect. The efficiency measures include, inter alia, the continuing expansion of operations by digital means; a reduction in the number of branches and improvement in the work processes in the branches and at the head office. As a result of these efficiency measures, a reduction in office space is expected, as well as a gradual reduction in the manpower position of the Bank Group by an average of 130 employees per year (of which a voluntary early retirement of 45 employees, which will continue on the basis of specific offers and with respect to the matter of each case), making in total approximately 650 employees until the end of 2020.

The Supervisor of Banks has granted the Bank an approval in principle, in respect of the calculation of the capital adequacy, for the spreading of the cost of the said measures over a period of five years by the "straight line" method.

The cost of the benefits to employees within the framework of the efficiency measures in the period from 2016 to 2020 is estimated at NIS 207 million, before the tax effect, of which expenses in the amount of NIS 25 million, in respect of the gradual discontinuation of operations, were recognized in the second quarter of the year (the cost is based on actuarial assumptions, inter alia with respect to the cost of employee retirement). The effect of the said efficiency measures on the ratio of equity capital to risk assets is estimated at a reduction of 0.19%, which, as stated, will be recognized in installments over a period of five years.

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

D. Defined benefits severance pay and pension schemes

(1) Liabilities and financing situation

		For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
		2016	2015	2016	2015	2015
			(NIS million)		(NIS million)	(NIS million)
			(unaudited)		(unaudited)	(audited)
A.	**Change in liability regarding anticipated benefits**					
	Liability regarding anticipated benefit at beginning of period	**1,120**	1,101	**1,079**	1,116	1,116
	Cost of service	**4**	6	**17**	19	25
	Cost of interest	**9**	10	**29**	30	41
	Actuarial (profit) loss	**94**	(2)	****137**	(29)	(13)
	Benefits paid	**(25)**	(18)	**(86)**	(56)	(111)
	Other, including loss from reduction and structural scanges	**1**	5	**27**	22	21
	Liability regarding anticipated benefit at end of period	**1,203**	1,102	**1,203**	1,102	1,079
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	**770**	836	**794**	839	839
	Actual return on assets of the scheme	**7**	(14)	**12**	3	9
	Deposits in the scheme by the Bank	**3**	5	**10**	12	16
	Benefits paid	**(21)**	(14)	**(57)**	(41)	(70)
	Fair value of assets of the scheme at end of period	**759**	813	**759**	813	794
	Financing situation – net liability recognized at end of period*	**444**	289	**444**	289	285

* Included in the item " other liabilities".

** Of which actuarial loss in the amount of NIS 172 million in respect to the efficiency measures for the years 2016 until 2020 and actuarial gain in the amount of NIS 69 million for the following years

		30.9.16	30.9.15	31.12.15
			(unaudited)	(audited)
				(NIS million)
C.	**Amounts recognized in the consolidated balance sheet**			
	Amounts recognized in the item "other assets"	**-**	-	-
	Amounts recognized in the item "other liabilities"	**444**	289	285
	Net liability recognized at end of period	**444**	289	285
D.	**Amounts recognized in other cumulative comprehensive profit (loss), before the tax effect**			
	Actuarial loss, net	**215**	72	83
	Liability net, in respect of transition*	**36**	41	41
	Closing balance in other cumulative comprehensive profit	**251**	113	124

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

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

(2) Expense for the period

		For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
		2016	2015	2016	2015	2015
			(NIS million)		(NIS million)	(NIS million)
			(unaudited)		(unaudited)	(audited)
A.	**Cost components of net benefit recognized in profit and loss***					
	Cost of service	**4**	6	**17**	19	25
	Cost of interest	**9**	10	**29**	30	41
	Anticipated return on assets of the scheme	**(6)**	(7)	**(21)**	(23)	(31)
	Amortization of non-recognized amounts:					
	Net actuarial loss	**2**	-	**5**	2	3
	Other, including loss from reduction and withdrawal and structural scanges	**9**	5	**41**	22	27
	Total cost of benefits, net	**18**	14	**71**	50	65
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	**93**	19	****146**	(9)	9
	Amortization of actuarial profit	**(2)**	-	**(5)**	(2)	(3)
	Dismissal	**(8)**	-	**(14)**	-	(6)
	Total recognized in other comprehensive profit	**83**	19	**127**	(11)	-
	Total net cost of benefit	**18**	14	**71**	50	65
	Total net cost of benefit for the period recognized in other comprehensive profit	**101**	33	**198**	39	65

* Including amounts discounted to software costs.

** Of which actuarial loss in the amount of NIS 172 million in respect to the efficiency measures for the years 2016 until 2020 and actuarial gain in the amount of NIS 69 million for the following years

		(NIS million)
C.	**Assessment of amounts included in other cumulative comprehensive profit expexted to be amortized from other cumulative comprehensive profit to the statement of profit and loss as an expense in 2016, before the tax effect**	
	Net actuarial loss	**13**
	Total amount expected to be amortized from other cumulative comprehensive profit	**13**

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

(3) Assumptions

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

	September 30,		December 31,
	2016	**2015**	**2015**
		(unaudited)	(audited)
			percent
1. Principal guidelines used to determine the liability for benefits			
Discounting rate	**1.5**	2.1	1.9
Leaving rate	**2.5**	2.0	2.0

	For the nine months ended September 30,		For the year ended December 31,
	2016	**2015**	**2015**
		(unaudited)	(audited)
			percent
2. Principal guidelines used to measure the net cost of benefits for the period			
Discounting rate	**1.5-1.9**	1.9-2.1	1.1-2.1

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

	One percentage point growth			One percentage point decline		
	September 30,		December 31,	September 30,		December 31,
	2016	**2015**	**2015**	**2016**	**2015**	**2015**
		(unaudited)	(audited)		(unaudited)	(audited)
			(NIS million)			(NIS million)
Discounting rate	**(77)**	(82)	(80)	**94**	97	96
Leaving rate	**94**	109	110	**(83)**	(116)	(117)

C. Cash flows

(1) Deposits

	Forecast	Actual deposits		Actual deposits		Actual deposits
		For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	***2016**	**2016**	**2015**	**2016**	**2015**	**2015**
	(NIS million)		(NIS million)		(NIS million)	(NIS million)
	(unaudited)		(unaudited)		(unaudited)	(audited)
Deposits	14	**3**	5	**10**	12	16

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2016.

NOTE 8 - CAPITAL ADEQUACY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS

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, 2016, the rate of deductions from the regulatory capital amounts to 60% and the maximum level of instruments qualified as supervisory capital amounts to 60%.

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

(NIS million)

	September 30, 2016	September 30, 2015	December 31 , 2015
	(unaudited)	(unaudited)	(audited)
a. Consolidated			
1. Capital for calculation of capital ratio			
Tier 1 capital, after supervisory adjustments and deductions	**7,772**	7,285	7,349
Tier 2 capital, after deductions	**2,614**	2,629	2,580
Total overall capital	**10,386**	9,914	9,929
2. Weighted balances of risk assets			
Credit risk	(3)**70,220**	67,384	67,766
Market risk	**1,002**	1,363	995
Operational risk	**6,108**	6,147	6,141
Total weighted balances of risk assets	**77,330**	74,894	74,902
			percent
3. Ratio of capital to risk assets			
Ratio of tier 1 capital to risk assets	**10.05%**	9.73%	9.81%
Total ratio of capital to risk assets	**13.43%**	13.24%	13.26%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.21%**	(1)9.07%	(1)9.10%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.71%**	(1)12.57%	(1)12.60%

			percent
B. Significant Subsidiaries			
Bank Otsar Hahayal Ltd.			
Ratio of tier 1 capital to risk assets	**10.81%**	9.63%	9.83%
Total ratio of capital to risk assets	**13.84%**	13.22%	13.25%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.02%**	(1)9.01%	(1)9.01%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.52%**	(1)12.51%	(1)12.51%
Bank Massad Ltd.			
Ratio of tier 1 capital to risk assets	**13.02%**	14.20%	13.76%
Total ratio of capital to risk assets	**14.16%**	15.41%	15.01%
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%

* The data presented in this Note are in accordance with Proper Conduct of Banking Business Directive No. 202 regarding "measurement and capital adequacy – the regulatory capital" and in accordance with the transitional instructions prescribed in Proper Conduct of Banking Business Directive No. 299. In addition, this data includes adjustments in respect of the efficiency measures determined in accordance with the letter of the Supervisor of Banks dated January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel" (hereinafter – adjustment in respect of efficiency measures), which are being gradually reduced until December 31, 2020.
For additional details regarding the impact of the transitional instructions and the adjustments in respect of efficiency measures, see "D" below.

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

(NIS million)

	September 30, 2016	September 30, 2015	December 31, 2015
	(unaudited)	(unaudited)	(audited)
C. Capital components for computation of capital ratio (consolidated)			
1. Equity capital tier 1			
Capital attributed to shareholders	**7,411**	7,035	7,073
Differences between capital attributed to shareholders and equity capital tier 1			
Minority interests	**(2)460**	(2)461	(2)467
Application of the transitional instructions in respect of the adoption of accepted accounting principles in the matter of employee rights	**23**	55	60
Total equity capital tier 1 before regulatory adjustments and deductions	**7,894**	7,551	7,600
Regulatory adjustments and deductions:			
Intangible assets	**117**	156	154
Commitment to invest in shares	**(2)131**	(2)98	(2)94
Regulatory adjustments and other deductions- equity capital tier 1	**3**	12	3
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures- equity capital tier 1	**251**	266	251
Total adjustments in respect of efficiency measures- Tier 1 equity capital	**(129)**	-	-
Total equity capital tier 1 after regulatory adjustments and deductions	**7,772**	7,285	7,349
2. Tier 2 capital			
Tier 2 capital: instruments before deductions	**1,905**	1,946	1,878
Tier 2 capital: provisions before deductions	**709**	684	703
Total tier 2 capital before deductions	**2,614**	2,630	2,581
Deductions:			
Total deductions- tier 2 capital	**-**	1	1
Total tier 2 capital	**2,614**	2,629	2,580

	September 30, 2016	September 30, 2015	December 31, 2015
	(unaudited)	(unaudited)	(audited)
D. 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	**9.63%**	9.37%	9.44%
Effect of transitional instructions	**0.23%**	0.36%	0.37%
Ratio of tier 1 equity capital to risk assets before effect of adjustments in respect of efficiency measures	**9.86%**	9.73%	9.81%
Effect of adjustments in respect of efficiency measures	**0.19%**	-	-
Ratio of tier 1 equity capital to risk assets	**10.05%**	9.73%	9.81%

(1) Minimal capital ratio requested according to the Supervisor of Banks' directives effective from January 1, 2015. To these relations, as of January 1, 2015 will be added capital requirement of 1% of housing loans balance for the reporting date. This requirement is applied gradualy until January 1, 2017. In accordance therewith, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio, that would be required as of January 1, 2017, as instructed by the Supervisor of Banks, according to the consolidated data as of the reporting date, are 9.28% and 12.78%, respectively, and according to the data of Otsar Hahayal as of the reporting date, are 9.02% and 12.52%, respectively. As regards additional capital requirements regarding the matter of capital adequacy, see Section E below.

(2) As for the amount of NIS 109 million, with coordination of the Supervisor of Banks, the Bank implemented the transition instructions of Basel regarding the PUT option granted to noncontrolling interests (30.9.15 - NIS 151 million, 31.12.15 - NIS 154 million).

(3) An amount of NIS 193 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)

E. Capital adequacy goals

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

As part of the gradual process of adoption of the Basel instructions in Israel, The Supervisor of Banks published on March 28, 2012, a guiding letter in the matter of Basel framework - minimum core capital ratios, requiring banks and credit card companies to attain a Tier I equity capital ratio of 9% and a total capital ratio of 12.5%, and this until January 1, 2015. It has been determined, in addition, that a bank, the total stated assets of which on a consolidated basis amount to at least 20% of the total amount of assets of the banking industry, would have to increase the said ratios by one additional percentage point and to attain a minimum Tier I equity capital ratio of 10% and a minimum total capital ratio of 13.5%, and this until January 1, 2017. In accordance with the above, the minimum ratio of Tier I equity capital ratio that would be required from the Bank is 9% and the minimum total capital ratio that would be required from the Bank is 12.5%. 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. The targeted tier 1 capital will be increased in constatnt quarterly rates from January 1, 2015 until January 1, 2017. For the balabce of the housing loans see note 29.B.3 to the financial statements for 2015.

Set out below are the minimum capital targets as were determined by the Board of Directors:

- In a regular business situation – the Tier I equity capital ratio shall not be lower than 9.30%, the comprehensive capital ratio will be identical to the regulatory ratio.
- 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%.

The distribution of dividends shall be made possible only to the extent that it would not impair the ability of the Bank to comply with the new capital requirements.

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

F. Raising of regulatory capital by debt notes including loss absorbing mechanism

On June 26, 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. The proceeds of the issue of the deferred debt notes have been 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.

G. Capital requirements in respect of exposure to central counterparties

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

The The guidelines regularize, among other things, the following classes of exposure:

- Exposure of a clearinghouse member banking corporation to a central counterparty. As a general rule, such exposure is allotted a risk weight of 2% (in contrast to zero exposure prior to the Amendment). Notwithstanding, the Directive includes a minimum formula which might lead to the doubling of trading exposure at a risk weight of 20%.

- Exposure of a banking corporation to customers active on the Stock Exchange. According to the Amendment, the capital requirements in respect of such exposure should be computed as in the case of a two-sided transaction, including the allocation of capital in respect of the CVA risk. The computation method which was in effect to date according to the Directive – computation according to the Stock Exchange rules – is cancelled.
- Exposure to a customer corporation operating through a clearinghouse member.
- Transfers of a clearinghouse member banking corporation to the risk fund.
- Collateral deposited by a banking corporation with a clearinghouse member or with a central counterparty.
- Exposure to an unqualified central counterparty shall be averaged according to the relevant risk weight of the counterparty, while transfers to the risk fund shall be averaged by 1,250%.

The content of the letter applies 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 Bank is updating the mode of computing the capital ratios and the leverage ratios in accordance with the updated Directive, as above.
According to estimates of the Bank, the expected effect of the adoption of the letter, as of the reporting date, is a decrease of 0.10% in the Tier I equity capital ratio, and a decrease of 0.14% in the comprehensive capital ratio of the Bank.

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

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

The Supervisor of Banks issued on April 28, 2015, 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%.

	September 30, 2016 (unaudited)	September 30, 2015 (unaudited)	December 31, 2015 (audited)
			NIS million
A. Consolidated			
Tier 1 capital	**7,772**	7,285	7,349
Total exposures	**137,364**	133,309	135,221
			percent
Leverage ratio	**5.66%**	5.46%	5.43%
B. Significant Subsidiaries			
Bank Otsar Hahayal Ltd.			
Leverage ratio	**5.60%**	5.78%	5.73%
Bank Massad Ltd.			
Leverage ratio	**7.35%**	7.77%	7.59%
Minimal Leverage ratio ratio required by the Supervisor of banks	**5.00%**	5.00%	5.00%

(1) For the effect of the transitional directive and the effect of the adjustments in respect of the efficiency measures see item D above.

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

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.

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

The Supervisor of Banks issued on September 28, 2014, a circular letter which added 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)after measurement date.

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.

A banking corporation, the liquidity coverage of which drops below the minimal requirement, is required to immediately report such deviation to the Supervisor of Banks. A banking corporation, the liquidity coverage ratio of which was below the minimal requirement for a period of three days, must report this fact to the Supervisor of Banks together with a scheme for the rectification of the difference.

The liquidity coverage ratio requirements apply as from April 1, 2015.

In accordance with the transitional instructions, as from April 1, 2015, the minimum requirement will be 60%, rising gradually to 80% on January 1, 2016 and to 100% on January 1, 2017 and thereafter. Not withstanding, in periods of financial pressure, a banking corporation may reduce the ratio to below the said minimum requirements.

Following the adoption of the Basel rules in Israel, as stated above, the Board of Directors of the Bank has decided that the targeted ratio of the Bank and of the Group as from April 1, 2015, would be 10% higher than the minimal requirement.

During the reported period the Bank and the Group hold the liquidity coverage ratio as required.

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

In addition, on September 28, 2014, the Supervisor of Banks issued a circular letter in the matter of the provisional instruction - implementation of disclosure requirements according to pillar III of Basel - disclosure in respect of liquidity coverage ratio (hereinafter - "the letter"). Within the framework of the letter, amendments were made to the public reporting requirements in order to implement the disclosure requirements that banks will have to include as part of the adoption of the liquidity coverage ratio.

	For the three months ended		
	September 30, 2016	**September 30, 2015**	**December 31 2015**
	(unaudited)	(unaudited)	(audited)
			percent
A. Consolidated*			
Liquidity coverage ratio	**109%**	99%	104%
B. The bank**			
Liquidity coverage ratio	**108%**	91%	98%
Significant Subsidiaries**			
Bank Otsar Hahayal Ltd.			
Liquidity coverage ratio	**406%**	341%	376%
Bank Massad Ltd.			
Liquidity coverage ratio	**283%**	391%	340%
Minimal liquidity coverage ratio required by the Supervisor of banks	**80%**	60%	60%

* In terms of simple averages of monthly observations during the reported quarter.

** In terms of simple averages of daily observations during the reported quarter.

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

J. DIVIDEND

The Board of Directors of the Bank resolved on June 9, 2015, on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 60 million. The determining date for the payment of the dividend was June 18, 2015, and the payment date was June 30, 2015. On November 18, 2015, the Board of Directors 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 November 26, 2015, and the payment date was December 6, 2015. Subsequent to balance sheet date, on November 17, 2016, 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 200 million. The determining date for the payment of the dividend is November 27, 2016, and the payment date is December 5, 2016. The amount of the dividend is prior to any tax, including the tax that the Bank has to withhold under the law.

	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015	For the year ended December 31,
	(unaudited)	(unaudited)	(audited)
	NIS million	NIS million	NIS million
Dividend declared	-	60	**130**

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

(NIS million)

Other contingent liabilities and special commitments

		30.9.16	30.9.15	31.12.15
		(unaudited)	(unaudited)	(audited)
A.	Improvements to premises and acquisition of new premises, equipment and software	**9**	18	14
	Commitments to invest in private investment funds	**59**	52	49

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

	30.9.16	30.9.15	31.12.15
	(unaudited)	(unaudited)	(audited)
First year	***19**	*19	81
Second year	**73**	80	77
Third year	**66**	75	68
Fourth year	**64**	67	65
Fifth year	**61**	63	61
Sixth year and thereafter	**375**	412	362
Total	**658**	716	714

* 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 motions for approval of class actions. In the opinion of the Management of the Bank, based on legal opinions, as to the prospects of these actions, including the motions 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.

With respect to the legal actions and motions for approval of class actions, see Note 25G to the financial statements for the year 2015.

Following are details of actions filed in the past against the Bank and against a consolidated subsidiary, in which changes occurred in relation to that stated in the financial statements for 2015:

1. In April 2007, an action together with a motion for its approval as a class action was filed against the Bank and additional banks alleging that the Bank had illegally collected a brokerage commission from mutual funds related to it, at rates that were higher than commission rates paid by other customers of the Bank.

   The claim against the Bank amounts to NIS 75.5 million. On May 10, 2016, the Tel Aviv District Court dismissed the motion for approval of the action as a class action.
2. On April 1, 2015, a consolidated subsidiary received notice of a motion for approval of a lawsuit in the amount of NIS 661 million as a class action suit. It is alleged in this case that the consolidated subsidiary had misled customers as to the nature of State guarantee provided in respect of loans granted to businesses by the consolidated subsidiary, which are secured by State guarantees. The

Plaintiffs argue that as guarantors for such loans, they were not told that the State guarantee is a residual guarantee, which the consolidated subsidiary may realize only after realization of collateral and taking every action to collect the debt from the guarantors. On July 13, 2016, the District Court dismissed the motion for approval of the action as a class action

The additional exposure of the Bank and of the subsidiary companies as of September 30, 2016, 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 27 million.

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

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

E. 1. Several motions for the approval of actions as class actions are pending against an affiliated company, Israel Credit Cards Ltd. ("ICC"), the amounts claimed therein are material. See Note 25I to the financial statements for 2015. Following are details of actions in which changes occurred in relation to that stated in the annual report for 2015:

A. On April 14, 2013, notice was received of an action and a motion for approval and conduct of the action as a class action suit under the Class Actions Act, 2006, filed with the Tel Aviv District Court against ICC and against Castro Models Company Ltd. (hereinafter – "the Respondents").

The subject matter of the claim is the marketing of "Wish U" cards. The Appellant alleges that the marketing of these gift cards was made by the Defendants under misleading presentations while imposing prohibited terms, in violation of the provisions of the Consumer Protection Act, 1981 and the regulations under it. The Plaintiff claims that these acts had misled him and prevented him from making transactions to which he was legally entitled.

The Plaintiff assessed the amount of the claim on behalf of the whole class at NIS 214 million, on the assumption that the class numbers approximately half a million customers. Mediation proceedings have been conducted in this case between the Appellant and Castro.

On August 9, 2016, the parties filed with the Court a motion for approval of a compromise agreement, according to which ICC would bear a total cost of NIS 200 thousand. On August 10, 2016, the Court instructed the publication in the printed media of the compromise arrangement,

and the delivery of a copy of the arrangement to the Attorney General for the Government. The compromise agreement has not yet been approved by the Court.

B. An action 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 District Court, against ICC and against Israel Discount Bank Ltd. (hereinafter - "the claim and the motion"). 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 Appellant stated the amount of the claim in respect of all class members at NIS 2,225 million.

   On August 19, 2014, the District Court ruled for the dismissal of the action against Discount Bank Ltd.

   On January 20, 2016, the Supreme Court dismissed the appeal of the Appellant, upholding the decision of the District Court to dismiss in limine the motion for approval against Discount Bank. The proceedings against ICC continue. Interrogation of the Declarers in the motion was held 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.

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 1,261 million.

3. Pending against ICC are motions for approval of actions as class actions as well as other actions, 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 its 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 has to respond to the amended motion for approval no later than December 15, 2016. The Appellants have to submit their reaction to the said response by February 1, 2017.

A preliminary hearing is fixed for February 26, 2017.

B. As detailed to ICC by Israel Discount Bank Ltd. (hereinafter - -"Discount"), Discount received notice on May 7, 2015, of an action and a motion for its approval as a derivative action, were 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.

On September 20, 2016, ICC (with the consent of the other parties) submitted a motion for an extension in submitting the response by the Respondents, among other things, due to criminal proceedings conducted in the matter. The Court has admitted the motion, and therefore, ICC and the other respondents have to respond to the motion by February 1, 2017.

On September 28, 2016, the Bank received a letter sent by a shareholder of the Bank, in which he requests the Board of Directors to take legal action against two former senior officers of ICC (the former general manager of ICC and the former general manager of ICC International), this prior to the filing with the Court of a motion for approval of a multi-party derivative action on behalf of the Bank, as well as a motion for disclosure of documents. To the best understanding of the Bank, the said request relates to events in respect of which an action and a motion for approval of a derivative action had been filed against Israel Discount Bank and against ICC, as described above.

On November 1, 2016, the Board of Directors of the Bank discussed the letter and decided to refuse the above mentioned request.

4. ICC reported in its financial statements as of September 30, 2016, as follows:

   A. In the second half of 2009 and in 2010, VISA Europe and the MasterCard International (hereinafter together – "the international organizations") raised arguments against ICC as to the prima facie violations of the rules of these organizations pertaining to the field of clearing of international electronic trading, with respect to transactions cleared by the subsidiary of ICC, ICC International (since merged with and into ICC). In this framework, penalties were imposed on ICC and its operations in this field were restricted for a period of several months.

      ICC took immediate action for the implementation of a reduction plan for the purpose of complying with the requirements of the international organizations, within the framework of which, various measures have been adopted by ICC, including changes in its management. Several trading houses and coordinators have raised demands regarding the burdening upon them of the monetary sanctions and the reduction in the international electronic trading clearing with them, causing them, as alleged by them, heavy damage.

