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 MARCH 31, 2016

The meeting of the Board of Directors held on May 19, 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 March 31, 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, which conducts all operations relating to private customers of the Bank, including private banking, households and small business. The division operates through 102 branches, while in addition, Otzar Hachayal Bank operates 47 branches and Massad Bank operates 22 branches (a total of 171 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.

FORWARD-LOOKING INFORMATION

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

Forward-looking information is notable for such words or expressions as: "forecast," "expected," "in the Bank's estimation" and "the Bank intends," as well as expressions such as "will be able," "might be" and "will be." These forward-looking expressions involve risks and uncertainty because they are based on the Management's

assessments regarding future events that may not occur or that may occur in a different manner than expected as the result inter alia of the aforementioned factors or as the result of the materialization of one or more of the risk factors detailed in the table of risk factors presented in this report.
The information in this report is based, among other, on the publication of the Central Bureau of Statistics, the Treasury department and the data from the Bank of Israel, as well as on public information given by different factors operating and connected with the capital and money markets.

Net profit attributed to the Bank's shareholders amounted to NIS 147 million in the first three months of 2016, compared with NIS 125 million in the same period last year, an increase of 17.6%.
Net return on equity attributed to the Bank's shareholders amounted to 8.5% compared with 7.5% 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 three months of 2016 compared with the same period last year:

- Increase in interest income, net, in the amount of NIS 82 million (18.5%).
- Decline in non-interest financing income of NIS 41 million, due mainly to the decrease in gains on realization of bonds amounting to NIS 45 million.
- Decrease in credit loss expenses of NIS 79 million. The rate of credit loss income amounted to 0.36%, as compared to rate of credit loss expense of 0.07% in the same period last year.
- Decrease of NIS 30 million in commission income (8.4%).
- Increase in salaries and related expenses in the amount of NIS 58 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 14 million (3.1%).
- Decrease in operating and other expenses, excluding salaries and related expenses, in the amount of NIS 9 million.
- A one time increase in the taxes on income expense in the amount of NIS 16 million, deriving from the effect of the decrease in the companies tax rate on the deffered taxes.

Basic earnings per NIS 0.05 share amounted to NIS 1.46 in the first three months of the year compared with NIS 1.25 in the same period last year.

The Bank Group's total assets on March 31, 2016 amounted to NIS 126,608 million compared with NIS 120,305 million on March 31, 2015 and NIS 125,476 on December 31, 2015, an increase of 5.2% and 0.9%, respectivly.

Credit to the public, net on March 31, 2016 amounted to NIS 74,534 million compared with NIS 70,746 million on March 31, 2015 and NIS 72,555 million at the end of 2015, an increase of 5.4% and 2.7%, respectivly.

Deposits from the public on March 31, 2016 amounted to NIS 103,853 million, compared with NIS 97,277 million on March 31, 2015 and NIS 103,262 million at the end of 2015, an increase of 6.8% and 0.6% respectivly.

Capital attributed to shareholders totaled NIS 7,216 million on March 31, 2016, compared with NIS 6,905 million on March 31, 2015 and NIS 7,073 million at the end of 2015, an increase of 4.5% and 2.0%, respectivly.

The ratio of Tier I equity capital to risk component as of March 31, 2016 amounted to 9.92%, as compared to 9.81% at the end of 2015.

The ratio of comprehensive capital to risk components amounted to 12.92%, as compared to 13.26% at the end of 2015.

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.

PRINCIPAL DATA

Profit and profitability	For the three months ended		Change
	31.3.16	31.3.15	Change
		NIS million	%
Net financing profit(1)	**560**	519	7.9
Fees and other income	**339**	363	(6.6)
Total income	**899**	882	1.9
Of which: Fees	**327**	357	(8.4)
Expenses (income) from credit losses	**(67)**	12	
Salaries and related expenses	**434**	376	15.4
Operating and other expenses (excluding salaries and related expenses)	**264**	273	(3.3)
Net profit attributed to the shareholders of the bank	**147**	125	17.6

Balance Sheet			As of		Change vs.
	31.3.16	31.3.15	31.12.15	31.3.15	31.12.15
			NIS million		%
Total assets (Total Balance Sheet)	**126,608**	120,305	125,476	5.2	0.9
Credit to the public, net	**74,534**	70,746	72,555	5.4	2.7
Securities	**16,599**	13,614	16,439	21.9	1.0
Deposits from the public	**103,853**	97,277	103,262	6.8	0.6
Bonds and subordinated notes	**5,697**	6,106	5,862	(6.7)	(2.8)
Capital attributed to the shareholders of the bank	**7,216**	6,905	7,073	4.5	2.0
Problematic credit risk	**2,135**	2,735	2,219	(21.9)	(3.8)

	For the three months ended		For the year ended
Main financial ratios	31.3.16	31.3.15	31.12.15
Capital attributed to shareholders of the bank to total assets	**5.7%**	5.7%	5.6%
Expenses (income) from credit losses to credit to the public, net	**(0.36%)**	0.07%	0.02%
Ratio of equity capital tier 1 to risk assets	**9.92%**	9.49%	9.81%
Ratio of total capital to risk assets	**12.92%**	13.57%	13.26%
Leverage ratio(2)	**5.44%**		5.43%
Liquidity coverage ratio(2)	**105%**		104%
Credit to the public, net to total assets	**58.9%**	58.8%	57.8%
Deposits from the public to total assets	**82.0%**	80.9%	82.3%
Deposits from the public to credit to the public, net	**139.3%**	137.5%	142.3%
Operating and other expenses to total income	**77.6%**	73.6%	77.6%
Net return on equity attributed to shareholders of the bank	**8.5%**	7.5%	6.5%

(1) Net financing profit includes net interest income and non-interest financing income.
(2) According to instructions of the Bank of Israel the Leverage ratio and the Liquidity coverage ratio were calculated since the second quarter of 2015. Therefor no comparative data is stated.

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.

Following is a summary review of leading risks and the more material developing risks involved in the operations of the Group:

1. **Cyber risks (being a part of operating risks) Proper Management of Banking Business Directive No. 361**

   Potential damage stemming from a cyber event, considering its probability level and severity of its implications, a cyber event being defined as an event, during the course of which, computer systems and/or computer embedded systems and infrastructure are being attacked by or on behalf of external or internal rivals of the banking corporation. This definition includes also attempts of attacks even if no damage had been actually caused. The Group has a policy with respect to cyber risks, which includes actions that may minimize the potential for the realization of reputation risk upon occurrence of a cyber event. The Bank has a cyber defense policy and a cyber defense strategy.

2. **Information technology ("IT") risk (being part of operating risk) - IT management risk - Proper Management of Banking Business Directive No. 357**

   The fear of realization of potential risks and a loss to the Bank stemming from damage to the IT management layout, including: the failure to use updated technologies, deficient outsourcing policy and supplier relations, operation and maintenance of systems that do not properly support the business activity (thus damaging also the competitive capabilities of the Bank), deficient policy for the management of computer equipment inventory and communication, and more.

   The Bank monitors the risks stemming from the use of advanced technologies in order to obstruct the possibility of transacting business with no face-to-face meeting, and avoid identification, verification and documentation required by law. Monitoring is performed within the framework of the forum for the monitoring of operating risks, and a designated policy exists in respect of the management of this risk.

   Outsourcing is being used as part of the IT risk management. Outsourcing comprises a possible additional tool in obtaining the business goals of the Bank, while improving the service to customers and reducing operating expenses. In managing the risk, the Bank operates as follows:

- Outsourcing with respect to IT is conducted according to the provisions of Proper Management of Banking Business Directive No. 357.
- As to the other fields of operation, the Bank acts with respect to outsourcing in accordance with the provisions of Proper Management of Banking Business Directive No. 350.

As a general rule, where outsourcing is involved, the Bank performs a business due-diligence review of the recommended supplier, including his financial stability, proof of relevant capabilities and qualification, opens a program for the management and monitoring of risk involved in the outsourcing arrangements, as well as the creation of an effective control environment (at the Bank and at the supplier).

3. Regulation risk

A cross-organization risk managed mostly as part of legal risk and compliance risk. This risk stems from restrictions applying to the Bank and/or from the preparation required from the Bank with respect to changes and developments in legislation, regulation and Court decisions. Changes, the implementation and integration of which may result in heavy costs. Furthermore, extensive regulation, which changes often in a way that might create difficulties concerning legal certainty and orientation in the regulatory world, makes the task of risk management more complex. The risk is expressed within the framework of the legal risk policy and the compliance policy.

Exposure to possible future regulation, which might impact the strategy of the Bank, is being managed within the framework of the strategic risk.

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.

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

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

PRINCIPAL ECONOMIC DEVELOPMENTS IN ISRAEL

Non-financial developments

The published indicators for non-financial activity show that the economy continued to grow in the first quarter of 2016, at the moderate rate portraying it in recent years. The published data show a moderate growth, resulting mainly from a growth in private consumption while exports continue their steep decline at a rate of 4.6%.

In accordance with the most recent assessment published by the Central Statistical Bureau (hereinafter - "the CSB") during April 2016, the economy grew in the second half of 2015 by 2.2% (in annualized terms), following a growth of 2.7% in the first half of the year and 2.6% in the second half of 2014.

The composite state of the economy index of Bank of Israel indicates a certain slowdown, rising by an average rate of 0.7% in the first quarter of 2016, in contrast to a rise of 0.9% in the last quarter of 2015 and of 0.8% in the first quarter of 2015.

The Research Division of Bank of Israel left unchanged in March 2016, the product growth forecast for 2016 at a rate of 2.8%, similarly to the growth rate recorded during the past two years, and has lowered the growth rate forecast for 2017 to 3.0%, in contrast to 3.1% in the previous forecast issued in December 2015, due mainly to the lowering of forecasts regarding exports to the OECD countries, which serve as a principal target for the Israeli market.

Fitch rating agency increased to "positive" in April 2016, the credit rating of the State of Israel as regards its foreign currency debt and ratified it at an "A" level. The upward revision of the forecast stems from an additional strengthening of the foreign accounts of Israel (a surplus on the expanding current account and an increase in the foreign currency balances of Bank of Israel) and an improvement in the reduction in the ratio of public debt to the product.

The State budget

An increase was recorded in the first quarter of the year in the surplus on the budgetary activity of the Government amounting to NIS 1 billion, in comparison with a surplus of NIS 0.5 billion in the corresponding period last year. The planned deficit for the whole of 2016 amounts to NIS 35 billion, comprising 2.9% of GDP, while in the past twelve months (April 2015- March 2016) the budget deficit amounted to only 2.1% of GDP. The expenditure of the civilian Government offices increased by 10.6% and the expenditure of the Defense Ministry increased by 2.2%, in comparison with the corresponding period last year, on background of the fact that during most of the year 2015 the Government operated without an approved budget.

Tax revenues in the months January-March 2016 amounted to NIS 72.6 billion, a nominal increase of 4.6%, in comparison with the corresponding period last year, and a real-term increase of 5% in comparison with the corresponding period last year.

The improvement in tax revenues took place despite the fact that the rate of corporation tax was reduced by 1.5% at the beginning of January 2016, to a level of 25%, with effect from the year 2016 and thereafter.

Inflation

The inflationary environment in the economy continues in its relatively low level. The Consumer Price Index (CPI) decreased by 1% in the first quarter of the year, when most of the decrease was noted in the apparel and footwear items – 9.7%, fruit and vegetables – 5.7% and transportation and communication – 2.6%. A negative inflation rate of -0.7% was recorded in the past twelve months, on background of the steep decline in energy prices and initiated price reductions (water, public transportation and compulsory motor insurance prices). With the elimination of these effects, inflation was at a positive rate of 0.7%, lower then the minimum limit of the annual inflation target as set by Bank of Israel.

The Research Division of bank of Israel estimated in March 2016, that inflation in 2016 will be at a low level of 0.2%, mostly on background of falling prices in the world (especially energy prices), one-off price reductions, as stated above, as well as low import prices. In 2017, inflation is expected to rise gradually up to an annual level of 1.4% (within the targeted inflation range), mainly on background of the fading moderating effect of the decrease recorded in energy prices, the gradual increase in inflation expected globally, the vigorous labor market and the improvement in non-financial activity.

The inflationary expectations derived from the capital market for the coming twelve months are still low at a level of 0.1%.

The housing market

The housing price index, published by the CSB indicates stability in housing prices in the months January-February 2016. Housing prices in this period increased by 0.1% while in the period of twelve months ended in February, housing prices increased by 7.2%.

Construction of 47,750 new housing units began in 2015 (an increase of 3.9% in comparison with the previous year) and construction of 43,400 units was completed in that year (a decrease of 2.8% compared with the previous year). The volume of construction beginnings shows that completion of construction is expected to remain at a relative high level also in the coming quarters of the year.

Demand for housing units in the months of January-February 2016 remained stable and 5,340 new units were sold in that period, an increase of 0.4% only in comparison to the corresponding period last year.

In March 2016, mortgage loans granted to the public amounted to NIS 5.3 billion, following an amount of NIS 4.9 billion granted in February and NIS 4.8 billion granted in January. The volume of mortgage loans granted in the past twelve months amounted to NIS 65 billion, a monthly average of NIS 5.4 billion.

Labor market

Unemployment data continued to be positive and stable. The unemployment rate in March 2016 (among persons 15 years of age and over) was at a level of 5.3%, similarly to the third and fourth quarters of 2015. In parallel, among persons of the main working age (aged 25-64) the rate of unemployed remained stable at a relatively low rate amounting in the first quarter of 2016 to 4.5%, similarly to that of the fourth quarter of 2015.

Exchange rate

The exchange rate of the shekel against the US dollar weakened by 3.5% in the first quarter of 2016. In contrast, the exchange rate of the shekel against the Euro strengthened by 0.9%.

During the first quarter of 2016 Bank of Israel purchased an amount of approximately US$ 1 billion (of which, US$ 0.6 billion were purchases intended to offset the impact of natural gas production in Israel on the shekel exchange rate). In November 2015, Bank of Israel announced that within the framework of the program for offsetting the effect of natural gas production on the exchange rate, it would purchase in 2016 an amount of US$ 1.8 billion.

	Exchange rate as of			Change %	
	31.3.16	**31.12.15**	**31.3.15**	**First quarter 2016**	**First quarter 2015**
Dollar	**3.77**	3.90	3.98	(3.5%)	2.3%
Euro	**4.29**	4.25	4.27	0.9%	(9.5%)

Bank of Israel interest rate

The Monetary Committee of Bank of Israel decided in February 2015, to lower the rate of interest for the month of March to a level of 0.1%. This decision was taken on background of the rate of appreciation of the shekel and its possible implications on economic activity and inflation, and among other things, was intended to bring back the inflation rate into middle of the targeted range. Since then, the interest rate remained stable, on background of the low inflationary rate and the Committee estimated that the monetary policy shall remain expansionary for a long time to come. The Research Division of Bank of Israel has estimated that the Bank of Israel interest rate is expected to remain at its present level during the whole of 2016, and that it would rise gradually only as from the beginning of the second quarter of 2017.

The global environment

The trend of moderation in the global economic activity continues, in particular in the developing countries and in Japan. Concurrently, the monetary policy of the principal central banks continues to be expansionary. The global economic growth forecast of the International Monetary Fund (IMF) for 2016, was revised downward in April 2016 from 3.4% to 3.2%. The lowering of the global economic growth forecast stems mainly from the weakness in the global economy, a decline in the volume of trade and the low oil prices. The forecast has been lowered also for the year 2017, from 3.6% to 3.5%. The IMF expects that the economic recovery will continue also in 2017 and in the years thereafter, and that the main growth generator would be the emerging market and the developing countries.

A significant slowdown is noted in the United States in the first quarter of the year in the rate of growth of private consumption. The expected estimated change in the GDP has been drastically revised downwards to only 0.3%, this on background of disappointing macro-economic data. The published preliminary indices (among other, the employment report data, and rate of unemployment) indicate improvement towards the second quarter. In Europe, economic activity data continue to indicate a moderate growth stemming mostly from private consumption, while the inflationary environment remains at a low level and the Euro continues to appreciate, despite the aggressive expansionary measures of the central bank. In China, the growth rate continues to be relatively low.

In the United States, the Fed announced in December 2015 a 0.25% rise in the interest rate, for the first time after seven years of infinitesimal interest environment. In view of the weak macro-economic data, the forecast for raising of the interest rate by the Fed was revised in March to two increases in the interest rate in 2016, in contrast to the previous forecast of four increases during 2016. The ECB lowered the interest rate in March 2016 by 0.1% to a negative level of 0.4% and concurrently announced an increase in the monthly volume of bond purchases by Euro 20 billion, to a total volume of Euro 80 billion per month.

The capital markets

In the first quarter of 2016, the local capital market indices – the TA 100 Index and the TA 25 Index decreased by 4.9% and 5.1%, respectively, while the comprehensive government bond Index increased by 1.4%.

The trading turnover of shares and convertibles included in the TA 25 and TA 100 indices increased in the first quarter of 2016 by 4.9%,in comparison with the comparative period last year, this in parallel to a decline of 10.3% in the trading turnover of bonds.

	Rate of change		Average daily trading turnover	
	in %		NIS million	
	First quarter 2016	**First quarter 2015**	**First quarter 2016**	**First quarter 2015**
Tel Aviv 25 index	**(5.12%)**	10.97%	**722**	687
Tel Aviv 100 index	**(4.93%)**	9.96%	**924**	884
General bonds index	**1.43%**	3.65%	**4,289**	4,784

The raising of capital on the market (shares and bonds) increased in the first quarter 0f 2016 by 19% in comparison with the corresponding period last year. The increase was recorded both in shares and convertibles and in government bonds and in corporate bonds.

	Funds raising volume		
	NIS million		
	First quarter 2016	**First quarter 2015**	**Rate of change**
Shares and convertibles	**2,546**	2,098	21.4%
Government bonds	**13,984**	10,355	35.0%
Corporate bonds (including institutions)	**19,912**	18,073	10.2%
Total	**36,442**	30,526	19.4%

The S&P-50 Index has risen by 0.8% during the first quarter of 2016. In Europe the Eurostock-600 Index has dropped by 7.7% while the Emerging Markets Index (EM-MSCI) has risen by 5.4%.

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 147 million in the first quarter of 2016, as compared to NIS 125 million in the same period last year, an increase of 17.6%.

The basic net profit per share of NIS 0.05 amounted to NIS 1.46 in the first three months of the year, as compared to NIS 1.25 in the same period last year.

The return of net profit to the capital attributed to the shareholders of the Bank amounted to 8.5% in the period January – March 2016, as compared to 7.5% 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			
	Q1	Q4	Q3	Q2	Q1
					NIS million
Interest income	**547**	527	621	730	382
Interest expenses (income)	**21**	28	124	217	(62)
Net interest income	**526**	499	497	513	444
Non-interest financing income	**34**	32	14	28	75
Net financing earnings	**560**	531	511	541	519

Set out below is an analysis of net financing earnings:

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

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

See the section on segments of activity below for details of the distribution of financing earnings by segments of activity.

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

	For the three months ended	
	2016	2015
		in %
Income rate on asset bearing interest	**1.95**	1.48
Expense rate on liabilities bearing interest	**0.11**	(0.34)
Total interest spread	**1.84**	1.82
Ratio between net interest income and assets bearing interest balance	**1.88**	1.72

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 ".

Income from credit losses amounted to NIS 67 million compared with expenses of NIS 12 million in the same period last year. The income in the first quarter of the year were recorded due to decrease in the group provision.
Expenses from credit losses as a ratio of total credit to the public amounted to negative rate of 0.36% compared with positive rate of a 0.07% in the same period last year and 0.02% in 2015.

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

	For the three months ended	
	2016	**2015**
		NIS million
Expense (income) in respect of commercial credit	**(78)**	6
Expense in respect of housing credit	**3**	1
Expense in respect of other private credit	**8**	5
Total Expense in respect of credit losses	**(67)**	12

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 339 million, compared with NIS 363 million in the same period last year, a decrease of 6.6%.

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

	For the three months ended			Change from the three months ended	
	31.3.16	**31.12.15**	**31.3.15**	**31.12.15**	**31.3.15**
			NIS million	%-ב	
Fees:					
Account management	**62**	**66**	**67**	(6.1)	(7.5)
Credit cards	**25**	**27**	**24**	(7.4)	4.2
Transactions in securities	**111**	**108**	**123**	2.8	(9.8)
Financial product distribution fees	**18**	**19**	**21**	(5.3)	(14.3)
Management, operation and trusteeship for institutional investors	**23**	**27**	**27**	(14.8)	(14.8)
Credit processing	**7**	**8**	**8**	(12.5)	(12.5)
Conversion differentials	**32**	**34**	**37**	(5.9)	(13.5)
Foreign trade activity	**15**	**14**	**15**	7.1	-
Fees from financing transactions	**18**	**19**	**19**	(5.3)	(5.3)
Other Fees	**16**	**15**	**16**	6.7	-
Total Fees	**327**	**337**	**357**	(3.0)	(8.4)
Other income	**12**	**1**	**6**		
Total Fees and other income	**339**	**338**	**363**	0.3	(6.6)

Fees totaled to NIS 327 million, compared with NIS 357 million in the same period last year.
NIS 19 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 12 million, compared with NIS 6 million in the same period last year, an increase stemming from the gain from realization of assets.

Operating and other expenses totaled NIS 698 million compared with NIS 649 million in the same period last year, an increase of 7.6%.

Set out below are details of operating and other expenses:

	For the three months ended			change from the three months ended	
	31.3.16	31.12.15	31.3.15	31.12.15	31.3.15
			NIS million	in %	
Salaries and related expenses	**434**	424	376	2.4	15.4
Maintenance and depreciation of premises and equipment	**106**	105	108	1.0	(1.9)
Amortization of intangible assets	**31**	32	31	(3.1)	-
Other expenses	**127**	139	134	(8.6)	(5.2)
Total operating and other expenses	**698**	700	649	(0.3)	7.6

Salaries and related expenses totaled NIS 434 million compared with NIS 376 million in the same period last tear, an increase of 15.4% 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 14 million occurred deriving from, among other things, reduction in the number of employees in the group.

Expenses on depreciation and maintenance of premises and equipment totaled NIS 106 million, compared to NIS 108 million in the same period last year.

Amortizations of intangible assets totaled NIS 31 million similare to 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 11 million, similar to 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 provision for taxes on operating earnings amounted to NIS 118 million compared with NIS 94 million in the same period last year. The effective tax rate as a proportion of earnings before taxes amounted to 44.0%, compared with the statutory rate of tax of 35.9%.

The effective tax rate was affected mainly from unrecognized expenses, mainly the amortization of intangible assets and the change in deffered taxes, as mentioned bellow.

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 chanje 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.

The Bank's share in the operating earnings of investee company after the tax effect amounted to NIS 10 million, compare to NIS 8 million in the same period last year.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 134 million. This amount was affected by the net profit for the quarter attributed to the shareholders of the Bank of NIS 147 million, by adjustments in respect of available-for-sale securities in an amount of NIS 12 million, and by other comprehensive loss in respect of employee benefits of NIS 25 million, deriving mainly by the decline in the discount rate on the actuarial liabilities.

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

The consolidated balance sheet as of March 31, 2016 amounted to NIS 126,608 million compared with NIS 120,305 million as of March 31, 2015 and NIS 125,476 million as of December 31, 2015, an increase of 5.2% and 0.9%, respectively.

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

	31.3.16	31.12.15	Change
		NIS million	%
Credit to the public, net	**74,534**	72,555	2.7
Securities	**16,599**	16,439	1.0
Cash and deposits with banks	**29,336**	30,727	(4.5)
Premises and equipment	**1,206**	1,229	(1.9)
Deposits from the public	**103,853**	103,262	0.6
Deposits from banks	**1,624**	1,565	3.8
Bonds and subordinated capital notes	**5,697**	5,862	(2.8)
Shareholders' equity	**7,216**	7,073	2.0

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

	31.3.16	31.12.15	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**267**	130	105.4
Guarantees and other liabilities	**7,761**	7,473	3.9
Unutilized credit lines for derivatives instruments	**33,926**	32,967	2.9
Unutilized revolving credit and other on-call credit facilities	**10,948**	12,400	(11.7)
Unutilized credit lines for credit card facilities and Facilities for the lending of securities	**5,971**	6,619	(9.8)
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**5,426**	4,268	27.1
Total	**64,299**	63,857	0.7
Derivative financial instruments (stated value):			
Interest rate contracts	**18,808**	19,274	(2.4)
Foreign currency contracts	**75,896**	79,514	(4.6)
Contracts of shares	**81,372**	104,863	(22.4)
Commodities and other contracts	**488**	329	48.3
Total	**176,564**	203,980	(13.4)

Credit to the public, net as of March 31, 2016 amounted to NIS 74,534 million compared with NIS 72,555 million as of December 31, 2015, an increase of 2.7%.

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

	As of		Change		Segment's share of credit to the public as of	
	31.3.16	**31.12.15**		**Change**	**31.3.16**	**31.12.15**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**57,394**	55,908	1,486	2.7	**77.0**	77.1
- CPI-linked	**11,016**	10,700	316	3.0	**14.8**	14.7
Foreign currency (including f-c linked)	**5,549**	5,316	233	4.4	**7.4**	7.3
Non-monetary items	**575**	631	(56)	(8.9)	**0.8**	0.9
Total	**74,534**	72,555	1,979	2.7	**100.0**	100.0

Net Credit to the public by segment of activity

	As of		
	31.3.16	**31.12.15**	**Change**
		NIS million	%
Corporate banking segment	**18,163**	16,971	7.0
Middlemarket banking segment	**4,200**	3,987	5.3
Small business segment	**14,234**	14,215	0.1
Household segment	**37,975**	37,321	1.8
Private banking segement	**111**	104	6.7
Institutional entities	**638**	781	(18.3)
Total	**75,321**	73,379	2.6
Of which, consumer credit excluding housing loans and credit cards:			
Household segment	**13,801**	13,621	
Private banking segment	**40**	31	
Total	**13,841**	13,652	1.4
Housing loans in Israel:			
Household segment	**21,278**	20,749	
Total	**21,278**	20,749	2.5

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

Total credit risk to the public amounted to NIS 110,010 million on March 31, 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 March 31, 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)	**14,731**	**13.4**	14,710	13.6	0.1
Construction and real estate	**15,052**	**13.7**	14,263	13.1	5.5
Industry	**10,904**	**9.9**	10,938	10.1	(0.3)
Commerce	**8,835**	**8.0**	8,693	8.0	1.6
Information and communications	**2,512**	**2.3**	2,414	2.2	4.1
Private customer, including housing loans	**49,441**	**44.9**	48,993	45.2	0.9
Others	**8,535**	**7.8**	8,440	7.8	1.1
Total	**110,010**	**100.0**	108,451	100.0	1.4

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

		As of March 31, 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	**1,573**	**200**	**1,773**	**745**
2.	Financial services	**910**	**5**	**915**	**64**
3.	Electricity and water supply	**548**	**19**	**567**	**212**
4.	Commerce	**312**	**184**	**496**	**496**
5.	Financial services	**458**	**-**	**458**	**-**
6.	Industry	**433**	**-**	**433**	**-**

		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 16,599 million compared with NIS 16,439 million at the end of 2015, an increase of 1.0%.

Set out below is the composition of the portfolio:

	As of		Share of total securities	
	31.3.16	**31.12.15**	**31.3.16**	**31.12.15**
		NIS million		%
Government bonds	**11,936**	11,637	**71.9**	70.8
Banks' bonds(1)	**2,408**	2,368	**14.5**	14.4
Other bonds (corporate and asset-backed)	**1,224**	1,490	**7.4**	9.0
Other bonds (corporate and asset-backed) guaranteed by governments	**814**	683	**4.9**	4.2
Shares(2)	**217**	261	**1.3**	1.6
Total	**16,599**	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 515 million (December 31, 2015 - NIS 98 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 114 million, perpetual capital notes amounting to NIS 12 million, investment in foreign currency shares of NIS 56 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 29 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	
	31.3.16	**31.12.15**			**31.3.16**	**31.12.15**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**7,023**	6,915	**108**	**1.6**	**42.3**	42.0
- CPI-linked	**1,704**	1,655	**49**	**3.0**	**10.3**	10.1
Foreign currency denominated & linked	**7,655**	7,608	**47**	**0.6**	**46.1**	46.3
Non-monetary items	**217**	261	**(44)**	**(16.9)**	**1.3**	1.6
Total	**16,599**	16,439	**160**	**1.0**	**100.0**	100.0

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on March 31, 2016:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**77**	**12**	**128**	**217**
Local currency government bonds	**7,357**	**-**	**-**	**7,357**
Local currency corporate bonds	**1,051**	**319**	**-**	**1,370**
Non-asset backed foreign-currency and f-c linked bonds	**3**	**7,077**	**-**	**7,080**
MBS bonds	**-**	**562**	**-**	**562**
Others (structured and credit-based structured)	**-**	**-**	**13**	**13**
Total	**8,488**	**7,970**	**141**	**16,599**
% of portfolio	**51.1**	**48.1**	**0.8**	**100.0**

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

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

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

	As of	
	31.3.16	31.12.15
		NIS million
Israel (incl. Israel Government-31.3.16 - NIS 1,836 million, 31.12.15 - NIS 1,377 million)	**2,033**	1,617
USA	**3,132**	3,672
France	**164**	150
UK	**273**	247
Europe - others * (31.3.16 - 6 countries; 31.12.15 - 5 countries)	**559**	343
Australia	**206**	275
Canada	**52**	14
Germany	**134**	158
Netherlands	**239**	288
Far East, New Zealand* and others (31.3.16 - 5 countries; 31.12.15 - 6 countries)	**288**	322
Total	**7,080**	7,086

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

* Among these countries, there is no country whose bond balance exceeds 2% of the capital attributed to the shareholders' of the Bank. For details of total exposure to foreign countries, including Spain and Ireland, see Chpater "Credit risk management" below.

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

	As of	
	31.3.16	31.12.15
		NIS million
Financial services	**69**	77
Banks	**429**	527
Industry	**115**	119
Electricity and water	***518**	*520
Construction and real estate	**167**	198
Communications and computer services	**39**	41
Commerce	**18**	41
Hotels, hospitality and food services	**4**	-
Public and community services	**11**	11
Transportation	**-**	21
Total	**1,370**	1,555

* Including NIS 355 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 7,080 million (Dollar 1,880 million) (includes foreign corporations amounting to NIS 2,305 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 196 million, foreign currency denominated Israel Government bonds amounting to NIS 1,837 million and foreign government bonds amounting to NIS 2,742 million). All of the foreign bonds are investment grade and 89% of the portfolio is rated A or higher; 28% 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 2.1 years. The balance of unrealized gross losses (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 24 million (Dollar 6 million) compared with NIS 20 million (Dollar 5 million) on December 31, 2015.
- **Mortgage Backed Securities (MBS)** - amount to NIS 562 million (Dollar 149 million).
  The bonds were issued by federal agencies in the USA. Of these, NIS 459 million (Dollar 122 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 103 million (Dollar 27 million) was issued by the US federal agencies Fannie Mae and Freddie Mac.
  Set out below is a sensitivity analysis as of March 31, 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	**(12.3)**	**(2.7)**
Decrease of 100 base points	**16.6**	**-**

  The credit risk inherent in the portfolio is managed by economic hedging.

- **Private equity funds -** investments in private equity funds amounted to NIS 114 million (Dollar 30 million). The balance of Commitments to invest in private equity funds amounted to NIS 65 million as of March 31, 2016.

The balance of losses, net (before the tax effect), included in other cumulative comprehensive profit, in respect of the difference between the fair value of securities included in the available-for-sale portfolio and their amortized cost, as of March 31, 2016, amounted to NIS 13 million.

Cash and deposits at banks on March 31, 2016 totaled NIS 29,336 million compared with NIS 30,727 million at the end of 2015, a decrease of 4.5%

Deposits from the public on March 31, 2016 totaled NIS 103,853 million compared with NIS 103,262 million at the end of 2015, an increase of 0.6%.

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

	As of		Change		Segment's share of total deposits from the public on	
	31.3.16	**31.12.15**		**Change**	**31.3.16**	**31.12.15**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**73,984**	70,392	3,592	5.1	**71.2**	68.2
- CPI-linked	**6,244**	7,095	(851)	(12.0)	**6.0**	6.9
Foreign currency denominated & linked	**23,040**	25,135	(2,095)	(8.3)	**22.2**	24.3
Non-monetary items	**585**	640	(55)	(8.6)	**0.6**	0.6
Total	**103,853**	103,262	591	0.6	**100.0**	100.0

Deposits from the public by segment of activity

	As of		
	31.3.16	**31.12.15**	**Change**
		NIS million	%
Corporate banking segment	**11,292**	10,842	4.2
Middlemarket banking segment	**4,902**	4,973	(1.4)
Small business segment	**15,236**	16,800	(9.3)
Household segment	**42,849**	41,725	2.7
Private banking segment	**8,536**	8,482	0.6
Institutional entities	**21,038**	20,440	2.9
Total	**103,853**	103,262	0.6

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of March 31, 2016, amounted to NIS 238 billion, as compared to NIS 246 billion at the end of 2015.

Bonds and deferred debt notes amounted at March 31, 2016 to NIS 5,697 million, as compared with NIS 5,862 million at March 31, 2015, a decrease of 2.8%.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on March 31, 2016 to NIS 7,216 million, as compared with NIS 7,073 million on December 31, 2015, an increase of 2.0%.
For detailes regarding the development of the other comprehensive profit, see the Chapter "Material developments in income, expenditure and in other comprehensive profit".

CAPITAL ADEQUACY

Minimum capital ratios

Bank of Israel issued on May 30, 2013 an amendment to Proper Conduct of Banking Business Directives Nos. 201-205, 208, 211 and 299, in the matter of "Measurement and capital adequacy", which adopt the Basel instructions. The initial implementation was set to January 1, 2014, and the implementation will be gradual in accordance to the transitional instructions in Proper Conduct of Banking Business Directive No. 299 "Measurement and capital adequacy– supervisory capital – transitional instructions". In accordance with these instructions, the minimum capital targets are as follows:

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

An additional instruction was published by the Supervisor of Banks on September 28, 2014. According to this instruction and to the transitional instructions for the year 2014, an additional capital requirement was added as from January 1, 2015, to the minimum capital ratios at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date, so that the minimum ratio of Tier I equity capital required by the Supervisor of Banks as of March 31, 2016, shall not be lass than 9.14%, and the minimum ratio of the comprehensive capital shall no be less than 12.64%. This requirement is applied gradually over eight quarters until January 1, 2017.

Within the framewotk of the ICAAP process, the Board of Directors has set minimum capital goals in relation to Tier I equity capital and to the comprehensive capital, to apply in regular business situations and in stress situations. These capital goals have, inter alia, been determined in view of that stated above and in view of the ICAAP findings relating to the data as of June 30, 2015. The minimum capital goals 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, which is determined gradually, shall be no less than 12.70% by June 30, 2016, and no less than 12.73% by December 31, 2016.
- 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%.

Implementation of the instructions

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

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

Pillar II – the Bank is required to conduct an internal process for the assessment of capital adequacy (the ICAAP process). This process is designed to ensure the maintenance of an adequate level of capital means supporting the overall risks inherent in the operations of the Bank. The ICAAP document relating to the data as of June 30, 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 June 30, 2014 data, and have started to conduct the process in relation to the December 31, 2015 data.

			As of
		31.3.16	**31.12.15**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments**		
	Tier 1 capital, after deductions and supervisory adjustments	**7,432**	7,349
	Tier 2 capital	**2,247**	2,580
	Total capital	**9,679**	9,929
2.	**Weighted balances of risk assets**		
	Credit risk	**67,942**	67,766
	Market risk	**880**	995
	Operational risk	**6,110**	6,141
	Total weighted balances of risk assets	**74,932**	74,902
3.	**Ratio of capital to risk assets**		
	Raito of tier 1 equity capital to risk assets	**9.92%**	9.81%
	Total ratio of capital to risk assets	**12.92%**	13.26%
	Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.14%**	9.10%
	Minimal ratio of capital required by the Supervisor of Banks	**12.64%**	12.60%

The Tier I equity capital ratio as of March 31, 2016, amounted to 9.92%, in comparison with 9.81% on December 31, 2015. The ratio of comprehensive capital to risk components as of March 31, 2016, amounted to 12.92%, in comparison with 13.26% on December 31, 2015. The comprehensive capital as of March 31, 2016 amounted to NIS 9,679 million, in comparison with NIS 9,929 million on December 31, 2015. The reduction in the capital base stemmed mostly from a reduction of NIS 247 million in instruments issued by the Bank qualified for inclusion in the supervisory capital. This reduction was partly offset by the profits for the quarter in the amount of NIS 147 million. Risk assets as of March 31, 2016 amounted to NIS 74,932 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:

	March 31, 2016	December 31, 2015
		In percent
Significant subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of Tier 1 capital to risk assets	**10.96**	9.83
Ratio of overall capital to risk assets	**14.39**	13.25
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**13.76**	13.76
Ratio of overall capital to risk assets	**14.94**	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 March 31, 2016, amounts to 5.44%.

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 35.g. to the financial statements of 2015.

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.

B. Definitions

- **Private individuals** - individuals, including individuals conducting a joint account, who at date of the report have no indebtedness towards the bank, or where their indebtedness had been classified to the "private individuals - housing and other loans" economic sector.
- **Private banking segment** - private individuals the balance of their financial asset portfolio held with the bank on a consolidated basis (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 who is not included in the definition of "private individuals" and who is not an institutional body or a banking corporation.
- **Business turnover** - annual sales turnover or annual volume of income.
- **Minute business** - a business the turnover of which is less than NIS 10 million.
- **Small business** - a business the turnover of which is higher then or equals NIS 10 million, and is less than NIS 50 million.
- **Middle-market business** - a business the turnover of which is higher then or equals NIS 50 million, and is less than NIS 250 million.
- **Large business** - a business the turnover of which is higher then or equals NIS 250 million.
- **Financial management segment** - shall include the following activities: trading activity - investment in securities for trading, market making activity in securities and in derivative instruments, activity involving derivative instruments not intended for hedging and do not form part of the asset and liability management of the banking corporation, buyback transactions and the lending of securities for trading, the short-sale of securities, securities underwriting services; asset and liability management activity - including investment in available-for-sale bonds and in bonds held to maturity, which are not allocated to other segments of operation (where the borrower has no indebtedness to the Bank except for securities), derivative instruments intended for hedging and derivative instruments being part of the asset and liability management, deposits with banks and from banks in Israel and abroad, deposits with governments and from governments; non-financial investment activity - investment in available-for-sale shares and in equity base business corporations; other - management, operating, trusteeship and safe-deposit services for banks, consulting services, sale and management of credit portfolio activities, and development of financial products activity.
- **Other segment** - including discontinued operations, profits from funds and other results related to employee rights not allocated to other segments of operation, activities not allocated to other segments, and adjustments between total items allocated to the segments and the total items stated in the consolidated financial statements.

- **Managed assets** - including assets of provident funds, mutual funds, further education funds, customer securities, loans managed by the bank and assets stemming from operations based on the extent of collection of loans.