   B. The announcement of the State Prosecution: following the investigation conducted by the police, ICC received on December 3, 2014, a notice from the economic department at the State Prosecution, informing that the file concerning the investigation of suspicions against ICC had been submitted for review by the State Prosecution. On April 20, 2015, ICC received notice from the State Prosecution, to which was attached a "suspicion brief", according to which, the State

Prosecution is considering the serving of an indictment against ICC in respect of the commitment of offences consisting of deceitful receipt under aggravating circumstances and money laundering.

The "suspicion brief" details two cases in which, according to the Prosecution, ICC is involved together with others. It is argued in the first case that during the period from 2006 to 2009 (hereinafter – "the relevant period") ICC through the one who acted as the CEO of ICC in the relevant period and the CEO of ICC International in the relevant period (hereinafter jointly and severally – "the managers") together with others, acted deceitfully with respect to the coding of transactions cleared by ICC, as well as acted together in contravention of the Money laundering Prohibition Act. In the second case, it is argued that ICC, through the managers together with other factors, displayed false presentations regarding the splitting of records of trading houses which cleared transactions through ICC, thereby receiving monies and fraudulently earning profits, as well as acting in violation of the provisions of the Money Laundering Prohibition Act. The turnover of the operations allegedly attributed to ICC with respect to the prima facie offences claimed against it, amounts to NIS billions.

As stated in the notice of the Prosecution, ICC had been given the right to apply to the Prosecution, whether in writing or by way of an oral hearing, requesting that no indictment should be served against it.

The representative of ICC received on May 2015 a copy of the principal investigation material in this case following which, a hearing was held in October 2015.

According to the law, the Court is empowered to impose penalties on ICC in respect of the alleged offences, as well as to instruct the forfeiture of funds which were proved and determined to be felony monies.

An arrangement in lieu of criminal proceedings:

A conditional arrangement was signed on November 3, 2016, in accordance with Item A(1) of Chapter "D" of the Criminal Procedure Ordinance (Combined version) 1982, between the Economic Department of the State Prosecution and ICC. This agreement leads to the closing down by an arrangement of the investigation file in lieu of criminal proceedings, subject to the following:

Within the framework of the arrangement, ICC admitted the facts related to two cases of international electronic clearing made by ICC International (a subsidiary of ICC that was merged into ICC in December 2009), in the years 2007 to 2009. The arrangement clarifies that the facts to which ICC referred to in the arrangement, were not personally known to the officers approving the arrangement, and came to their knowledge only from the letter of suspicion served to ICC by the State Prosecution. Approval of the said arrangement was granted after consideration of the alternatives and bearing in mind the benefit of the company.

As part of the arrangement, ICC has undertaken to act in accordance with binding internal procedures in writing, for one year from date of signing the arrangement, including as regards supervision and control mechanisms that would ensure prevention of the repetition of the offences to which ICC admitted. ICC declared in the arrangement that the procedures and

organizational changes detailed in the arrangement had in fact been adopted by it even before the signing of the arrangement.

It has been agreed by the parties that by power of the provision of Section 67C(a)(5) of the fifth Addendum of the Criminal Procedure Ordinance (Combined Version), 1982, ICC would deposit an amount of NIS 85 million for the purpose of its forfeiture. Subject to ICC complying with the terms of the arrangement, the State Prosecution committed to close down the case against ICC. The State Prosecution is committed not to conduct an investigation and not to serve an indictment, including any other proceedings, whether civil or administrative, against ICC, and/or against any company related to it and/or against any present or former officer of such companies, with the exception of two former officers who had officiated in these companies in the past.

The arrangement clarifies that nothing in the admissions of ICC may commit any other person, including officers and any other employee of ICC or of a company related to it, and that nothing in the said admissions may serve as evidence in any proceedings.

In view of the signing of the arrangement, ICC increased in its interim financial statements as of September 30, 2016, the provision recognized on its books, by an amount of NIS 45 million.

On April 20, 2015 the Supervisor of Banks notified ICC, that in light of the notice from the State Prosecution as above and the "letter of suspicions" attached to it, he instruct ICC not to distribute dividends until the end of the procedure, clarification of its results and its implementation on ICC financial situation.

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

(NIS million)

A. Volume of activity

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

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

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

	September 30, 2015 (unaudited)					
	Interest Contracts					
	Shekel-CPI	Other	Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
1. Face value of derivative instruments						
A. Hedging derivatives(1)						
Forward contracts	-	-	402	-	-	402
SWAPS	-	2,083	-	-	-	2,083
Total	-	2,083	402	-	-	2,485
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,083	-	-	-	2,083
B. ALM derivatives (1) (2)						
Futures contracts	-	824	-	-	-	824
Forward contracts	892	100	53,660	-	-	54,652
Option contracts traded on an exchange:						
- Options written	-	-	517	-	-	517
- Purchased options	-	-	897	-	-	897
Other option contracts:						
- Options written	-	-	4,276	-	-	4,276
- Purchased options	-	-	4,239	-	-	4,239
SWAPS	75	11,418	677	-	-	12,170
Total	967	12,342	64,266	-	-	77,575
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	6,415	-	-	-	6,490
C. Other derivatives (1)						
Futures contracts	-	854	447	23,626	119	25,046
Forward contracts	-	-	3	-	16	19
Option contracts traded on an exchange:						
- Options written	-	-	6,931	35,014	-	41,945
- Purchased options	-	-	6,931	35,014	-	41,945
Other option contracts:						
- Options written	-	-	602	458	-	1,060
- Purchased options	-	-	597	340	-	937
SWAPS	-	100	161	-	-	261
Total	-	954	15,672	94,452	135	111,213
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	50	-	-	-	50
D. Credit derivatives and spot swap foreign currency contacts						
Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	196	196
Foreign currency spot swap contracts	-	-	2,499	-	-	2,499

(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, 2015 (audited)					
		Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
		Shekel-CPI	Other				
1.	**Face value of derivative instruments**						
A.	**Hedging derivatives (1)**						
	Forward contracts	-	-	402	-	-	402
	SWAPS	-	2,350	-	-	-	2,350
	Total	-	2,350	402	-	-	2,752
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,350	-	-	-	2,350
B.	**ALM derivatives (1) (2)**						
	Futures contracts	-	23	-	-	-	23
	Forward contracts	703	1,300	50,138	-	-	52,141
	Option contracts traded on an exchange:						
	- Options written	-	-	538	-	-	538
	- Purchased options	-	-	585	-	-	585
	Other option contracts:						
	- Options written	-	-	3,395	-	-	3,395
	- Purchased options	-	-	3,750	-	-	3,750
	SWAPS	75	11,447	541	-	-	12,063
	Total	778	12,770	58,947	-	-	72,495
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	6,330	-	-	-	6,405
C.	**Other derivatives (1)**						
	Futures contracts	-	3,076	2,300	23,937	130	29,443
	Forward contracts	-	-	4	-	4	8
	Option contracts traded on an exchange:						
	- Options written	-	-	7,346	39,983	-	47,329
	- Purchased options	-	-	7,346	39,983	-	47,329
	Other option contracts:						
	- Options written	-	-	317	569	-	886
	- Purchased options	-	-	301	391	-	692
	SWAPS	-	300	152	-	-	452
	Total	-	3,376	17,766	104,863	134	126,139
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	150	-	-	-	150
D.	**Credit derivatives and spot swap foreign currency contacts**						
	Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	195	195
	Foreign currency spot swap contracts	-	-	2,399	-	-	2,399

(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)

	September 30, 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**	**-**	**-**	**-**	**1**
Gross negative fair value	**-**	**86**	**1**	**-**	**-**	**87**
B. ALM derivatives (1) (2)						
Gross positive fair value	**22**	**237**	**313**	**-**	**-**	**572**
Gross negative fair value	**3**	**294**	**368**	**-**	**-**	**665**
C. Other derivatives (1)						
Gross positive fair value	**-**	**9**	**102**	**453**	**2**	**566**
Gross negative fair value	**-**	**9**	**102**	**453**	**2**	**566**
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:	**-**	**-**	**-**	**-**	**-**	**-**
Gross positive fair value	**-**	**-**	**-**	**-**	**-**	**-**
E. Total						
Gross positive fair value	**22**	**247**	**415**	**453**	**2**	**1,139**
Fair value amounts that were offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance of assets in respect of derivative instruments *	**22**	**247**	**415**	**453**	**2**	**1,139**
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**
Gross negative fair value (3)	**3**	**389**	**471**	**453**	**2**	**1,318**
Fair value amounts that were offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance of liabilities in respect of derivative instruments *(3)	**3**	**389**	**471**	**453**	**2**	**1,318**
* Of which: balance sheet balance of 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 18 million.

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

(NIS million)

A. Volume of activity (CONT'D)

	September 30, 2015 (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	-	-	-	-	-	-
Gross negative fair value	-	46	3	-	-	49
B. ALM derivatives (1) (2)						
Gross positive fair value	25	259	668	-	-	952
Gross negative fair value	8	342	522	-	-	872
C. Other derivatives (1)						
Gross positive fair value	-	8	146	1,079	2	1,235
Gross negative fair value	-	8	146	1,079	2	1,235
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	-	-	-	-	2	2
E. Total						
Gross positive fair value	25	267	814	1,079	4	2,189
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments *	25	267	814	1,079	4	2,189
* 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	396	671	1,079	2	2,156
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments *(3)	8	396	671	1,079	2	2,156
* 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 7 million.

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

(NIS million)

A. Volume of activity (CONT'D)

	December 31, 2015 (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	-	4	8	-	-	12
Gross negative fair value	-	28	-	-	-	28
B. ALM derivatives (1) (2)						
Gross positive fair value	27	224	378	-	-	629
Gross negative fair value	8	297	343	-	-	648
C. Other derivatives (1)						
Gross positive fair value	-	6	127	859	2	994
Gross negative fair value	-	6	126	859	2	993
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross possitive fair value	-	-	-	-	1	1
E. Total						
Gross positive fair value	27	234	513	859	3	1,636
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments *	27	234	513	859	3	1,636
* 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	331	469	859	2	1,669
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments *(3)	8	331	469	859	2	1,669
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-

(1) Except for credit derivatives.
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.
(3) Of which gross negative fair value in respect of embedded derivative instruments of NIS 10 million.

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

(NIS million)

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

	September 30, 2016 (unaudited)					
	Exchanges	**Banks**	**Dealers/ brokers**	**Government and central banks**	**Others**	**Total**
Balance sheet balance of assets in respect of derivative instruments	**98**	**319**	**173**	**1**	**548**	**1,139**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(225)**	**(20)**	**-**	**-**	**(245)**
Credit risk mitigation in respect of cash collateral received	**-**	**(48)**	**-**	**-**	**-**	**(48)**
Net amount of assets in respect of derivative instruments	**98**	**46**	**153**	**1**	**548**	**846**
Off balance sheet credit risk in respect of derivative instruments (2)	**-**	**333**	**21**	**4**	**592**	**950**
Off balance sheet credit risk mitigation	**-**	**(139)**	**(11)**	**-**	**(1)**	**(151)**
Net off balance sheet credit risk in respect of derivative instruments	**-**	**194**	**10**	**4**	**591**	**799**
Total credit risk in respect of derivative instruments	**98**	**240**	**163**	**5**	**1,139**	**1,645**
Balance sheet balance of liabilities in respect of derivative instruments (1)	**83**	**484**	**236**	**-**	**515**	**1,318**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**(225)**	**(20)**	**-**	**-**	**(245)**
Cash collateral which was attached by a lien	**-**	**(143)**	**(23)**	**-**	**-**	**(166)**
Net amount of liabilities in respect of derivative instruments	**83**	**116**	**193**	**-**	**515**	**907**

	September 30, 2015 (unaudited)					
	Exchanges	**Banks**	**Dealers/ brokers**	**Government and central banks**	**Others**	**Total**
Balance sheet balance of assets in respect of derivative instruments	208	490	234	-	1,257	2,189
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(393)	-	-	-	(393)
Credit risk mitigation in respect of cash collateral received	-	(23)	-	-	-	(23)
Net amount of assets in respect of derivative instruments	208	74	234	-	1,257	1,773
Off balance sheet credit risk in respect of derivative instruments (2)	-	442	-	-	643	1,085
Off balance sheet credit risk mitigation	-	(201)	-	-	(1)	(202)
Net off balance sheet credit risk in respect of derivative instruments	-	241	-	-	642	883
Total credit risk in respect of derivative instruments	208	315	234	-	1,899	2,656
Balance sheet balance of liabilities in respect of derivative instruments (1)	249	816	403	-	688	2,156
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(393)	-	-	-	(393)
Cash collateral which was attached by a lien	-	(204)	-	-	-	(204)
Net amount of liabilities in respect of derivative instruments	249	219	403	-	688	1,559

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

	December 31, 2015 (audited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	210	393	141	-	892	1,636
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(311)	-	-	-	(311)
Credit risk mitigation in respect of cash collateral received	-	(19)	-	-	-	(19)
Net amount of assets in respect of derivative instruments	210	63	141	-	892	1,306
Off balance sheet credit risk in respect of derivative instruments (2)	-	429	-	-	579	1,008
Off balance sheet credit risk mitigation	-	(217)	-	-	(1)	(218)
Net off balance sheet credit risk in respect of derivative instruments	-	212	-	-	578	790
Total credit risk in respect of derivative instruments	210	275	141	-	1,470	2,096
Balance sheet balance of liabilities in respect of derivative instruments (1)	212	552	396	-	509	1,669
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(311)	-	-	-	(311)
Cash collateral which was attached by a lien	-	(125)	-	-	-	(125)
Net amount of liabilities in respect of derivative instruments	212	116	396	-	509	1,233

(1) Of which negative gross value of embedded derivative instruments is NIS 18 million (30.9.15 - NIS 7 million 31.12.15 - NIS 10 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

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

	September 30, 2015 (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	201	285	481	-	967
- Other	2,402	1,942	7,353	3,682	15,379
Foreign currency contracts	68,693	13,089	863	194	82,839
Contracts of shares	80,662	12,928	862	-	94,452
Commodities and other contracts	101	191	39	-	331
Total	152,059	28,435	9,598	3,876	193,968

	December 31, 2015 (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	50	234	494	-	778
- Other	4,170	2,599	7,481	4,246	18,496
Foreign currency contracts	59,633	18,742	955	184	79,514
Contracts of shares	99,799	4,052	1,012	-	104,863
Commodities and other contracts	169	121	39	-	329
Total	163,821	25,748	9,981	4,430	203,980

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION

A. General

In accordance with a letter of the Supervisor of Banks dated November 3, 2014, the reporting of supervisory segments of operations, as from the financial report for 2015, has to conform to the format and classifications determined in the public reporting instructions of the Supervisor of Banks.

B. 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.
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 300 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.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

C. Operational supervision segment information

	For the three months ended September 30, 2016 (unaudited)							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Mangement	Total activity in Israel
								(NIS million)
Interest income from external	320	1	136	30	92	3	97	679
Interest expense from external	30	7	13	4	6	10	59	129
Net interest income								
- From external	290	(6)	123	26	86	(7)	38	550
- Inter - segment	(72)	11	7	3	(2)	16	37	-
Total net interest income	218	5	130	29	84	9	75	550
Non interest income	143	14	78	16	33	42	24	350
Total income	361	19	208	45	117	51	99	900
Expenses (income) in respect of credit losses	6	-	21	(9)	3	-	-	21
Operating and other expenses	340	20	163	24	51	41	15	654
Operating profit (loss) before taxes	15	(1)	24	30	63	10	84	225
Provision for taxes (tax saving) on operating profit	5	(1)	8	13	27	4	35	91
Operating profit (loss) after taxes	10	-	16	17	36	6	49	134
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	3	3
Net profit(loss) before attribution to noncontrolling interests	10	-	16	17	36	6	52	137
Attributed to noncontrolling interests	(4)	(1)	(2)	-	(1)	-	(1)	(9)
Net profit (loss) attributed to shareholders of the Bank	6	(1)	14	17	35	6	51	128
Average balance of assets(1)	38,813	50	14,186	4,573	19,029	604	49,708	126,963
of which: Investee Company(1)	-	-	-	-	-	-	506	506
of which: Average balance of credit to the public(1)	38,813	50	14,186	4,573	19,029	604	-	77,255
Balance of credit to the public	39,613	56	14,820	4,242	19,109	718	-	78,558
Balance of impaired debts	93	-	197	129	224	-	-	643
Balance in arrears over 90 days	190	-	24	-	-	-	-	214
Average balance of liabilities(1)	44,521	7,780	15,894	6,546	9,016	21,098	13,944	118,799
of which: Average balance of deposits from the public(1)	44,521	7,780	15,894	6,546	9,016	21,098	-	104,855
Balance of deposits from the public	44,326	7,942	15,061	5,512	11,184	19,779	-	103,804
Average balance of risk assets(1)(2)	28,494	75	14,386	4,471	19,081	396	9,438	76,341
Balance of risk assets(2)	27,621	156	15,446	5,156	19,220	832	8,241	76,672
Average balance of assets under management(1)(3)	34,333	14,321	14,174	2,866	21,417	157,412	-	244,523
Segmentation of net interest income:								
- Earnings from credit - granting activity	199	-	127	28	86	4	-	444
- Earnings from deposits - taking activity	28	5	7	2	4	5	-	51
- Other	(9)	-	(4)	(1)	(6)	-	75	55
Total net interest income	218	5	130	29	84	9	75	550

(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.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

C. Operational supervision segment information (CON'T)

	For the three months ended September 30, 2016 (unaudited)			
	Activity abroad			
	Private Individuals	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	3	-	3	682
Interest expense from external	-	-	-	129
Net interest income				
- From external	3	-	3	553
- Inter - segment	-	-	-	-
Total net interest income	3	-	3	553
Non interest income	5	-	5	355
Total income	8	-	8	908
Expenses in respect of credit losses	-	-	-	21
Operating and other expenses	8	-	8	662
Operating profit before taxes	-	-	-	225
Provision for taxes on operating profit	-	-	-	91
Operating profit after taxes	-	-	-	134
Bank's share in operating profit of investee companies after tax effect	-	-	-	3
Net profit before attribution to noncontrolling interests	-	-	-	137
Attributed to noncontrolling interests	-	-	-	(9)
Net profit attributed to shareholders of the Bank	-	-	-	128
Average balance of assets(1)	115	318	433	127,396
of which: Investee Company(1)	-	-	-	506
of which: Average balance of credit to the public(1)	115	318	433	77,688
Balance of credit to the public	66	320	386	78,944
Balance of impaired debts	-	-	-	643
Balance in arrears over 90 days	-	-	-	214
Average balance of liabilities(1)	738	-	738	119,537
of which: Average balance of deposits from the public(1)	738	-	738	105,593
Balance of deposits from the public	745	-	745	104,549
Average balance of risk assets(1)(2)	182	456	638	76,979
Balance of risk assets(2)	112	546	658	77,330
Average balance of assets under management(1)(3)	-	-	-	244,523
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	444
- Earnings from deposits - taking activity	3	-	3	54
- Other	-	-	-	55
Total net interest income	3	-	3	553

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

C. Operational supervision segment information (CON'T)

	For the three months ended September 30, 2015 (unaudited)							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Mangement	Total activity in Israel
								(NIS million)
Interest income from external	276	-	109	32	81	4	116	618
Interest expense from external	27	5	9	3	4	9	66	123
Net interest income								
- From external	249	(5)	100	29	77	(5)	50	495
- Inter - segment	(57)	9	20	4	(4)	16	12	-
Total net interest income	192	4	120	33	73	11	62	495
Non interest income	154	14	81	15	30	47	10	351
Total income	346	18	201	48	103	58	72	846
Expenses (Income) in respect of credit losses	13	-	(5)	3	(1)	(1)	-	9
Operating and other expenses	342	28	165	28	50	49	16	678
Operating profit (loss) before taxes	(9)	(10)	41	17	54	10	56	159
Provision for taxes (tax saving) on operating profit (loss)	(5)	(4)	19	8	26	5	28	77
Operating profit (loss) after taxes	(4)	(6)	22	9	28	5	28	82
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	10	10
Net profit (loss) before attribution to noncontrolling interests	(4)	(6)	22	9	28	5	38	92
Attributed to noncontrolling interests	(3)	-	(3)	-	(1)	-	-	(7)
Net profit (loss) attributed to shareholders of the Bank	(7)	(6)	19	9	27	5	38	85
Average balance of assets(1)	36,137	63	12,435	4,502	16,908	924	50,243	121,212
of which: Investee Company(1)	-	-	-	-	-	-	378	378
of which: Average balance of credit to the public(1)	36,137	63	12,435	4,502	16,908	924	-	70,969
Balance of credit to the public	36,915	53	14,340	3,786	14,659	563	-	70,316
Balance of impaired debts	128	-	279	163	307	-	-	877
Balance in arrears over 90 days	206	6	4	-	-	-	-	216
Average balance of liabilities(1)	39,112	7,031	14,815	7,025	8,694	24,109	12,313	113,099
of which: Average balance of deposits from the public(1)	39,112	7,031	14,815	7,025	8,694	24,109	-	100,786
Balance of deposits from the public	40,027	7,888	14,293	5,054	9,411	22,907	-	99,580
Average balance of risk assets(1)(2)	27,101	89	14,311	4,699	16,362	474	11,384	74,420
Balance of risk assets(2)	26,754	145	15,256	4,874	16,711	986	9,419	74,145
Average balance of assets under management(1)(3)	37,451	14,145	13,919	3,542	21,625	162,384	-	253,066
Segmentation of net interest income:								
- Earnings from credit - granting activity	177	-	119	32	77	4	-	409
- Earnings from deposits - taking activity	22	4	6	2	2	6	-	42
- Other	(7)	-	(5)	(1)	(6)	1	62	44
Total net interest income	192	4	120	33	73	11	62	495

(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.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

C. Operational supervision segment information (CON'T)

	For the three months ended September 30, 2015 (unaudited)			
	Activity abroad			
	Private individuals	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	3	-	3	621
Interest expense from external	1	-	1	124
Net interest income				
- From external	2	-	2	497
- Inter - segment	-	-	-	-
Total net interest income	2	-	2	497
Non interest income	7	-	7	358
Total income	9	-	9	855
Expenses in respect of credit losses	-	-	-	9
Operating and other expenses	8	-	8	686
Operating profit before taxes	1	-	1	160
Provision for taxes on operating profit	-	-	-	77
Operating profit after taxes	1	-	1	83
Bank's share in operating profit of investee companies after tax effect	-	-	-	10
Net profit before attribution to noncontrolling interests	1	-	1	93
Attributed to noncontrolling interests	-	-	-	(7)
Net profit attributed to shareholders of the Bank	1	-	1	86
Average balance of assets	47	352	399	121,611
of which: Investee Company	-	-	-	378
of which: Average balance of credit to the public	47	352	399	71,368
Balance of credit to the public	63	347	410	70,726
Balance of impaired debts	-	-	-	877
Balance in arrears over 90 days	-	-	-	216
Average balance of liabilities	1,045	-	1,045	114,144
of which: Average balance of deposits from the public	1,045	-	1,045	101,831
Balance of deposits from the public	1,072	-	1,072	100,652
Average balance of risk assets	122	833	955	75,375
Balance of risk assets	116	633	749	74,894
Average balance of assets under management	-	-	-	253,066
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	409
- Earnings from deposits - taking activity	2	-	2	44
- Other	-	-	-	44
Total net interest income	2	-	2	497

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

C. Operational supervision segment information

	For the nine months ended September 30, 2016 (unaudited)							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Mangement	Total activity in Israel
								(NIS million)
Interest income from external	906	1	432	97	260	12	183	1,891
Interest expense from external	71	17	26	9	12	22	129	286
Net interest income								
- From external	835	(16)	406	88	248	(10)	54	1,605
- Inter - segment	(145)	31	(11)	2	(23)	37	109	-
Total net interest income	690	15	395	90	225	27	163	1,605
Non interest income	430	41	241	44	99	130	130	1,115
Total income	1,120	56	636	134	324	157	293	2,720
Expenses (Income) in respect of credit losses	27	-	25	-	(6)	-	-	46
Operating and other expenses	1,058	48	466	73	152	150	45	1,992
Operating profit before taxes	35	8	145	61	178	7	248	682
Provision for taxes on operating profit	11	3	65	27	81	3	113	303
Operating profit after taxes	24	5	80	34	97	4	135	379
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	62	62
Net profit Before attribution to noncontrolling interests	24	5	80	34	97	4	197	441
Attributed to noncontrolling interests	(17)	(1)	(6)	(1)	(2)	-	(4)	(31)
Net profit attributed to shareholders of the Bank	7	4	74	33	95	4	193	410
Average balance of assets(1)	38,161	48	14,502	4,137	18,217	652	50,712	126,429
of which: Investee Company(1)	-	-	-	-	-	-	474	474
of which: Average balance of credit to the public(1)	38,161	48	14,502	4,137	18,217	652	-	75,717
Balance of credit to the public	39,613	56	14,820	4,242	19,109	718	-	78,558
Balance of impaired debts	93	-	197	129	224	-	-	643
Balance in arrears over 90 days	190	-	24	-	-	-	-	214
Average balance of liabilities(1)	44,071	7,636	15,482	5,538	9,534	22,190	13,788	118,239
of which: Average balance of deposits from the public(1)	44,071	7,636	15,482	5,538	9,534	22,190	-	104,451
Balance of deposits from the public	44,326	7,942	15,061	5,512	11,184	19,779	-	103,804
Average balance of risk assets(1)(2)	27,264	145	15,160	4,871	18,245	866	8,566	75,117
Balance of risk assets(2)	27,621	156	15,446	5,156	19,220	832	8,241	76,672
Average balance of assets under management(1)(3)	35,053	13,683	11,670	3,478	22,599	154,744	-	241,227
Segmentation of net interest income:								
- Earnings from credit - granting activity	629	-	386	87	231	11	-	1,344
- Earnings from deposits - taking activity	83	15	22	7	10	17	-	154
- Other	(22)	-	(13)	(4)	(16)	(1)	163	107
Total net interest income	690	15	395	90	225	27	163	1,605

(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.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

C. Operational supervision segment information (CON'T)

	For the nine months ended September 30, 2016 (unaudited)			
	Activity abroad			
	Private Individuals	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	8	-	8	1,899
Interest expense from external	-	-	-	286
Net interest income				
- From external	8	-	8	1,613
- Inter - segment	-	-	-	-
Total net interest income	8	-	8	1,613
Non interest income	17	-	17	1,132
Total income	25	-	25	2,745
Expenses in respect of credit losses	-	-	-	46
Operating and other expenses	26	-	26	2,018
Operating profit (loss) before taxes	(1)	-	(1)	681
Provision for taxes on operating profit	-	-	-	303
Operating profit (loss) after taxes	(1)	-	(1)	378
Bank's share in operating profit of investee companies after tax effect	-	-	-	62
Net profit (loss) before attribution to noncontrolling interests	(1)	-	(1)	440
Attributed to noncontrolling interests	-	-	-	(31)
Net profit (loss) attributed to shareholders of the Bank	(1)	-	(1)	409
Average balance of assets(1)	67	326	393	126,822
of which: Investee Company(1)	-	-	-	474
of which: Average balance of credit to the public(1)	67	326	393	76,110
Balance of credit to the public	66	320	386	78,944
Balance of impaired debts	-	-	-	643
Balance in arrears over 90 days	-	-	-	214
Average balance of liabilities(1)	798	-	798	119,037
of which: Average balance of deposits from the public(1)	798	-	798	105,249
Balance of deposits from the public	745	-	745	104,549
Average balance of risk assets(1)(2)	112	546	658	75,775
Balance of risk assets(2)	112	546	658	77,330
Average balance of assets under management(1)(3)	-	-	-	241,227
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	1,344
- Earnings from deposits - taking activity	8	-	8	162
- Other	-	-	-	107
Total net interest income	8	-	8	1,613

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

C. Operational supervision segment information (CON'T)

	For the nine months ended September 30, 2015 (unaudited)							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Mangement	Total activity in Israel
								(NIS million)
Interest income from external	743	-	418	101	242	14	206	1,724
Interest expense from external	67	11	22	7	10	24	136	277
Net interest income								
- From external	676	(11)	396	94	232	(10)	70	1,447
- Inter - segment	(112)	21	(13)	(1)	(21)	41	85	-
Total net interest income	564	10	383	93	211	31	155	1,447
Non interest income	477	40	251	45	92	142	102	1,149
Total income	1,041	50	634	138	303	173	257	2,596
Expenses (Income) in respect of credit losses	38	-	(15)	(3)	15	-	-	35
Operating and other expenses	1,044	54	463	73	139	135	74	1,982
Operating profit (loss) before taxes	(41)	(4)	186	68	149	38	183	579
Provision for taxes (tax saving) on operating profit (loss)	(19)	(2)	81	30	67	18	80	255
Operating profit (loss) after taxes	(22)	(2)	105	38	82	20	103	324
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	28	28
Net profit (loss) before attribution to noncontrolling interests	(22)	(2)	105	38	82	20	131	352
Attributed to noncontrolling interests	(6)	-	(8)	(2)	(2)	-	(6)	(24)
Net profit (loss) attributed to shareholders of the Bank	(28)	(2)	97	36	80	20	125	328
Average balance of assets(1)	35,165	51	14,081	4,098	15,892	882	49,644	119,813
of which: Investee Company(1)	-	-	-	-	-	-	415	415
of which: Average balance of credit to the public(1)	35,165	51	14,081	4,098	15,892	882	-	70,169
Balance of credit to the public	36,915	53	14,340	3,786	14,659	563	-	70,316
Balance of impaired debts	128	-	279	163	307	-	-	877
Balance in arrears over 90 days	206	6	4	-	-	-	-	216
Average balance of liabilities(1)	39,528	6,203	14,659	5,245	8,646	23,715	13,735	111,731
of which: Average balance of deposits from the public(1)	39,528	6,203	14,659	5,245	8,646	23,715	-	97,996
Balance of deposits from the public	40,027	7,888	14,293	5,054	9,411	22,907	-	99,580
Average balance of risk assets(1)(2)	26,045	141	15,399	4,953	17,024	1,032	9,280	73,874
Balance of risk assets(2)	26,754	145	15,256	4,874	16,711	986	9,419	74,145
Average balance of assets under management(1)(3)	40,863	13,051	12,591	3,822	22,135	164,436	-	256,898
Segmentation of net interest income:								
- Earnings from credit - granting activity	510	-	377	91	220	13	-	1,211
- Earnings from deposits - taking activity	74	10	19	6	8	19	-	136
- Other	(20)	-	(13)	(4)	(17)	(1)	155	100
Total net interest income	564	10	383	93	211	31	155	1,447

(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.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

C. Operational supervision segment information (CON'T)

	For the nine months ended September 30, 2015 (unaudited)			
	Activity abroad			
	Private Individuals	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	9	-	9	1,733
Interest expense from external	2	-	2	279
Net interest income				
- From external	7	-	7	1,454
- Inter - segment	-	-	-	-
Total net interest income	7	-	7	1,454
Non interest income	22	-	22	1,171
Total income	29	-	29	2,625
Expenses in respect of credit losses	-	-	-	35
Operating and other expenses	28	-	28	2,010
Operating profit before taxes	1	-	1	580
Provision for taxes on operating profit	-	-	-	255
Operating profit after taxes	1	-	1	325
Bank's share in operating profit of investee companies after tax effect	-	-	-	28
Net profit before attribution to noncontrolling interests	1	-	1	353
Attributed to noncontrolling interests	-	-	-	(24)
Net profit attributed to shareholders of the Bank	1	-	1	329
Average balance of assets	61	332	393	120,206
of which: Investee Company	-	-	-	415
of which: Average balance of credit to the public	61	332	393	70,562
Balance of credit to the public	63	347	410	70,726
Balance of impaired debts	-	-	-	877
Balance in arrears over 90 days	-	-	-	216
Average balance of liabilities	1,105	-	1,105	112,836
of which: Average balance of deposits from the public	1,105	-	1,105	99,101
Balance of deposits from the public	1,072	-	1,072	100,652
Average balance of risk assets	116	633	749	74,623
Balance of risk assets	116	633	749	74,894
Average balance of assets under management	-	-	-	256,898
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	1,211
- Earnings from deposits - taking activity	7	-	7	143
- Other	-	-	-	100
Total net interest income	7	-	7	1,454

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

C. Operational supervision segment information (CON'T)

	For the year ended December 31, 2015 (unaudited)							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Mangement	Total activity in Israel
								(NIS million)
Interest income from external	1,007	2	606	136	318	21	159	2,249
Interest expense from external	72	13	29	8	12	28	143	305
Net interest income								
- From external	935	(11)	577	128	306	(7)	16	1,944
- Inter - segment	(169)	24	(49)	(8)	(36)	49	189	-
Total net interest income	766	13	528	120	270	42	205	1,944
Non interest income	618	51	338	59	124	187	137	1,514
Total income	1,384	64	866	179	394	229	342	3,458
Expenses (Income) in respect of credit losses	44	(2)	(35)	(5)	15	1	-	18
Operating and other expenses	1,446	53	620	95	232	132	96	2,674
Operating profit (loss) before taxes	(106)	13	281	89	147	96	246	766
Provision for taxes (tax saving) on operating profit	(46)	5	117	38	63	43	106	326
Operating profit (loss) after taxes	(60)	8	164	51	84	53	140	440
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	38	38
Net profit (loss) before attribution to noncontrolling interests	(60)	8	164	51	84	53	178	478
Attributed to noncontrolling interests	(7)	-	(11)	(2)	(3)	-	(9)	(32)
Net profit (loss) attributed to shareholders of the Bank	(67)	8	153	49	81	53	169	446
Average balance of assets(1)	35,579	45	14,768	3,905	15,093	836	51,476	121,702
of which: Investee Company(1)	-	-	-	-	-	-	423	423
of which: Average balance of credit to the public(1)	35,579	45	14,768	3,905	15,093	836	-	70,226
Balance of credit to the public	37,331	51	14,280	3,989	16,591	784	-	73,026
Balance of impaired debts	84	-	259	99	320	2	-	764
Balance in arrears over 90 days	210	6	16	1	1	-	-	234
Average balance of liabilities(1)	40,520	6,262	15,173	4,544	8,383	23,263	15,655	113,800
of which: Average balance of deposits from the public(1)	40,520	6,262	15,173	4,544	8,383	23,263	-	98,145
Balance of deposits from the public	41,782	7,403	14,710	5,342	10,693	22,448	-	102,378
Average balance of risk assets(1)(2)	26,190	161	15,652	4,992	17,167	1,198	8,832	74,192
Balance of risk assets(2)	26,437	155	16,143	4,818	16,599	1,036	9,043	74,231
Average balance of assets under management(1)(3)	32,277	21,495	11,475	3,964	22,908	162,575	-	254,694
Segmentation of net interest income:								
- Earnings from credit - granting activity	689	-	525	118	279	18	-	1,629
- Earnings from deposits - taking activity	100	13	26	8	11	25	-	183
- Other	(23)	-	(23)	(6)	(20)	(1)	205	132
Total net interest income	766	13	528	120	270	42	205	1,944

(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.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

C. Operational supervision segment information (CON'T)

	For the year ended December 31, 2015 (audited)			
	Activity abroad			
	Private individuals	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	11	-	11	2,260
Interest expense from external	2	-	2	307
Net interest income				
- From external	9	-	9	1,953
- Inter - segment	-	-	-	-
Total net interest income	9	-	9	1,953
Non interest income	27	-	27	1,541
Total income	36	-	36	3,494
Expenses in respect of credit losses	-	-	-	18
Operating and other expenses	36	-	36	2,710
Operating profit before taxes	-	-	-	766
Provision for taxes (tax saving) on operating profit	-	-	-	326
Operating profit after taxes	-	-	-	440
Bank's share in operating profit of investee companies after tax effect	-	-	-	38
Net profit before attribution to noncontrolling interests	-	-	-	478
Attributed to noncontrolling interests	-	-	-	(32)
Net profit attributed to shareholders of the Bank	-	-	-	446
Average balance of assets	51	326	377	122,079
of which: Investee Company	-	-	-	423
of which: Average balance of credit to the public	51	326	377	70,603
Balance of credit to the public	48	305	353	73,379
Balance of impaired debts	-	-	-	764
Balance in arrears over 90 days	-	-	-	234
Average balance of liabilities	1,037	-	1,037	114,837
of which: Average balance of deposits from the public	1,037	-	1,037	99,182
Balance of deposits from the public	884	-	884	103,262
Average balance of risk assets	91	580	671	74,863
Balance of risk assets	91	580	671	74,902
Average balance of assets under management	-	-	-	254,694
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	1,629
- Earnings from deposits - taking activity	9	-	9	192
- Other	-	-	-	132
Total net interest income	9	-	9	1,953

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

Definitions

Business segments information

The First International Bank Group divides the sources of its income into the following segments of operations, each of them comprising a cost center:

- **Corporate banking segment** - specialzes in providing financial services to large corporation in Israel, while the main activity is extension of credit. The customers in the segment are large and medium size corporations, most of which having credit facilities exceeding NIS 40 million and/ or their turnover exceeds NIS 200 million, as well as business and institutional bodies active on the capital and money markets.
- **Private banking segment** - both Israeli and foreign residents having financial wealth medium-high. Private customers, of the Bank having an investment portfolio of NIS 0.20 million and over. The segment includes also the customers of FIBI Bank (Swiss).
- **Commercial banking segment** - small and medium size customers having a credit facility of NIS 5 million and up to NIS 40 million and or turnover of NIS 25 million and up to NIS 200 million. The segment includes also the middle market customers of the subsidiaries which their activity characteristics agree with that of the Bank.
- **Households** - this is a part of the personal banking segment of the Bank, that includes private customers having an investment portfolio of up to NIS 0.20 million of the Bank. The segment includes the customers of the subsidiaries whose activity characteristics of most of whom agree with those of the household customers, as defined by the Bank.
- **Small business segment** - customers in this segment include companies and businesses having a credit facility of up to NIS 5 million at the Bank. The segment includes the customers of the subsidiaries whose activity characteristics of most of whom agree with those of the small business customers, as defined by the Bank.
- **Housing loans segment**- in charge of providing housing loans to the customers of the segment.
- **Financial management segment** - this segment includes the result of the ALM activity which include the market and liquidity risk management, investment in the securities portfolio, activities with banks and Bank of Israel, the difference between the fair value and the value on accrual basis of derivative financial instruments, and the share of the Bank in the earnings of ICC.

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

	For the three months ended September 30, 2016 (unaudited)							
	Private banking	Households	Housing loans	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income								
- From external	**(46)**	**142**	**131**	**56**	**60**	**73**	**137**	**553**
- Inter - segment	**76**	**18**	**(87)**	**13**	**38**	**(1)**	**(57)**	**-**
Net interest income	**30**	**160**	**44**	**69**	**98**	**72**	**80**	**553**
Non interest income								
- From external	**71**	**88**	**6**	**46**	**91**	**26**	**27**	**355**
Total income	**101**	**248**	**50**	**115**	**189**	**98**	**107**	**908**
Expenses (income) in respect of credit losses	**1**	**7**	**(6)**	**5**	**(4)**	**18**	**-**	**21**
Operating and other expenses								
-from external	**106**	**252**	**34**	**89**	**113**	**54**	**14**	**662**
Operating profit (loss) before taxes	**(6)**	**(11)**	**22**	**21**	**80**	**26**	**93**	**225**
Provision for taxes (tax saving) on operating profit	**(3)**	**(4)**	**10**	**9**	**27**	**10**	**42**	**91**
Operating profit (loss) after taxes	**(3)**	**(7)**	**12**	**12**	**53**	**16**	**51**	**134**
Bank's share in operating profit of investee company	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**3**
Net profit (loss):								
Before attribution to noncontrolling interests	**(3)**	**(7)**	**12**	**12**	**53**	**16**	**54**	**137**
Attributed to noncontrolling interests	**-**	**(4)**	**-**	**(1)**	**-**	**(2)**	**(2)**	**(9)**
Attributed to shareholders of the Bank	**(3)**	**(11)**	**12**	**11**	**53**	**14**	**52**	**128**

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

(NIS million)

	For the three months ended September 30, 2015 (unaudited)							
	Private banking	Households	Housing loans	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income								
- From external	50	140	158	79	128	79	(137)	497
- Inter - segment	(20)	(2)	(119)	(14)	(36)	(16)	207	-
Net interest income	30	138	39	65	92	63	70	497
Non interest income								
- From external	86	95	7	41	93	26	10	358
Total income	116	233	46	106	185	89	80	855
Expenses (Income) in respect of credit losses	1	11	3	3	(10)	1	-	9
Operating and other expenses								
-from external	121	242	30	91	116	64	22	686
Operating profit (loss) before taxes	(6)	(20)	13	12	79	24	58	160
Provision for taxes (tax saving) on operating profit	(3)	(7)	6	7	35	13	26	77
Operating profit (loss) after taxes	(3)	(13)	7	5	44	11	32	83
Bank's share in operating profit of investee company	-	-	-	-	-	-	10	10
Net profit (loss):								
Before attribution to noncontrolling interests	(3)	(13)	7	5	44	11	42	93
Attributed to noncontrolling interests	-	(2)	-	(2)	-	(3)	-	(7)
Attributed to shareholders of the Bank	(3)	(15)	7	3	44	8	42	86

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

	For the nine months ended September 30, 2016 (unaudited)							
	Private banking	Households	Housing loans	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income								
- From external	**(19)**	**499**	**338**	**182**	**247**	**216**	**150**	**1,613**
- Inter - segment	**111**	**23**	**(209)**	**23**	**43**	**(4)**	**13**	**-**
Net interest income	**92**	**522**	**129**	**205**	**290**	**212**	**163**	**1,613**
Non interest income								
- From external	**237**	**266**	**11**	**141**	**271**	**76**	**130**	**1,132**
Total income	**329**	**788**	**140**	**346**	**561**	**288**	**293**	**2,745**
Expenses (Income) in respect of credit losses	**1**	**21**	**1**	**16**	**(16)**	**23**	**-**	**46**
Operating and other expenses								
-from external	**339**	**756**	**89**	**271**	**348**	**170**	**45**	**2,018**
Operating profit (loss) before taxes	**(11)**	**11**	**50**	**59**	**229**	**95**	**248**	**681**
Provision for taxes (tax saving) on operating profit (loss)	**(5)**	**10**	**22**	**27**	**94**	**42**	**113**	**303**
Operating profit (loss) after taxes	**(6)**	**1**	**28**	**32**	**135**	**53**	**135**	**378**
Bank's share in operating profit of investee company	**-**	**-**	**-**	**-**	**-**	**-**	**62**	**62**
Net profit (loss):								
Before attribution to noncontrolling interests	**(6)**	**1**	**28**	**32**	**135**	**53**	**197**	**440**
Attributed to noncontrolling interests	**-**	**(19)**	**-**	**(2)**	**-**	**(6)**	**(4)**	**(31)**
Attributed to shareholders of the Bank	**(6)**	**(18)**	**28**	**30**	**135**	**47**	**193**	**409**
Average balance of assets	**2,320**	**16,764**	**20,583**	**5,178**	**22,450**	**9,836**	**49,691**	**126,822**
Net credit to the public	**2,300**	**17,138**	**21,270**	**5,162**	**22,356**	**9,853**	**-**	**78,079**
Deposits from the public	**26,010**	**30,529**	**-**	**12,254**	**29,821**	**5,935**	**-**	**104,549**

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

	For the nine months ended September 30, 2015 (unaudited)							
	Private banking	Households	Housing loans	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income								
- From external	59	401	339	207	341	222	(115)	1,454
- Inter - segment	34	9	(233)	(18)	(50)	(33)	291	-
Net interest income	93	410	106	189	291	189	176	1,454
Non interest income								
- From external	278	295	13	132	269	78	106	1,171
Total income	371	705	119	321	560	267	282	2,625
Expenses (Income) in respect of credit losses	4	31	6	14	(24)	4	-	35
Operating and other expenses								
-from external	380	722	73	258	323	179	75	2,010
Operating profit (loss) before taxes	(13)	(48)	40	49	261	84	207	580
Provision for taxes (tax saving) on operating profit (loss)	(6)	(19)	17	23	109	39	92	255
Operating profit (loss) after taxes	(7)	(29)	23	26	152	45	115	325
Bank's share in operating profit of investee company	-	-	-	-	-	-	28	28
Net profit (loss):								
Before attribution to noncontrolling interests	(7)	(29)	23	26	152	45	143	353
Attributed to noncontrolling interests	-	(7)	-	(3)	-	(8)	(6)	(24)
Attributed to shareholders of the Bank	(7)	(36)	23	23	152	37	137	329
Average balance of assets	3,026	15,170	18,774	4,990	19,656	8,138	50,452	120,206
Net, credit to the public	2,936	15,605	19,741	4,903	18,506	8,187	-	69,878
Deposits from the public	25,707	27,549	-	9,777	32,491	5,128	-	100,652

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

	For the year ended December 31, 2015 (audited)							
	Private banking	Households	Housing loans	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income								
- From external	21	544	385	263	408	294	38	1,953
- Inter - segment	103	21	(240)	(8)	(27)	(35)	186	-
Net interest income	124	565	145	255	381	259	224	1,953
Non interest income								
- From external	361	394	10	175	363	105	133	1,541
Total income	485	959	155	430	744	364	357	3,494
Expenses (Income) in respect of credit losses	2	43	3	9	(52)	13	-	18
Operating and other expenses								
-from external	498	1,007	83	371	428	237	86	2,710
Operating profit (loss) before taxes	(15)	(91)	69	50	368	114	271	766
Provision for taxes (tax saving) on operating profit	(6)	(35)	28	24	149	51	115	326
Operating profit (loss) after taxes	(9)	(56)	41	26	219	63	156	440
Bank's share in operating profit of investee company	-	-	-	-	-	-	38	38
Net profit (loss):								
Before attribution to noncontrolling interests	(9)	(56)	41	26	219	63	194	478
Attributed to noncontrolling interests	-	(12)	-	(3)	-	(9)	(8)	(32)
Attributed to shareholders of the Bank	(9)	(68)	41	23	219	54	186	446
Average balance of assets	2,175	15,463	18,859	4,913	19,777	8,692	52,200	122,079
Net, credit to the public	2,184	16,333	19,913	4,930	20,470	8,725	-	72,555
Deposits from the public	24,942	27,938	-	12,400	32,272	5,710	-	103,262

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

A. Debts(1) and off-balance sheet credit instruments

Provision for credit losses

1. Change in provision for credit losses

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

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

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

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

A. Debts[(1)] and off-balance sheet credit instruments

Provision for credit losses

1. Change in provision for credit losses

	For the three months ended September 30, 2015 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the period	495	124	215	834	-	834
Expenses (income) in respect of credit losses	(1)	3	12	14	-	14
Accounting write-offs	(21)	(4)	(27)	(52)	-	(52)
Collection of debts written off in accounting in previous years	36	-	16	52	-	52
Net accounting write-offs	15	(4)	(11)	-	-	-
Provision for credit losses at end of the period	509	123	216	848	-	848
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the period	93	-	14	107	-	107
Decrease in the provision	(5)	-	-	(5)	-	(5)
Provision in respect of off-balance sheet credit instruments at end of the period	88	-	14	102	-	102
Total provision for credit losses - debts and off-balance sheet credit instruments	597	123	230	950	-	950

	For the nine months ended September 30, 2015 (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	534	132	210	876	-	876
Expenses in respect of credit losses	17	6	30	53	-	53
Accounting write-offs	(155)	(15)	(76)	(246)	-	(246)
Collection of debts written off in accounting in previous years	113	-	52	165	-	165
Net accounting write-offs	(42)	(15)	(24)	(81)	-	(81)
Provision for credit losses at end of the period	509	123	216	848	-	848
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	106	-	14	120	-	120
Decrease in the provision	(18)	-	-	(18)	-	(18)
Provision in respect of off-balance sheet credit instruments at end of the period	88	-	14	102	-	102
Total provision for credit losses - debts and off-balance sheet credit instruments	597	123	230	950	-	950

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

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

A. Debts* and off-balance sheet credit instruments (Cont'd)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1) and the underlying debts(1)

	September 30, 2016 (unaudited)					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts(1)						
Examined on an individual basis	**34,849**	**-**	**443**	**35,292**	**3,254**	**38,546**
Examined on a collective basis	**4,687**	**21,388**	**17,577**	**43,652**	**-**	**43,652**
Of which: provision for which was calculated according to the extent of arrears	**327**	**21,388**	**-**	**21,715**	**-**	**21,715**
Total debts	**39,536**	**21,388**	**18,020**	**78,944**	**3,254**	**82,198**
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	**473**	**-**	**20**	**493**	**-**	**493**
Examined on a collective basis	**55**	**118**	**199**	**372**	**-**	**372**
Of which: provision for which was calculated according to the extent of arrears	**1**	(2)**118**	**-**	**119**	**-**	**119**
Total provision for credit losses	**528**	**118**	**219**	**865**	**-**	**865**

	September 30, 2015 (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	30,213	-	473	30,686	4,599	35,285
Examined on a collective basis	3,990	19,864	16,186	40,040	-	40,040
Of which: provision for which was calculated according to the extent of arrears	371	19,864	-	20,235	-	20,235
Total debts	34,203	19,864	16,659	70,726	4,599	75,325
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	464	-	36	500	-	500
Examined on a collective basis	45	123	180	348	-	348
Of which: provision for which was calculated according to the extent of arrears	1	(2)123	-	124	-	124
Total provision for credit losses	509	123	216	848	-	848

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, 2015 (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	32,066	-	426	32,492	4,280	36,772
Examined on a collective basis	4,382	20,032	16,473	40,887	-	40,887
Of which: provision for which was calculated according to the extent of arrears	397	20,032	-	20,429	-	20,429
Total debts	36,448	20,032	16,899	73,379	4,280	77,659
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	449	-	15	464	-	464
Examined on a collective basis	49	119	192	360	-	360
Of which: provision for which was calculated according to the extent of arrears	1	(2)119	-	120	-	120
Total provision for credit losses	498	119	207	824	-	824

(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 (30.9.15 - NIS 73 million, 31.12.15 - NIS 74 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 2,162 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (30.9.15 - NIS 2,049 million, 31.12.15 - NIS 2,256 million).