Principles for apportioning operating results among the different segments

- Net interest income-includes:
  - The financial margin between borrowing and lending activity, which is calculated as the spread between the interest obtained or paid and the average prices of money for the Bank, which derive from the duration of assets or liabilities in the relevant linkage segments.
  - Interest on the weighted capital attributed to the segment (on the basis of the risk assets attributed to each segment).
  - The customer segments are charged with the excess financing costs (over and above the cost of raising sources) of the capital notes attributed to the segment.
- Expenses on credit losses - Expenses on credit losses which were recorded in respect of its customers are attributed to each segment of activity.
- Non-interest income - Commission income, non-interest financing income and other income deriving from its customers' activity are charged to each segment of activity.
- Operating expenses - Attributed to each segment of activity are the direct expenses at the branches of the Bank and the head office deriving from the provision of services to the segment's customers. This is on the basis of the "activity index" standard, which translates activity with customers into labor inputs and other direct costs. Other direct head office expenses are charged to the segment on the basis of loading parameters and standards which are identified with the bussiness unit activity.
  The indirect expenses are charged on the basis of fixed loading standards.
- Taxes on income - The provision for taxes on the earnings of each segment is calculated in accordance with the statutory rate of tax, with certain adjustments deriving from such factors as unrecognized expenses.
- Minority interest in net earnings - The charging of minority interest in the different segments of activity is calculated on the basis of the net earnings of subsidiaries with minority interest, as these earnings are attributed to the different segments of activity.
- Return on equity - expresses the ratio between the net earnings of each of the segments and the capital allocated to the segment. Capital allocated to the segment includes the capital required in respect of credit risks and operational risk.

Forward-looking information

The following reference includes forward-looking information. This form of information is uncertain information about the future that is based on information existing at the Bank as of the report date, and includes the Bank's assessments or its intentions as of the report date.

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	
	31.3.16	**31.3.15**	**Change**	**31.3.16**	**31.3.15**
		NIS million	%		%
Corporate banking segment	**105**	118	(11.0)	**11.7**	13.4
Commercial banking segment	**42**	45	(6.7)	**4.7**	5.1
Small and minute business segment	**208**	215	(3.3)	**23.1**	24.4
Household segment	**401**	346	15.9	**44.6**	39.2
Private banking segment	**28**	31	(9.7)	**3.1**	3.5
Institutional entities	**53**	56	(5.4)	**5.9**	6.3
Financial management segment	**62**	71	(12.7)	**6.9**	8.1
Total	**899**	882	1.9	**100.0**	100.0

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

	For the three months ended	
	31.3.16	**31.3.15**
		NIS million
Corporate banking segment	**49**	21
Commercial banking segment	**10**	16
Small and minute business segment	**43**	39
Household segment	**4**	(4)
Private banking segment	**5**	5
Institutional entities	**9**	11
Financial management segment	**27**	37
Total	**147**	125

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Total assets				
	For the three months ended			% of total assets	
	31.3.16	**31.3.15**	**Change**	**31.3.16**	**31.3.15**
		NIS million	%	%	%
Corporate banking segment	**17,874**	17,142	4.3	**14.0**	14.5
Commercial banking segment	**4,078**	3,931	3.7	**3.2**	3.3
Small and minute business segment	**14,086**	13,744	2.5	**11.1**	11.6
Household segment	**37,337**	34,344	8.7	**29.4**	29.1
Private banking segment	**93**	130	(28.5)	**0.1**	0.1
Institutional entities	**680**	686	(0.9)	**0.5**	0.6
Financial management segment	**52,964**	48,194	9.9	**41.7**	40.8
Total	**127,112**	118,171	7.6	**100.0**	100.0

	Total liabilities				
	For the three months ended			% of total liabilities	
	31.3.16	**31.3.15**	**Change**	**31.3.16**	**31.3.15**
		NIS million	%	%	%
Corporate banking segment	**9,954**	10,549	(5.6)	**8.3**	9.5
Commercial banking segment	**4,866**	4,481	8.6	**4.1**	4.0
Small and minute business segment	**16,751**	16,101	4.0	**14.0**	14.5
Household segment	**43,208**	38,169	13.2	**36.1**	34.5
Private banking segment	**8,760**	7,261	20.6	**7.3**	6.5
Institutional entities	**21,979**	19,799	11.0	**18.3**	17.8
Financial management segment	**14,253**	14,610	(2.4)	**11.9**	13.2
Total	**119,771**	110,970	7.9	**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.

Private individuals - household and private banking - activity in Israel

	For the three months ended March 31, 2016								
	Households segment				Private banking segment				
	Housing loans	Credit cards	other	Total	Housing loans	Credit cards	other	Total	Total
Interest income from externals	55	5	199	259	-	-	1	1	260
Interest expenses for externals	-	-	6	6	-	-	2	2	8
Net interest income									
- From externals	55	5	193	253	-	-	(1)	(1)	252
- Inter-segmental	(13)	(1)	16	2	-	-	7	7	9
Total net interest income	42	4	209	255	-	-	6	6	261
Non-interest income	2	21	123	146	-	-	14	14	160
Total income	44	25	332	401	-	-	20	20	421
Expenses (income) from credit losses	2	-	11	13	-	-	(1)	(1)	12
Operating and other expenses	33	15	322	370	-	-	13	13	383
Profit before taxes	9	10	(1)	18	-	-	8	8	26
Provision for taxes on profit	3	4	(1)	6	-	-	3	3	9
Net profit:									
Before attribution to non-controlling interests	6	6	-	12	-	-	5	5	17
Attributed to non-controlling interests	-	-	(8)	(8)	-	-	-	-	(8)
Net profit (loss) attributed to shareholders of the Bank	6	6	(8)	4	-	-	5	5	9
Average balance of assets(*)	20,880	2,848	13,609	37,337	-	30	22	52	37,389
Balance of credit to the public at the end of the reported period	21,278	2,896	13,801	37,975	-	28	40	68	38,043
Balance of impaired debts	21	-	79	100	-	-	-	-	100
Balance of debts in arrears of more than 90 days	179	-	32	211	-	-	-	-	211
Average balance of liabilities(*)	-	-	43,208	43,208	-	-	7,930	7,930	51,138
Balance of deposits from the public at the end of the reported period	-	-	42,849	42,849	-	-	7,752	7,752	50,601
Average balance of risk-adjusted assets	12,341	2,946	11,441	26,728	-	19	140	159	26,887
Balance of risk-adjusted assets at the end of the reported period	12,516	2,952	10,405	25,873	-	18	182	200	26,073
Average balance of assets under management	-	-	35,275	35,275	-	-	13,421	13,421	48,696
Segmentation of net interest income:									
- Spread from credit granting activity	46	4	185	235	-	-	-	-	235
- Spread from deposit taking activity	-	-	27	27	-	-	6	6	33
- Other	(4)	-	(3)	(7)	-	-	-	-	(7)
Total net interest income	42	4	209	255	-	-	6	6	261

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

Private individuals - household and private banking - activity in Israel

	For the three months ended March 31, 2015								
	Households segment				Private banking segment				
	Housing loans	Credit cards	other	Total	Housing loans	Credit cards	other	Total	Total
Interest income from externals	(13)	5	128	120	-	-	1	1	121
Interest expenses for externals	-	1	(14)	(13)	-	-	(1)	(1)	(14)
Net interest income									
- From externals	(13)	4	142	133	-	-	2	2	135
- Inter-segmental	50	(1)	7	56	-	-	2	2	58
Total net interest income	37	3	149	189	-	-	4	4	193
Non-interest income	3	21	133	157	-	-	15	15	172
Total income	40	24	282	346	-	-	19	19	365
Expenses (income) from credit losses	1	-	9	10	-	-	-	-	10
Operating and other expenses	33	15	293	341	-	-	13	13	354
Profit before taxes	6	9	(20)	(5)	-	-	6	6	1
Provision for taxes (tax benefit) on profit (loss)	1	2	(5)	(2)	-	-	2	2	-
Net profit:									
Before attribution to non-controlling interests	5	7	(15)	(3)	-	-	4	4	1
Attributed to non-controlling interests	-	-	(1)	(1)	-	-	-	-	(1)
Net profit (loss) attributed to shareholders of the Bank	5	7	(16)	(4)	-	-	4	4	-
Average balance of assets(*)	18,916	2,848	12,580	34,344	-	26	24	50	34,394
Balance of credit to the public at the end of the reported period	19,210	2,919	12,434	34,563	-	27	20	47	34,610
Balance of impaired debts	30	-	102	132	-	-	-	-	132
Balance of debts in arrears of more than 90 days	213	-	6	219	-	-	-	-	219
Average balance of liabilities(*)	-	-	38,169	38,169	-	-	6,089	6,089	44,258
Balance of deposits from the public at the end of the reported period	-	-	36,990	36,990	-	-	7,238	7,238	44,228
Average balance of risk-adjusted assets	10,926	2,768	10,993	24,687	-	23	125	148	24,835
Balance of risk-adjusted assets at the end of the reported period	11,052	2,742	10,439	24,233	-	23	154	177	24,410
Average balance of assets under management	-	-	42,258	42,258	-	-	13,023	13,023	55,281
Segmentation of net interest income:									
- Spread from credit granting activity	39	3	123	165	-	-	-	-	165
- Spread from deposit taking activity	-	-	28	28	-	-	4	4	32
- Other	(2)	-	(2)	(4)	-	-	-	-	(4)
Total net interest income	37	3	149	189	-	-	4	4	193

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

Small and minute, medium and large bussiness - activity in Israel

	For the three months ended March 31, 2016									
	Small and minute bussiness segment			Medium bussiness segment			Large bussiness segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
Interest income from externals	39	99	138	4	27	31	13	71	84	253
Interest expenses for externals	(5)	8	3	-	1	1	8	(7)	1	5
Net interest income										
- From externals	44	91	135	4	26	30	5	78	83	248
- Inter-segmental	(14)	7	(7)	-	(1)	(1)	12	(23)	(11)	(19)
Total net interest income	30	98	128	4	25	29	17	55	72	229
Non-interest income	9	71	80	3	10	13	10	23	33	126
Total income	39	169	208	7	35	42	27	78	105	355
Expenses (income) from credit losses	(12)	(13)	(25)	(3)	1	(2)	(7)	(44)	(51)	(78)
Operating and other expenses	19	133	152	3	21	24	9	56	65	241
Profit before taxes	32	49	81	7	13	20	25	66	91	192
Provision for taxes on profit	15	21	36	3	6	9	12	29	41	86
Net profit:										
Before attribution to non-controlling interests	17	28	45	4	7	11	13	37	50	106
Attributed to non-controlling interests	(1)	(1)	(2)	-	(1)	(1)	-	(1)	(1)	(4)
Net profit attributed to shareholders of the Bank	16	27	43	4	6	10	13	36	49	102
Average balance of assets(*)	4,126	9,960	14,086	522	3,233	3,755	2,723	15,151	17,874	35,715
Balance of credit to the public at the end of the reported period	4,215	10,019	14,234	523	3,344	3,867	2,919	15,244	18,163	36,264
Balance of impaired debts	73	152	225	1	57	58	35	331	366	649
Balance of debts in arrears of more than 90 days	2	22	24	-	1	1	-	1	1	26
Average balance of liabilities(*)	2,051	14,700	16,751	690	4,176	4,866	636	9,318	9,954	31,571
Balance of deposits from the public at the end of the reported period	1,962	13,274	15,236	776	4,126	4,902	685	10,607	11,292	31,430
Average balance of risk-adjusted assets	5,205	9,539	14,744	963	3,401	4,364	5,324	12,322	17,646	36,754
Balance of risk-adjusted assets at the end of the reported period	5,260	10,218	15,478	962	3,485	4,447	5,493	12,347	17,840	37,765
Average balance of assets under management	-	10,202	10,202	-	3,918	3,918	-	23,766	23,766	37,886
Segmentation of net interest income:										
- Spread from credit granting activity	32	93	125	4	24	28	20	54	74	227
- Spread from deposit taking activity	-	8	8	-	2	2	-	3	3	13
- Other	(2)	(3)	(5)	-	(1)	(1)	(3)	(2)	(5)	(11)
Total net interest income	30	98	128	4	25	29	17	55	72	229

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

Small and minute, medium and large bussiness - activity in Israel

	For the three months ended March 31, 2015									
	Small and minute bussiness segment			Medium bussiness segment			Large bussiness segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
Interest income from externals	39	89	128	5	24	29	12	73	85	242
Interest expenses for externals	(5)	1	(4)	-	(1)	(1)	4	(6)	(2)	(7)
Net interest income										
- From externals	44	88	132	5	25	30	8	79	87	249
- Inter-segmental	(10)	5	(5)	(1)	-	(1)	8	(14)	(6)	(12)
Total net interest income	34	93	127	4	25	29	16	65	81	237
Non-interest income	11	77	88	4	12	16	9	28	37	141
Total income	45	170	215	8	37	45	25	93	118	378
Expenses (income) from credit losses	(14)	15	1	(5)	(2)	(7)	(33)	40	7	1
Operating and other expenses	18	123	141	4	18	22	7	64	71	234
Profit before taxes	41	32	73	9	21	30	51	(11)	40	143
Provision for taxes (tax benefit) on profit (loss)	18	14	32	4	9	13	22	(4)	18	63
Net profit:										
Before attribution to non-controlling interests	23	18	41	5	12	17	29	(7)	22	80
Attributed to non-controlling interests	(1)	(1)	(2)	-	(1)	(1)	-	(1)	(1)	(4)
Net profit attributed to shareholders of the Bank	22	17	39	5	11	16	29	(8)	21	76
Average balance of assets(*)	4,469	9,275	13,744	571	3,045	3,616	2,453	14,689	17,142	34,502
Balance of credit to the public at the end of the reported period	4,474	9,721	14,195	541	3,195	3,736	2,513	15,214	17,727	35,658
Balance of impaired debts	124	247	371	8	34	42	14	229	243	656
Balance of debts in arrears of more than 90 days	1	5	6	-	-	-	-	-	-	6
Average balance of liabilities(*)	1,899	14,202	16,101	651	3,830	4,481	637	9,912	10,549	31,131
Balance of deposits from the public at the end of the reported period	1,924	13,877	15,801	681	3,872	4,553	591	9,676	10,267	30,621
Average balance of risk-adjusted assets	5,761	9,495	15,256	994	3,433	4,427	4,747	13,230	17,977	37,660
Balance of risk-adjusted assets at the end of the reported period	5,848	10,144	15,992	1,039	3,398	4,437	4,839	13,417	18,256	38,685
Average balance of assets under management	-	11,949	11,949	-	4,045	4,045	-	24,531	24,531	40,525
Segmentation of net interest income:										
- Spread from credit granting activity	34	88	122	4	24	28	17	64	81	231
- Spread from deposit taking activity	1	7	8	-	2	2	-	4	4	14
- Other	(1)	(2)	(3)	-	(1)	(1)	(1)	(3)	(4)	(8)
Total net interest income	34	93	127	4	25	29	16	65	81	237

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

PRIVATE INDIVIDUALS – HOUSEHOLDS AND PRIVATE BANKING – ACTIVITY IN ISRAEL

Principal changes in net profit and in stated balances

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 9 million. No profits were recorded in this segment 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 261 million, as compared with NIS 193 million in the corresponding period last year. This increase is partly explained by the growth in credit granted and partly by interest recognized in respect of prior years.

Non-interest income amounted to NIS 160 million, in comparison with NIS 172 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 383 million, as compared to NIS 354 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 March 31, 2016 amounted to NIS 38,043 million, in comparison with NIS 34,610 million on march 31, 2015.

Deposits from the public as of March 31, 2016 amounted to NIS 50,601 million, in comparison with NIS 44,228 million on March 31, 2015.

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

Principal changes in net profit and in stated balances

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 102 million, in comparison with NIS 76 million in the corresponding period last year. The increase in profits is explained by the decrease in expense for credit losses stemming from a decline in the collective provision for credit losses.

Total net interest income amounted to NIS 229 million, as compared with NIS 237 million in the corresponding period last year.

Non-interest income amounted to NIS 126 million, in comparison with NIS 141 million in the corresponding period last year. Most of the decrease in this income stems from a reduction of NIS 8 million in commission income attributed to the small and minute businesses segment.

Income in respect of credit losses amounted to NIS 78 million, in comparison with expenses of NIS 1 million in the corresponding period last year. The income recorded in the first quarter of the year resulted from the decrease in the decrease in the collective provision for credit losses.

Credit to the public as of March 31, 2016 amounted to NIS 36,264 million, in comparison with NIS 35,658 million on march 31, 2015.

Deposits from the public as of March 31, 2016 amounted to NIS 31,430 million, in comparison with NIS 30,621 million on March 31, 2015.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 62 million compared with NIS 71 million in the same period in 2015.

The net earnings of the Financial Management Segment amounted to NIS 27 million compared with NIS 37 million in the same period in 2015. The decrease in earnings is attributed to a decline in the gain from realization of securities.

PRINCIPAL INVESTEE COMPANIES

INVESTEE COMPANIES IN ISRAEL

The Bank's investments in investee companies in Israel totaled NIS 2,436 million on March 31, 2016, compared with NIS 2,915 million on December 31, 2015, a decrease of 16.4%. 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 41 million compared with NIS 39 million in the same period last year.

Bank Otsar Hahayal (hereinafter - "Otsar Hahayal") - in which the Bank holds 78.0% of the share capital and voting rights, is a commercial bank that operates via 47 branches and sub-branches.
The Bank's investment in Otsar Hahayal amounted to NIS 1,222 million on March 31, 2016. Total assets of Otsar Hahayal on March 31, 2016 amounted to NIS 19,799 million compared with NIS 19,172 million on December 31, 2015, an increase of 3.3%. Shareholders' equity of Otsar Hahayal on March 31, 2016 amounted to NIS 1,205 million compared with NIS 1,165 million on December 31, 2015, an increase of 3.4%.
Net earnings of Otsar Hahayal amounted to NIS 39.0 million compared with NIS 21.4 million in the same period last year, an increase of 82.2%. 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.
The Bank's share of Otsar Hahayal's results, net of amortization of excess of cost of the acquisition, amounted to NIS 21.9 million compared with NIS 8.1 million in the same period last year.
The unamortized balance of the excess of cost of the acquisition of Otsar Hahayal amounted to NIS 18 million on March 31, 2016.
Net return on equity amounted to 14.1% compared with 7.9% 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 14.39% compared with 13.25% at the end of 2015. The Tier 1 equity capital ratio amounted to 10.96% 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%.
In November 2015, Otsar Hahayal was successful in a tender for the granting of credit and banking services to employees of defence agencies, for a period of seven years beginning on June 1, 2016. The Tender stated, inter alia, the terms for the granting of credit and for account management to the staff of the defense agencies, as well as the right of operating Otsar Hahayal branches at military bases. Being successful in the tender provides Otsar Hahayal with business opportunities for expanding its operations among the population covered by the tender and for increasing its share of additional populations

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 297 million on March 31, 2016. Total assets of Massad on March 31, 2016 amounted to NIS 6,708 million compared with NIS 6,421 million on December 31, 2015, an increase of 4.5%. Shareholders' equity of Massad on March 31, 2016, totaled NIS 549 million compared with NIS 538 million on December 31, 2015, an increase of 2.0%.

Net earnings of Massad totaled NIS 10.2 million compared with NIS 10.6 million in the same period last year, a decrease of 3.8%.

The Bank's share in Massad's operating results, net of amortization of excess of cost of the acquisition, amounted to NIS 3.0 million compared with NIS 3.2 million in the same period last year.

The unamortized balance of the excess of cost of the acquisition of Massad amounted to NIS 17 million on March 31, 2016.

Net return on equity amounted to 7.8% compared with 8.7% 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 14.94%, compared with 15.01% at the end of 2015. The Tier 1 capital ratio amounted to 13.76% similar to the end of 2015.

On December 24, 2014, in line with the definition of capital targets, the Tier 1 equity capital ratio targeted for 2016 was set at no less than 10.0% and the overall capital ratio was set at no less than 13.5%.

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 450 million on March 31, 2016.

The Bank's share in the net earnings of ICC before the tax effect amounted to NIS 11.8 million compared with NIS 8.4 million in the same period last year, an increase of 40.5%.