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B.Debts(1)

1. Credit quality and arrears

	September 30, 2016 (unaudited)					
		Problematic(2)			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**3,722**	**27**	**58**	**3,807**	**2**	**3**
Construction and real estate - real estate activities	**4,399**	**13**	**30**	**4,442**	**1**	**1**
Financial services	**7,224**	**18**	**15**	**7,257**	**-**	**16**
Commercial - other	**22,462**	**404**	**439**	**23,305**	**22**	**58**
Total commercial	**37,807**	**462**	**542**	**38,811**	**25**	**78**
Private individuals - housing loans	**21,220**	(6)**158**	**10**	**21,388**	**156**	**157**
Private individuals - others	**17,662**	**209**	**83**	**17,954**	**33**	**39**
Total public - activity in Israel	**76,689**	**829**	**635**	**78,153**	**214**	**274**
Banks in Israel	**806**	**-**	**-**	**806**	**-**	**-**
Israeli government	**653**	**-**	**-**	**653**	**-**	**-**
Total activity in Israel	**78,148**	**829**	**635**	**79,612**	**214**	**274**
Borrower activity abroad						
Public - commercial						
Construction and real estate	**211**	**-**	**-**	**211**	**-**	**-**
Other commercial	**506**	**-**	**8**	**514**	**-**	**-**
Total commercial	**717**	**-**	**8**	**725**	**-**	**-**
Private individuals	**66**	**-**	**-**	**66**	**-**	**-**
Total public - activity abroad	**783**	**-**	**8**	**791**	**-**	**-**
Banks abroad	**1,795**	**-**	**-**	**1,795**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**2,578**	**-**	**8**	**2,586**	**-**	**-**
Total public	**77,472**	**829**	**643**	**78,944**	**214**	**274**
Total banks	**2,601**	**-**	**-**	**2,601**	**-**	**-**
Total governments	**653**	**-**	**-**	**653**	**-**	**-**
Total	**80,726**	**829**	**643**	**82,198**	**214**	**274**

(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 117 million (30.9.15 - NIS 156 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately NIS 5 million (30.9.15 - 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)

B.Debts (1)(Cont'd)

1. Credit quality and arrears (Cont'd)

	September 30, 2015 (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	3,134	47	49	3,230	1	2
Construction and real estate - real estate activities	4,140	5	32	4,177	-	1
Financial services	5,509	70	35	5,614	1	35
Commercial - other	19,495	519	611	20,625	3	68
Total commercial	32,278	641	727	33,646	5	106
Private individuals - housing loans	19,647	(6)203	14	19,864	203	182
Private individuals - others	16,316	168	112	16,596	8	50
Total public - activity in Israel	68,241	1,012	853	70,106	216	338
Banks in Israel	1,041	-	-	1,041	-	-
Israeli government	662	-	-	662	-	-
Total activity in Israel	69,944	1,012	853	71,809	216	338
Borrower activity abroad						
Public - commercial						
Construction and real estate	128	-	15	143	-	-
Other commercial	405	-	9	414	-	-
Total commercial	533	-	24	557	-	-
Private individuals	63	-	-	63	-	-
Total public - activity abroad	596	-	24	620	-	-
Banks abroad	2,896	-	-	2,896	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	3,492	-	24	3,516	-	-
Total public	68,837	1,012	877	70,726	216	338
Total banks	3,937	-	-	3,937	-	-
Total governments	662	-	-	662	-	-
Total	73,436	1,012	877	75,325	216	338

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, 2015 (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	3,189	49	47	3,285	2	5
Construction and real estate - real estate activities	4,096	4	60	4,160	-	1
Financial services	7,358	17	25	7,400	1	9
Commercial - other	19,901	530	524	20,955	18	32
Total commercial	34,544	600	656	35,800	21	47
Private individuals - housing loans	19,838	(6)184	10	20,032	182	168
Private individuals - others	16,572	204	75	16,851	31	50
Total public - activity in Israel	70,954	988	741	72,683	234	265
Banks in Israel	1,362	-	-	1,362	-	-
Israeli government	669	-	-	669	-	-
Total activity in Israel	72,985	988	741	74,714	234	265
Borrower activity abroad						
Public - commercial						
Construction and real estate	124	-	14	138	-	-
Other commercial	501	-	9	510	-	-
Total commercial	625	-	23	648	-	-
Private individuals	48	-	-	48	-	-
Total public - activity abroad	673	-	23	696	-	-
Banks abroad	2,249	-	-	2,249	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	2,922	-	23	2,945	-	-
Total public	71,627	988	764	73,379	234	265
Total banks	3,611	-	-	3,611	-	-
Total governments	669	-	-	669	-	-
Total	75,907	988	764	77,659	234	265

(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 97 million were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately 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)

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

	September 30, 2016 (unaudited)				
A. Impaired debts and the individual provision	Balance[2] of impaired debts for which an individual provision exists[3]	Individual provision[3]	Balance[2] of impaired debts for which no individual provision exists[3]	Total Balance[2] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**27**	**23**	**31**	**58**	**798**
Construction and real estate - real estate activities	**2**	**2**	**28**	**30**	**503**
Financial services	**15**	**4**	**-**	**15**	**348**
Commercial - other	**329**	**182**	**110**	**439**	**2,361**
Total commercial	**373**	**211**	**169**	**542**	**4,010**
Private individuals - housing loans	**-**	**-**	**10**	**10**	**10**
Private individuals - others	**15**	**12**	**68**	**83**	**159**
Total public - activity in Israel	**388**	**223**	**247**	**635**	**4,179**
Banks in Israel	**-**	**-**	**-**	**-**	**-**
Israeli government	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**388**	**223**	**247**	**635**	**4,179**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**-**	**-**	**-**	**-**	**-**
Other commercial	**-**	**-**	**8**	**8**	**77**
Total commercial	**-**	**-**	**8**	**8**	**77**
Private individuals	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**-**	**-**	**8**	**8**	**77**
Banks abroad	**-**	**-**	**-**	**-**	**-**
Government abroad	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**-**	**-**	**8**	**8**	**77**
Total public	**388**	**223**	**255**	**643**	**4,256**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total(*)	**388**	**223**	**255**	**643**	**4,256**
(*) Of which:					
Measured at the present value of cash flows	**388**	**223**	**197**	**585**	
Debts in troubled debt restructuring	**22**	**12**	**219**	**241**	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	September 30, 2015 (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	15	8	34	49	766
Construction and real estate - real estate activities	2	2	30	32	445
Financial services	28	1	7	35	386
Commercial - other	463	201	148	611	2,462
Total commercial	508	212	219	727	4,059
Private individuals - housing loans	-	-	14	14	14
Private individuals - others	29	27	83	112	415
Total public - activity in Israel	537	239	316	853	4,488
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	537	239	316	853	4,488
Borrower activity abroad					
Public - commercial					
Construction and real estate	15	3	-	15	15
Other commercial	9	-	-	9	89
Total commercial	24	3	-	24	104
Private individuals	-	-	-	-	-
Total public - activity abroad	24	3	-	24	104
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	24	3	-	24	104
Total public	561	242	316	877	4,592
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	561	242	316	877	4,592
(*) Of which:					
Measured at the present value of cash flows	560	242	250	810	
Debts in troubled debt restructuring	23	13	205	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, 2015 (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	11	6	36	47	743
Construction and real estate - real estate activities	-	-	60	60	488
Financial services	2	1	23	25	381
Commercial - other	414	180	110	524	2,234
Total commercial	427	187	229	656	3,846
Private individuals - housing loans	-	-	10	10	10
Private individuals - others	8	7	67	75	146
Total public - activity in Israel	435	194	306	741	4,002
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	435	194	306	741	4,002
Borrower activity abroad					
Public - commercial					
Construction and real estate	14	3	-	14	14
Other commercial	9	-	-	9	85
Total commercial	23	3	-	23	99
Private individuals	-	-	-	-	-
Total public - activity abroad	23	3	-	23	99
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	23	3	-	23	99
Total public	458	197	306	764	4,101
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	458	197	306	764	4,101
(*) Of which:					
Measured at the present value of cash flows	458	197	257	715	
Debts in troubled debt restructuring	26	15	203	229	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	For the three months ended September 30					
	2016			2015		
	(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	**58**	**-**	**-**	52	-	-
Construction and real estate - real estate activities	**33**	**-**	**-**	36	-	-
Financial services	**15**	**-**	**-**	26	-	-
Commercial - other	**437**	**1**	**1**	535	1	1
Total commercial	**543**	**1**	**1**	649	1	1
Private individuals - housing loans	**10**	**-**	**-**	16	-	-
Private individuals - others	**79**	**-**	**-**	112	-	-
Total public - activity in Israel	**632**	**1**	**1**	777	1	1
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**632**	**1**	**1**	777	1	1
Borrower activity abroad						
Public - commercial						
Construction and real estate	**3**	**-**	**-**	17	-	-
Other commercial	**8**	**-**	**-**	10	-	-
Total commercial	**11**	**-**	**-**	27	-	-
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**11**	**-**	**-**	27	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Government abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**11**	**-**	**-**	27	-	-
Total public	**643**	**1**	**1**	804	1	1
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**643**	(4)**1**	**1**	804	(4)1	1

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Average recorded debt balance of impaired debts to the public in the reported period
(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.
(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 15 million was recorded in three months ended September 30, 2016 (for three months ended September 30, 2015 - NIS 19 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)

	For the nine months ended September 30					
			2016			2015
			(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	**60**	**-**	**-**	68	-	-
Construction and real estate - real estate activities	**37**	**-**	**-**	40	-	-
Financial services	**13**	**-**	**-**	14	-	-
Commercial - other	**491**	**1**	**1**	519	2	2
Total commercial	**601**	**1**	**1**	641	2	2
Private individuals - housing loans	**14**	**-**	**-**	18	-	-
Private individuals - others	**73**	**1**	**1**	114	1	1
Total public - activity in Israel	**688**	**2**	**2**	773	3	3
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**688**	**2**	**2**	773	3	3
Borrower activity abroad						
Public - commercial						
Construction and real estate	**9**	**-**	**-**	23	-	-
Other commercial	**8**	**-**	**-**	10	-	-
Total commercial	**17**	**-**	**-**	33	-	-
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**17**	**-**	**-**	33	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Government abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**17**	**-**	**-**	33	-	-
Total public	**705**	**2**	**2**	806	3	3
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**705**	(4)**2**	**2**	806	(4)3	3

(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 48 million was recorded in nine months ended September 30, 2016 (for nine months ended September 30, 2015 - NIS 56 million).

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	September 30, 2016 (unaudited)				
	Recorded debt balance				
C. Troubled debt restructuring	Not accruing interest income	accruing(2) in arrears of 90 days or more	accruing (2) in arrears of 30 to 89 days	Accruing(2), not in arrears	Total(3)
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	14	-	-	1	15
Construction and real estate - real estate activities	8	-	-	1	9
Financial services	2	-	-	-	2
Commercial - other	120	-	-	17	137
Total commercial	144	-	-	19	163
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	57	-	-	13	70
Total public - activity in Israel	201	-	-	32	233
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	201	-	-	32	233
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	8	-	-	-	8
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	209	-	-	32	241
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	209	-	-	32	241

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	September 30, 2015 (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	8	-	-	1	9
Construction and real estate - real estate activities	8	-	-	2	10
Financial services	3	-	-	1	4
Commercial - other	117	-	-	13	130
Total commercial	136	-	-	17	153
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	56	-	-	10	66
Total public - activity in Israel	192	-	-	27	219
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	192	-	-	27	219
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	9	-	-	-	9
Total commercial	9	-	-	-	9
Private individuals	-	-	-	-	-
Total public - activity abroad	9	-	-	-	9
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	9	-	-	-	9
Total public	201	-	-	27	228
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	201	-	-	27	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, 2015 (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	13	-	-	1	14
Construction and real estate - real estate activities	8	-	-	2	10
Financial services	4	-	-	1	5
Commercial - other	108	-	-	14	122
Total commercial	133	-	-	18	151
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	58	-	-	11	69
Total public - activity in Israel	191	-	-	29	220
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	191	-	-	29	220
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	9	-	-	-	9
Total commercial	9	-	-	-	9
Private individuals	-	-	-	-	-
Total public - activity abroad	9	-	-	-	9
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	9	-	-	-	9
Total public	200	-	-	29	229
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	200	-	-	29	229

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	Restructuring made					
	For the three months ended September 30					
	2016			2015		
				(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**	**-**	**-**	11	1	1
Construction and real estate - real estate activities	**-**	**-**	**-**	1	-	-
Financial services	**2**	**1**	**1**	2	1	1
Commercial - other	**52**	**34**	**34**	70	8	8
Total commercial	**60**	**35**	**35**	84	10	10
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - others	**270**	**14**	**12**	319	13	12
Total public - activity in Israel	**330**	**49**	**47**	403	23	22
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**330**	**49**	**47**	403	23	22
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	**330**	**49**	**47**	403	23	22
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**330**	**49**	**47**	403	23	22

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed or purchased under agreements to resell.

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	Restructuring made					
	For the nine months ended September 30					
	2016			2015		
				(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	**20**	**6**	**6**	30	5	4
Construction and real estate - real estate activities	**-**	**-**	**-**	3	-	-
Financial services	**4**	**2**	**2**	5	1	1
Commercial - other	**178**	**54**	**52**	236	35	31
Total commercial	**202**	**62**	**60**	274	41	36
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - others	**778**	**39**	**36**	837	36	35
Total public - activity in Israel	**980**	**101**	**96**	1,111	77	71
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**980**	**101**	**96**	1,111	77	71
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	**980**	**101**	**96**	1,111	77	71
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**980**	**101**	**96**	1,111	77	71

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed or purchased under agreements to resell.

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)(3)			
	For the three months ended September 30			
	2016		2015	
			(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	**2**	**-**	2	-
Construction and real estate - real estate activities	**-**	**-**	2	-
Financial services	**-**	**-**	-	-
Commercial - other	**29**	**3**	37	4
Total commercial	**31**	**3**	41	4
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - others	**57**	**1**	91	3
Total public - activity in Israel	**88**	**4**	132	7
Banks in Israel	**-**	**-**	-	-
Israeli government	**-**	**-**	-	-
Total activity in Israel	**88**	**4**	132	7
Borrower activity abroad				
Public - commercial				
Construction and real estate	**-**	**-**	-	-
Other commercial	**1**	**8**	-	-
Total commercial	**1**	**8**	-	-
Private individuals	**-**	**-**	-	-
Total public - activity abroad	**1**	**8**	-	-
Banks abroad	**-**	**-**	-	-
Governments abroad	**-**	**-**	-	-
Total activity abroad	**1**	**8**	-	-
Total public	**89**	**12**	132	7
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**89**	**12**	132	7

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed or purchased under agreements to resell.

(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.

(3) Starting with the financial statements for 2015 the Bank implement the amendments to the FAQ in respect of impaired debts, credit risk and provision for credit losses, that among other things, requires that the debts evaluated on a collective basis that were restructured and the restructuring failed will be written off no later than 60 days. The Bank implemented the directive from this day onwards.

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)(3)]			
	For the nine months ended September 30			
	2016		2015	
			(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	**2**	**-**	5	1
Construction and real estate - real estate activities	**1**	**1**	2	-
Financial services	**1**	**1**	-	-
Commercial - other	**51**	**14**	77	7
Total commercial	**55**	**16**	84	8
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - others	**120**	**2**	173	5
Total public - activity in Israel	**175**	**18**	257	13
Banks in Israel	**-**	**-**	-	-
Israeli government	**-**	**-**	-	-
Total activity in Israel	**175**	**18**	257	13
Borrower activity abroad				
Public - commercial				
Construction and real estate	**-**	**-**	-	-
Other commercial	**1**	**8**	2	9
Total commercial	**1**	**8**	2	9
Private individuals	**-**	**-**	-	-
Total public - activity abroad	**1**	**8**	2	9
Banks abroad	**-**	**-**	-	-
Governments abroad	**-**	**-**	-	-
Total activity abroad	**1**	**8**	2	9
Total public	**176**	**26**	259	22
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**176**	**26**	259	22

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed or purchased under agreements to resell.

(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.

(3) Starting with the financial statements for 2015 the Bank implement the amendments to the FAQ in respect of impaired debts, credit risk and provision for credit losses, that among other things, requires that the debts evaluated on a collective basis that were restructured and the restructuring failed will be written off no later than 60 days. The Bank implemented the directive from this day onwards.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[(1)] (Cont'd)

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)(**), repayment type, and interest type

	September 30, 2016 (unaudited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	**14,982**	**388**	**9,222**	**805**
- Over 60%	**6,219**	**105**	**4,114**	**335**
Secondary lien or no lien	**187**	**4**	**103**	**11**
Total	**21,388**	**497**	**13,439**	**1,151**

	September 30, 2015 (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%	13,846	477	8,773	651
- Over 60%	5,916	121	4,049	280
Secondary lien or no lien	102	5	56	1
Total	19,864	603	12,878	932

	December 31, 2015 (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%	14,017	435	8,792	1,076
- Over 60%	5,903	116	4,010	607
Secondary lien or no lien	112	5	61	9
Total	20,032	556	12,863	1,692

* Restated.

** 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.The minimal group provision, in the amount of 0.35% as requested by the Bank of Israel directives is tested quarterly against the provision in the amount of 0.75% of credit with LTV higher than 60%. The group provision is higher than the provision according to LTV.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

C. Off-balance sheet financial instruments

	Balance of contracts[1]			Balance of provision for credit losses		
	30.9.16	30.9.15	31.12.15	30.9.16	30.9.15	31.12.15
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)	(audited)
Transactions the balance of which represents credit risk:						
Documentary credit	**108**	147	130	**-**	-	-
Guarantees securing credit	**1,077**	1,032	972	**12**	11	11
Guarantees to home purchasers	**2,960**	2,853	2,614	**10**	15	14
Guarantees and other liabilities	**3,650**	3,561	3,529	**17**	28	22
Unutilized credit lines for derivatives instruments	**34,039**	30,518	32,967	**-**	1	-
Unutilized revolving credit and other on-call credit facilities	**10,619**	10,738	11,560	**17**	18	21
Irrevocable commitments to grant credit, not yet executed	**5,042**	3,686	3,595	**4**	15	4
Unutilized credit lines for credit card facilities	**6,115**	6,595	6,509	**4**	5	5
Facilities for the lending of securities	**205**	144	110	**-**	-	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses	**164**	275	254	**-**	-	-
Commitments to issue guarantees	**1,670**	1,620	1,513	**8**	9	8
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]	**122**	94	104	**-**	-	-

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.