Total assets of ICC amounted to NIS 11,212 million at March 31, 2016 compared with NIS 10,991 million at the end of 2015.

The ratio of capital to risk assets on March 31, 2016, calculated in accordance with the Proper Conduct of Banking Business Regulations concerning capital measurement and capital adequacy (Basel), amounted to 15.4%, similar to the end of 2015.

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, and a notice received by ICC from the State Prosecution informing of the intention of the Prosecution to serve an indictment against ICC.

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 first quarter 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. In this framework VISA Europe Organization has informed ICC International that it expects ICC International to take vigorous and strict action with respect to treating these violations and the implementing of a plan for the reduction of risk, to which it is committed, within a period of time allotted for this purpose, or else, the withdrawal of its international clearing license may be considered, and in extreme circumstances, also the termination of its membership of the Organization. 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, conducting advanced monitoring procedures for the enforcement of compliance requirements, various organizational changes and more. ICC has also adopted measures for compliance with the rules of VISA Europe and MasterCard in addition to terminating business relations with several trading houses, which had caused most of the exposure. At a later stage, ICC has also terminated the international electronic trading activity (extensive information regarding this matter was disclosed by ICC in the annual reports for 2009 and 2010).

In view of the action taken by ICC, VISA Europe informed ICC in a letter dated March 15, 2010, that it had noted the progress made by ICC in complying with the rules of the organization and that it permits ICC to reestablish relations with new trading houses.

In an additional letter dated January 17, 2011, the VISA Europe Organization reiterated its satisfaction regarding the action taken by ICC, and informed ICC that it has removed all restrictions on the international clearing activity of ICC forthwith.

In a letter dated July 21, 2010, MasterCard informed ICC that it is aware of all the direct efforts and clarifications made by it and of all actions taken by ICC to rectify the deficiencies found in its operations, and that it appreciates the responsibility demonstrated by ICC, inter alia, the efforts made vis-à-vis trading houses in the rectification of deficienies. MasterCard further informed, inter alia, that in view of the measures adopted by ICC, past operations performed by ICC during the period of the previous Management, would not be examined, and examinations that had been started in this respect would be terminated.

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.

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. The transaction is subject to obtaining various regulatory approvals. According to a preliminary notification given by VISA Europe in December 2015, regarding the distribution of the proceeds between the members of VISA Europe, and if the transaction is consummated, it is expected to receive in respect of the sale of the VISA Europe shares, an estimated total consideration of € 89 million (€66 million in cash and € 23 million in shares). ICC is expected to receive in the future additional consideration.

On April 22, 2016 ICC was informed that following remarks to the agreement and negotiation between VISA Inc and VISA Europe, an amendment to the agreement was formed, according to which part of the future consideration will be paid earlier. ICC was not yet informed of the amount of proceeds it will receive following the amendment. The amendment to the agreement is subject to various regulatory approvals.

According to a preliminary estimation of ICC, on the base of the facts known today, the purchase of VISA Europe by VISA Inc, when it is consumated, is not anticipated to effect the relationship between VISA organization and ICC.
It is clarified that the above information is considered forward looking information within the meaning of the Securities Act, and is based solely on preliminary information and estimates. This information may change, inter alia, according to the decision of VISA Europe. It is further clarified that there is no certainty that the transaction would be consumated and the way of distribution of the consideration between ICC, Discount bank and the Bank, has not been set yet. Discount bank and the Bank are also "Principal Member" at VISA Europe.

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 242 million on March 31, 2016. Total assets of FIBI Bank (Switzerland) on March 31, 2016 amounted to CHF 269 million compared to CHF 296 million as of December 31, 2015 a decrease of 9.1%. Total customer assets under management on March 31, 2016 amounted to CHF 866 million compared with CHF 916 million on December 31, 2015.
Net profit amounted to CHF 6 thousand compared with CHF 421 thousand in the same period last year. The decrease in the profit stems from one-time income recorded in the same period last year.

REVIEW OF RISKS

REVIEW OF RISKS

This chapter was written in great detail in the financial ststatenebts 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 and operational risk and compliance risk and ALM 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. With respect to operational risk and other risks, the Group makes an additional capital allocation in accordance with Basel Pillar 2-ICAAP (Internal Capital Adequacy Assessment Process).

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 Supervisor of Banks has prescribed a number of directives applying to risk management in the Proper Conduct of Banking Business Regulations and in other regulations. These directives stipulate inter alia basic principles for the management of risks and their control, including: suitable involvement in risk management and comprehension of risks by the Board of Directors and Management of the Bank, formulation of risk policy and risk appetite, establishment of an independent chief risk management function, receipt of periodic reports on developments in exposure to risks, and the maintenance of supervision and control mechanisms matching the Bank's risk profile.

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.
Mr. Yaacov Konortov- compliance and AML risk manager;
Yossi Levi- head of resources division- Strategic risk manager;

Amnon Beck- CEO of MATAF- IT risk 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. 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 March 31, 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 2,135 million compared with NIS 2,219 million at the end of 2015, a decrease of 3.8%

The ratio of problematic credit risk to total credit risk at the group amounted to 1.9% at the end of March 2016, compared with 2.0% at the end of 2015. 30.6% of problematic credit risk at the group are attributed to the manufacturing sector, 14.5% to the real estate sector, 23.8% to the private customers sector including housing loans, 19.5% to the commerce sector, and 3.2% to the communications and computer services sector. The ratio of problematic credit risk to total credit to the public amounted to 2.3%, compared with 2.4% at the end of 2015.

1. Problematic credit risk

	March 31, 2016			March 31, 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	**767**	**204**	**971**	769	141	910	771	151	922
Inferior credit risk	**158**	**20**	**178**	171	69	240	220	45	265
Credit under special supervision risk	**775**	**211**	**986**	1,327	258	1,585	770	262	1,032
Total problematic credit risk*	**1,700**	**435**	**2,135**	2,267	468	2,735	1,761	458	2,219
* Of which: Non-impaired debts in arrears of 90 days or more	**238**	**-**	**238**	225	-	225	234	-	234

	Balance on March 31, 2016	Balance on March 31, 2015	Balance on December 31, 2015
			NIS million
2. Non-performing assets			
Impaired credit to the public not accruing interest income:	**730**	719	735
3. Performing impaired assets			
Impaired debts undergoing problematic debts restructuring and accruing interest income	**28**	43	29
Impaired bonds accruing interest income	**9**	7	7
Total performing impaired assets	**37**	50	36

	For the three months ended March 31, 2016	For the year ended December 31, 2015
		NIS million
4. Changes in impaired debts		
Balance of impaired debts at beginning of year	**764**	799
Classified as impaired	**88**	435
Removed from impaired classification	**(48)**	(73)
Collection of debts	**(37)**	(212)
Accounting wirte-offs	**(9)**	(185)
Balance of impaired debts at end of year	**758**	764

	For the three months ended March 31		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	**1.0%**	1.1%	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	**1.9%**	2.5%	2.0%
Ratio of expenses for credit losses to average total credit to the public	**(0.36%)**	0.07%	0.03%
Ratio of net write-offs in respect of credit to the public to average total credit to the public	**(0.01%)**	0.36%	0.15%

Provision for credit losses

	Balance on March 31, 2016	Balance on March 31, 2015	Balance on December 31, 2015
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.0%**	1.2%	1.1%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**103.8%**	111.4%	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	**79.0%**	86.0%	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	**(0.51%)**	33.74%	12.74%

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	537	458	14
Mining and quarrying	268	266	-
Industry	10,455	9,357	653
Construction and Real estate - construction(7)	9,758	9,272	199
Construction and Real estate - real estate activities	5,041	4,812	98
Electricity and water supply	1,318	1,290	3
Commerce	8,673	7,572	417
Hotels, hospitality and food services	842	617	29
Transport and storage	888	767	24
Information and communications	2,457	2,208	68
Financial services	13,699	13,383	29
Other business services	2,059	1,804	26
Public and community services	2,143	1,898	46
Total commercial(8)	58,138	53,704	1,606
Private individuals - housing loans	22,535	21,930	197
Private individuals - others	26,781	25,119	311
Total public - ectivity in Israel	107,454	100,753	2,114
Banks in Israel	1,977	1,977	-
Israeli government	10,567	10,567	-
Total activity in Israel	119,998	113,297	2,114

(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 76,114, 10,745, 726, 1,094 and 31,319 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 326 million, and non-utilized credit facilities amounting to NIS 984 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 2,147 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 March 31, 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						
532	427	14	6	3	-	6
76	61	-	-	-	-	-
10,195	7,652	653	254	(52)	(1)	162
9,686	3,494	198	156	(24)	1	56
4,909	4,373	98	77	-	(2)	24
751	475	3	-	(2)	-	1
8,576	7,156	417	262	(2)	3	153
838	693	29	13	1	-	19
873	717	15	7	(1)	-	10
2,331	1,305	68	22	(2)	(2)	11
9,907	7,303	29	12	-	-	24
2,043	1,261	26	9	1	(1)	12
2,097	1,599	46	20	(1)	-	7
52,814	36,516	1,596	838	(79)	(2)	485
22,535	20,612	197	20	3	1	121
26,741	17,113	311	83	8	-	229
102,090	74,241	2,104	941	(68)	(1)	835
1,228	1,228	-	-	-	-	-
646	645	-	-	-	-	-
103,964	76,114	2,104	941	(68)	(1)	835

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

In respect of borrowers in Israel	Total credit risk(1)		
	Total	Credit execution rating(5)	Problematic(6)
Public-Commercial:			
Agriculture	511	447	16
Mining and quarrying	239	223	1
Industry	10,896	9,715	710
Construction and Real estate - construction(7)	9,504	8,826	237
Construction and Real estate - real estate activities	4,926	4,611	126
Electricity and water supply	1,331	1,314	2
Commerce	8,726	7,750	452
Hotels, hospitality and food services	792	614	48
Transport and storage	821	697	23
Information and communications	2,234	1,757	385
Financial services	14,542	14,135	82
Other business services	2,087	1,840	30
Public and community services	2,161	1,934	46
Total commercial(8)	58,770	53,863	2,158
Private individuals - housing loans	20,702	20,062	236
Private individuals - others	25,932	22,829	300
Total public - ectivity in Israel	105,404	96,754	2,694
Banks in Israel	2,107	2,107	-
Israeli government	9,445	9,445	-
Total activity in Israel	116,956	108,306	2,694

(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 72,815, 10,239, 479, 1,813 and 31,610 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 349 million, and non-utilized credit facilities amounting to NIS 827 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 1,887 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currencty in the process of constructions.

(9) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.D.4 to the Financial Statements.

as at March 31, 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						
505	411	16	10	(1)	-	4
56	49	1	1	-	-	-
10,276	7,425	710	191	50	29	192
9,403	3,336	236	79	(46)	-	101
4,763	4,444	126	117	(12)	(19)	23
652	429	2	1	1	-	3
8,570	7,302	441	198	(11)	9	138
787	659	48	37	5	3	15
782	632	16	11	7	19	24
2,089	1,493	385	32	6	10	31
10,408	7,663	82	6	8	-	26
2,039	1,246	30	15	2	2	12
2,138	1,647	46	29	(3)	(2)	10
52,468	36,736	2,139	727	6	51	579
20,702	18,606	236	21	1	10	123
25,893	15,831	300	114	5	3	225
99,063	71,173	2,675	862	12	64	927
973	973	-	-	-	-	-
673	669	-	-	-	-	-
100,709	72,815	2,675	862	12	64	927

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

In respect of borrowers in Israel	Total credit risk[1]		
	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)

In respect of borrowers abroad	Total credit risk(1)		
	Total	Credit execution rating(5)	Problematic(6)
Public-Commercial:			
Agriculture	**14**	**14**	**-**
Mining and quarrying	**133**	**133**	**-**
Industry	**449**	**449**	**-**
Construction and Real estate - construction	**22**	**22**	**-**
Construction and Real estate - real estate activities	**231**	**218**	**13**
Electricity and water supply	**19**	**19**	**-**
Commerce	**162**	**162**	**-**
Hotels, hospitality and food services	**8**	**8**	**-**
Transport and storage	**17**	**9**	**8**
Information and communications	**55**	**55**	**-**
Financial services*	**1,032**	**1,032**	**-**
Other business services	**289**	**289**	**-**
Total commercial	**2,431**	**2,410**	**21**
Private individuals - others	**125**	**125**	**-**
Total public - ectivity abroad	**2,556**	**2,535**	**21**
Banks abroad	**4,526**	**4,526**	**-**
Foreign governments	**2,742**	**2,742**	**-**
Total activity abroad	**9,824**	**9,803**	**21**

* Of which, NIS 562 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 2,665, 5,637, 778 and 744 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 March 31, 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						
14	10	-	-	-	-	-
-	-	-	-	-	-	-
371	354	-	-	1	-	1
22	4	-	-	-	-	1
231	229	13	13	-	-	3
-	-	-	-	-	-	-
104	51	-	-	-	-	-
8	8	-	-	-	-	-
17	10	8	8	-	-	-
6	4	-	-	-	-	-
304	278	-	-	-	-	2
289	89	-	-	-	-	-
1,366	1,037	21	21	1	-	7
121	43	-	-	-	-	1
1,487	1,080	21	21	1	-	8
1,585	1,585	-	-	-	-	-
-	-	-	-	-	-	-
3,072	2,665	21	21	1	-	8

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	121	112	10
Construction and Real estate - construction	44	44	-
Construction and Real estate - real estate activities	54	23	31
Electricity and water supply	21	21	-
Commerce	140	140	-
Hotels, hospitality and food services	78	78	-
Transport and storage	20	20	-
Information and communications	130	130	-
Financial services*	817	817	-
Other business services	295	294	-
Public and community services	3	3	-
Total commercial	1,740	1,699	41
Private individuals - others	181	181	-
Total public - ectivity abroad	1,921	1,880	41
Banks abroad	5,709	5,709	-
Foreign governments	132	132	-
Total activity abroad	7,762	7,721	41

* Of which, NIS 567 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 3,155, 3,107, 639 and 861 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 March 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
	17	15	-	-	-	-	-
	65	30	10	10	-	-	1
	44	-	-	-	-	-	1
	54	54	31	31	-	-	12
	-	-	-	-	-	-	-
	134	58	-	-	-	-	-
	78	78	-	-	-	-	-
	12	1	-	-	-	-	-
	5	5	-	-	-	-	-
	83	39	-	-	-	-	-
	295	67	-	-	-	-	2
	-	-	-	-	-	-	-
	787	347	41	41	-	-	16
	172	75	-	-	-	-	1
	959	422	41	41	-	-	17
	2,733	2,733	-	-	-	-	-
	-	-	-	-	-	-	-
	3,692	3,155	41	41	-	-	17

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	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 March 31, 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-	**619**	**4**	**623**	*1,258	3	1,261
A+ to A-	**2,532**	**13**	**2,545**	2,543	17	2,560
BBB+ to BBB-	**545**	**11**	**556**	707	16	723
BB+ to B-	**80**	**-**	**80**	53	-	53
Unrated	**27**	**11**	**38**	33	7	40
Total credit exposure to foreign financial institutions	**3,803**	**39**	**3,842**	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 March, 2016 the investment in shares in respect of foreign financial institutions amounted to NIS 48 million (December 31, 2015, NIS 47 million).

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

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

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

GENERAL NOTES:

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

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

c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 10 to the financial statements. Off-balance-sheet credit risk in respect of transactions in derivative financial instruments which were conducted with foreign financial institutions as calculated for the purpose of borrower indebtedness restrictions totaled NIS 288 million on March 31, 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 (82%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 16% 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 1.5 billion investment in foreign currency bonds. All these bonds are investment grade bonds, 73% 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 March 31, 2016 there is no country in which the credit exposure to sovereigns of the Bank group exceeding 15% of the Bank's equity capital, which amounted to NIS 1,452 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 80 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 March 31, 2016					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	3,083	1,208	724	-	-	-
United Kingdom	-	907	307	-	-	-
Spain	-	4	5	-	-	-
Italy	80	4	33	-	-	-
Ireland	-	-	19	-	-	-
Greece	-	-	-	-	-	-
Portugal	-	-	2	-	-	-
Other	38	1,861	999	252	29	223
Total exposure to foreign countries	3,201	3,984	2,089	252	29	223
Total exposure to LDC countries	-	81	250	-	-	-

(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 NIS 41 million factoring credit insured by credit insurance in an insurance company (31.3.15- NIS 36 million, 31.12.15- NIS 15 million).

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

	As at March 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	236	2,386	658	-	-	-
Spain	44	3	7	-	-	-
Italy	88	-	13	-	-	-
Ireland	-	-	19	-	-	-
Greece	-	-	5	-	-	-
Other	1	3,101	1,395	349	37	312
Total exposure to foreign countries	369	5,490	2,097	349	37	312
Total exposure to LDC countries	-	1	189	-	-	-

	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
3,280	1	-	170	-	2,099	1,181
54	-	-	17	-	6	48
101	-	-	6	-	8	93
19	-	-	2	-	7	12
5	-	-	-	-	5	-
4,809	41	31	590	-	2,594	1,903
8,268	42	31	785	-	4,719	3,237
190	-	-	39	-	138	52

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
March 31, 2016	**March 31, 2015**	**December 31, 2015**
-	United Kingdom 884	-

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

	For the three months ended							
	March 31, 2016					March 31, 2015		
	Hungary	**Iceland**	**Romania**	**Portugal**	**Puerto Rico**	**Cyprus**	**Iceland**	**Greece**
Total exposure at beginning of the reported period	**1**	**10**	**4**	**1**	**3**	-	10	-
Short-term changes in total exposure, net	**-**	**-**	**1**	**1**	**(1)**	-	-	-
Additional exposures	**-**	**-**	**-**	**-**	**-**	1	-	5
Total exposure at end of the reported period	**1**	**10**	**5**	**2**	**2**	1	10	5

	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 1,283 million in the first three months of 2016 compared with NIS 1,197 million in the same period last year, an increase of 7.2%. These data include housing loans from the Bank's own sources (excluding credit from Treasury funds) in the amount of NIS 1,282 million compared with NIS 1,196 million in the same period last year, an increase of 7.2%. Rollovers deriving from early repayments in the first three months of 2016, totaled NIS 152 million compared with NIS 317 million in the same period last year, a decrease of 52%.

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

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

When granting credit to purchase groups, the Bank focuses on groups that are building in demand areas. The Supervisor of Banks' directives concerning purchase groups are fully applied at the Bank. Apart from conducting current examinations, the Bank holds a quarterly discussion on all purchase groups' portfolios, examines the projects in question, and ascertains whether an allowance for credit losses is necessary with respect to the purchase groups, over and above the individual risk of each member of the groups.

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

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

Loan to value

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

The portfolio of housing loans extended from the Bank's sources on March 31, 2016 amounted to NIS 20,611 million, including 70% of credit granted at an LTV of up to 60% similar to March 31, 2015. 95% of total loans were granted at an LTV of up to 75%, compared to 94% on March 31, 2015.

Housing loan extensions from the Bank's sources in the first three months of 2016 totaled NIS 1,282 million, including 68% 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 March 31, 2016 included 78% of credit granted at a debt-income ratio of up to 35% compared with 76% on March 31, 2015. 90% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, compared with 87% on March 31, 2015.

Housing loan extensions from the Bank's sources in the first three months of 2016 included 85% of credit granted at a debt-income ratio of up to 35% compared with 83% in the same period last year. 93% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% similar to 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 March 31, 2016 includes 64% of credit that was granted at floating-rate interest and amounts to NIS 13,238 million.

Housing loan extensions from the Bank's sources in the first three months of 2016 include NIS 395 million of credit granted at floating-rate interest of up to five years constituting 31% of extentions. An amount of NIS 251 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 March 31, 2016 includes 66% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 13,549 million.

Housing loan extensions from the Bank's sources in the first three months of 2016 include 52% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 666 million.

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

	For residential purposes											Secured by a residential apartment	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
31.3.16	**3,833**	**20.6**	**7,957**	**42.7**	**2,979**	**16.0**	**3,761**	**20.2**	**89**	**0.5**	**18,619**	**1,992**	**20,611**
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)

	Three months 2016	2015	2014	2013	2012
Total housing loan extensions (NIS million)	**1,282**	4,796	3,707	3,550	3,744
Rate of change in housing loan extensions compared with previous year	**7%**	29%	4%	(5%)	8%
Rate of expense on credit losses relative to mortgages at the Bank's risk	**0.04%**	0.01%	0.01%	0.20%	0.08%
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.60%**	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 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 March 31, 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 1,232 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 March 31, 2016 the Group's historical VaR amounted to NIS 155 million.
The VaR as percentage of total capital, as of March 31, 2016, amounted to 2.1%.

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 March 31, 2016 2 incidents were recorded where the daily theoretical loss exceeds the VaR value anticipated, as follows:

Date	Gap size
	NIS million
22.6.2015	**7**
1.6.2015	**26**

The number of incidents falls within 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 4% in the CPI-linked segment, 3.5% in the non-linked shekel segment and 1% in the foreign currency segment. The restriction on the overall exposure is 4%.
- 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, including activating standard crisis in the change of interest.

  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 results and significance of the scenarios are reported once a quarter to the Management, the Risk Management Committee and the Board of Directors.

Actual exposure on the report date

Interest risk is measured on the basis of assumptions regarding the redemption times of assets and liabilities. The effect of the early repayment of CPI-linked housing loans is also taken into account in risk management.

Non-interest bearing current accounts have credit balances at a stable amount over time. Lately the Bank changed the methodology of the computation by specific model and determined that the redemption period of the stable current accounts will be for several years. In the past the redemption period of current account balances, was approximately a year.

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:

	March 31, 2016		December 31, 2015	
	% actual exposure	% restriction	% actual exposure	% restriction
Non-linked local currency	**(0.47)**	**(3.50)**	(0.24)	(3.50)
CPI-linked local currency	**(1.89)**	**(4.00)**	(1.69)	(4.00)
Foreign currency and foreign-currency linked	**(0.59)**	**(1.00)**	(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 March 31, 2016	Local currency		Foreign currency (2)			
	Non-linked	CPI-linked	Dollar	Euro	Other	Total
						NIS million
Financial assets (1)	**92,889**	**13,990**	**12,530**	**1,992**	**811**	**122,212**
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	**27,634**	**400**	**33,403**	**5,989**	**5,056**	**72,482**
Financial liabilities (1)	**79,699**	**12,094**	**18,449**	**3,717**	**1,518**	**115,477**
Amounts payable in respect of derivative financial and off-balance-sheet instruments	**35,677**	**815**	**27,415**	**4,294**	**4,462**	**72,663**
Net fair value of financial instruments	**5,147**	**1,481**	**69**	**(30)**	**(113)**	**6,554**

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 March 31, 2016	Net fair value of financial instruments, after effect of changes in interest rates (4)								
	Local currency		Foreign currency (2)			Offsetting effects		Total change in fair value	
	Non-linked	Linked	Dollar	Euro	Other		Total		
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	**4,682**	**1,362**	**28**	**(37)**	**(113)**	**-**	**5,922**	**(632)**	**(9.64)**
Immediate parallel increase of 0.1 percent	**5,099**	**1,467**	**61**	**(27)**	**(113)**	**-**	**6,487**	**(67)**	**(1.02)**
Immediate parallel decrease of one percent	**5,694**	**1,625**	**99**	**(15)**	**(113)**	**-**	**7,290**	**736**	**11.23**

As of December 31, 2015	Net fair value of financial instruments, after effect of changes in interest rates (4)								
	Local currency		Foreign currency (2)			Offsetting effects		Total change in fair value	
	Non-linked	Linked	Dollar	Euro	Other		Total		
		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]	**72,996**	**3,415**	**4,243**	**3,900**	**3,430**	**3,121**
Derivative financial instruments (except options)	**6,863**	**8,379**	**7,116**	**1,984**	**434**	**873**
Options (in terms of the underlying asset)	**433**	**785**	**767**	**-**	**-**	**-**
Total fair value	**80,292**	**12,579**	**12,126**	**5,884**	**3,864**	**3,994**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities[1]	**69,028**	**2,458**	**3,607**	**2,111**	**2,458**	**37**
Derivative financial instruments (except options)	**12,701**	**9,898**	**6,781**	**2,978**	**509**	**1,200**
Options (in terms of the underlying asset)	**305**	**473**	**817**	**15**	**-**	**-**
Total fair value	**82,034**	**12,829**	**11,205**	**5,104**	**2,967**	**1,237**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(1,742)**	**(250)**	**921**	**780**	**897**	**2,757**
Cumulative exposure in the segment	**(1,742)**	**(1,992)**	**(1,071)**	**(291)**	**606**	**3,363**
Israeli currency - Linked to the CPI						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets[1]	**1,239**	**365**	**1,592**	**4,618**	**3,455**	**1,866**
Derivative financial instruments (except options)	**-**	**30**	**138**	**60**	**21**	**151**
Total fair value	**1,239**	**395**	**1,730**	**4,678**	**3,476**	**2,017**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities[1]	**1,366**	**697**	**1,426**	**3,663**	**3,617**	**1,175**
Derivative financial instruments (except options)	**-**	**5**	**319**	**439**	**17**	**35**
Total fair value	**1,366**	**702**	**1,745**	**4,102**	**3,634**	**1,210**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(127)**	**(307)**	**(15)**	**576**	**(158)**	**807**
Cumulative exposure in the segment	**(127)**	**(434)**	**(449)**	**127**	**(31)**	**776**

See notes in page 82.

	Ten to twenty years	Over twenty years	With no repayment period	March 31, 2016 Total fair value	March 31, 2016 Internal rate of return	March 31, 2016 Effective duration	March 31, 2015 Total fair value	March 31, 2015 Internal rate of return	March 31, 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
	1,498	**122**	**164**	**92,889**	**2.11**	**0.76**	(5)84,801	2.05	0.41	91,408	2.36	0.58
	-	**-**	**-**	**25,649**		**0.67**	27,791		0.65	27,889		0.62
	-	**-**	**-**	**1,985**		**0.13**	2,518		0.33	1,151		0.15
	1,498	**122**	**164**	**120,523**		(2)**0.73**	115,110		(2)0.47	120,448		(2)0.59
	-	**-**	**-**	**79,699**	**0.85**	**0.21**	70,834	0.75	0.15	76,334	0.94	0.20
	-	**-**	**-**	**34,067**		**0.64**	35,379		0.54	37,057		0.52
	-	**-**	**-**	**1,610**		**0.17**	4,171		0.32	1,323		0.23
	-	**-**	**-**	**115,376**		(2)**0.33**	110,384		(2)0.28	114,714		(2)0.30
	1,498	**122**										
	4,861	**4,983**										
	764	**89**	**2**	**13,990**	**2.25**	**3.35**	16,190	1.63	3.34	13,505	2.27	3.42
	-	**-**	**-**	**400**		**2.63**	776		2.27	450		2.88
	764	**89**	**2**	**14,390**		(2)**3.33**	16,966		(2)3.29	13,955		(2)3.41
	150	**-**	**-**	**12,094**	**0.85**	**2.69**	14,425	0.30	3.09	12,884	1.24	2.81
	-	**-**	**-**	**815**		**1.60**	1,731		1.63	962		1.84
	150	**-**	**-**	**12,909**		(2)**2.62**	16,156		(2)2.94	13,846		(2)2.74
	614	**89**										
	1,390	**1,479**										

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]	**5,349**	**2,857**	**2,465**	**2,590**	**885**	**1,121**
Derivative financial instruments (except options)	**18,882**	**13,026**	**7,937**	**1,555**	**205**	**538**
Options (in terms of the underlying asset)	**459**	**691**	**1,138**	**17**	**-**	**-**
Total fair value	**24,690**	**16,574**	**11,540**	**4,162**	**1,090**	**1,659**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities[1]	**18,981**	**2,447**	**1,898**	**303**	**13**	**31**
Derivative financial instruments (except options)	**12,331**	**8,747**	**7,777**	**1,951**	**1,036**	**1,669**
Options (in terms of the underlying asset)	**582**	**991**	**1,086**	**1**	**-**	**-**
Total fair value	**31,894**	**12,185**	**10,761**	**2,255**	**1,049**	**1,700**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(7,204)**	**4,389**	**779**	**1,907**	**41**	**(41)**
Cumulative exposure in the segment	**(7,204)**	**(2,815)**	**(2,036)**	**(129)**	**(88)**	**(129)**

See notes in page 82.

			March 31, 2016			March 31, 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
47	**4**	**15**	**15,333**	**1.99**	**1.21**	14,346	1.89	0.98	15,721	2.32	1.18
-	**-**	**-**	**42,143**		**0.33**	51,455		0.32	46,203		0.31
-	**-**	**-**	**2,305**		**0.23**	4,800		0.30	1,835		0.16
47	**4**	**15**	**59,781**		(2)**0.55**	70,601		(2)0.45	63,759		(2)0.52
11	**-**	**-**	**23,684**	**1.09**	**0.09**	24,501	0.87	0.09	25,561	1.14	0.09
-	**-**	**-**	**33,511**		**0.74**	42,887		0.60	36,573		0.69
-	**-**	**-**	**2,660**		**0.18**	3,102		0.29	1,646		0.10
11	**-**	**-**	**59,855**		(2)**0.46**	70,490		(2)0.41	63,780		(2)0.43
36	**4**										
(93)	**(89)**										

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)	**79,584**	**6,637**	**8,300**	**11,108**	**7,770**	**6,108**
Derivative financial instruments (except options)	**25,745**	**21,435**	**15,191**	**3,599**	**660**	**1,562**
Options (in terms of the underlying asset)	**892**	**1,476**	**1,905**	**17**	**-**	**-**
Total fair value	**106,221**	**29,548**	**25,396**	**14,724**	**8,430**	**7,670**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**89,375**	**5,602**	**6,931**	**6,077**	**6,088**	**1,243**
Derivative financial instruments (except options)	**25,032**	**18,650**	**14,877**	**5,368**	**1,562**	**2,904**
Options (in terms of the underlying asset)	**887**	**1,464**	**1,903**	**16**	**-**	**-**
Total fair value	**115,294**	**25,716**	**23,711**	**11,461**	**7,650**	**4,147**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(9,073)**	**3,832**	**1,685**	**3,263**	**780**	**3,523**
Cumulative exposure in the segment	**(9,073)**	**(5,241)**	**(3,556)**	**(293)**	**487**	**4,010**

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 15.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.
(5) First application of new accounting standards and directives of the supervisor of banks. See note 1.D.4 to the financial statements.

					March 31, 2016			March 31, 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
2,309	**215**	**1,230**	**123,261**	**2.14**	**1.11**	(5)116,238	1.81	0.89	121,828	2.32	0.98
-	**-**	**233**	**68,425**		**0.47**	80,198		0.46	74,772		0.44
-	**-**	**521**	**4,811**		**0.18**	7,899		0.31	3,617		0.15
2,309	**215**	**1,984**	**196,497**		(2)**0.87**	204,335		(2)0.70	200,217		(2)0.77
161	**-**	**831**	**116,308**	**0.86**	**0.44**	110,392	0.41	0.53	115,710	1.15	0.47
-	**-**	**233**	**68,626**		**0.70**	80,174		0.59	74,822		0.62
-	**-**	**521**	**4,791**		**0.18**	7,853		0.31	3,600		0.16
161	**-**	**1,585**	**189,725**		(2)**0.53**	198,419		(2)0.55	194,132		(2)0.52
2,148	**215**										
6,158	**6,373**										

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	
	31.3.16	31.12.15	31.3.16	31.12.15	
Non-linked local currency	**4,349**	5,290	**77**	96	Non
CPI-linked local currency	**1,431**	197	**25**	4	60±
Foreign currency and f-C linked	**(91)**	(10)	**(2)**	-	20±

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 March 31, 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	**(1)**	**1**
10% decrease	**(3)**	**2**
5% increase	**9**	**-**
10% increase	**31**	**1**

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 March 31,	As of December 31,
	2016	**2015**
Hedging transactions:		
Interest rate contracts	**2,875**	2,350
Foreign currency contracts	**402**	402
ALM and other transactions:		
Interest rate contracts	**15,933**	16,924
Foreign currency contracts (including spot)	**75,494**	79,112
Contracts on shares, share indexes, commodities and other contracts	**81,860**	105,192
Total derivative financial instruments	**176,564**	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 banking system's balances at the Bank of Israel (current accounts and monetary deposits) at March 31, 2016 amounted to NIS 171 billion, compared with NIS 159 billion at the end of 2015.

The liquidity assets at the group, which includes cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 42.7 billion on March 31, 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 29.3 billion, and NIS 9.5 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public on March 31, 2016 amounted to 139.3% compared with 142.3% on December 31, 2015.

At the end of March 2016, deposits from the public, bonds and subordinated notes totaled NIS 109.6 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 March 31, 2016	As of December 31, 2015
		NIS million
1	**3,171**	3,369
2	**2,779**	3,742
3	**1,985**	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.

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 March 31, 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 first quarter ending on March 31, 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, May 19, 2016	R. Hezkiyahu Chairman of the Board of Directors	Smadar Barber-Zadik 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 March 31, 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, May 19, 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 March 31, 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, May 19, 2016

Nachman Nitzan
Executive Vice President,
Chief Accountant

FINANCIAL STATMENTS

Somekh Chaikin
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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 March 31, 2016 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. The Board of directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the interim financial information of a consolidated company which its assets included in the consolidated assets amounted to 0.7% of total consolidated assets as of March 31, 2016, and the net interest income amounted to 0.4% of total consolidated net interest income included in the consolidated statement of income for the period of three months then ended. The interim financial information of that company was reviewed by other auditors which their review report was presented to us and our conclusion, as it relate to the financial information of that company, is based on the review report of the other auditors.

Scope of Review

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

Conclusion

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 19, 2016

CONSOLIDATED STATEMENT OF INCOME

(NIS million)

	NOTE	For the three months ended March 31 2016 (unaudited)	2015 (unaudited)	For the year Ended December 31 2015 (audited)
Interest Income	2	**547**	382	2,260
Interest Expenses (income)	2	**21**	(62)	307
Interest Income, net		**526**	444	1,953
Expenses (income) from credit losses	6,12	**(67)**	12	18
Net Interest Income after expenses from credit losses		**593**	432	1,935
Non Interest Income				
Non Interest Financing income	3	**34**	75	149
Fees		**327**	357	1,378
Other income		**12**	6	14
Total non Interest income		**373**	438	1,541
Operating and other expenses				
Salaries and related expenses		**434**	376	1,629
Maintenance and depreciation of premises and equipment		**106**	108	428
Amortizations and impairment of intangible assets		**31**	31	131
Other expenses		**127**	134	522
Total operating and other expenses		**698**	649	2,710
Profit before taxes		**268**	221	766
Provision for taxes on profit		**118**	94	326
Profit after taxes		**150**	127	440
The bank's share in profit of equity-basis investee, after taxes		**10**	8	38
Net profit:				
Before attribution to noncontrolling interests		**160**	135	478
Attributed to noncontrolling interests		**(13)**	(10)	(32)
Attributed to shareholders of the Bank		**147**	125	446
				NIS
Primary profit per share attributed to the shareholders of the Bank				
Net profit per share of NIS 0.05 par value		**1.46**	1.25	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, 19, May, 2016

STATEMENT OF COMPREHENSIVE INCOME

(NIS million)

	For the three months ended March 31		For the year Ended December 31
	2016	**2015**	**2015**
	(unaudited)	(unaudited)	(audited)
Net income before attribution to minority interests	**160**	135	478
Net income attributed to minority interests	**(13)**	(10)	(32)
Net income attributed to the shareholders of the Bank	**147**	125	446
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale securities to fair value, net	**21**	44	(75)
Adjustments from translation of financial statements(1) net after the effect of hedges(2)	**-**	(6)	-
Adjustments of liabilities in respect of employee benefits(3)	**(39)**	(80)	11
Other comprehensive loss before taxes	**(18)**	(42)	(64)
Related tax effect	**6**	20	24
Other comprehensive loss before attribution to minority interests, after taxes	**(12)**	(22)	(40)
Less other comprehensive (income) loss attributed to minority interests	**(1)**	-	2
Other comprehensive loss attributed to the shareholders of the Bank, after taxes	**(13)**	(22)	(38)
Comprehensive income before attribution to minority interests	**148**	113	438
Comprehensive income attributed to minority interests	**(14)**	(10)	(30)
Comprehensive income attributed to the shareholders of the Bank	**134**	103	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	31.3.16 (unaudited)	31.3.15 (unaudited)	31.12.15 (audited)
Assets				
Cash and deposits with banks		**29,336**	29,314	30,727
Securities	5	**16,599**	13,614	16,439
Securities which were borrowed		**726**	479	353
Credit to the public	6,12	**75,321**	(4)71,595	73,379
Provision for Credit losses	6,12	**(787)**	(849)	(824)
Credit to the public, net		**74,534**	70,746	72,555
Credit to the government		**645**	669	669
Investments in investee company		**450**	(4)404	438
Premises and equipment		**1,206**	1,230	1,229
Intangible assets		**255**	313	272
Assets in respect of derivative instruments	10	**1,872**	2,452	1,636
Other assets(2)		**985**	(4)1,084	1,158
Total assets		**126,608**	120,305	125,476
Liabilities, temporary equity and Shareholders' Equity				
Deposits from the public	7	**103,853**	97,277	103,262
Deposits from banks		**1,624**	1,271	1,565
Deposits from the Government		**669**	538	511
Bonds and subordinated capital notes		**5,697**	6,106	5,862
Liabilities in respect of derivative instruments	10	**2,041**	2,373	1,659
Other liabilities(1)(3)		**4,916**	5,267	4,954
Total liabilities		**118,800**	112,832	117,813
Temporary equity - noncontroling interests		**323**	316	326
Capital attributed to the shareholders of the Bank		**7,216**	(4)6,905	7,073
Noncontrolling interests		**269**	252	264
Total equity		**7,485**	7,157	7,337
Total liabilities, temporary equity and shareholders' equity		**126,608**	120,305	125,476

(1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 56 million and NIS 95 million and NIS 85 million at 31.3.16, 31.3.15 and 31.12.15, respectively.
(2) Of which: other assets measured at fair value in the amount of NIS 261 million and NIS 170 million and NIS 317 million at 31.3.16, 31.3.15 and 31.12.15, respectively.
(3) Of which: other liabilities measured at fair value in the amount of NIS 444 million and NIS 732 million and NIS 495 million at 31.3.16, 31.3.15 and 31.12.15, respectively.
(4) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.D.4.

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

STATEMENT OF CHANGES IN EQUITY

(NIS million)

	For the three months ended March 31, 2016 (unaudited)					
	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 (audited)	**927**	**(105)**	**6,251**	**7,073**	**264**	**7,337**
Net profit for the period	**-**	**-**	**147**	**147**	**5**	**152**
Other comprehensive loss, after tax effect	**-**	**(13)**	**-**	**(13)**	**-**	**(13)**
Temporary equity - noncontroling interest.	**-**	**-**	**9**	**9**	**-**	**9**
Balance as at March 31, 2016	**927**	**(118)**	**6,407**	**7,216**	**269**	**7,485**

	For the three months ended March 31, 2015 (unaudited)					
	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 (audited)	927	(67)	5,937	6,797	246	7,043
Net profit for the period	-	-	125	125	6	131
Other comprehensive loss, after tax effect	-	(22)	-	(22)	-	(22)
Temporary equity - noncontroling interest.	-	-	5	5	-	5
Balance as at March 31, 2015	927	(89)	(3)6,067	6,905	252	7,157

	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.
(3) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.D.4.