(2) In addition, the Bank provided the courts with letters of self undertaking unlimited in amounts, given in connection with legal proceedings, in order to secure compensation for the damage to the defendants in the event that the action against them is dismissed or the legal proceedings terminated because of any other reason.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES
(NIS million)

	September 30, 2016 (unaudited)						
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	**24,290**	**80**	**1,611**	**392**	**299**	**-**	**26,672**
Securities	**6,771**	**1,827**	**6,525**	**694**	**114**	**196**	**16,127**
Securities which were borrowed	**505**	**-**	**-**	**-**	**-**	**-**	**505**
Credit to the public, net(3)	**61,483**	**10,271**	**4,031**	**1,167**	**568**	**559**	**78,079**
Credit to the government	**35**	**618**	**-**	**-**	**-**	**-**	**653**
Investee company	**-**	**-**	**-**	**-**	**-**	**505**	**505**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**1,144**	**1,144**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**223**	**223**
Assets in respect of derivative instruments	**382**	**45**	**163**	**18**	**76**	**455**	**1,139**
Other assets	**645**	**37**	**7**	**3**	**8**	**280**	**980**
Assets held for sale	**-**	**-**	**-**	**-**	**-**	**44**	**44**
Total assets	**94,111**	**12,878**	**12,337**	**2,274**	**1,065**	**3,406**	**126,071**
Liabilities							
Deposits from the public	**75,755**	**6,436**	**16,995**	**3,543**	**1,247**	**573**	**104,549**
Deposits from banks	**540**	**-**	**203**	**20**	**26**	**-**	**789**
Deposits from the Government	**277**	**166**	**68**	**3**	**1**	**-**	**515**
Bonds and subordinated capital notes	**712**	**4,885**	**-**	**-**	**-**	**-**	**5,597**
Liabilities in respect of derivative instruments	**458**	**40**	**233**	**64**	**68**	**437**	**1,300**
Other liabilities	**4,810**	**112**	**67**	**8**	**12**	**295**	**5,304**
Total liabilities	**82,552**	**11,639**	**17,566**	**3,638**	**1,354**	**1,305**	**118,054**
Difference	**11,559**	**1,239**	**(5,229)**	**(1,364)**	**(289)**	**2,101**	**8,017**
Hedging financial instruments							
Derivative instruments (not including options)	**240**	**-**	**-**	**-**	**(240)**	**-**	**-**
Non-hedging derivatives							
Derivative instruments (not including options)	**(7,373)**	**(296)**	**5,387**	**1,703**	**579**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**377**	**-**	**(7)**	**(375)**	**5**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**2**	**-**	**21**	**(27)**	**4**	**-**	**-**
Total	**4,805**	**943**	**172**	**(63)**	**59**	**2,101**	**8,017**
Options in the money, net (present value of stated amount)	**374**	**-**	**60**	**(444)**	**10**	**-**	**-**
Options out of the money, net (present value of stated amount)	**(367)**	**-**	**375**	**(23)**	**15**	**-**	**-**

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

	September 30, 2015 (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	28,476	125	3,432	583	430	-	33,046
Securities	6,290	1,752	4,356	847	112	248	13,605
Securities which were borrowed	332	-	-	-	-	-	332
Credit to the public, net[3]	53,056	10,928	3,751	1,250	366	527	69,878
Credit to the government	43	619	-	-	-	-	662
Investee company	-	-	-	-	-	427	427
Premises and equipment	-	-	-	-	-	1,220	1,220
Intangible assets	-	-	-	-	-	273	273
Assets in respect of derivative instruments	311	58	529	159	51	1,081	2,189
Other assets	489	92	5	1	7	632	1,226
Total assets	88,997	13,574	12,073	2,840	966	4,408	122,858
Liabilities							
Deposits from the public	68,372	7,403	19,072	3,767	1,506	532	100,652
Deposits from banks	704	-	169	32	33	-	938
Deposits from the Government	323	-	72	6	1	-	402
Bonds and subordinated capital notes	775	5,175	-	-	-	-	5,950
Liabilities in respect of derivative instruments	343	60	524	114	34	1,074	2,149
Other liabilities	4,034	381	62	8	16	648	5,149
Total liabilities	74,551	13,019	19,899	3,927	1,590	2,254	115,240
Difference	14,446	555	(7,826)	(1,087)	(624)	2,154	7,618
Hedging financial instruments							
Derivative instruments (not including options)	402	-	-	-	(402)	-	-
Non-hedging derivatives							
Derivative instruments (not including options)	(8,893)	(755)	7,644	1,110	894	-	-
Options in the money, net (in terms of underlying asset)	168	-	83	(251)	-	-	-
Options out of the money, net (in terms of underlying asset)	(514)	-	300	214	-	-	-
Total	5,609	(200)	201	(14)	(132)	2,154	7,618
Options in the money, net (present value of stated amount)	248	-	98	(346)	-	-	-
Options out of the money, net (present value of stated amount)	(2,376)	-	1,550	800	26	-	-

(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, 2015 (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	27,842	113	1,907	483	382	-	30,727
Securities	6,915	1,655	7,027	466	115	261	16,439
Securities which were borrowed	353	-	-	-	-	-	353
Credit to the public, net(3)	55,908	10,700	3,855	1,153	308	631	72,555
Credit to the government	51	618	-	-	-	-	669
Investee company	-	-	-	-	-	438	438
Premises and equipment	-	-	-	-	-	1,229	1,229
Intangible assets	-	-	-	-	-	272	272
Assets in respect of derivative instruments	279	53	339	75	29	861	1,636
Other assets	702	102	17	-	9	328	1,158
Total assets	92,050	13,241	13,145	2,177	843	4,020	125,476
Liabilities							
Deposits from the public	70,392	7,095	20,122	3,583	1,430	640	103,262
Deposits from banks	1,300	-	223	30	12	-	1,565
Deposits from the Government	352	90	65	3	1	-	511
Bonds and subordinated capital notes	780	5,082	-	-	-	-	5,862
Liabilities in respect of derivative instruments	298	60	343	86	21	851	1,659
Other liabilities	4,317	212	61	6	15	343	4,954
Total liabilities	77,439	12,539	20,814	3,708	1,479	1,834	117,813
Difference	14,611	702	(7,669)	(1,531)	(636)	2,186	7,663
Hedging financial instruments							
Derivative instruments (not including options)	394	-	-	-	(394)	-	-
Non-hedging derivatives							
Derivative instruments (not including options)	(9,537)	(505)	7,400	1,739	903	-	-
Options in the money, net (in terms of underlying asset)	225	-	(19)	(207)	1	-	-
Options out of the money, net (in terms of underlying asset)	(403)	-	406	(3)	-	-	-
Total	5,290	197	118	(2)	(126)	2,186	7,663
Options in the money, net (present value of stated amount)	341	-	(51)	(291)	1	-	-
Options out of the money, net (present value of stated amount)	(1,619)	-	1,725	(107)	1	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

				September 30, 2016 (unaudited)	
	Stated in the				Fair value[1]
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	**26,672**	**606**	**25,935**	**128**	**26,669**
Securities[2]	**16,127**	**8,373**	**7,679**	**133**	**16,185**
Securities which were borrowed	**505**	**-**	**505**	**-**	**505**
Credit to the public, net	**78,079**	**2,323**	**1,170**	**74,721**	**78,214**
Credit to the government	**653**	**-**	**35**	**606**	**641**
Assets in respect of derivative instruments	**1,139**	**522**	**346**	**271**	**1,139**
Other financial assets	**406**	**260**	**-**	**146**	**406**
Total financial assets	**[3]123,581**	**12,084**	**35,670**	**76,005**	**123,759**
Financial liabilities					
Deposits from the public	**104,549**	**1,918**	**85,940**	**16,863**	**104,721**
Deposits from Banks	**789**	**-**	**731**	**65**	**796**
Deposits from the Government	**515**	**220**	**220**	**94**	**534**
Bonds and non-convertible subordinated capital notes	**5,597**	**4,918**	**-**	**906**	**5,824**
Liabilities in respect of derivative instruments	**1,300**	**518**	**739**	**43**	**1,300**
Other financing liabilities	**4,296**	**569**	**1,170**	**2,555**	**4,294**
Total financial liabilities	**[3]117,046**	**8,143**	**88,800**	**20,526**	**117,469**
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	**35**	**-**	**-**	**35**	**35**

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 18,394 million and liabilities of NIS 4,025 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

					September 30, 2015 (unaudited)
	Stated in the				Fair value[1]
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	33,046	649	32,270	122	33,041
Securities[2]	13,605	7,843	5,689	125	13,657
Securities which were borrowed	332	-	332	-	332
Credit to the public, net	69,878	1,472	1,838	67,205	70,515
Credit to the government	662	-	43	602	645
Assets in respect of derivative instruments	2,189	1,187	506	496	2,189
Other financial assets	473	331	-	142	473
Total financial assets	[3]120,185	11,482	40,678	68,692	120,852
Financial liabilities					
Deposits from the public	100,652	1,358	86,143	13,542	101,043
Deposits from Banks	938	-	905	65	970
Deposits from the Government	402	18	300	105	423
Bonds and non-convertible subordinated capital notes	5,950	5,100	-	1,185	6,285
Liabilities held for sale	2,149	1,185	897	67	2,149
Other financing liabilities	4,152	676	1,837	1,637	4,150
Total financial liabilities	[3]114,243	8,337	90,082	16,601	115,020
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	33	-	-	33	33

(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 16,591 million and liabilities of NIS 4,208 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, 2015 (audited)				
	Stated in the Balance Sheet				Fair value[1]
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	30,727	603	30,010	128	30,741
Securities[2]	16,439	8,248	8,113	128	16,489
Securities which were borrowed	353	-	353	-	353
Credit to the public, net	72,555	1,836	1,941	69,381	73,158
Credit to the government	669	-	52	599	651
Assets in respect of derivative instruments	1,636	958	400	278	1,636
Other financial assets	436	317	-	119	436
Total financial assets	[3]122,815	11,962	40,869	70,633	123,464
Financial liabilities					
Deposits from the public	103,262	1,584	87,006	14,919	103,509
Deposits from Banks	1,565	-	1,543	25	1,568
Deposits from the Government	511	160	269	102	531
Bonds and non-convertible subordinated capital notes	5,862	5,053	-	1,088	6,141
Liabilities in respect of derivative instruments	1,659	958	633	68	1,659
Other financing liabilities	3,973	495	1,941	1,535	3,971
Total financial liabilities	[3]116,832	8,250	91,392	17,737	117,379
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	34	-	-	34	34

(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 19,180 million and liabilities of NIS 3,908 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)

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.

(NIS million)

B. Principal methods and assumptions used for the calculation of the fair value estimates of financial instruments

Deposits with banks, bonds and non-marketable securities and credit to the Government - By discounting future cash flows according to interest rates used by the Bank in similar transactions close to the reporting date.

Marketable securities - According to their value in the principal market. Where there are several markets on which the instrument is traded, the assessment is made according to the most beneficial market.

Credit to the public - The fair value of the credit to the public balance was estimated according to discounting the future cash flows in an appropriate discount rate. The balance was separated into homogenous categories. The receipts in each category were discounted at a discount rate which reflects the risk inherent in the category. In general, this discount rate is determined according to the interest at which the Bank transacts similar business at the reporting date.
The fair value of impaired debts is assessed using discount rates that reflect the high credit risk inherent in such debts. In any event, such discount rates are not lower than the highest interest rate used by the Bank in transacting business at the reporting date.
Anticipated future cash flows in respect of impaired debts and other debts have been assessed after deducting the effect of accounting write-offs and of provisions for credit losses in respect of the debts.
Accounting write-offs and provisions for credit losses are attributed, where possible, to periods in which these debts had been classified (example: where the provision was assessed on a specific basis, by the present value of future cash flows). In the absence of such data, accounting write-offs and provisions for credit losses are attributed proportionally to the outstanding balance of credit according to maturity periods at end of the period.

Deposits and subordinate capital notes - By discounting future cash flows according to interest rates used by the Group in raising similar deposits (if a quoted price on an active market is not available), or issuing similar capital notes, at reporting date. As regards bonds and subordinate debt notes that are traded as an asset on an active market, fair value is based upon quoted market prices.

Derivative financial instruments - Derivative financial instruments for which an active market exists have been estimated at market value, and where several active markets exist, have been estimated according to the most beneficial market.
Derivative financial instruments for which no active market exists have been calculated according to models which are used by the Group in current activity and take into account the inherent risks of the financial instrument (market risk, credit risk, etc.).

Off-balance sheet financial instruments and transactions the balance of which represents credit risk -the fair value has been assessed in accordance with commission earned in similar transactions at the reporting date, adjusted in respect of the remaining period of the transaction and the credit quality of the counterparty.

NOTE 14B - ITEMS MEASURED AT FAIR VALUE
(NIS million)

A. Items measured at fair value on a recurrent basis

	September 30, 2016 (unaudited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	**5,671**	**2,230**	**-**	**-**	**7,901**
Government bonds - Foreign governments	**-**	**2,728**	**-**	**-**	**2,728**
Bonds of financial institutions in Israel	**297**	**-**	**-**	**-**	**297**
Bonds of foreign financial institutions	**-**	**1,431**	**-**	**-**	**1,431**
Mortgage backed (MBS)	**-**	**507**	**-**	**-**	**507**
Bonds of others in Israel	**506**	**245**	**-**	**-**	**751**
Bonds of foreign others	**-**	**23**	**-**	**-**	**23**
Shares of others	**59**	**4**	**-**	**-**	**63**
Total available for sale securities	**6,533**	**7,168**	**-**	**-**	**13,701**
Trading Securities:					
Government bonds -Israeli Government	**754**	**-**	**-**	**-**	**754**
Government bonds - Foreign governments	**-**	**23**	**-**	**-**	**23**
Bonds of financial institutions in Israel	**14**	**-**	**-**	**-**	**14**
Bonds of foreign financial institutions	**-**	**68**	**-**	**-**	**68**
Bonds of others in Israel	**75**	**-**	**-**	**-**	**75**
Bonds of foreign others	**-**	**37**	**-**	**-**	**37**
Total trading securities	**843**	**128**	**-**	**-**	**971**
Credit in respect of security borrowing	**2,323**	**-**	**-**	**-**	**2,323**
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	**-**	**-**	**22**	**-**	**22**
Interest rate contract: other	**4**	**230**	**13**	**-**	**247**
Foreign currency contracts	**81**	**98**	**236**	**-**	**415**
Shares contracts	**435**	**18**	**-**	**-**	**453**
Commodities and other contracts	**2**	**-**	**-**	**-**	**2**
Total assets in respect of derivative instruments	**522**	**346**	**271**	**-**	**1,139**
Assets in respect of MAOF activity	**260**	**-**	**-**	**-**	**260**
Total assets	**10,481**	**7,642**	**271**	**-**	**18,394**
Liabilities					
Deposits in respect of borrowing between customers	**1,918**	**-**	**-**	**-**	**1,918**
Deposits from the Government	**220**	**-**	**-**	**-**	**220**
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	**-**	**-**	**3**	**-**	**3**
Interest rate contract: other	**4**	**385**	**-**	**-**	**389**
Foreign currency contracts	**77**	**354**	**40**	**-**	**471**
Shares contracts	**435**	**18**	**-**	**-**	**453**
Commodities and other contracts	**2**	**-**	**-**	**-**	**2**
Total liabilities in respect of derivative instruments	**518**	**757**	**43**	**-**	**1,318**
Other liabilities					
Liabilities in respect of activity in the maof market	**260**	**-**	**-**	**-**	**260**
Short selling of securities	**309**	**-**	**-**	**-**	**309**
Total other liabilities	**569**	**-**	**-**	**-**	**569**
Total liabilities	**3,225**	**757**	**43**	**-**	**4,025**

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

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

	September 30, 2015 (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	5,480	1,498	-	-	6,978
Government bonds - Foreign governments	-	1,093	-	-	1,093
Bonds of financial institutions in Israel	461	-	-	-	461
Bonds of foreign financial institutions	-	1,653	-	-	1,653
Mortgage backed (MBS)	-	452	-	-	452
Bonds of others in Israel	623	276	-	-	899
Bonds of foreign others	-	237	-	-	237
Shares of others	102	20	-	-	122
Total available for sale securities	6,666	5,229	-	-	11,895
Trading Securities:					
Government bonds -Israeli Government	513	-	-	-	513
Bonds of financial institutions in Israel	80	-	-	-	80
Bonds of foreign financial institutions	-	58	-	-	58
Bonds of others in Israel	48	-	-	-	48
Bonds of foreign others	-	4	-	-	4
Shares of others	1	-	-	-	1
Total trading securities	642	62	-	-	704
Credit in respect of security borrowing	1,472	-	-	-	1,472
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	25	-	25
Interest rate contract: other	5	247	15	-	267
Foreign currency contracts	107	251	456	-	814
Shares contracts	1,073	6	-	-	1,079
Commodities and other contracts	2	2	-	-	4
Total assets in respect of derivative instruments	1,187	506	496	-	2,189
Assets in respect of MAOF activity	331	-	-	-	331
Total assets	10,298	5,797	496	-	16,591
Liabilities					
Deposits in respect of borrowing between customers	1,358	-	-	-	1,358
Deposits from the Government	18	-	-	-	18
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	8	-	8
Interest rate contract: other	6	390	-	-	396
Foreign currency contracts	105	507	59	-	671
Shares contracts	1,073	6	-	-	1,079
Commodities and other contracts	1	1	-	-	2
Total liabilities in respect of derivative instruments	1,185	904	67	-	2,156
Other liabilities					
Liabilities in respect of activity in the maof market	331	-	-	-	331
Short selling of securities	345	-	-	-	345
Total Other Liabilities	676	-	-	-	676
Total liabilities	3,237	904	67	-	4,208

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, 2015 (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	5,735	1,345	-	-	7,080
Government bonds - Foreign governments	-	3,244	-	-	3,244
Bonds of financial institutions in Israel	458	-	-	-	458
Bonds of foreign financial institutions	-	1,709	-	-	1,709
Mortgage backed (MBS)	-	510	-	-	510
Bonds of others in Israel	635	280	-	-	915
Bonds of foreign others	-	360	-	-	360
Shares of others	111	19	-	-	130
Total available for sale securities	6,939	7,467	-	-	14,406
Trading Securities:					
Government bonds -Israeli Government	774	-	-	-	774
Bonds of financial institutions in Israel	69	-	-	-	69
Bonds of foreign financial institutions	-	72	-	-	72
Bonds of others in Israel	39	8	-	-	47
Bonds of foreign others	-	20	-	-	20
Shares of others	3	-	-	-	3
Total trading securities	885	100	-	-	985
Credit in respect of security borrowing	1,836	-	-	-	1,836
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	27	-	27
Interest rate contract: other	4	220	10	-	234
Foreign currency contracts	103	169	241	-	513
Shares contracts	849	10	-	-	859
Commodities and other contracts	2	1	-	-	3
Total assets in respect of derivative instruments	958	400	278	-	1,636
Assets in respect of MAOF activity	317	-	-	-	317
Total assets	10,935	7,967	278	-	19,180
Liabilities					
Deposits in respect of borrowing between customers	1,584	-	-	-	1,584
Deposits from the Government	160	-	-	-	160
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	8	-	8
Interest rate contract: other	4	327	-	-	331
Foreign currency contracts	103	306	60	-	469
Shares contracts	849	10	-	-	859
Commodities and other contracts	2	-	-	-	2
Total liabilities in respect of derivative instruments	958	643	68	-	1,669
Other liabilities					
Liabilities in respect of activity in the maof market	317	-	-	-	317
Short selling of securities	178	-	-	-	178
Total other liabilities	495	-	-	-	495
Total liabilities	3,197	643	68	-	3,908

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

B. Items measured at fair value on a recurrent basis

	September 30, 2016 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**59**	**59**	**13**

	September 30, 2015 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	1	-	59	60	(53)
Other	-	-	2	2	(1)

	December 31, 2015 (audited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	-	-	46	46	(67)

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

(NIS million)

	For the three months ended September 30, 2016 (unaudited)							
	Fair value as at June 30, 2016	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at September 30, 2016	Unrealized profits (losses) in respect of instruments held as at September 30, 2016
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**30**	**-**	**-**	**(8)**	**-**	**-**	**22**	**-**
Interest rate contracts: Other	**12**	**1**	**-**	**-**	**-**	**-**	**13**	**1**
Foreign currency contracts	**265**	**309**	**9**	**(347)**	**-**	**-**	**236**	**91**
Total assets	**307**	**310**	**9**	**(355)**	**-**	**-**	**271**	**92**
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**8**	**-**	**-**	**(5)**	**-**	**-**	**3**	**-**
Foreign currency contracts	**34**	**(6)**	**-**	**-**	**-**	**-**	**40**	**(6)**
Total liabilities	**42**	**(6)**	**-**	**(5)**	**-**	**-**	**43**	**(6)**

	For the three months ended September 30, 2015 (unaudited)							
	Fair value as at June 30, 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 September 30, 2015	Unrealized profits (losses) in respect of instruments held as at September 30, 2015
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	19	6	-	-	-	-	25	6
Interest rate contracts: Other	12	4	-	(1)	-	-	15	4
Foreign currency contracts	427	724	20	(715)	-	-	456	205
Total assets	458	734	20	(716)	-	-	496	215
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	19	(1)	-	(12)	-	-	8	(2)
Foreign currency contracts	85	20	-	(6)	-	-	59	19
Total liabilities	104	19	-	(18)	-	-	67	17

(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

(NIS million)

	For nine months ended September 30, 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 September 30, 2016	Unrealized profits (losses) in respect of instruments held as at September 30, 2016
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**27**	**3**	**-**	**(8)**	**-**	**-**	**22**	**2**
Interest rate contracts: Other	**10**	**7**	**-**	**(4)**	**-**	**-**	**13**	**7**
Foreign currency contracts	**241**	**1,525**	**46**	**(1,576)**	**-**	**-**	**236**	**119**
Total assets	**278**	**1,535**	**46**	**(1,588)**	**-**	**-**	**271**	**128**
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**8**	**(1)**	**-**	**(6)**	**-**	**-**	**3**	**(1)**
Foreign currency contracts	**60**	**(6)**	**-**	**(26)**	**-**	**-**	**40**	**91**
Total liabilities	**68**	**(7)**	**-**	**(32)**	**-**	**-**	**43**	**92**

	For nine months ended September 30, 2015 (unaudited)							
	Fair value as at December 31, 2014	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 September 30, 2015	Unrealized profits (losses) in respect of instruments held as at September 30, 2015
Assets								
Assets in respect of derivative instruments								
Interest rate contract: NIS-CPI	31	10	-	(16)	-	-	25	8
Interest rate contracts: other	20	5	-	(10)	-	-	15	5
Commodities and other contracts	-	14	-	(14)	-	-	-	-
Foreign currency contracts	407	1,809	91	(1,851)	-	-	456	271
Total assets	458	1,838	91	(1,891)	-	-	496	284
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	18	(6)	-	(16)	-	-	8	(3)
Foreign currency contracts	79	(11)	-	(31)	-	-	59	(10)
Total liabilities	97	(17)	-	(47)	-	-	67	(13)

(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 2015 (audited)							
	Fair value as at December 31, 2014	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, 2015	Unrealized profits (losses) in respect of instruments held as at December 31, 2015
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	31	14	-	(18)	-	-	27	10
Interest rate contract: Other	20	5	-	(15)	-	-	10	5
Commodity and other contracts	-	14	-	(14)	-	-	-	-
Foreign currency contracts	407	2,174	114	(2,454)	-	-	241	66
Total assets	458	2,207	114	(2,501)	-	-	278	81
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	18	(6)	-	(16)	-	-	8	(3)
Foreign currency contracts	79	(13)	-	(32)	-	-	60	(14)
Total liabilities	97	(19)	-	(48)	-	-	68	(17)

NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

	Value Assessment technique	Unobservable inputs	Fair value	Weighted average	Range
			As of September 30, 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	**22**	**0.10**	**(0.19)-0.31**
Interest rate contract: Other	Discounted cash flow	Counter-party credit risk	**13**	**1.88**	**1.30-5.10**
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	**46**	**(0.77)**	**(0.90)-0.84**
		2. Counter-party credit risk	**190**	**1.50**	**1.05-5.01**
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	**3**	**(0.36)**	**(0.79)-(0.04)**
Foreign currency contracts	Discounted cash flow	CPI-linked interest	**40**	**(0.26)**	**(0.91)-0.93**
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		**59**		

	Value Assessment technique	Unobservable inputs	Fair value	Weighted average	Range
			As of September 30, 2015 (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	25	(0.10)	(0.79)-2.10
Interest rate contract: Other	Discounted cash flow	Counter-party credit risk	15	1.81	1.30-5.14
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	130	0.85	(0.81)-5.15
		2. Counter-party credit risk	326	1.52	1.05-4.89
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	8	0.11	(0.79)-2.30
Foreign currency contracts	Discounted cash flow	CPI-linked interest	59	0.28	(0.82)-3.37
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		59		

NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3 (CONT'D)

	As of December 31, 2015 (Audited)				
	Value Assessment technique	Unobservable inputs	Fair value	Weighted 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	27	0.06	(0.79)-2.10
Interest rate contract: Other	Discounted cash flow	Counter-party credit risk	10	1.85	1.30-1.95
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	56	(0.34)	(0.85)-1.26
		2. Counter-party credit risk	185	1.51	1.05-5.03
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	8	0.22	(0.79)-2.30
Foreign currency contracts	Discounted cash flow	CPI-linked interest	60	0.71	(0.51)-3.52
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		46		

NOTE 15 - CHANGE IN THE RATE OF CORPORATION TAX

On January 4, 2016, the Knesset passed the Income Tax Ordinance Amendment Act (Amendment No. 216), 2016, which among other things, lowered the rate of corporation tax as from the tax year 2016 and thereafter, by 1.5%, so that the tax rate would be 25%. As a result of the said change, the statutory tax rate applying to financial institutions was lowered from 37.58% to 35.89% as from the year 2016 and thereafter.

The balance of deferred taxes as of September 30, 2016, has been computed in accordance with the new tax rate, as stated in the Income Tax Ordinance Amendment Act (Amendment No. 216), 2016, according to the tax rate expected to apply at date of reversal. The effect of the change on the financial statements as of September 30, 2016, is reflected in a reduction of NIS 18 million in the balance of deferred tax assets, against NIS 16 million in deferred tax expenses and against NIS 2 million in other comprehensive loss.

NOTE 16 – COVERSION OF EMPLOYEE RIGHTS TO JUBILEE AWARDS

On March 20, 2016, Bank Leumi announced the conversion of its employees' rights to jubilee awards into shares of Bank Leumi. Whereas the terms of the rights of the Bank's employees to jubilee awards are linked to those of the employees of Bank Leumi, the Board of Directors of the Bank resolved to approve the conversion of the rights to jubilee awards of all the Bank's employees, who under the collective labor agreements and arrangements are entitled to jubilee awards and jubilee vacation accrued to them, as well as of those of certain additional employees of MATAF entitled to jubilee awards, in a similar manner to the conversion of such rights effected by Bank Leumi.

Following discussions with the representative committee of managers and signatories of the Bank, the Board of Directors of the Bank decided on June 14, 2016, to approve a labor agreement with the said representative committee according to which the rights of he managers and signatories of the Bank to jubilee award redeemed in cash (and not converted into shares of the Bank). In accordance with the value of the jubilee award as stated in the books of the Bank as of December 31, 2015 (excluding the discount rate of 3.5% and other adjustments).