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

STATEMENT OF CASH FLOWS
(NIS million)

	For the three months ended March 31,		For the year ended December 31
	2016	2015	2015
	(unaudited)	(unaudited)	(audited)
Cash flows from operating activities:			
Net profit for the period	**160**	135	478
Adjustments to reconcile cash provided by operating activities:			
The Bank's share in retained earnings of investee companies, net	**(10)**	(8)	(38)
Depreciation of premises and equipment	**27**	23	89
Amortization of intangible assets	**31**	31	131
Gain on sale of premises and equipment	**(11)**	-	(6)
Expenses(income) from credit losses	**(67)**	12	18
Loss on adjustment in value of held to maturity securities and on sale and adjustment in value of available for sale securities	**179**	110	163
Realized and non-realized loss (gains) from adjustment to fair value of trading securities	**3**	(4)	3
Deferred taxes, net	**57**	8	62
Defined benefit severance pay and pension schemes	**13**	8	65
Inflationary erosion of bonds and capital notes	**(54)**	(65)	5
Effect on cash balances of changes in exchange rates	**84**	(11)	218
Net change in current assets:			
Deposits in banks	**(127)**	818	98
Securities held for trading	**128**	472	272
Securities which were borrowed from Treasury	**(373)**	(2)	124
Credit to the public	**(1,298)**	(1,096)	(3,529)
Credit to government	**24**	(11)	(11)
Other assets	**120**	57	(159)
Assets in respect of derivative instruments	**(204)**	562	1,367
Net change in current liabilities			
Deposits from the public	**(24)**	1,933	8,634
Deposits from banks	**59**	(198)	96
Deposits from the government	**326**	(582)	(656)
Other liabilities	**(86)**	(17)	(184)
Liabilities in respect of derivative instruments	**382**	(806)	(1,503)
Net cash from (for) operating activity	**(661)**	1,369	5,737

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

	For the three months ended March 31,		For the year ended December 31
	2016	**2015**	**2015**
	(unaudited)	(audited)	
Cash flows for investing activity			
Purchase of held to maturity and available for sale securities	**(4,441)**	(6,090)	(28,784)
Proceeds from redemption of bonds held to maturity	**42**	11	153
Proceeds from sale of available for sale securities	**2,366**	3,040	12,166
Redemption of available for sale securities	**1,383**	1,355	11,937
Acquisition of premises and equipment	**(13)**	(38)	(114)
Proceeds of sale of premises, equipment and other assets	**18**	-	18
Investment in intangible assets	**(17)**	(10)	(76)
Net cash for investing activity	**(662)**	(1,732)	(4,700)
Cash flows from (for) financing activity			
Issue of bonds and subordinate debt notes	**-**	1,352	1,352
Redemption of bonds and subordinate debt notes	**(111)**	(84)	(398)
Dividend paid to shareholders	**-**	-	(130)
Net cash from (for) financing activity	**(111)**	1,268	824
Increase (decrease) in cash	**(1,434)**	905	1,861
Cash balances at beginning of year	**30,265**	28,615	28,615
Effect of changes in exchange rates on cash balances	**(84)**	41	(211)
Cash balances at end of period	**28,747**	29,561	30,265
Interest and taxes paid and/or received:			
Interest received	**1,020**	799	3,071
Interest paid	**220**	198	734
Dividends received	**5**	4	37
Income tax paid	**79**	79	346
Income tax received	**89**	19	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 March 31, 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, the Bank publishes only the condensed consolidated financial statements. The condensed consolidated interim financial statements were approved by the Board of Directors for publication on May 19, 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 he Bank are prepared in accordance with accepted accounting principles in Israel (Israeli GAAP) and in accordance with the public reporting instructions and guidelines of the Supervisor of Banks. In most matters, these directives are based on accounting principles accepted by US banks. In other matters, which are less material, the directives are based on international financial reporting standards (IFRS) and on accepted accounting principles in Israel (Israeli GAAP). Where the international financial reporting standards (IFRS) allow several alternatives, or do not include specific reference to a certain situation, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

C. Use of estimates

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

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

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

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

Starting with the periods beginning on January 1, 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.

In addition, an equity base investee applies retroactively the guidelines of the Supervisor of banks in the matter of software costs, with effect as from the financial statements as of June 30 2015.

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 buainess 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 ivestments 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 busuiness 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, in general, 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 ia a review of the principal new instructions regarding the 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 circumstances occur indicating 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 impairement 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 intagible asset shall be reviewed when indications for impairement 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 nondiscounted 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 intagible 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 decisionmakers 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. A. An equity basis investee applied retroactively the guidelines of the Supervisor of Banks in the matter of software costs as from the the financial statements as of June 30, 2015.

   B. The Supervisor of Banks stated that, as from July 1, 2015, credit granted within the framework of State funds for the encouragement of small and medium sized businesses which is secured by a State guarantee, measured on a collective basis and is in arrears for a period of between 150 days and two years, shall have an accounting write-off coeficient appropriate to the rate of realization of the guarantee in this period. Following this period, the remaining stated balance of the debt shall be fully written off. The provision in respect of debts secured as above, measured on a specific basis, has been adjusted to to the said realization rate. The change in the said accounting policy has been applied retroactively, including restatement of the comparative data.

Following is the effect of the initial application of the guidelines of the Supervisor of Banks in the matter of software costs and the treatment of troubled debts secured by government guarantee:

	As of March 31, 2015			
		Effect of retroactive application		
	As previously reported	Software costs	Troubled debts	As presently reported
Balance sheet items:				NIS millions
Equity based investee	412	(8)	-	404
Credit to the public	71,621	-	(26)	71,595
Other assets	1,074	-	10	1,084
Retained earnings	6,091	(8)	(16)	6,067
Equity attributable to shareholders of the Bank	6,929	(8)	(16)	6,905

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.

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 in the matters of: foreign currency issues; accounting policy, changes in accounting assessments and errors; and events subsequent to balance sheet date

   A circular letter was published on March 21, 2016, in the matter of the reporting by banking corporations and credit card companies in Israel 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.

NOTE 2 - INTEREST INCOME AND EXPENSES
(NIS million)

		For the three months ended March 31 (unaudited)	
		2016	**2015**
A.	**Interest income (expenses)(1)**		
	From credit to the public	**517**	384
	From credit to the goverment	**-**	(3)
	From deposits with banks	**2**	(8)
	From deposits with Bank of Israel and From cash	**6**	10
	From bonds(2)	**21**	(2)
	From other assets	**1**	1
	Total interest income	**547**	382
B.	**Interest expenses (income)(1)**		
	On deposits from the public	**15**	(28)
	On deposits from the Government	**1**	2
	On deposits from banks	**1**	(8)
	On bonds and subordinated capital notes	**3**	(25)
	On other liabilities	**1**	(3)
	Total interest expenses (income)	**21**	(62)
	Total interest income, net	**526**	444
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**		
	Interest expense(3)	**(7)**	(5)
D.	**Details of interest income (expenses) from bonds on cumulative basis**		
	Held to maturity	**4**	(2)
	Available for sale	**16**	1
	Held for trading	**1**	(1)
	Total included in interest income	**21**	(2)

(1) Including effective component in hedging relations.
(2) Including Interest income on mortgage-backed bond (MBS) in the amount of NIS 1 million (31.3.2015 - NIS 1 million).
(3) Details of effect of hedging derivative instruments on subsection A.

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	For the three months ended March 31 (unaudited)	
	2016	**2015**
A. Non-interest financing income in respect of non-trading activities		
1. From activity in derivative instruments		
Non-effective part of hedging ratios (see C below)(1)	**1**	(3)
Net income (expenses) in respect of ALM derivative instruments(2)	**(216)**	118
Total from activity in derivative instruments	**(215)**	115
2. From investments in bonds		
Profits from sale of bonds available for sale(3)	**14**	50
Losses from sale of bonds available for sale(3)	**(1)**	-
Total from investment in bonds	**13**	50
3. Net exchange differences	**224**	(110)
4. Gains from investment in shares		
Gains from sale of shares available for sale(3)	**8**	14
Losses from sale of shares available for sale(3)	**(1)**	(6)
Dividend from shares available for sale	**5**	4
Total from investment in shares	**12**	12
Total non-interest financing income in respect of non-trading activities	**34**	67

(1) Excluding the effective component of hedging ratios

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

(3) Reclassified from comulative other comprehensive income.

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

(NIS million)

	For the three months ended March 31 (unaudited)	
	2016	**2015**
B. Net income in respect of non-interest financing activity for trading[3]		
Net income in respect of other derivative instruments	**3**	4
Net realized and unrealized gains from adjustments to fair value of bonds held for trading[1]	**-**	4
Net realized and unrealized losses from adjustments to fair value of shares held for trading[2]	**(3)**	-
Total non-interst financing income from trading activities[4]	**-**	8
Total non-interest financing income	**34**	75
Details on non-interest financing income in respect of trading activities, by risk exposure		
Interest rate exposure	**(1)**	5
Exposure to shares	**1**	3
Total	**-**	8
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**	(3)
Total	**1**	(3)

(1) No gains in respect of trading bonds on hand at balance sheet date (31.3.15 - gains of NIS 8 million).
(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 loss attributed to the Bank's shareholders
Balance as of December 31, 2015 (audited)	**(22)**	**(1)**	**(84)**	**(107)**	**(2)**	**(105)**
Net change during the period	**14**	**-**	**(26)**	**(12)**	**1**	**(13)**
Balance as of March 31, 2016 (unaudited)	**(8)**	**(1)**	**(110)**	**(119)**	**(1)**	**(118)**
Balance as of December 31, 2014 (audited)	25	(1)	(91)	(67)	-	(67)
Net change during the period	28	-	(50)	(22)	-	(22)
Balance as of March 31, 2015 (unaudited)	53	(1)	(141)	(89)	-	(89)
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 March 31 (unaudited)						For the year ended December 31, 2015 (audited)		
	2016			2015					
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests									
Adjustments in respect of available for sale securities presentation according to fair value									
Unrealized net gains (losses) from adjustments to fair value	**79**	**(28)**	**51**	114	(42)	72	(21)	8	(13)
Gains in respect of available for sale securities reclassified to income statement(1)	**(58)**	**21**	**(37)**	(70)	26	(44)	(54)	20	(34)
Net change during the period	**21**	**(7)**	**14**	44	(16)	28	(75)	28	(47)
Translation adjustments*									
Adjustments from translation of financial statements	**-**	**-**	**-**	10	-	10	-	-	-
Hedges**	**-**	**-**	**-**	(16)	6	(10)	-	-	-
Net change during the period	**-**	**-**	**-**	(6)	6	-	-	-	-
Employee benefits:									
Net actuarial loss for the period	**(44)**	**15**	**(29)**	(80)	30	(50)	-	-	-
Net gains reclassified to the statement of profit and loss(2)	**5**	**(2)**	**3**	-	-	-	11	(4)	7
Net change during the period	**(39)**	**13**	**(26)**	(80)	30	(50)	11	(4)	7
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests									
Total change during the period	**1**	**-**	**1**	-	-	-	(3)	1	(2)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total change during the period	**(19)**	**6**	**(13)**	(42)	20	(22)	(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, including adjustments in respect of investee companies.

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

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

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

NOTE 5 - SECURITIES

(NIS million)

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

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

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

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.
(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value", except for securities amounting to NIS 12 million, which include an embedded derivative measured according to fair value while reflecting changes in fair value in profit and loss.
(3) Recorded in the Statement of Income.
(4) Including investments in private equity funds in the amount of NIS 114 million and perpetual capital notes of NIS 12 million.
(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 128 million.
(6) Securities guaranteed by GNMA and securities issued by FNMA & FHLMC.

NOTE 5 - SECURITIES (CON'T)

(NIS million)

					March 31, 2015 (unaudited)
A. Debentures held to maturity	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	492	492	28	-	520
Of financial institutions in Israel	63	63	16	-	79
Of foreign financial institutions	89	89	-	-	89
Of others in Israel	224	224	28	-	252
Total debentures held to maturity	868	868	72	-	940

B. Securities available for sale	Book value	Amortized cost (in shares cost)	Cumulative other comprehensive income: Profits	Cumulative other comprehensive income: Losses	Fair value (1)
Debentures and bonds -					
Of Israeli government	7,293	7,254	39	-	7,293
Of foreign governments	132	133	-	1	132
Of financial institutions in Israel	536	532	4	-	536
Of foreign financial institutions	1,913	1,911	4	2	1,913
Mortgage backed (MBS) securities(6)	567	568	2	3	567
Of others in Israel	1,023	1,009	20	6	1,023
Of foreign others	163	163	-	-	163
Total debentures and bonds available for sale	11,627	11,570	69	12	11,627
Shares -	(4)(5)268	240	29	1	268
Total securities available for sale	11,895	11,810	(2)98	(2)13	11,895

C. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Debentures and bonds -					
Of Israeli government	508	500	9	1	508
Of financial institution in Israel	50	49	1	-	50
Of foreign financial institutions	192	192	-	-	192
Of others in Israel	50	50	-	-	50
Of foreign others	51	51	-	-	51
Total trading securities	851	842	(3)10	(3)1	851
Total securities	13,614	13,520	180	14	13,686

(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 23 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 119 million, perpetual capital notes of NIS 23 million.

(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 139 million.

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

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

A. Debentures held to maturity	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
					December 31, 2015 (audited)
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)
			Profits	Losses	
Debentures and bonds -					
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)
Debentures and bonds -					
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	March 31, 2016	March 31, 2015	December 31, 2015
	(unaudited)	(unaudited)	(audited)
The recorded debt balance of Impaired bonds accruing interest income	**9**	7	7
Total recorded debt balances	**9**	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

	March 31, 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								
Debentures and Bonds								
Of Israeli government	**3,264**	**17**	**-**	**17**	**977**	**2**	**-**	**2**
Of foreign governments	**1,775**	**1**	**-**	**1**	**80**	**1**	**-**	**1**
Of Israeli financial institutions	**296**	**3**	**-**	**3**	**-**	**-**	**-**	**-**
Of foreign financial institutions	**1,125**	**9**	**-**	**9**	**522**	**6**	**-**	**6**
Mortgage backed (MBS) securities	**49**	**-**	**1**	**1**	**75**	**1**	**-**	**1**
Of others in Israel	**211**	**6**	**-**	**6**	**348**	**5**	**-**	**5**
Shares	**48**	**6**	**-**	**6**	**-**	**-**	**-**	**-**
Total securities available for sale	**6,768**	**42**	**1**	**43**	**2,002**	**15**	**-**	**15**

	March 31, 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								
Debentures and Bonds								
Of foreign government	-	-	-	-	132	1	-	1
Of foreign financial institutions	785	2	-	2	-	-	-	-
Mortgage backed (MBS) securities	126	1	-	1	208	2	-	2
Of others in Israel	348	3	3	6	-	-	-	-
Total securities available for sale	1,259	6	3	9	340	3	-	3

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

Consolidated								December 31, 2015 (audited)
	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
								(NIS million)
Held to maturity bonds of other in Israel[(1)]	90	1	-	1	-	-	-	-
Securities available for sale								
Debentures and Bonds								
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) 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

	March 31, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governements	Total
Recorded balance:						
Debts examined on an individual basis	**32,961**	**-**	**412**	**33,373**	**3,458**	**36,831**
Debts examined on a collective basis	**4,592**	**20,612**	**16,744**	**41,948**	**-**	**41,948**
Of which: according to the extent of arrears	**310**	**20,612**	**-**	**20,922**	**-**	**20,922**
Total	**37,553**	**20,612**	**17,156**	**75,321**	**3,458**	**78,779**
Of which:						
Debts restructuring	**155**	**-**	**73**	**228**	**-**	**228**
Other impaired debts	**501**	**20**	**9**	**530**	**-**	**530**
Total impaired debts	**656**	**20**	**82**	**758**	**-**	**758**
Debts in arrears of 90 days or more	**27**	**176**	**35**	**238**	**-**	**238**
Other problematic debts	**523**	**1**	**170**	**694**	**-**	**694**
Total problematic debts	**1,206**	**197**	**287**	**1,690**	**-**	**1,690**
Provision for credit losses:						
In respect of debts examined on an individual basis	**405**	**-**	**18**	**423**	**-**	**423**
In respect of debts examined on a collective basis	**45**	**121**	**198**	**364**	**-**	**364**
Of which: according to the extent of arrears	**1**	**121**	**-**	**122**	**-**	**122**
Total	**450**	**121**	**216**	**787**	**-**	**787**
Of which: in respect of impaired debts	**215**	**-**	**9**	**224**	**-**	**224**

	March 31, 2015 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governements	Total
Recorded balance:						
Debts examined on an individual basis	(1)33,139	-	425	33,564	4,375	37,939
Debts examined on a collective basis	3,944	18,606	15,481	38,031	-	38,031
Of which: according to the extent of arrears	317	18,606	-	18,923	-	18,923
Total	37,083	18,606	15,906	71,595	4,375	75,970
Of which:						
Debts restructuring	174	-	63	237	-	237
Other impaired debts	454	21	50	525	-	525
Total impaired debts	628	21	113	762	-	762
Debts in arrears of 90 days or more	4	213	8	225	-	225
Other problematic debts	1,111	2	148	1,261	-	1,261
Total problematic debts	1,743	236	269	2,248	-	2,248
Provision for credit losses:						
In respect of debts examined on an individual basis	466	-	37	503	-	503
In respect of debts examined on a collective basis	48	123	175	346	-	346
Of which: according to the extent of arrears	1	123	-	124	-	124
Total	514	123	212	849	-	849
Of which: in respect of impaired debts	164	-	30	194	-	194

(1) Restated in respect of a change in accounting policy in a matter of the treatment of problematic debts secured by state guarantee. See note 1.D.4.

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	382	20,032	-	20,414	-	20,414
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 March 31, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governements	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year	**498**	**119**	**207**	**824**	**-**	**824**
Expenses (income) in respect of credit losses	**(50)**	**3**	**9**	**(38)**	**-**	**(38)**
Accounting write-offs	**(20)**	**(1)**	**(36)**	**(57)**	**-**	**(57)**
Collection of debts written off in accounting in previous years	**22**	**-**	**36**	**58**	**-**	**58**
Net accounting write-offs	**2**	**(1)**	**-**	**1**	**-**	**1**
Provision for credit losses at end of the period	**450**	**121**	**216**	**787**	**-**	**787**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	**70**	**-**	**15**	**85**	**-**	**85**
Decrease in the provision	**(28)**	**-**	**(1)**	**(29)**	**-**	**(29)**
Provision in respect of off-balance sheet credit instruments at end of the period	**42**	**-**	**14**	**56**	**-**	**56**
Total provision for credit losses - debts and off-balance sheet credit instruments	**492**	**121**	**230**	**843**	**-**	**843**

	For the three months ended March 31, 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	31	1	5	37	-	37
Accounting write-offs	(95)	(10)	(22)	(127)	-	(127)
Collection of debts written off in accounting in previous years	44	-	19	63	-	63
Net accounting write-offs2	(51)	(10)	(3)	(64)	-	(64)
Provision for credit losses at end of the period	514	123	212	849	-	849
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	(25)	-	-	(25)	-	(25)
Provision in respect of off-balance sheet credit instruments at end of the period	81	-	14	95	-	95
Total provision for credit losses - debts and off-balance sheet credit instruments	595	123	226	944	-	944

NOTE 7 - DEPOSITS FROM THE PUBLIC
(NIS million)

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

	March 31, 2016	March 31, 2015	December 31, 2015
		(unaudited)	(audited)
In Israel			
Demand			
- Non- bearing interest	**36,738**	31,481	36,770
- Bearing interest	**6,389**	6,275	6,145
Total demand	**43,127**	37,756	42,915
Fixed-term*	**59,942**	58,433	59,463
Total deposits in Israel**	**103,069**	96,189	102,378
Outside Israel			
Demand			
- Non- bearing interest	**784**	1,088	884
Total deposits outside Israel	**784**	1,088	884
Total deposits from the public	**103,853**	97,277	103,262
* Of which: non-bearing interest deposits	**2,188**	2,245	1,566
** Of which:			
Deposits of private individuals	**51,865**	46,455	50,253
Deposits of institutional entities	**21,039**	21,340	20,440
Deposits of corporates and others	**30,165**	28,394	31,685

B. Deposits of the public by size

	March 31, 2016	March 31, 2015	December 31, 2015
Maximum amount of deposit		(unaudited)	(audited)
Up to 1	**38,735**	33,914	37,450
From 1 to 10	**25,414**	22,885	25,120
From 10 to 100	**14,525**	15,068	14,624
From 100 to 500	**4,787**	6,462	4,732
Over 500	**20,392**	18,948	21,336
Total	**103,853**	97,277	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. Staff Long-Service Awards

Most of the Group's employees are entitled to a special seniority award ("jubilee award") as well as to a special vacation period after having completed a defined period of employment at the Group. The amount of the award is equal to the number of monthly salaries and vacation days as determined for each period of service. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

In the matter of the conversion of the bank employees' rights to jubilee awards into shares of the Bank see note 16.

3. Benefit in respect of nonutilized sick leave

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

4. Other post-employment benefits

Employees of consolidated subsidiaries are entitled to an award in respect of unutilized sick leave. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

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.

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

B. Defined benefits severance pay and pension schemes

(1) Liabilities and financing situation

	For the three months ended March 31,		For the year ended December 31,
	2016	2015	2015
		(unaudited)	(audited)
			(NIS million)
A. Change in liability regarding anticipated benefits			
Liability regarding anticipated benefit at beginning of period	**1,079**	1,116	1,116
Cost of service	**6**	7	25
Cost of interest	**10**	10	41
Actuarial (profit) loss	**23**	78	(13)
Benefits paid	**(38)**	(25)	(111)
Other, including loss from reduction or dismissal and structural changes	**1**	-	21
Liability regarding anticipated benefit at end of period	**1,081**	1,186	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	**794**	839	839
Actual return on assets of the scheme	**-**	27	9
Deposits in the scheme by the Bank	**3**	5	16
Benefits paid	**(22)**	(16)	(70)
Fair value of assets of the scheme at end of period	**775**	855	794
Financing situation – net liability recognized at end of period*	**306**	331	285

* Included in the item "other assets/other liabilities".

	31.3.16	31.3.15	31.12.15
		(unaudited)	(audited)
			(NIS million)
C. Amounts recognized in the consolidated balance sheet			
Amounts recognized in the item "other assets"	**-**	4	-
Amounts recognized in the item "other liabilities"	**306**	335	285
Net liability recognized at end of period	**306**	331	285
D. Amounts recognized in other cumulative comprehensive profit (loss), before the tax effect			
Actuarial loss, net	**110**	76	83
Liability net, in respect of transition*	**41**	108	41
Closing balance in other cumulative comprehensive profit	**151**	184	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 March 31, 2016	For the three months ended March 31, 2015 (unaudited)	For the year ended December 31, 2015 (audited) (NIS million)
A. Cost components of net benefit recognized in profit and loss*			
Cost of service	**6**	7	25
Cost of interest	**10**	10	41
Anticipated return on assets of the scheme	**(8)**	(9)	(31)
Amortization of non-recognized amounts:			
Net actuarial loss	**1**	-	3
Other, including loss from reduction or dismissal and stractural changes	**4**	-	27
Total cost of benefits, net	**13**	8	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 for the period	**31**	60	9
Amortization of actuarial loss	**(1)**	-	(3)
Dismissal	**(3)**	-	(6)
Total recognized in other comprehensive profit	**27**	60	-
Total net cost of benefit	**13**	8	65
Total net cost of benefit for the period recognized in other comprehensive profit	**40**	68	65

* Including amounts discounted to software costs.

	(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	**11**
Total amount expected to be amortized from other cumulative comprehensive profit	**11**

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

(3) Assumptions

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

		March 31,	December 31,
	2016	**2015**	**2015**
		(unaudited)	(audited)
			percent
1. Principal guidelines used to determine the liability for benefits			
Discounting rate	**1.6**	1.1	1.9

		For the three months ended March 31,	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	**1.9**	1.9	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		
		March 31,	December 31,		March 31,	December 31,
	2016	**2015**	**2015**	**2016**	**2015**	**2015**
		(unaudited)	(audited)		(unaudited)	(audited)
			(NIS million)			(NIS million)
Discounting rate	**(82)**	(97)	(80)	**99**	115	96

C. Cash flows

(1) Deposits

	Forecast	Actual deposits		
		For the three months ended March 31,		For the year ended December 31,
	***2016**	**2016**	**2015**	**2015**
			(unaudited)	(audited)
	(NIS million)			(NIS million)
Deposits	12	**3**	5	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)

	March 31, 2016	March 31, 2015	December 31, 2015
	(unaudited)	(unaudited)	(audited)
a. Consolidated			
1. Capital for calculation of capital ratio			
Tier 1 capital, after supervisory adjustments and deductions	**7,432**	(2)7,161	7,349
Tier 2 capital after deductions	**2,247**	3,077	2,580
Total overall capital	**9,679**	10,238	9,929
2. Weighted balances of risk assets			
Credit risk	**67,942**	67,704	67,766
Market risk	**880**	1,348	995
Operational risk	**6,110**	6,421	6,141
Total weighted balances of risk assets	**74,932**	75,473	74,902
			percent
3. Ratio of capital to risk assets			
Ratio of tier 1 capital to risk assets	**9.92%**	(2)9.49%	9.81%
Total ratio of capital to risk assets	**12.92%**	(2)13.57%	13.26%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**(1)9.14%**	(1)9.00%	(1)9.10%
Minimal ratio of capital required by the Supervisor of Banks	**(1)12.64%**	(1)12.50%	(1)12.60%
B. Significant Subsidiaries			
Bank Otsar Hahayal Ltd.			
Ratio of tier 1 capital to risk assets	**10.96%**	9.67%	9.83%
Total ratio of capital to risk assets	**14.39%**	13.76%	13.25%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**(1)9.01%**	(1)9.00%	(1)9.01%
Minimal ratio of capital required by the Supervisor of Banks	**(1)12.51%**	(1)12.50%	(1)12.51%
Bank Massad Ltd.			
Ratio of tier 1 capital to risk assets	**13.76%**	14.41%	13.76%
Total ratio of capital to risk assets	**14.94%**	15.58%	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%

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

(NIS million)

	March 31, 2016	March 31, 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	**7,216**	(2)6,905	7,073
Differences between capital attributed to shareholders and equity capital tier 1			
Minority interests	(3)**442**	(3)449	(3)467
Application of the transitional instructions in respect of the adoption of accepted accounting principles in the matter of employee rights	**48**	92	60
Total equity capital tier 1 before regulatory adjustments and deductions	**7,706**	7,446	7,600
Regulatory adjustments and deductions:			
Intangible assets	**140**	182	154
Commitment to invest in shares	(3)**131**	(3)97	(3)94
Regulatory adjustments and other deductions- equity capital tier 1	**3**	6	3
Total regulatory adjustments and deductions- equity capital tier 1	**274**	285	251
Total equity capital tier 1 after regulatory adjustments and deductions	**7,432**	7,161	7,349
2. Tier 2 capital			
Tier 2 capital: instruments before deductions	**1,631**	2,345	1,878
Tier 2 capital: provisions before deductions	**616**	733	703
Total tier 2 capital before deductions	**2,247**	3,078	2,581
Deductions:			
Total deductions- tier 2 capital	**-**	1	1
Total tier 2 capital	**2,247**	3,077	2,580

	March 31, 2016	March 31, 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	**9.65%**	9.09%	9.44%
Effect of transitional instructions	**0.27%**	0.40%	0.37%
Ratio of equity capital tier 1 to risk assets after implementation of transitional instructions in directive 299	**9.92%**	9.49%	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) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.D.4.

(3) As for the amount of NIS 106 million, with coordination of the Supervisor of Banks, the Bank implemented the transition instructions of Basel regarding the PUT option granted to noncontrolling interests (31.3.15 - NIS 190 million, 31.12.15 - NIS 154 million).

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, 2013, a guiding letter in the matter of Basel framework - minimum core capital ratios, requiring banks and credit card companies to attain a Tier I equity capital ratio of 9% and a total capital ratio of 12.5%, and this until January 1, 2015. It has been determined, in addition, that a bank, the total stated assets of which on a consolidated basis amount to at least 20% of the total amount of assets of the banking industry, would have to increase the said ratios by one additional percentage point and to attain a minimum Tier I equity capital ratio of 10% and a minimum total capital ratio of 13.5%, and this until January 1, 2017. In accordance with the above, the minimum ratio of Tier I equity capital ratio that would be required from the Bank is 9% and the minimum total capital ratio that would be required from the Bank is 12.5%. In addition according to the directive of the Supervisor of Banks regarding "restrictions on extension of housing loans", the banking entities are demanded to increase the targeted tier 1 capital in a rate constituting 1% of the balance of the housing loans. 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.

Within the framework of the ICAAP process, the Board of Directors has determined minimum capital targets in relation to Tier I equity capital and to comprehensive capital, in the case of regular business situation and in stress tests. The capital targets have, inter alia, been determined in view of the above, in view of the ICAAP findings and data as of June 30, 2015. Set out below are the minimum capital targets:

- In a regular business situation – the Tier I equity capital ratio shall not be lower than 9.30%, the comprehensive capital ratio being determined gradually, and shall not be lower than 12.70% by June 30, 2016, and not lower than 12.73% by December 31, 2016.
- 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. 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 July 1, 2016, while until June 30, 2017, it is possible to consider the 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 0.14% in the Tier I equity capital ratio, and a decrease of 0.19% 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)

G. 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%.

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
		NIS million
A. Consolidated		
Tier 1 capital	**7,432**	7,349
Total exposures	**136,557**	135,221
		percent
Leverage ratio	**5.44%**	5.43%
B. Significant Subsidiaries		
Bank Otsar Hahayal Ltd.		
Leverage ratio	**5.77%**	5.73%
Bank Massad Ltd.		
Leverage ratio	**7.44%**	7.59%
Minimal Leverage ratio ratio required by the Supervisor of banks	**5.00%**	5.00%

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.

H. 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).

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.

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.

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

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	
	March 31,	**December 31**
	2016	**2015**
	(unaudited)	(audited)
		percent
A. Consolidated*		
Liquidity coverage ratio	**105%**	104%
B. The bank**		
Liquidity coverage ratio	**103%**	98%
Significant Subsidiaries**		
Bank Otsar Hahayal Ltd.		
Liquidity coverage ratio	**441%**	376%
Bank Massad Ltd.		
Liquidity coverage ratio	**354%**	340%
Minimal liquidity coverage ratio required by the Supervisor of banks	**80%**	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 9 - COMMITMENTS AND CONTINGENT LIABILITIES
(NIS million)

Other contingent liabilities and special commitments

		31.3.16	31.3.15	31.12.15
		(unaudited)	(unaudited)	(audited)
A.	Improvements to premises and acquisition of new premises, equipment and software	**8**	97	14
	Commitments to invest in private investment funds	**65**	56	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:

	31.3.16	31.3.15	31.12.15
	(unaudited)	(unaudited)	(audited)
First year	***58**	*57	81
Second year	**75**	79	77
Third year	**66**	70	68
Fourth year	**64**	60	65
Fifth year	**60**	56	61
Sixth year and thereafter	**387**	336	387
Total	**710**	658	739

* 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 an action filed against the Bank, in which changes occurred in relation to that stated in the financial statements for 2015:

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.

The additional exposure of the Bank and of the subsidiary companies as of March 31, 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 24 million.

D. Moreover, pending against the Bank are actions and motions for approval of class actions, 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 these actions and no provision has been included in respect thereof.

1. On January 7, 2016, the Bank received notice of an action together with a motion for its approval as a class action suit filed against the Bank. The Plaintiff alleges that the Bank had provided investment consulting services to its customers regarding the purchase and/or sale of ETF notes, without having the qualifications required to provide professional service in the matter, due to the lack of computerized systems supporting such investment decisions, thus allegedly violating fiduciary, fidelity and care duties applying to the Bank. In addition, the Plaintiff claims damages in respect of consultation regarding the purchase/sale of ETF notes not at their fair value. The Plaintiff assesses the damage caused to the class at not less than NIS 30 million, and alternatively, not less than NIS 143 million.
2. On January 18, 2016, the Bank received a new claim in the amount of NIS 37 million (for Court fees purposes). The Plaintiffs allege that the Bank had violated a closed finance agreement with them without having any grounds for such violation, and had also acted negligently contrary to banking norms, including violation of fiduciary duties and/or violation of good faith duty regarding an agreement and/or violation of the duty of care, earning thereby unlawful wealth in a manner which caused the Plaintiffs considerable and irreversible financial damage. The Plaintiffs reserved the right to change the claim, inter alia. By increasing the amount of the claim in accordance with the full amount of the damage actually caused to them.
3. On January 31, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit, in an amount of NIS 698 million, filed against the Bank, a subsidiary company and against three additional banks hereinafter altogether – "the banks"), of which, NIS 658 million in respect of a nonmonetary damage and NIS 40 million in respect of a monetary damage.

   The Plaintiffs claim that the banks do not maintain branches (or do not maintain a sufficient number of branches) in the Arab populated areas and do not provide this population with access to their banking services. Thus, as alleged by the Plaintiffs, the banks violate Section 3(a) of the Non-discrimination regarding Products, services and Entry into Places of Entertainment and Public Places Act, 2000, Section 2 of the Banking Act (Customer service), 1981 and the Human Dignity and Liberty Basic Act. The class which the Plaintiffs propose to represent relates to all citizens of the State of Israel Moslems, Christians and Druze, who suffer from discrimination in accessing banking services provided by the banks, due to the absence of bank branches in the areas in which they reside.
4. On February 18, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit filed with the Tel Aviv District Court against the Bank and four additional banks (hereinafter altogether –" the Respondents").

   According to the Plaintiff, the Respondents discriminate on grounds of age between "young students" and "not-so-young" students, in a way which deprives "not-so-young" students from benefits and/or discounts offered to "young students" only.

   The Plaintiff has defined the class as follows: "… all students discriminated against due to age in comparison with younger students, thus depriving them from benefits granted to students during the past seven years and at least as from July 15, 2014…".

   The Plaintiff claims that the conduct of the banks caused monetary and nonmonetary damages to the class, and requests the charging of the banks, jointly and severally, with a payment to the class of NIS 219 million.

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 a claim and a motion for approval and conduct of the claim as a class action suit under the Class Actions Act, 2006, filed with the Central Region District Court against ICC and another company.

The subject matter of the claim is the marketing of "Wish U" cards. The Plaintiff 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.

On February 17, 2015, the Plaintiff informed the Court, that the mediation proceedings conducted with the other company had terminated without bearing any fruit. On August 17, 2015, ICC filed a motion with the Court for the dismissal *in limine* of the claim.

Following the submission by the parties of their claims briefs within the framework of the motion filed by ICC for the *in limine* dismissal of the claim (including a motion by the Plaintiff to eliminate the response to the reaction of ICC, which was dismissed) the Court decided to admit the arguments of ICC regarding the *in limine* dismissal of the main causes of action of the Plaintiff, and stated that the motion for approval shall be dismissed *in limine* as regards the causes under the Consumer Protection Act and the injustice of violating a legislated duty. However, the Court did not dismiss completely the motion for approval, stating that the Plaintiff argued additional causes. Notwithstanding the fact that the Court agreed with ICC's arguments that most of the additional causes are integrally connected with the consumer cause, the Court stated that, at this stage, there is no need to relate to all the causes, and it suffices that the cause of a discriminating clause in a uniform contract is not to be dismissed *in limine.*

On March 7, 2016, the parties informed the Court of a compromise arrangement to be submitted by them.

On April 7, 2016, the representative of the Appellant informed the Court that the representative of the additional company had withdrawn from the said compromise arrangement, while ICC continues to uphold it. Following this notice, the Court has been motioned for the fixing of a memorandum hearing in the presence of the parties, in order to determine the manner in which the continued hearing of the case would be conducted.

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

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

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

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

According to the Court decision, the hearing of the case will be postponed until after the hearing by the Supreme Court of the appeal filed by the Appellant against the decision to dismiss in limine the motion for approval against Discount Bank. On December 2, 2015, a memorandum hearing was held in the case. Interrogation of the Declarers in the motion was held on April 13, 2016. The Court ruled on that date that the Appellant is to submit his summing up brief no later than May 30, 2016. ICC has to submit the summing up brief no later than July 17, 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 1,494 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.

   As alleged, the first binding arrangement is an arrangement for the charging of cross-commission in respect of transactions made by debit cards and prepaid cards. The second binding arrangement is alleged to create an undue delay of twenty days in payments due to trading houses of monies collected by the credit card companies.

   The class of those directly mistreated, which the Appellants propose to represent, is defined as "all trading houses in Israel which accept payment by debit cards". The class of those indirectly mistreated, which the Appellants propose to represent is defined as "anyone who had purchased goods or services from trading houses which accept payment by 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. Furthermore, following the decision of the Court, three motions were filed with the Court for the appointment of Appellants and their representatives in respect of the claim. Immediately prior to the publication of the financial statements, new representatives were appointed, though a new motion has not yet been filed. The date for filing of the new motion has been fixed for June 8, 2016.

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 August 10, 2015, 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 July 15, 2016.

4. ICC reported in its financial statements as of March 31, 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. The representative of ICC studied the material delivered to him and prepared his response to the matter, following which, a hearing was held in October 2015.

The legal advisors of ICC are of the opinion that ICC has good arguments against being indicted, and these were presented in the hearing that was held.

The decision whether to serve an indictment against ICC, if at all, as well as the decision as to the charges that would be brought and on what facts an indictment would be based, would be taken only after the Prosecution forms its position in the case.
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 to be felony monies.
As estimated by ICC, and based on the opinion of its legal advisors, at this stage being prior to a decision as to whether charges should be brought against ICC, it is not possible to estimate whether an indictment would in fact be served, and if served, what would be the charges and against whom they would be brought. Furthermore, it is not possible to estimate the results of the proceedings instituted, if at all, and its implications of ICC. However, if the arguments raised in the suspicion brief are admitted, they may expose ICC to various additional risks, part of which cannot be assessed. Notwithstanding, ICC has good arguments in this respect. Among the possible risks are negative implications on the relations of ICC with the international organizations, which serve as a central layer in ICC's operations. On the basis of the actions taken by ICC over the years, the conduct of relations between ICC and the international organizations, and on the basis of other data and facts existing together in the hands of ICC, the Management of ICC estimates that the possibility of realization of such risks is low.
On April 20, 2015, the Supervisor of Banks informed ICC that in view of the notice of the State Prosecution, as above, and the "suspicion brief" attached to it, his instruction to ICC is to refrain from the distribution of dividends until the proceedings are concluded and the results thereof and their implications on the financial position of ICC are clarified.

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

(NIS million)

A. Volume of activity

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

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

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

(NIS million)

A. Volume of activity (CONT'D)

	March 31, 2015 (unaudited)					
	Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
	Shekel-CPI	Other				
1. Face value of derivative instruments						
A. Hedging derivatives(1)						
Forward contracts	-	-	379	-	-	379
SWAPS	-	1,754	-	-	-	1,754
Total	-	1,754	379	-	-	2,133
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	1,754	-	-	-	1,754
B. ALM derivatives (1) (2)						
Futures contracts	-	118	-	-	-	118
Forward contracts	1,564	100	56,615	-	-	58,279
Option contracts traded on an exchange:						
- Options written	-	-	1,934	-	-	1,934
- Purchased options	-	-	1,929	-	-	1,929
Other option contracts:						
- Options written	-	13	5,825	-	-	5,838
- Purchased options	-	-	6,444	-	-	6,444
SWAPS	75	12,398	768	-	-	13,241
Total	1,639	12,629	73,515	-	-	87,783
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	7,315	-	-	-	7,390
C. Other derivatives (1)						
Futures contracts	-	698	250	25,905	272	27,125
Forward contracts	-	-	6	-	45	51
Option contracts traded on an exchange:						
- Options written	-	-	6,591	38,755	-	45,346
- Purchased options	-	-	6,591	38,755	-	45,346
Other option contracts:						
- Options written	-	-	1,231	289	-	1,520
- Purchased options	-	-	1,256	237	-	1,493
SWAPS	-	100	169	-	-	269
Total	-	798	16,094	103,941	317	121,150
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	-	-	-	-	199	199
Foreign currency spot swap contracts	-	-	4,077	-	-	4,077

(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)

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

(1) Except for credit derivatives.