On June 30, 2016, the Bank signed a labor agreement with the representative committee of clerks of the Bank, according to which, also the rights to jubilee awards of employees represented by this committee, would be redeemed in cash (and not converted into shares of the Bank or into blocked share units), under the same terms for redemption of the jubilee award rights pertaining to the other relevant Bank employee.

Upon the redemption of the jubilee award rights of all relevant employees of the Bank by cash payment, all rights of the Bank employees to jubilee awards become null and void (both in respect of past employment periods and of future employment periods).

In view of the above, no issue of blocked share units will be performed by the Bank, in accordance with a statement in lieu prospectus published by the Bank on June 14, 2016, for the purpose of conersion of rights to jubilee awards of employees represented by the clerks representative committee, into blocked share units of the Bank (in this respect, the Bank shall also take no action for the self purchase of its shares as stated in the statement in lieu of prospectus).

NOTE 17 – SALE OF VISA EUROPE SHARES

VISA Inc. and VISA Europe Ltd. announce on November 2, 2015, the signing of an agreement according to which VISA Inc. would acquire VUSA Europe for a consideration that would be divided among members of VISA Europe, of a status of "Principal Members", in accordance with a distribution methodology determined by VISA Europe (hereinafter – "the transaction). It has been agreed that the consideration for the transaction would be paid as follows: 69% by an immediate payment in cash, 6% by a cash payment deferred for three years following the consummation of he transaction, and 25% by issue of preferred shares convertible into VISA Inc, shares, which would be blocked for periods as determined in the transaction documents. The conversion ratio of the preferred shares may, under certain conditions be reduced in the future.

Consummation of the transaction had been subject to regulatory approvals which were received during June 2016, and the transaction was consummated on June 21, 2016.

The Bank's share in the consideration amounts to NIS 25.3 million in respect of the immediate cash payment, an amount estimated at NIS 2.1 million in respect of the deferred cash payment, and preferred shares blocked for periods of between 4 and 12 years, convertible into VISA Inc. shares, the value of which at the transaction date is estimated at NIS 4.4 million.

The gain on this transaction recognized in the second quarter of the year, amounts to NIS 68 million, net after the tax effect. This amount includes the bank's share in the consideration as above as well as its share in the gain earned by ICC on the transaction.

LIST OF TABLES -CORPORATE GOVERNANCE

Corporate Governance, Additional Information and Appendix

CORPORATE GOVERNANCE

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: Paz Oil Co. Ltd (until 18.9.16); Airports Authority, Paz Oil Refinery Ashdod Ltd. Serves as Director at: Strauss Group 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 November 1, 2016, 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 November 10, 2016 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 Novenber 10, 2016, 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 November 17, 2016, 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 November 13, 2016, 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.

Mr. Yanon Shweika (who acted as General Manager of PAGI Bank until its merger with the Bank on December 31, 2015), was appointed on January 1, 2016, Vice President Member of Management and Head of the PAGI sub-division.

During January-September 2016, the Bank's Board of Directors held 20 meetings in plenary session and 42 meetings of its various Board Committees.

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.

   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.

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.
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 2015.

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
September 30, 2016									
Paz group(1)	**52,446**	**-**	**-**	**52,446**	**5,021**	**160**	**-**	**-**	**57,627**
Others(3)	**104**	**-**	**-**	**104**	**137**	**-**	**86**	**-**	**327**
Total	**52,550**	**-**	**-**	**52,550**	**5,158**	**160**	**86**	**-**	**57,954**
December 31, 2015									
Paz group(1)	47,808	-	-	47,808	2,736	886	-	-	51,430
Others(3)	11	-	-	11	145	-	92	-	248
Total	47,819	-	-	47,819	2,881	886	92	-	51,678

Deposits	**September 30, 2016**		**December 31, 2015**	
	Balance on balance-sheet date	**Highest balance during period(4)**	**Balance on balance-sheet date**	**Highest balance during period(4)**
		NIS thousand		NIS thousand
Paz group(1)	**5,344**	**43,351**	15,149	109,525
FIBI Holdings group(2)	**-**	**-**	-	2,730
Others(3)	**3,696**	**3,509**	1,766	4,624
Total	**9,040**	**46,860**	16,915	116,879

(1) Paz Oil Co. Ltd. and its subsidiaries and affiliated companies. Paz group is controlled by the Bank's controlling shareholders.

(2) FIBI Holdings Ltd. and its subsidiaries and affiliated companies. FIBI Holdings is the parent company of the Bank and is controlled by the Bank's controlling shareholders.

(3) Relatives of controlling shareholders of the Bank. As the term relative is defined in the Banking Law (licensing)-1981.

(4) 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 2015.

In accordance with FIBI's reports, at August 28, 2016 Dolphin energies Ltd sold FIBI's shares of 3.98% of FIBI's issued capital and the voting rights attached to it. According to FIBI's report, at the date of these financial ststements, 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, 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 to control the Bank and hold 5% or more im any meaning of control in PAZ.

In accordance with reports issued by PAZ, following the sale of shares in September 2016, made by a controlling shareholder in PAZ, and following the resignation of directors who were either controlling shareholders or related to them, the control permit granted in the past to the controlling shareholders in PAZ was repealed, and as a result of PAZ turning into a company with no control core, a new permit entered into effect, which transfers to PAZ the control permit over PAZ Ashdod Oil Refineries Ltd. (hereinafter – "the new permit"). The new permit determines limitations regarding the holding of means of control in PAZ, though these do not apply to whoever was a controlling shareholder in PAZ immediately prior to the new permit becoming effective and until the date on which his holdings are reduced to not more than 5% (though from the date on which the new permit becomes effective, none of the said controlling shareholders may vote by power of the voting rights held by him in excess of 5%), or until December 11, 2019. To the best knowledge of the Bank, at the present date, the controlling shareholders of the Bank still hold means of control in Paz, which exceed 5%.

In addition, to the best of the Bank's knowledge, following the arrangements that had existed between FIBI and Israel Discount Bank Ltd. (hereinafter - "Discount"), when the latter was an interested party in the Bank (as detailed in Note 33.f to the financial report for 2015), the Antitrust Commissioner ruled in 2010, among other things, that Discount has to reduce its holdings in the Bank to a rate of holdings of less than 5% of the issued share capital of the Bank, no later than September 19, 2017.

On February 1, 2016, Discount reported that it had sold, in an off-market transaction, all of the shares of the Bank held by it (9,313,653 shares comprising approximately 9.3% of the equity in the Bank), at a price of NIS 44.70 per share (the consideration was paid on February 4, 2016). As from that date, Discount is no longer an interested party in 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 2,120 employees. A collective labor agreement is in effect at the Bank which links 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. On March 20, 2016, Leumi announced the conversion of the rights of its employees to "jubilee awards" into shares of bank Leumi. Whereas the terms of entitlement to jubilee awards for employees of the Bank are linked to those of Bank Leumi employees, the Board of Directors of the Bank decided to approve the conversion of the rights to jubilee awards of all employees of the Bank, who under the collective labor agreements are entitled to jubilee awards and jubilee vacation accrued in their favor and of certain employees of MATAF to whom jubillee awards are paid. The conversion will be carried out in the same maner to the conversion of rights in Bank Leumi.

   Following discussions with the union of managers and signatories, the Board of Directors decided on June 14, 2016 to approve a new working agreement with the union of managers and signatories at the Bank, according to which the rights to jubillee awards will be converted into cash payment (and not the Bank's shares), according to the value of the jubillee awards recorded in the Bank's books as of December 31, 2015 (except for the use of discounting rate of 3.5% and other reconciliations).

   On June 30, 2016 a working agreement with the clerks union was signed, according to which, the rights to jubillee awards of the employees represented by that union will be converted to cash payment (and not the Bank's share or blocked units) in the same condition of the conversion of the other relevant Bank's employees.

B. 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 is preparing a response to the party motion. A date for the hearing of the party motion has not yet been fixed.

C. Otzar Hahayal

   On September 18, 2016, the Board of Directors of Otzar Hachayal Bank Ltd. approved the wage agreement for employees of this bank, signed by the parties during August 2016, and which led to the termination of the labor dispute at the Bank which began on May 22, 2016. The selective advancement rates for employees for the years 2016 and 2017 were agreed upon within the framework of the agreement, as well as improvements in the provisions for pension. Certain of the improvements in employee compensation are subject to the business results of the bank for the year 2017. It has been further agreed, that in consideration for the payment in cash of the capitalized accumulated sick leave pay liability on the books of the bank, the right of employees to redeem in cash upon retirement the unutilized sick leave, would be revoked. The signed wage agreement provides industrial peace until March 31, 2018, in respect of the matters included in the agreement.

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

GENERAL

The legislative coverage of banking in Israel applying to the Bank includes the Banking Order of 1941, The Bank of Israel Act of 2010, the Banking Act (Licensing) of 1981 and the Banking Act (Customer Services) of 1981. Under these Acts, the Bank is subject to supervision by the Bank of Israel and, in particular, by the Governor of the Bank of Israel and the Supervisor of Banks, and the directives, regulations, guidelines and orders of the Supervisor of Banks ("banking legislation") applying to the Bank. The banking legislation constitutes the legal and primary basis for the activity of the Bank Group.

Apart from the banking legislation, the Bank is subject to parallel legislative systems that govern its operations in such areas as capital market activity and mortgage activity. In addition to the primary legislative provisions, the Bank is bound by the directives, regulations and guidelines of such competent State authorities as the Securities Authority, the Capital Market, Insurance and Savings Commissioner at the Ministry of Finance, the Stock Exchange and the Antitrust Authority. Additional laws on special subjects impose specific requirements and directives on the banking system. Examples in this respect are the Anti Money Laundering and Terrorism Financing Act, regulation concerning operation with foreign citizens and FATCA.

The Bank Group acts in compliance with the provisions of the law and the regulations applying to it.

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 affect the Bank's activity.

BANKING

Banking Rules (Customer service) (Commissions fees) (Amendment), 2016

The Banking Rules (Customer service) (Commission fees) (Amendment), 2016, were published on July 19, 2016. In acordance with these Rules banks would be required once a year, on their own initiative and giving notice to the customer, to attach to the basic commission channel customers classified as "senior citizens" or "handicapped", and which according to criteria determined in the Rules, may benefit from the transfer to the basic channel. The customer is entitled to cancell the attachment to the channel, as stated.

Moreover, the Rules include restrictions on commission fees charged in respect of delivery of certain documents following the closure of an account and in respect of the change in the repayment date of a housing loan. Also published was the Banking Order (Customer service) (Control over standard reports service at the customer's request), 2016, and a maximum amount was determined for commission fee charged in respect of standard reports at the customer request, provided to private individuals and small businesses.

Letter of Bank of Israel regarding measures with respect to commission fees.

In a letter dated January 24, 2016, Bank of Israel announced that as part of its dealing with exceptional commission fees, it intends to perform in the course of 2016, a comprehensive survey of all prices for banking services included in the first Addendum to the said Commission Rules, with the aim of idendifying and dealing with such commission fees. Specific guidelines would be issued to the banks in accordance with the findings of this survey.

Draft National Insurance Regulations (Long-term savings for children), 2016

The Ministry of Finance published on November 3, 2016, a draft of the said Regulations, within the framework of an "invitation for submission of proposals for choosing banks and provident funds as managers of long-term savings funds within the savings for each child program" published in this respect (hereinafter – "the tender"). These Regulations, in the matter of the creation of long-term savings for each child, funded by the National Insurance Institute, were approved by the Finance Committee of the Knesset on September 6, 2016, but not yet formally published. In accordance with the Regulations, the National Insurance Institute would deposit on a monthly basis, an amount of NIS 50 to the credit of a long-term savings account in the name of each child. The accumulated funds may be withdrawn upon the child reaching the age of eighteen. If the child elects to defer withdrawal of the funds to age twenty-one, then the National Insurance Institute would, at age eighteen, deposit additional one-time amounts to the credit of this account. Parents may deposit in the said savings account an additional monthly amount out of the National Insurance child allowance, which was fixed at NIS 50 in the National Insurance Order (The additional savings amount), 2016.

The financial institutions that would be allowed to managed such savings accounts will be determined by the tender. The Regulations state a default option for the management of these savings funds in cases where the parents did not choose the managing financial institution or the investement channel in which the funds should be invested.

According to the tender documents, the National Insurance Institute would pay to a bank participating in the program, operating fees until the child reaches the age of twenty-one, an amount of NIS 0.06 for each entry made in the account passed by the providers of clearing services and the interfaces. In addition, the participating Bank would be entitled to an additional one-time amount not exceeding NIS 300 thousand in respect of the reimbursement expenses regarding the setting-up of the computer infrastructure required for the management of the savings funds and regarding compliance with the terms of the Accountant General as stated in the agreement, on condition that the bank provides proof of the scope of the expense and its particular relevance to the management of the savings accounts. The Bank submmitted a proposal in terms of the tender and on November 8, 2016, received notice of its winning the tender.

The Banking Act (Licensing) (Amendment No. 22), 2016, and draft Proper Conduct of Banking Business Directive in the matter of the closing down of bank branches and reducing teller services

An Amendment to the Banking Act (Lcensing) was published on August 16, 2016, according to which a bank is required to submit to the Supervisor of Banks a reasoned application in writing for the closure of a permanent branch (excluding a temporary branch), and to obtain his approval within a period of thirty days (excluding a case where the Supervisor requires additional details, where the granting of the approval is deferred for a further period of thirty days). Where the Supervisor disapproves the closure of the branch, the bank is entitled to a hearing of its arguments. Following approval of the closure, the bank is required to inform customers of the branch regarding its closure sixty days prior to the closing date.

On August 28, 2016, Bank of Israel published a draft instruction in the matter of the closure of bank branches and the reduction in teller services. In accordance with this draft, a bank is required to form and implement a policy regarding branching and the discontinuation of teller services, as well as form a work plan and work procedures supporting the implementation of the policy. The policy and the work plan are to be discussed once a year and approved by the Board of Directors, and submitted once a year to the Supervisor of Banks. Prior to

the closing down of a branch or the discontinuation of teller services, a bank is required to perform a preliminary examination and form a plan that would detail the manner of continuing the banking services in alternative ways, including providing human assistance for adapting customers to the change. A bank is required to provide customers with prior notice of sixty days regarding the closure of a branch or the discontinuation of teller services. Though the publication of the final version of the instruction is still pending, banks were required to submit applications for approval of closure of branches in accordance with the version appearing in the draft instruction.

Proper Conduct of Banking Business Directive No. 425 in the matter of "annual reports to customers of banking corporations"

Bank of Israel published on June 21, 2015, Proper Conduct of Banking Business Directive regarding annual reports to customers of banking corporations. The Directive introduces the duty of providing customers with an annual report and defines the manner of its delivery detailing the information to be included therein. The report should include comprehensive information regarding the assets and liabilities of the customer.

The Directive applies to private individuals and small businesses and entered into effect on February 28, 2016.

Proper Conduct of Banking Business Directive No. 432 in the matter of "the transfer of banking activity and the closing of a customer's account"

Bank of Israel published on December 21, 2014, an amendemnt to Proper Conduct of Banking Business Directive in the matter of the transfer of banking activity and the closing of customer accounts. The principal points of the amendment refer to increasing the possibilities of closing a bank account or the transfer of banking activity by neans of additional communication channels, as well as the delivery of information to a customer in a format similar to that stated in Directive 425 of Bank of Israel regarding annual reports to customers.

The Directive applies to private individuals and small businesses and entered into effect in full on February 28, 2016.

Proper Conduct of Banking Business Directive No. 454 – Premature repayment of non-housing loan

Bank of Israel published on June 21, 2015, an amendment to Proper Banking Business Directive in the matter of the premature repayment of non-housing loans. The purpose of the amendment is to expand the scope of the existing arrangement stipulated in the Directive, to establish a uniform and visible mechanism for setting the interest rate used to calculate the discount component and to create uniformity, to the extent possible, between the prepayment of housing loans and the prepayment of non-housing credit. Pursuant to the amendment, the said arrangement will apply to loans granted to private individuals or to small businesses, as defined in the public reporting instructions, in contrast to the previous version which applied only to loans the original amount of which did not exceed NIS 750 thousand and were granted for a minimum period of 6 months ("protected loans"). Moreover, a new mechanism for the calculation of the discounting component was established in respect of protected loans, which is based on the average rate of interest and eliminates the risk premium applying to the borrower in the case of premature repayment. In addition, customer disclosure requirements have been expanded in respect of all loans, among other things, by means of an explanatory note to be provided also upon the granting of the loan.

The amendment took effect on April 1, 2016.

On July 11, 2016, Bank of Israel published an amendment to the above Directive, in which it is inter alia clarified, that the premature redemption of loans granted prior to April 1, 2016, shall be made according to the classification of the customer (private individual/tiny business/other) at date of repayment, while the premature redemption of loans granted after the above date shall be made according to the classification of the customer at date of granting the loan. It is also determined that the presentation of the capitalization component formula and its computation shall be made on the Internet website of the bank instead of in a news letter.

Steps to expand the distribution and use of immediate debit cards

On June 30, 2015, Bank of Israel issued instructions for the integration of the use of immediate debit cards in Israel and for the enhancement of competition in the credit card market, as detailed below:

1. Within the framework of the amendment of Proper Conduct of Banking Business Directive No. 470, two chapters have been added to the Directive – Chapter regarding "immediate debit card and rechargeable card", which includes reference to dates for the transfer of money in immediate debit transactions (from date of charging the card holder to date of crediting the trading house), as well as to the manner of disclosure to the customer of immediate debit transactions, including within the framework of a current account.

   Chapter regarding the use of debit cards under EMV Standard" ("clever cards"), which includes instructions for the conversion of the debit card layout (issuing, clearing, automatic appliances) to the EMV Standard.

   The amendment to the Directive are taking effect gradually as from October 1, 2015 and until December 31, 2018.
2. Letter of the Supervisor of Banks in the matter of expanding the distribution of immediate debit cards – banking corporations are required to take active action with respect to existing and new customers, offering them immediate debit cards, as well as maintain follow-up and periodic reporting to Bank of Israel regarding the distribution of immediate debit cards.
3. Banking Order (Customer services) (Supervision over the service provided by an issuer to the clearing agent in respect of cross-clearing of immediate debit transactions (Provisional instruction)), 2015 – the cross commission for immediate debit transactions has been declared as a price controlled fee, at a rate of 0.3% (in contrast to the average cross commission of 0.7% in practice at the present time for ordinary charge transactions). This will apply as from April 1, 2016, for a period of one year, in order to allow preparations for the determination of the fee by the Antitrust Commissioner. The Order was published on August 26, 2015.

   Furthermore, the Banking Rules (Customer services) (Fees) (Amendment No. 2), 2015, was published on June 28, 2015, which took effect from July 1, 2015, which, among other things, includes restrictions on the charging of card fees for immediate debit cards, including a prohibition on the charging of card fees for an immediate debit card issued to a customer having already a valid credit card that had been issued by the same banking corporation. This for a period of 36 months from date of issue of the immediate debit card.

The Bank is preparing for the implementation of the said instructions.

Circular letter by Bank of Israel in the matter of restrictions on indebtedness of a borrower and of a group of borrowers.

The Supervisor of Banks issued on June 9, 2015, a circular letter amending Proper Conduct of Banking Business Directive No. 313 regarding restrictions on indebtedness of a borrower and a group of borrowers. The letter reduces the capital definition in respect of Tier I capital, thus stiffening the restrictions on the granting of credit to a single borrower and groups of borrowers. Furthermore, the restriction applying to the indebtedness of a banking borrower group to a banking corporation has been changed, forming now 15% of the said capital instead of 25%.

The amendments to the Directive took effect on January 1, 2016, except for the change in the definition of capital the reduction thereof shall be effected gradually over twelve quarters until December 31, 2018.

Draft Memorandum of the Banking Act (Customer service) (Amendment No. 20), 2015

The draft, published on September 3, 2015, includes several items, among which:

1. Determination of a disputable status according to which, refusal on the part of a banking corporation to provide service, shall be considered a reasonable refusal if it stems from the customer's refusal to provide information required by law, and in particular by the Prevention of Money Laundering Order and of Proper Conduct of Banking Business Directive No. 411. Furthermore, refusal on the part of a banking corporation to provide service where there is a reasonable basis for the assumption that the transaction pertains to money laundering or the finance of terror, shall also be considered a reasonable refusal according to Section 2(a) to the Banking Act (Service to customer).
2. Expanding the arrangement for the removal of pledges securing a debt that had been already settled, also to caveats and to commitments to register a mortgage, registered to secure such debts, allowing also their removal by the customer himself, including authorizing the Supervisor of Banks to impose a monetary sanction in respect of a violation of this duty (replacing the fine in effect at the present time).
3. Amendment of the definition "customer" in relation to commissions, in a manner that would allow the definition of an individual who maintains a bank account for business purposes as a "small business" or as a "large business", in accordance with his business turnover, this according to the amendment already made to the Banking Rules (Customer service) (Commissions), 2008, the effect of which had been suspended until the said amendment to the Banking Act (Customer service) takes effect.
4. Authorizing the Supervisor of Banks to publish data of banking corporations regarding their actual average income from charges to customers for services rendered, as well as the rates of interest actually payable to customers on shekel deposits, and actually charged to customers for credit granted.

Draft Proper Conduct of Banking Business Directive No. 450 in the matter of "procedures for the collection of debts"

Bank of Israel published on April 7, 2016, an amended draft directive in the matter of debt collection procedures aimed at regularizing the actions which a banking corporation should adopt in the area of bank/customer relations, and creating higher transparancy and fairness in the process of debt collection. Among the principal issues of the draft are – requirement for determining a policy in respect of the collection of customer debts, creating a new function for this matter, determination of a maximum rate for interest on arrears of a loan, including an approved credit facility in an account, and the required proper disclosure.

Proper Conduct of Banking Business Directive No. 367 regarding online banking

On July 21, 2016, Bank of Israel published a Proper Conduct of Banking Business Directive. The aim of the Directive is the removal of existing barriers hindering the continued development of digital banking, and allowing flexibility in accordance with the changing technology, this without requiring banking corporations to apply to Bank of Israel with respect to a change or addition to the service, to the extent that these are not material. The Directive regularizes and updates issues, – the opening of accounts via the Internet, the agreement for the granting of online banking services, remote application for online banking services, remote agreement forming, identification and verification of customers, etc.. The Directive imposes on banking corporations increased responsibility for the risk management involved in the expansion of distance banking activity and for customer data protection, including the addition of controls, the monitoring of irregular operations, delivery of warning notices to customers and guidance provided to customers.

On November 3, 2016 the Bank of Israel circulated draft amendment to the directive, which include special arangements for the openning of a long term saving account for a child and its management within the framework of the Social security law and regulations and in the matter of closing a deposit account in small amounts without any movements.

Proper Conduct of Banking Business Directive No. 420 in the matter of delivery of notices via the Internet

On July 25, 2016, Bank of Israel published an amended Proper Conduct of Banking Business Directive in the matter of online notices. The principal items of the Directive are:

- Increasing the classes of notices and documents , which may be digitally delivered, inter alia, allowing banks to deliver in this way also notices and instruction documents given at the branches.
- Allowing the delivery of legal notices via SMS where it has been determined that the sending of notices in this manner is legal.
- Requiring banks to deliver warning notices via SMS in cases where five checks had been dishonored and in cases where limitations had been imposed on an account.
- Relief regarding the terms of attaching a joint account to the service of online notices.

A letter of the Supervisor of Banks in the matter of classes of accounts and terms upon which the signature of a customer on an agreement would not be required

On August 7, 2016, Bank of Israel issued an amendment of a letter regarding classes of accounts and terms upon which the signature of a customer on an agreement would not be required. The principal items of the amendments are:

- Addition of classes of agreements not requiring customer signature.
- Determination of classes of agreements which may be entered into by means of a recorded conversation or by means of a computerized answering service, and the terms according to which such agreements may be entered into.

On November 3, 2016 the Bank of Israel circulated an amendment to this directive, which dismisses the need of the customer's signature on the openning of a long term saving account to a child in the framework of the Social Security law and regulations in that matter, including an agreement to the provision of online banking services.

Proper Conduct of Banking Business Directive No. 436 - A project for locating dormant deposits and accounts of deceased persons

Bank of Israel published on September 12, 2016, a Proper Conduct of Banking Business Directive in the matter of a project for locating dormant deposits and accounts of deceased persons. This project, which is operated by means of an Internet platform of the Supervisor of Banks, is intended to assist bank customers and their heirs in locating dormant deposits and accounts of deceased persons. The Directive regularizes various aspects regarding the operation of the project, including the factors dealing with the customers, identification procedures required for the delivery of information or the receipt of funds, etc.

Electronic Clearing of Checks Act, 2016

The Act was formally published on January 10, 2016.

The Act eliminates the need for the physical conveying of checks, their storage and retrieval, thus making the clearing process more efficient. It allows the use of advanced electronic means for the depositing of checks, regularizes the manner of returning a dishonored check, and admittance of an electronic check as evidence in legal proceedings. The scope of responsibility of a bank toward its customers shall not change following the change in the clearing process. The Act takes effect six months after date of publication. During a period of eighteen month from the date on which the Act takes effect, it would be possible to simultaneously clear checks both physically and electronically, thereafter, only electronic clearing would be possible.

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, and an entity would be considered insolvent if it cannot repay its debt on the due date. 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 to deceive his credirors;

The Court authorized to deal with insolvency proceedings of an individual would be the Magistrate court, while insolvency proceedings of a corporation shall continue to be dealt with at a District Court;

As regards corporations, the 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 equal 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;
Directors of an insolvent corporation are required to take reasonable measures in order to reduce the scope of the insolvency;
The Minister of Justice shall appoint an officer in charge of insolvency and economic recovery proceedings, who would have enforcement authority with respect to offences relating to insolvency proceedings.

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.

The Credit Data Act, 2016

The Credit Data Act, 2016, was published on April 12, 2016, replacing the Credit Data Service Act, 2002. The Act, regularizes the establishment of a credit data participation system, having at its center a public credit database to be established, managed and operated by Bank of Israel. The Act introduces several central changes, among which: the scope of information provided and received with respect to customers of a bank would be enlarged. This scope will be determined in continuation, by the Minister of Justice, with the consent of the Governor of Bank of Israel and the Minister of Finance; the database will maintain credit data of a customer, unless that customer requests that no data should be collected in his respect; the holder of a credit data service license would be permitted to provide a credit report to a provider of credit, on condition that he obtained the consent of the customer to the delivery of a credit report in his respect; imposing a personal liability on officers of a corporation in respect of violation of the provisions of the Act, and authorizing the officer in charge of participation in credit data, appointed by the Governor of Bank of Israel, to impose a monetary sanction in respect of the violations stated in Section 85 of the Act.
In order to ensure that on date of the establishment of the public credit database, it would have a satisfactory volume of credit data enabling its operation, Bank of Israel published on June 21, 2016 a provisional instruction with respect to the maintenance of information for the purpose of delivery to to the database. According to the instruction, banks and credit card companies are required to safekeep the required information for the purpose of delivery to the database as from May 2016. The provisional instructions details the required fields of information and the format for safekeeping the information

The Regulation of Off-banking Loans Bill (Amendment No. 3), 2015 (the "Fair Credit Bill")

The Bill passed its first reading on July 27, 2015. This Bill follows the recommendations of the team appointed to examine the increasing of competition in the banking sector, and its aim is to equalize the norms applying to non-institutional lenders to those applying to institutional lenders, including the banking sector. According to the proposed amendment, all the provisions of the Regulation of Off-banking Loans Act, including provisions in respect of the process of credit granting and collection thereof, shall apply also to institutional lenders, on condition only that this does not derogate from the duties pertaining to an institutional lender under another law. The Bill proposes to add a definition to the maximum rate of credit cost, and to establish a uniform formula for the calculation of the maximum interest rate charged by all lending entities granting credit to individuals or to corporations of a class to be determined by the Minister of Justice.

Bank of Israel letter regarding operational efficiency in the banking sector in Israel

On January 12, 2016, Bank of Israel published a letter regarding operational efficiency in the banking sector in Israel. The letter states, that the economic activity, the regulatory and the changing technological environments of the banking sector in Israel, may materially impact the volume of earnings of the banking sector. It is further stated, that an analysis of the Israeli banking sector data and the use of different performance indices, indicate a low level of efficiency, as compared with banking systems in other advanced countries. In accordance therewith, and in order to ensure long-term stability, banking corporations are required to outline a multi-annual program for increasing efficiency. The program has to determine specific actions for the range of the next five years, as well as principles for improving efficiency in the longer term. In order to encourage the implementation of an efficiency program, the Supervisor of Banks shall grant banks, subject to fulfillment of certain conditions, a deferment in dates set for attainment of the capital adequacy goals determined for them, based on the effect of the estimated reduction in the regulatory capital at date of approval of the program, caused by the defined costs involved in the implementation of the efficiency program.

The letter also includes instructions regarding the accounting treatment of long-term efficiency measures, including a voluntary retirement plan. The reliefs stated in the letter shall apply to efficiency programs that would be approved as from date of publication of the letter and until December 31, 2016.

In this respect, see the Directors and Management report, the Chapter on principal changes in the passing year regarding efficiency measures adopted by the Bank.

Increase in competition regarding prevalent banking and financial services

The committee for the increase in competition regarding prevalent banking and financial services and the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Bill (Legislation amendments), 2016.

On July 6, 2016, The committee for the increase in competition regarding prevalent banking and financial services, headed by Adv. Dror Strom, published its recommendations.. The task of the Committee was to recommend measures required to increase competition in the said sectors. On August 2, 2016, the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Bill (Legislation amendments), 2016, was published aimed at implementing certain of the recommendations of the Committee.

Among the main items of the Bill 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 large banking corporation") 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 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 large banking corporation (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 proposed 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 large banking corporation, 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 the Bill 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 order to assist new players in the market, including credit card companies separated from banks, to compete with the existing banking corporations, a transitional period of five years since date of publication of the Act has been determined ("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, proposed 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, would be required to perform the debit card issue operation through at least one debit card company, and with respect to a large banking corporation 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 proposed 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, would not perform through one debit card company the operation and issue of over 40% of the total number of new debit cards which it issues to its customers. Additional restrictions apply to a large banking corporation during the transitional period with respect to the issuance of debit cards.

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 until the end of the transitional period while performing the issue of a debit card on behalf of a bank, 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 Bill includes further instructions applying to all banking corporations, the aim of which is to increase competition in the market of banking and financial services, among which, the transfer of information, at the customer's request, to financial bodies regarding balances on current account, the issue of credit cards of issuers engaged with the banking corporation 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 the bank, prohibiting the changing

to the worse of engagement terms and prohibiting the prevention of competition and access to information of financial bodies.

The Bill proposes to addd to the areas of operation of banking corporations included in the Banking Act (Licensing) the sale of computer and operating services and the leasing of premises for computer and operating services under conditions stated in the Bill.

The recommendations of the Committee include additional matters, including the supervision of bodies which are not institutional bodies operating in the off-banking credit granting field, currency services, issuance of debit cards and the small banking field, which includes benevolence credit and credit associations. With respect to these issues, the Supervision over Financial Services Act (Regularized financial services), 2016, was, inter alia, published on August 1, 2016, and the Supervision over Financial Services Bill Memorandum (Credit and deposit services), 2016, and the Supervision over Financial Services Bill Memorandum (Off-institutional financial services) (Amendment), 2016, were published in July 2016.

The issue of the ownership structure of corporations like Automatic Bank Services Ltd., (hereinafter – "ABS"), which operate an interface between issuers and clearing agents for the approval of debit card transactions, is supposed, according to the explanatory notes to the Bill, to be regularized at a later stage, as part of an amendment to this Bill. Within the framework of a memorandum published for the amendment of the Bill, it is proposed to prohibit the control of ABS or the holding of means of control therein at a rate exceeding 10%. The Governor of Bank of Israel is authorized to determine a holding rate that defers from the above. It is proposed that the prohibition would take effect on June 1, 2017. A transitional period of four years is proposed for existing holders. Furthermore, corporate governance rules were determined with respect to the board of directors of ABS.

Additional recommendations of the Committee: requiring all banks to insure the deposits made with them with the insuring authority; permitting the cooperation between banks which are not large banking corporations, among themselves or with other off-banking institutions, the joint pool of technological resources, subject to terms to be determined by the Supervisor of Banks (from data protection aspects) and to the provisions of the anti trust law; regularization of all payment services, based on international regulations; terms of access to controlled payment systems and enabling customers to digitally search for and compare costs between banks.

Draft letter of Bank of Israel dated June 14, 2016, regarding an outline for the establishment of a new bank in Israel: a new policy of the Supervisor of Banks for the removal of entry barriers

As part of the measures which the Supervisor of Banks promotes for increasing competition in the banking sector in Israel and as support for the changes outlined by the Committee for promoting competition in the financial markets, Bank of Israel has published a draft outline for the removal of barriers on the establishment of new banks in Israel, including relief for credit card companies, with the aim of facilitating their transformation into banks or digital banks, if they wish to turn into such banks.

The measures of this policy, as detailed by bank of Israel in the said draft letter, remove significant barriers existing until now with respect to the establishmenmt of a new Bank in Israel, in the field of technological systems, the setting up of branches, capital requirements, and creating a more facilitating process for obtaining a banking license. Positive incentives have in addition been offered, such as the possibility of digital banks to engage in the marketing of insurance, which would assist the establishment of a new bank.

Document of Bank of Israel dated July 18, 2016, in the matter of principles and related steps for the development of a protocol for effecting transactions by debit card and the use thereof

As part of promoting competition in the debit card market and within the framework of the committee established in respect of debit card, Bank of Israel has published a document the aim of which was to allow entry of new players, all through the line of carrying out a transaction by means of a debit card. The document of principles includes, inter alia, decisions for the adoption of international standards, determination of a central uniform characteristics of the protocol, enabling easy movement between playes at each stage all along the line of executing the transaction, as well as recommendations for related measures.

Document of Bank of Israel dated July 31, 2016 regarding the opening of the audited payment systems to new players and the condition of approaching them

As part of the steps carried out by the Bank of Israel to remove the barriers for the competition in the payment systems in Israel, Bank of Israel published the approach conditions to the audited payment systems and the threshhold conditions to participate in them, in order to enable off-banking entities to participate in the payment systems in indirect or direct maner.

Bank of Israel document dated October 6, 2016, regarding principles for the regulation of payment services

Within the framework of the recommendations of the Strom Committee, it has been proposed to adopt the decision of the Committee for the promotion of use of advanced payment means, and to establish a subcommittee for the formation of a Bill Memorandum for the regulation of payment services. The payment services to be regulated by the Memorandum are the holding of a payment account (current account); transacting payments from or to a payment account, such as deposits, withdrawals and payment transfers; the issue of payment means; the clearing of payment transactions. The Memorandum to be formed is intended to regulate, inter alia, the operation of payment services providers, secure the customers' funds and reduce the risk involved in the operations of these institutions in the payment layout.

THE CAPITAL MARKET

A. Mutual funds

Mutual Investment Trusts Act (Amendment no. 23), 2014

The Mutual Investment Trusts Act (Amendment no. 23), 2014, was published on July 30, 2014. Among other things, the proposed Amendment regulates, inter alia, the terms of offering to the public in Israel units of a foreign fund, which had been approved by the supervisory authority in its country of origin, which allows also the issue of instructions by the Minister of Finance in the matter of the payment of a distribution commission by the manager of the foreign fund.

The Act took effect three months from the date of publication, but the chapter regulating the offerings of foreign funds shall become effective upon the entry into effect of regulations designed to ensure the interests of the

investor population in Israel. The said regulations and therefore also the amendment of the Act dealing with the offer of foreign mutual funds, took effect on November 5, 2016.

B. Provident funds

The Capital Market Group at the Ministry of Finance published on May 24, 2016, a draft of the Supervision over Financial Services Regulations (Provident funds) (Purchase, sale and holding of securities) (Amendment), 2016, and the draft Supervision over Financial Services Regulations (Provident funds) (Provident funds under personal management) (Amendment), 2016, which amend drafts published on July 29, 2015, in the same matter.

The new draft amendment of the purchase, delivery and holding of securities Regulations, does not include the prohibition appearing in the previous version, according to which, an institutional investor being a member of a group of investors, where one of them has an agreement with a banking corporation for the provision of management or operating services, is not permitted to purchase or sell securities or foreign currency, and is not permitted to hold or settle securities, by means of that banking corporation or from it. In accordance with the new draft, an institutional investor is not permitted to purchase or sell securities or foreign currency by means of parties related to the institutional investor or from them. Similarly to the previous draft, the present draft offers an expansion of the rules and number of participants in a competitive process regarding the purchase and sale of securities, and adds a requirement for a competitive process, at least once in every three years, with respect to the holding of securities. The draft adds an instruction whereby an institutional investor who had engaged in a direct agreement with a global custodian (excluding a bank, a mortgage bank or a foreign bank holding a license from bank of Israel) for the holding of securities – shall be exempted from the duty to hold a competitive process for obtaining holding services.

The new draft of the amendment of the Provident Funds Under Personal Management Regulations, proposes to amend the number of participants in a competitive process regarding the purchase and sale of securities, as well as the terms under which, a management company may purchase or sell securities by means of a related party.

C. Securities Bill (Amendment No. 60) (Change in the Structure of the Stock Exchange), 2016

The above Bill was passed in first reading in the Knesset on July 25, 2016, the aim of which is to establish 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. The Bill regularizes the licensing, holding and manner of management of the Stock exchange and/or the clearing houses subsequantly to the change.

The Bill 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 Bill states 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.

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 Exchange 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 addition, the arrangement plan will include a framework for the implementation of a capital compensation plan to employees and officers of the Stock Exchange and of the clearing houses presently owned by it. The arrangement plan, of whatever format, is primarily subject to the completion of the relevant legislation. In addition, if the legislation proceedings are completed and subject to the final provisions determined in the legislation, The Stock Exchange intends to submit a detailed arrangement plan for approval of its members, in accordance with a procedure under Section 350 of the Companies Act.

The Bill states that the Stock Exchange would submit to the Court, within six month from date of publication of the Act, a motion for approval of the arrangement plan. Upon the termination of a five tear period from date of approval of the arrangement plan by the Court, or until the date of a public offer of shares of the Stock Exchange and their registartion for trading, if at all, and the earlier of the two, the present members of the Stock Exchange would not be allowed to hold means of control in the Stock Exchange exceeding 5%. During the said period, members may not purchase holdings in means of control in excess of the rate permitted by law, as well as any rights attaching to such holdings.

In addition to the above, the Bill states that trading on the Stock Exchange will take place on week days from Monday to Friday.

D. Securities Bill (Amendment No. 61) (Cross record), 2016

The Securities Bill (Amendment No. 61) (Cross registration), 2016, was passed in first reading in the Knesset on July 25, 2016. In accordance with the Bill, the Tel Aviv Stock Exchange (hereinafter – "the Stock Exchange") would be authorized to register for trading shares of a corporation incorporated outside Israel and which are being traded on the NYSE or on NASDAQ, this subject to certain limitations, and without the trading requiring the consent/involvement of the foreign issuing company.

The provisions of the Securities Act and the Regulations under it for the registartion for trading of securities and the duties of a prospectus and current reporting shall not apply to a corporation which shares had been registered under the cross registration provisions. However, the provisions of the Act regarding offences relating to trading (as distinguished from disclosure offences) do apply, therefore, the use of inside information and offences relating to securities fraud are prohibited.

It is proposed that the registration would be limited to shares of companies that have no Israeli connections and that the value of the company's shares traded on a foreign stock exchange exceeds US$50 billion, or another amount as determined by the Minister of Finance.

The Stock Exchange would be permitted to register for trading the shares of no more than fifty corporations, unless otherwise determined by the Minister of Finance.
In accordance with the Bill, regulations would be enacted in the matter of registration for trading and the removal from trading of shares in accordance with this arrangement. Furthermore, the Securities Authority shall instruct the Stock Exchange regarding the differentiation between shares regidtered for trading in accordance with the proposed arrangement and other securities registered for trading on the Stock Exchange, as well as in the matter of disclosure of information to investors regarding the risks involved in the trading in shares registered for trading under the proposed arrangement.
According to the Bill, the Act will become effective ninty days following its date of publication.

CORPORATE GOVERNANCE AND COMPANIES

Compensation of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of expenses relating to exceptional compensation), 2016.
The Compensation of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional compensation), 2016, was published on April 12, 2016. The Act includes two principal rulings. The one, the establishment of a corporate mechanism for the approval of an engagement for the granting of compensation to a senior officer or to an employee of a financial corporation, the expected expense in respect thereof exceeds NIS 2.5 million per annum (linked). The compensation amount is to be computed on a cumulative basis for all member companies of a financial group. The mechanism includes the approval by the compensation committee, and in the absence of which, by the audit committee, if such exists, the approval by the board of directors, with the majority of external/independent directors (where such exist), and the approval by the general meeting of shareholders. In the case of a corporation which is a public corporation, approval by the meeting of shareholders requires a supermajority vote by the minority shareholders. It is determined within the framework of this arrangement that in any event, no compensation may be approved, if the expected expense in respect thereof exceeds the said amount, where such amount is 35 times higher than the lowest amount of compensation payable to an employee of that corporation (including outsourcing employees as defined in the Act) (hereinafter – "ratio limitation"). The other rule states that in computing the taxable income of a financial corporation, deductions shall not be allowed in respect of payroll of senior officers and employees in an amount equal to twice the difference between the payroll cost and the amount of NIS 2.5 million (linked to the CPI) per annum, while from that maximum amount shall be deducted also the amount of annual expense relating to the granting of shares or to the right to receive shares.
The definition of financial corporations to which the Act applies includes banking corporations, insurers, provident fund management companies, mutual fund management companies, investment portfolio management companies, companies engaging in the issue of indices products and corporations controlling any of the above and to which apply additional criteria stated in the Act.
In accordance with the transitional instruction included therein, the Act shall apply to engagements approved as from date of publication of the Act onwards. Engagements that had been approved prior to the publication of the Act, require approval until the end of six months from date of publication of the Act. It is noted that,

according to the Act, the provision that limits the amount deductible tax wise from the taxable income of a financial corporation, shall take effect on January 1, 2017, in respect of engagements approved subsequently to the date of publication of the Act, and as regards engagements approved prior to the date of publication of the Act, the provision will take effect six months following the publication of the Act.

On April 7, 2016, on background of the passing of the Act, which, *inter alia,* creates uncertainty as to the past rights of longstanding employees of banks, the Supervisor of Banks approched all banks, requesting them, *inter alia,* to assess the possible implications and risk affecting each of the banks as a result of the Act taking effect, including the possibility of resignation of key officers at the various administrative levels, and the impact it may have upon the long-term plans of banks, including the ability to carry out significant efficiency programs. The Bank responded on April 20 2016, to the approach of the Supervisor, after holding a discussion in the matter by the Board of Directors. At this stage, it seems that the Act may be detrimental to the existing terms of office and employment of the Chairman of the Board and of the President and CEO. Moreover, in view of the uncertainty prevailing at this stage as to a part of the provisions of the Act and the interpretation thereof, the Bank continues to study the possible implications and impact of the Act. At this stage the bank estimates that the impact of such uncertainty on the efficiency program of the Bank, to the extent of it being approved in the future, is not material, and in any event it shall be examined within the framework of approval of the said program.

In the course of June 2016, two petitions with respect to the Act were filed with the High Court of Justice (the hearing of which was combined), one by the Union of Banks and the other by the Union of Insurance Companies, both requesting the cancellation of the ratio limitation, while the petition of the Union of Banks requesting also a declaration that the provisions of the Act do not impair and cannot impair the rights applying to seniority, and the petition of the Union of Insurance Companies requesting also cancellation of the tax burden applying to double the difference over the amount of payroll cost of NIS 2.5 million.

At the request of the Union of Banks, the High Court of Justice issued on July 11, 2016, an interim order according to which, employees and officers of banking corporations, who would inform of their retirement from work at the said banking corporations within forty-five days from date of the decision in the said petition from date of cancellation of the interim order, shall not loose their existing right to receive the full compensation due to them following the termination of employer/employee relations, or following the termination of their office, had these relations been terminated at date of filing of the petition (hereinafter – "the interim order").

A verdict in the said petitions was given on September 29, 2016, whereby the petitions for the cancellation of the ratio limitation and for the removal of the tax burden instruction were dismissed. Also dismissed was a request for interpretational remedies regarding the application of the compensation to earlier years and to the definition of "compensation". Notwithstanding the above, the Court determined, without deciding in respect of each case in question, that the ratio limitation shall apply only to compensation payable for future work, and is not to apply to rights acquired in consideration for work performed by the employee prior to October 12, 2016. It was also determined that the interim order would be extended to January 1, 2017, and shall apply also to senior employees of insuarnce companies.

On October 13, 2016, following approval by the Compensation Committee and the Board of Directors, the Bank convened an annual ageneral meeting of shareholder the Agenda of which includes approval of the engagement terms of the Chairman of the Board and of the President and CEO of the Bank, applying as from October 12, 2016, with reference to the provisionsm of the Compensation Act. For additional details, see the immediate report of the Bank dated October 13, 2016 (Ref. No. 2016-01-064245).

Proper Conduct of Banking Business Directive No. 301A – Compensation policy of a banking corporation

Bank of Israel issued on August 13, 2015, an amendment to the above Directive. The Amendment focuses on three principal issues. The first – an instruction that all members of the Board of Directors including the chairman of the board shall be entitled to fixed compensation only. In addition, regarding the chairman of the board, criteria have been set for the manner of examining the amount of the fixed compensation and it was set that social benefits can be paid to the chairman as for all other officers in the banking corporation. As for the other directors, it was set, as is the practice at the Bank, that the fixed compensation will be determined according to the mechanism for external directors. The second – a requirement that the variable compensation granted to central employees of a banking corporation shall be refundable in particularly exceptional circumstances, to be determined by the banking corporation, taking into account circumstances determined in the instruction. It has also been determined that a banking corporation shall take all reasonable steps in order to reimburse itself with an appropriate amount, where circumstances for reimbursement exist. The period for reimbursement has been fixed for five years, with the possibility of extension, for office holders, for additional two years on the occurance of the circumstences set in the directive. The compalsory will not occure if the total variable compensation for central employee does not exceed 1 sixth of the fixed compensation which he received in one calendary year. The third – (to take effect six months after date of publication), a directive that each corporation in the banking group will carry the costs of its officers and employees, as well as prohibitting receipt of comensation by central employees (which are not directors, but including the chairman and external directors) of a banking corporation from the owner of the control permit or from a major stakeholder in the banking corporation, including his family members and corporations controlled by any of them and which do not belong to the banking group. It has been clarified that the requirements under the Amendment shall not apply to rights accrued prior to the Amendment. Furthermore, a transitional instruction has been included according to which, it was, among other things, set that with respect to compensation agreements signed prior to the publication the Amendment, the amendment shall apply no later than December 31, 2017. As to compensation agreements signed after date of publication of the Amendment, including the change of exisiting compensation agreement – the Directive shall apply immediately.

On September 29, 2016, an additional amendment to the said Directive was published, which includes the principal amendments as detailed below. The one, reduction of the group of central employees, so that it is not mandatory to include therein as a central employee a manager who reports directly to a manager who reports directly to the President ans CEO. The second, The option not to define as a central employee, an employee who is not an officer, to whom Amendment No. 20 of the Companies Act applies, if the compensation paid to him in the past two years does not exceed NIS 500,000 per year, or his variable compensation in the past two years does not exceed 20% of the annual compenstion. The third, a determination that for the purpose of the variable compensation, criteria determined in advance may include a discretion component, on condition that the amount of this component should not exceed an amount equal to three montly salaries per year. The fourth, cancellation of the requirement that at least 50% of the variable compensation in a calendat year shall be granted in the form of a capital compensation. The fifth, cancellation of the requirement to defer and spread the variable compensation in respect of a central employee, whose maximum amount of compensation agrees with the new Compensation Act, and the total of the variable compensation granted to him in a calendar year does not exceed 40% of the fixed compensation for that years. The sixth, changing the definition of a fixed compensation, so that the compensation (including shares), which is blocked for realization at date of granting thereof, may be considered as fixed compensation. Furthermore, within the framework of the amendments to the FAQ file with respect to the

implementation of the Directive dated September 29, 2016, a clarification added, inter alia, that in accordance with the amended Regulations under the Companies Act, an immaterial change in the terms of employment of a senior officer directly reporting to the President and CEO, shall not require the approval of the Compensation Committee, if it had been approved by the President and CEO, on condition that the compensation policy permits the approval of such a change by the President and CEO and the terms of employment agree with the compensation policy. The amendment to the FAQ file included also various adjustments and restrictions regarding the changes made in the Directive itself.

Foreign Account Tax Compliance Act - FATCA

Under the provisions of the Foreign Account Tax Compliance Act (FATCA), foreign financial institutions, including banks worldwide, are required to provide information regarding accounts which US entities hold with them. For this purpose, the foreign financial institutions must conclude an agreement with the Internal Revenue Service (IRS) in the USA. A financial institution that does not sign an agreement as said and/or does not act in accordance with the said provisions will be subject inter alia to a requirement to deduct tax at source at a rate of 30% of the payments owing to the bank and/or its customers from American sources. On September 30, 2014, a bilateral agreement was signed between Israel and the USA concerning application of the FATCA. (Agreements on this subject have been reached between the USA and other countries.) This agreement turns the Israeli Tax Authority into an intermediary between Israeli financial institutions and the IRS in the USA.

On April 6, 2014, the Supervisor of Banks issued a letter concerning the preparations for the implementation of the FATCA provisions. In this letter, the Supervisor clarifies 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 FATCA provisions, and refusal to provide bank services in respect of an existing account, which expose the banking corporation to the risk of being considered a collaborator of the customer in evading the provisions of FATCA, shall be considered a "reasonable refusal" for the purpose of the Banking Act (Customer Service), 1981.

As required from non-US financial institutions, the Bank and its relevant subsidiaries in the Bank's Group, have registered with the US Tax Authorities.

The Income Tax Ordinance Amendment Act (Amendment No. 227), 2016, was published on July 14, 2016. In this respect, see below.

Automatic exchange of information with OECD countries regarding tax matters relating to financial accounts

On October 28, 2014, the Ministry of Finance informed the Organization for Economic Cooperation of the Developed Countries that Israel decided to adopt the procedures for the automatic exchange of information regarding tax matters of financial accounts (Common Reporting Standards - CRS), this being part of the effort for the reduction of "black" capital. In accordance with this procedure, financial institutions, including banks, have to institute identification measures in respect of owners of accounts held with them and to provide the Tax Authorities with information relating to account owners who are foreign residents. The information is to include the balance of the account as well as financial income.

Legislative amendments as well as the signing of agreements between the authorities in the different countries will be required for the implementation of the said procedure.

On November 24, 2015, Israel joinned the multilateral treaty regarding mutual administrative assistance concerning tax matters, which had been developed by the OECD and the European Union Council, as a tool for the cooperation regarding tax matters and struggle against avoidance and evasion of taxes. Until now, 101 countries, including all member countries of the OECD signed the treaty. According to the provisions of the treaty, the tax authorities of the different countries will assist each other, among other things, in the exchange of information required by a country for the purpose of its tax laws, either according to a specific request regarding a certain taxpayer or a transaction, or automatically in respect of each period according to predetermined categories.

The Income Tax Ordinance Amendment Act (No. 207), 2015, was passed on November 26, 2015. The Act enables the State of Israel to share information, under certain conditions, with both another country, with which the State of Israel has a treaty for the avoidance of double taxation, as well as with a country with which the State has an agreement for the exchange of information.

The Minister of Finance shall publish a formal notice regarding agreements for the exchange of information, which had been signed.

The Amendment took effect on January 1, 2016.

On May 13, 2016, the Director of the Tax Authority signed on the participation of Israel in the agreement of qualified authorities for the implementation of the multilateral treaty for the automatic exchange of financial information ("CTS") and for the implementation iof the multilateral treaty for inter-country reporting ("CBC"). The agreement states a standard, which inter alia, determines instructions regarding the nature of the information that countries would exchange, the date of delivery of the information and the financial bodies to which the duty of providing information to the authorities shall apply. The entry into effect of the said agreements is subject to the ratification of the multilateral treaty signed by Israel in November 2015, and to the modification of the internal legislation applying in Israel. The transfer of information under the CRS agreement, will begin in September 2018.

The Income Tax Ordinance Amendment Act (Amendment No. 227), 2016, was published on July 14, 2016. In this respect, see below.

The Income Tax Ordinance Amendment Act (No. 227), 2016

In order to be able to implement the FATCA agreement already signed and agreements for the automatic exchange of information to be signed by the competent authorities in the format determined by the OECD, as stated above, the Income Tax Ordinance Amendment Act (No. 227), 2016 was published on July 14, 2016. In accordance with this Act, Israeli financial institutions are required to obtain from holders of accounts managed with them or from whoever applies to open an account with them, information required for the identification of the account holder and his country of residence for tax purposes or his citizenship, and with respect to an entity, also information required for its classification and clarifying the identity of its controlling shareholders, their country of residence for tax purposes or their citizenship. The Act requires reporting Israeli financial institutions to provide information, as defined in the Act, regarding the account holder and the controlling shareholders of the entity owning the account and regarding a financial account. 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.

Moreover, the Act includes an amendment to the definition of a controlling shareholder appearing in the Prohibition of Money Laundering Act, with a view of agreeing this definition with the recommendations of the international organization for the combat against money laundering and the finance of terror (FATF). The Act will take effect on date of publication of the Regulations to be enacted by the Minister of Finance regarding identification of account holders and transmission of details, and the amendment to the definition of a controlling shareholder in the Money Laundering Act will become effective within six months from date of publication of the said Regulations.

The Income Tax Regulations (Implementation of the FATCA Agreement), 2016, were published on August 4, 2016. These Regulations 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.

Management of risks associated with cross-border transactions

On March 16, 2015, the Supervisor of Banks issued a draft circular letter regarding the management of risks associates with cross-border transactions. In accordance with the circular, 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.

In the months of September to November 2014, the Supervisor of Banks approached the Bank and certain other banks in the Group (hereinafter – "the Bank") (and to the best knowledge of the Bank, also other banks) in the matter of its preparations regarding regulation risks concerning banking operations of its foreign resident customers. In the opinion of the Supervisor of Banks, the intensified regulation and enforcement on the part of foreign tax authorities and the efforts made in discovering taxable funds transferred by their citizens through foreign banking corporations may have implications on the manner of conduct of customers, thereby exposing the bank to compliance and reputation risks.

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 policy within the framework of the prohibition on money laundering and 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 described in this Chapter. The Bank had adopted in the past and is adopting also at the

present time examination and monitoring measures as regards exposure, also with respect to activity with customers, in order to reduce to the extent possible, concerns regarding unreported accounts. In this respect,, as regards American customers, and even prior to the passing of the FATCA Regulations, the Bank had adopted preventive measures, including close supervision of over the relevant unit at the Bank, the examination of transfers of funds from Switzerland and other countries defined as international financial centers (recognized as tax havens), to accounts owned or controlled by American customers, as well as restrictions regarding the opening of new accounts for American customers. In accordance with the approach of the Supervisor of Banks, the Bank has adopted additional measures, including the adoption of a designated policy document dealing with the regulatory risk management arising from operations of foreign residents, and performance of internal audit at the banks in the Group, with the assistance of a firm of independent accountants, with respect to the appropriateness of the legal and regulatory risks management process inherent in the activity of foreign residents and regarding American customers.

For additional details regarding possible exposure to American customers, see the financial report for 2015 in the Chapter "Legislative Restrictions, Legislation and Special Constraints applying to the Bank Group" and the Chapter on Corporate Governance.

Prohibition on money laundering and compliance with Israeli tax laws

Prohibition of Money Laundering Act (Amendment No. 14), 2016

The Amendment, published on April 7, 2016, adds to the offences of origin mentioned in the First Addendum to the Prohibition on Money Laundering Act, 2000, tax offences committed in amounts and under certain circumstances.

It is further determined that in the case where a money laundering offence has been committed, the origin of which is a tax offense, by a person who is not the one liable for the tax, than the tax evasion offence would be considered an offence of origin, with no additional circumstances or terms.

Furthermore, the investigative power of the tax Authority and its entitlement to information from the Prohibition of Money Laundering and Finance of Terror Authority, have been expanded, in order to assist it in the uncovering and investigation of money laundering offenses originating in tax offenses.

The Amendment takes effect within six months of date of its formal publication.

Draft letter of Bank of Israel to banking corporations in the matter of preparations for compliance risk management in view of tax offences being determined as offences of origin

In accordance with the said letter, banking corporations are required to examine the changes required in their policy, in risk assessment and in procedures, following Amendment No. 14 to the Money Laundering Act, and the addition of tax offences as offence of origin. An appendix was attached to the draft letter detailing "red flags" with the view of assisting banking corporations in the management of the risk, due to concerns regarding their utilization for tax evasion.

The Intensification of Tax Collection and of Enforcement Bill (Mean for enforcement of tax payments and for determent of money laundering) (Legislation amendments), 2015.

In accordance with this Bill, published on August 31, 2015, financial institutions, including banking corporations, shall be obliged to provide the Tax Authorities with current reports regarding operations conducted in business accounts of their customers (accounts of corporations and any account defined by them as a business account).

Furthermore, the tax authorities will be authorized to demand information from financial institutions with respect to a group of customers having similar characteristics, due to the suspicion that such customers had violated the tax laws in a manner causing the loss of tax revenues in an other than insignificant scope.

The Emir Reform

In 2012 rules were issued in the USA for the purpose of applying the Dodd Frank Wall Street Reform and Consumer Protection Act, which was enacted in the USA in 2010 (hereinafter: "DF reform"). The purpose of the DF reform inter alia is to reduce the credit risk in trading in the OTC derivatives market and the systemic risks deriving from them, and to increase the transparency in that market.

Under the DF reform, rules were prescribed inter alia regarding settlement of transactions by a central clearer, collateral requirements and the reporting of transactions to trade repositories.

Concurrent with the Dodd Frank reform published in the USA, a reform with similar principles, the European Market Regulation Infrastructure (EMIR) was published in Europe.

Since the EMIR reform applies to every European body, it is expected to affect the Bank's mode of operation in derivative instruments. The central clearing pursuant to the EMIR reform began in June 2016, for the European members of the clearing house, and is expected to begin during December 2016, with respect to institutions such as the Bank.

The Bank is preparing for the implementation of the rules under the EMIR reform, inasmuch as they are relevant for the Bank.

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 subordinated notes with loss absorption mechanism at 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/Negative.
- 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.

CONTRIBUTION TO THE COMMUNITY

"Turning point" - the long running community project of the Bank, in operation already for eight years, in cooperation with MATAN- investing in the community and JOINT- "Ashalim" Organization. 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 2014 The Bank launched new 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.

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.

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 three months ended September 30 2016			For three months ended September 30 2015		
	Average balance[1]	Interest income	Rate of income	Average balance[1]	Interest income	Rate of income
		NIS million	%		NIS million	%
Assets bearing interest						
Credit to the public[2][5]						
- In Israel	**70,946**	**631**	**3.60**	65,557	575	3.55
- Outside Israel	**371**	**2**	**2.17**	399	2	2.02
Total	**71,317**	**633**	**3.59**	65,956	577	3.55
Credit to the Government						
- In Israel	**641**	**-**	**-**	649	1	0.62
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**641**	**-**	**-**	649	1	0.62
Deposits with banks						
- In Israel	**2,504**	**2**	**0.32**	3,228	(1)	(0.12)
- Outside Israel	**242**	**-**	**-**	427	1	0.94
Total	**2,746**	**2**	**0.29**	3,655	-	-
Deposits with central banks						
- In Israel	**20,715**	**6**	**0.11**	21,984	6	0.11
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**20,715**	**6**	**0.11**	21,984	6	0.11
Securities borrowed or repurchased						
- In Israel	**627**	**-**	**-**	388	1	1.03
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**627**	**-**	**-**	388	1	1.03
Held to maturity or available for sale bonds[3]						
- In Israel	**14,193**	**37**	**1.05**	13,922	32	0.92
- Outside Israel	**91**	**-**	**-**	111	-	-
Total	**14,284**	**37**	**1.04**	14,033	32	0.92
Trading bonds						
- In Israel	**903**	**1**	**0.44**	567	3	2.13
- Outside Israel	**5**	**-**	**-**	2	-	-
Total	**908**	**1**	**0.44**	569	3	2.13
Other assets						
- In Israel	**221**	**3**	**5.54**	211	1	1.91
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**221**	**3**	**5.54**	211	1	1.91
Total assets bearing interest	**111,459**	**682**	**2.47**	107,445	621	2.33
Debtors regarding credit cards non-bearing interest	**3,167**			3,094		
Other assets non-bearing interest[4]	**12,763**			11,089		
Total assets	**127,389**			121,628		
Total assets bearing interest attributed to activity outside Israel	**709**	**2**	**1.13**	939	3	1.28

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 three months ended September 30 2016			For three months ended September 30 2015		
	Average balace (1)	Interest expense	Rate of expense(1)	Average balace (1)	Interest expense	Rate of expense
		NIS million	%		NIS million	%
Liabilities bearing interest						
Deposits from the public						
- In Israel						
Demand	**6,356**	**-**	**-**	5,567	-	-
Fixed-term	**57,345**	**62**	**0.43**	56,233	56	0.40
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**63,701**	**62**	**0.39**	61,800	56	0.36
Deposits from the Government						
- In Israel	**271**	**1**	**1.48**	271	1	1.48
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**271**	**1**	**1.48**	271	1	1.48
Deposits from banks						
- In Israel	**1,282**	**1**	**0.31**	1,340	(1)	(0.30)
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,282**	**1**	**0.31**	1,340	(1)	(0.30)
Bonds						
- In Israel	**5,641**	**64**	**4.62**	6,050	67	4.50
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**5,641**	**64**	**4.62**	6,050	67	4.50
Other liabilities						
- In Israel	**250**	**1**	**1.61**	362	1	1.11
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**250**	**1**	**1.61**	362	1	1.11
Total liabilities bearing interest	**71,145**	**129**	**0.73**	69,823	124	0.71
Deposits from the public non-bearing interest	**41,834**			37,466		
Creditors in respect of credit cards non-bearing interest	**3,167**			3,094		
Other liabilities non-bearing interest (6)	**3,391**			3,761		
Total liabilities	**119,537**			114,144		
Total capital resources	**7,852**			7,484		
Total liabilities and capital resources	**127,389**			121,628		
Interest spraed			**1.74**			1.62
Net return on assets bearing interest (7)						
- In Israel	**110,750**	**551**	**2.00**	106,506	494	1.87
- Outside Israel	**709**	**2**	**1.13**	939	3	1.28
Total	**111,459**	**553**	**2.00**	107,445	497	1.86
Total liabilities bearing interest attributed to activity outside Israel	**-**	**-**	**-**	-	-	-

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

A. Average balances and interest rates - assets (CONT'D)

	For nine months ended September 30 2016			For nine months ended September 30 2015		
	Average balace (1)	Interest income	Rate of income	Average balace (1)	Interest income (expenses)	Rate of income (expenses)
		NIS million	%		NIS million	%
Assets bearing interest						
Credit to the public(2)(5)						
- In Israel	**69,832**	**1,768**	**3.39**	65,023	1,615	3.33
- Outside Israel	**373**	**6**	**2.15**	393	6	2.04
Total	**70,205**	**1,774**	**3.38**	65,416	1,621	3.32
Credit to the Government						
- In Israel	**641**	**-**	**-**	651	(1)	(0.20)
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**641**	**-**	**-**	651	(1)	(0.20)
Deposits with banks						
- In Israel	**2,932**	**6**	**0.27**	3,212	7	0.29
- Outside Israel	**320**	**-**	**-**	507	1	0.26
Total	**3,252**	**6**	**0.25**	3,719	8	0.29
Deposits with central banks						
- In Israel	**21,373**	**17**	**0.11**	21,614	22	0.14
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**21.373**	**17**	**0.11**	21,614	22	0.14
Securities borrowed or repurchased						
- In Israel	**605**	**-**	**-**	530	1	0.25
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**605**	**-**	**-**	530	1	0.25
Held to maturity or available for sale bonds(3)						
- In Israel	**14,645**	**94**	**0.86**	12,618	72	0.76
- Outside Israel	**105**	**1**	**1.27**	117	1	1.14
Total	**14,750**	**95**	**0.86**	12,735	73	0.77
Trading bonds						
- In Israel	**897**	**3**	**0.45**	903	6	0.89
- Outside Israel	**3**	**-**	**-**	4	-	-
Total	**900**	**3**	**0.44**	907	6	0.88
Other assets						
- In Israel	**91**	**4**	**5.90**	147	3	2.73
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**91**	**4**	**5.90**	147	3	2.73
Total assets bearing interest	**111,817**	**1,899**	**2.27**	105,719	1,733	2.19
Debtors regarding credit cards non-bearing interest	**3,097**			3,000		
Other assets non-bearing interest(4)	**11,921**			11,467		
Total assets	**126,835**			120,186		
Total assets bearing interest attributed to activity outside Israel	**801**	**7**	**1.17**	1,021	8	1.05

See notes in page 268.

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 (CONT'D)

	For nine months ended September 30 2016			For nine months ended September 30 2015		
	Average balace (1)	Interest expense	Rate of expense (1)	Average balace (1)	Interest expense	Rate of expense
		NIS million	%		NIS million	%
Liabilities bearing interest						
Deposits from the public						
- In Israel						
Demand	**6,538**	**-**	**-**	5,807	-	-
Fixed-term	**58,059**	**144**	**0.33**	57,219	120	0.28
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**64,597**	**144**	**0.30**	63,026	120	0.25
Deposits from the Government						
- In Israel	**273**	**4**	**1.96**	333	4	1.60
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**273**	**4**	**1.96**	333	4	1.60
Deposits from banks						
- In Israel	**1,358**	**-**	**-**	1,282	2	0.21
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,358**	**-**	**-**	1,282	2	0.21
Bonds						
- In Israel	**5,691**	**135**	**3.18**	5,850	153	3.50
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**5,691**	**135**	**3.18**	5,850	153	3.50
Other liabilities						
- In Israel	**214**	**3**	**1.87**	566	-	-
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**214**	**3**	**1.87**	566	-	-
Total liabilities bearing interest	**72,133**	**286**	**0.53**	71,057	279	0.52
Deposits from the public non-bearing interest	**40,474**			35,400		
Creditors in respect of credit cards non-bearing interest	**3,097**			3,000		
Other liabilities non-bearing interest (6)	**3,333**			3,379		
Total liabilities	**119,037**			112,836		
Total capital resources	**7,798**			7,350		
Total liabilities and capital resources	**126,835**			120,186		
Interest spraed			**1.74**			1.67
Net return on assets bearing interest (7)						
- In Israel	**111,016**	**1,606**	**1.93**	104,698	1,446	1.85
- Outside Israel	**801**	**7**	**1.17**	1,021	8	1.05
Total	**111,817**	**1,613**	**1.93**	105,719	1,454	1.84
Total liabilities bearing interest attributed to activity outside Israel	**-**	**-**	**-**	-	-	-

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 three months ended September 30, 2016			For three months ended September 30, 2015		
	Average balance (1)	Income (expense) interest	Rate of income (expenses)	Average balance (1)	Income (expense) interest	Rate of income (expenses)
		NIS million	%		NIS million	%
Non-linked Istaeli currency						
Total assets bearing interest	**85,056**	**493**	**2.34**	80,601	440	2.20
Total liabilities bearing interest	**48,682**	**(20)**	**(0.16)**	47,205	(16)	(0.13)
Interest spread			**2.18**			2.07
Israeli currency linked to the CPI						
Total assets bearing interest	**12,441**	**127**	**4.15**	13,335	132	4.02
Total liabilities bearing interest	**11,375**	**(96)**	**(3.42)**	12,682	(102)	(3.26)
Interest spread			**0.73**			0.76
Foreign currency (including linked to f-c)						
Total assets bearing interest	**13,253**	**60**	**1.82**	12,570	46	1.47
Total liabilities bearing interest	**11,088**	**(13)**	**(0.47)**	9,936	(6)	(0.24)
Interest spread			**1.35**			1.23
Total activity in Israel						
Total assets bearing interest	**110,750**	**680**	**2.48**	106,506	618	2.34
Total liabilities bearing interest	**71,145**	**(129)**	**(0.73)**	69,823	(124)	(0.71)
Interest spread			**1.75**			1.63

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 (CONT'D)

	For nine months ended September 30, 2016			For nine months ended September 30, 2015		
	Average balance (1)	Income (expense) interest	Rate of income (expenses)	Average balance (1)	Income (expense) interest	Rate of income (expenses)
		NIS million	%		NIS million	%
Non-linked Istaeli currency						
Total assets bearing interest	**84,326**	**1,473**	**2.34**	78,733	1,303	2.21
Total liabilities bearing interest	**49,050**	**(59)**	**(0.16)**	46,523	(50)	(0.14)
Interest spread			**2.18**			2.07
Israeli currency linked to the CPI						
Total assets bearing interest	**12,511**	**249**	**2.66**	14,021	264	2.52
Total liabilities bearing interest	**11,175**	**(185)**	**(2.21)**	12,762	(204)	(2.14)
Interest spread			**0.45**			0.38
Foreign currency (including linked to f-c)						
Total assets bearing interest	**14,179**	**170**	**1.60**	11,944	158	1.76
Total liabilities bearing interest	**11,908**	**(42)**	**(0.47)**	11,772	(25)	(0.28)
Interest spread			**1.13**			1.48
Total activity in Israel						
Total assets bearing interest	**111,016**	**1,892**	**2.28**	104,698	1,725	2.20
Total liabilities bearing interest	**72,133**	**(286)**	**(0.53)**	71,057	(279)	(0.52)
Interest spread			**1.75**			1.68

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analyasis of changes in interest income and expenses

	For the three months ended September 30, 2016 compared with the same period last year			For the nine months ended September 30, 2016 compared with the same period lasy year		
	Increase (decrease) due to the change			Increase (decrease) due to the change		
	Quantity	Price	Net change	Quantity	Price	Net change
			NIS million			NIS million
Interest bearing assets						
Credit to the public						
- In Israel	**48**	**8**	**56**	**122**	**31**	**153**
- Outside Israel	**-**	**-**	**-**	**-**	**-**	**-**
Total	**48**	**8**	**56**	**122**	**31**	**153**
Other interest bearing assets						
- In Israel	**(1)**	**7**	**6**	**5**	**9**	**14**
- Outside Israel	**-**	**(1)**	**(1)**	**-**	**(1)**	**(1)**
Total	**(1)**	**6**	**5**	**5**	**8**	**13**
Total interest income	**47**	**14**	**61**	**127**	**39**	**166**
Interest bearing liabilities						
Deposits from the public						
- In Israel						
Demand	**-**	**-**	**-**	**-**	**-**	**-**
Fixed-term	**1**	**5**	**6**	**2**	**22**	**24**
- Outside Israel	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1**	**5**	**6**	**2**	**22**	**24**
Other interest bearing liabilities						
- In Israel	**(5)**	**4**	**(1)**	**(9)**	**(8)**	**(17)**
- Outside Israel	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(5)**	**4**	**(1)**	**(9)**	**(8)**	**(17)**
Total interest expenses	**(4)**	**9**	**5**	**(7)**	**14**	**7**
Total interest income less interest expenses	**51**	**5**	**56**	**134**	**25**	**159**

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analayasis of changes in interest income and expenses (CONT'D)

NOTES:

(1) On the basis of 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 September 30, 2016 in the amount of NIS 7 million and nine months ended on September 30, 2016 an amount of NIS 13 million was added. (for the three months ended September 30, 2015 an amount of NIS 17 million was added and nine months ended September 30, 2015 an amount of NIS 20 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 23 million, NIS 28 million were included for the period of three months ended September 30, 2016 and 2015, respectively, and amounts of NIS 73 million and NIS 99 million in the period of nine months ended September 30, 2016 and 2015, 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.

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