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

(3) Of which gross negative fair value in respect of embedded derivative instruments of NIS 12 million.

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

(NIS million)

A. Volume of activity (CONT'D)

	March 31, 2015 (unaudited)					
	Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
	Shekel-CPI	Other				
2. Gross fair value of derivative instruments						
A. Hedging derivatives (1)						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	39	29	-	-	68
B. ALM derivatives (1) (2)						
Gross positive fair value	40	288	1,173	-	-	1,501
Gross negative fair value	20	391	955	-	-	1,366
C. Other derivatives (1)						
Gross positive fair value	-	8	184	741	16	949
Gross negative fair value	-	8	183	741	16	948
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	-	-	-	-	2	2
E. Total						
Gross positive fair value	40	296	1,357	741	18	2,452
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments *	40	296	1,357	741	18	2,452
* 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)	20	438	1,167	741	16	2,382
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments *(3)	20	438	1,167	741	16	2,382
* 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 9 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

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

	March 31, 2015 (unaudited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	242	910	143	-	1,157	2,452
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(625)	-	-	-	(625)
Credit risk mitigation in respect of cash collateral received	-	(146)	-	-	-	(146)
Net amount of assets in respect of derivative instruments	242	139	143	-	1,157	1,681
Off balance sheet credit risk in respect of derivative instruments (2)	-	499	-	-	882	1,381
Off balance sheet credit risk mitigation	-	(209)	-	-	-	(209)
Net off balance sheet credit risk in respect of derivative instruments	-	290	-	-	882	1,172
Total credit risk in respect of derivative instruments	242	429	143	-	2,039	2,853
Balance sheet balance of liabilities in respect of derivative instruments (1)	195	986	216	-	985	2,382
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(625)	-	-	-	(625)
Cash collateral which was attached by a lien	-	(163)	-	-	-	(163)
Net amount of liabilities in respect of derivative instruments	195	198	216	-	985	1,594

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 12 million (31.3.15 - NIS 9 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

	March 31, 2016 (unaudited)				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	**24**	**392**	**310**	**-**	**726**
- Other	**3,687**	**2,940**	**7,138**	**4,317**	**18,082**
Foreign currency contracts	**54,489**	**19,986**	**1,239**	**182**	**75,896**
Contracts of shares	**76,799**	**3,167**	**1,406**	**-**	**81,372**
Commodities and other contracts	**224**	**227**	**37**	**-**	**488**
Total	**135,223**	**26,712**	**10,130**	**4,499**	**176,564**

	March 31, 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	357	650	632	-	1,639
- Other	1,884	2,836	7,118	3,343	15,181
Foreign currency contracts	68,439	24,244	1,161	221	94,065
Contracts of shares	92,649	9,377	1,915	-	103,941
Commodities and other contracts	202	195	119	-	516
Total	163,531	37,302	10,945	3,564	215,342

	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

(NIS million)

A. General

In accordance with a letter of the Supervisor of Banks dated November 7, 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.
- **Financial management segment** includes the following activities: investment in marketable securities, market-making activity in securities and derivative instruments, activity in derivative instruments not intended as hedge and do not form part of the asset and liability management of the banking corporation, buyback and lending of securities transactions, short sale of securities, underwriting of securities; asset and liability management activity – including investment in available-for-sale bonds and in bonds held to maturity, which were not classified to other operating segments (where the borrower has no other indebtedness to the bank except for securities), hedge derivative instruments and derivative instruments being part of asset and liability management, deposits with banks and from banks in Israel and abroad, deposits of and with governments; non-financial investment activity – investment in available-for-sale equities and investment in business affiliates; other activity – management, operating, trusteeship and bank custodian services, consulting services, credit portfolio sale and management activity, development of financial products activity.

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

(NIS million)

- **Other segment** - including discontinued operations, gains on funding and other results relating to employee rights not classified to other operating segments and adjustment of the total of all items related to segments to the total of items presented in the consolidated financial report.
- **Managed assets** - including assets of provident funds, mutual funds, further education funds, customer securities, loans managed by the bank and assets relating to operations based on the extent of collection of the loan.

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

(NIS million)

C. Operational supervision segment information

	For the three months ended March 31, 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	259	1	138	31	84	4	27	544
Interest expense from external	6							
Net interest income								
- From external	253	2	3	1	1	3	5	21
- Inter - segment	2							
Total net interest income	255	(1)	135	30	83	1	22	523
Non interest income	146	7	(7)	(1)	(11)	9	1	-
Total income	401	14	80	13	33	43	39	368
Expenses (Income) in respect of credit losses	13	20	208	42	105	53	62	891
Operating and other expenses	370	(1)	(25)	(2)	(51)	(1)	-	(67)
Operating profit before taxes	18	8	81	20	91	16	34	268
Provision for taxes on operating profit	6	3	36	9	41	7	16	118
Operating profit after taxes	12	5	45	11	50	9	18	150
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	10	10
Net profit Before attribution to noncontrolling interests	12	5	45	11	50	9	28	160
Attributed to noncontrolling interests	(8)	-	(2)	(1)	(1)	-	(1)	(13)
Net profit attributed to shareholders of the Bank	4	5	43	10	49	9	27	147
Average balance of assets(1)	37,337	52	14,086	3,755	17,874	680	52,964	126,748
of which: Investee Company(1)	-	-	-	-	-	-	433	433
of which: Average balance of credit to the public(1)	37,337	52	14,086	3,755	17,874	680	-	73,784
Balance of credit to the public	37,975	68	14,234	3,867	18,163	638	-	74,945
Balance of impaired debts	100	-	225	58	366	9	-	758
Balance in arrears over 90 days	211	-	24	1	1	1	-	238
Average balance of liabilities(1)	43,208	7,930	16,751	4,866	9,954	21,979	14,253	118,941
of which: Average balance of deposits from the public(1)	43,208	7,930	16,751	4,866	9,954	21,979	-	104,688
Balance of deposits from the public	42,849	7,752	15,236	4,902	11,292	21,038	-	103,069
Average balance of risk assets(1)(2)	26,728	159	14,744	4,364	17,646	1,005	9,423	74,069
Balance of risk assets(2)	25,873	200	15,478	4,447	17,840	1,036	9,400	74,274
Average balance of assets under management(1)(3)	35,275	13,421	10,202	3,918	23,766	200,885	-	287,467
Segmentation of net interest income:								
- Earnings from credit - granting activity	235	-	125	28	74	4	-	466
- Earnings from deposits - taking activity	27	6	8	2	3	6	-	52
- Other	(7)	-	(5)	(1)	(5)	-	23	5
Total net interest income	255	6	128	29	72	10	23	523

(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 March 31, 2016 (unaudited)			
	Activity abroad			
	Private banking	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	3	-	3	547
Interest expense from external	-	-	-	21
Net interest income				
- From external	3	-	3	526
- Inter - segment	-	-	-	-
Total net interest income	3	-	3	526
Non interest income	5	-	5	373
Total income	8	-	8	899
Expenses (Income) in respect of credit losses	-	-	-	(67)
Operating and other expenses	8	-	8	698
Operating profit before taxes	-	-	-	268
Provision for taxes on operating profit	-	-	-	118
Operating profit after taxes	-	-	-	150
Bank's share in operating profit of investee companies after tax effect	-	-	-	10
Net profit Before attribution to noncontrolling interests	-	-	-	160
Attributed to noncontrolling interests	-	-	-	(13)
Net profit attributed to shareholders of the Bank	-	-	-	147
Average balance of assets(1)	41	323	364	127,112
of which: Investee Company(1)	-	-	-	433
of which: Average balance of credit to the public(1)	41	323	364	74,148
Balance of credit to the public	43	333	376	75,321
Balance of impaired debts	-	-	-	758
Balance in arrears over 90 days	-	-	-	238
Average balance of liabilities(1)	830	-	830	119,771
of which: Average balance of deposits from the public(1)	830	-	830	105,518
Balance of deposits from the public	784	-	784	103,853
Average balance of risk assets(1)(2)	75	583	658	74,727
Balance of risk assets(2)	75	583	658	74,932
Average balance of assets under management(1)(3)	-	-	-	287,467
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	466
- Earnings from deposits - taking activity	3	-	3	55
- Other	-	-	-	5
Total net interest income	3	-	3	526

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

C. Operational supervision segment information (CON'T)

	For the three months ended March 31, 2015 (unaudited)							
	Activity in Israel							
	Households	Private banking	Small and micro businesses	Medium business	Big business	Institutional entities	Financial Mangement	Total activity in Israel
								(NIS million)
Interest income from external	120	1	128	29	85	4	12	379
Interest expense (income) from external	(13)	(1)	(4)	(1)	(2)	(2)	(40)	(63)
Net interest income								
- From external	133	2	132	30	87	6	52	442
- Inter - segment	56	2	(5)	(1)	(6)	3	(49)	-
Total net interest income	189	4	127	29	81	9	3	442
Non interest income	157	15	88	16	37	47	68	428
Total income	346	19	215	45	118	56	71	870
Expenses (Income) in respect of credit losses	10	-	1	(7)	7	1	-	12
Operating and other expenses	341	13	141	22	71	35	15	638
Operating profit (loss) before taxes	(5)	6	73	30	40	20	56	220
Provision for taxes (tax saving) on operating profit (loss)	(2)	2	32	13	18	9	22	94
Operating profit (loss) after taxes	(3)	4	41	17	22	11	34	126
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	8	8
Net profit (loss) before attribution to noncontrolling interests	(3)	4	41	17	22	11	42	134
Attributed to noncontrolling interests	(1)	-	(2)	(1)	(1)	-	(5)	(10)
Net profit (loss) attributed to shareholders of the Bank	(4)	4	39	16	21	11	37	124
Average balance of assets(1)	34,344	50	13,744	3,616	17,142	686	48,194	117,776
of which: Investee Company(1)	-	-	-	-	-	-	433	433
of which: Average balance of credit to the public(1)	34,344	50	13,744	3,616	17,142	686	-	69,582
Balance of credit to the public	34,563	47	14,195	3,736	17,727	957	-	71,225
Balance of impaired debts	132	-	371	42	243	-	-	788
Balance in arrears over 90 days	219	-	6	-	-	-	-	225
Average balance of liabilities(1)	38,169	6,089	16,101	4,481	10,549	19,799	14,610	109,798
of which: Average balance of deposits from the public(1)	38,169	6,089	16,101	4,481	10,549	19,799	-	95,188
Balance of deposits from the public	36,990	7,238	15,801	4,553	10,267	21,340	-	96,189
Average balance of risk assets(1)(2)	24,687	148	15,256	4,427	17,977	1,392	8,996	72,883
Balance of risk assets(2)	24,233	177	15,992	4,437	18,256	1,620	10,100	74,815
Average balance of assets under management(1)(3)	42,258	13,023	11,949	4,045	24,531	198,993	-	294,799
Segmentation of net interest income:								
- Earnings from credit - granting activity	165	-	122	28	81	4	-	400
- Earnings from deposits - taking activity	28	4	8	2	4	6	-	52
- Other	(4)	-	(3)	(1)	(4)	(1)	3	(10)
Total net interest income	189	4	127	29	81	9	3	442

(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 March 31, 2015 (unaudited)			
	Activity abroad			
	Private banking	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	3	-	3	382
Interest expense from external	1	-	1	(62)
Net interest income				
- From external	2	-	2	444
- Inter - segment	-	-	-	-
Total net interest income	2	-	2	444
Non interest income	10	-	10	438
Total income	12	-	12	882
Expenses in respect of credit losses	-	-	-	12
Operating and other expenses	11	-	11	649
Operating profit before taxes	1	-	1	221
Provision for taxes on operating profit	-	-	-	94
Operating profit after taxes	1	-	1	127
Bank's share in operating profit of investee companies after tax effect	-	-	-	8
Net profit before attribution to noncontrolling interests	1	-	1	135
Attributed to noncontrolling interests	-	-	-	(10)
Net profit attributed to shareholders of the Bank	1	-	1	125
Average balance of assets	80	315	395	118,171
of which: Investee Company	-	-	-	433
of which: Average balance of credit to the public	80	315	395	69,977
Balance of credit to the public	75	295	370	71,595
Balance of impaired debts	-	-	-	788
Balance in arrears over 90 days	-	-	-	225
Average balance of liabilities	1,172	-	1,172	110,970
of which: Average balance of deposits from the public	1,172	-	1,172	96,360
Balance of deposits from the public	1,088	-	1,088	97,277
Average balance of risk assets	133	525	658	73,541
Balance of risk assets	133	525	658	75,473
Average balance of assets under management	-	-	-	294,799
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	400
- Earnings from deposits - taking activity	2	-	2	54
- Other	-	-	-	(10)
Total net interest income	2	-	2	444

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 micro businesses	Medium business	Big business	Institutional entities	Financial Mangement	Total activity in Israel
								(NIS million)
Interest income from external	1,010	2	579	130	355	21	150	2,247
Interest expense from external	70	14	30	8	14	25	146	307
Net interest income								
- From external	940	(12)	549	122	341	(4)	4	1,940
- Inter - segment	(179)	27	(39)	(6)	(49)	43	203	-
Total net interest income	761	15	510	116	292	39	207	1,940
Non interest income	592	53	340	59	135	183	152	1,514
Total income	1,353	68	850	175	427	222	359	3,454
Expenses (Income) in respect of credit losses	48	(2)	(13)	(4)	(11)	-	-	18
Operating and other expenses	1,427	52	609	92	279	145	70	2,674
Operating profit (loss) before taxes	(122)	18	254	87	159	77	289	762
Provision for taxes (tax saving) on operating profit	(53)	7	106	37	69	34	126	326
Operating profit (loss) after taxes	(69)	11	148	50	90	43	163	436
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	38	38
Net profit (loss) before attribution to noncontrolling interests	(69)	11	148	50	90	43	201	474
Attributed to noncontrolling interests	(8)	-	(11)	(2)	(3)	-	(8)	(32)
Net profit (loss) attributed to shareholders of the Bank	(77)	11	137	48	87	43	193	442
Average balance of assets(1)	35,587	47	13,917	3,646	16,221	828	51,456	121,702
of which: Investee Company(1)	-	-	-	-	-	-	423	423
of which: Average balance of credit to the public(1)	35,587	47	13,917	3,646	16,221	828	-	70,246
Balance of credit to the public	37,321	56	14,215	3,682	16,971	781	-	73,026
Balance of impaired debts	84	-	264	31	383	2	-	764
Balance in arrears over 90 days	209	6	17	1	1	-	-	234
Average balance of liabilities(1)	39,791	6,667	16,784	4,641	9,441	20,942	15,534	113,800
of which: Average balance of deposits from the public(1)	39,791	6,667	16,784	4,641	9,441	20,942	-	98,266
Balance of deposits from the public	41,725	7,598	16,800	4,973	10,842	20,440	-	102,378
Average balance of risk assets(1)(2)	25,885	158	15,191	4,355	17,448	1,087	10,068	74,192
Balance of risk assets(2)	26,193	179	15,477	4,167	17,125	991	10,099	74,231
Average balance of assets under management(1)(3)	31,711	21,821	11,621	4,019	23,766	209,230	-	302,168
Segmentation of net interest income:								
- Earnings from credit - granting activity	520	1	507	113	303	18	-	1,462
- Earnings from deposits - taking activity	98	14	27	8	13	23	-	183
- Other	143	-	(24)	(5)	(24)	(2)	207	295
Total net interest income	761	15	510	116	292	39	207	1,940

(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 banking	Business activity	Total activity abroad	Total
				(NIS million)
Interest income from external	13	-	13	2,260
Interest expense from external	-	-	-	307
Net interest income				
- From external	13	-	13	1,953
- Inter - segment	-	-	-	-
Total net interest income	13	-	13	1,953
Non interest income	27	-	27	1,541
Total income	40	-	40	3,494
Expenses (Income) in respect of credit losses	-	-	-	18
Operating and other expenses	36	-	36	2,710
Operating profit (loss) before taxes	4	-	4	766
Provision for taxes (tax saving) on operating profit	-	-	-	326
Operating profit (loss) after taxes	4	-	4	440
Bank's share in operating profit of investee companies after tax effect	-	-	-	38
Net profit (loss) before attribution to noncontrolling interests	4	-	4	478
Attributed to noncontrolling interests	-	-	-	(32)
Net profit (loss) attributed to shareholders of the Bank	4	-	4	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	70,623
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	99,303
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	-	-	-	302,168
Segmentation of net interest income:				
- Earnings from credit - granting activity	-	-	-	1,462
- Earnings from deposits - taking activity	13	-	13	196
- Other	-	-	-	295
Total net interest income	13	-	13	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** - private customers, both Israeli and foreign residents, 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.
- **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 March 31, 2016 (unaudited)						
	Private banking	Households	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income							
- From external	**14**	**251**	**65**	**101**	**75**	**20**	**526**
- Inter - segment	**23**	**(11)**	**-**	**(6)**	**(6)**	**-**	**-**
Net interest income	**37**	**240**	**65**	**95**	**69**	**20**	**526**
Non interest income							
- From external	**88**	**93**	**42**	**87**	**24**	**39**	**373**
Total income	**125**	**333**	**107**	**182**	**93**	**59**	**899**
Expenses (Income) in respect of credit losses	**(1)**	**7**	**(1)**	**(54)**	**(18)**	**-**	**(67)**
Operating and other expenses							
-from external	**128**	**284**	**84**	**116**	**60**	**26**	**698**
Operating profit (loss) before taxes	**(2)**	**42**	**24**	**120**	**51**	**33**	**268**
Provision for taxes (tax saving) on operating profit	**(1)**	**20**	**11**	**51**	**23**	**14**	**118**
Operating profit (loss) after taxes	**(1)**	**22**	**13**	**69**	**28**	**19**	**150**
Bank's share in operating profit of investee company	**-**	**-**	**-**	**-**	**-**	**10**	**10**
Net profit (loss):							
Before attribution to noncontrolling interests	**(1)**	**22**	**13**	**69**	**28**	**29**	**160**
Attributed to noncontrolling interests	**-**	**(9)**	**(1)**	**-**	**(3)**	**-**	**(13)**
Attributed to shareholders of the Bank	**(1)**	**13**	**12**	**69**	**25**	**29**	**147**
Return on equity (net profit as percentage of gross weighted capital)	**(1.6%)**	**2.2%**	**11.5%**	**12.7%**	**10.8%**	**19.4%**	**8.5%**
Average balance of assets	**4,237**	**34,362**	**4,845**	**21,187**	**8,898**	**53,583**	**127,112**

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

	For the three months ended March 31, 2015 (unaudited)						
	Private banking	Households	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income							
- From external	23	133	66	113	64	45	444
- Inter - segment	13	40	(3)	(8)	1	(43)	-
Net interest income	36	173	63	105	65	2	444
Non interest income							
- From external	100	103	46	89	26	74	438
Total income	136	276	109	194	91	76	882
Expenses (Income) in respect of credit losses	2	9	6	(3)	(2)	-	12
Operating and other expenses							
-from external	124	263	84	98	57	23	649
Operating profit before taxes	10	4	19	99	36	53	221
Provision for taxes on operating profit	4	2	8	40	16	24	94
Operating profit after taxes	6	2	11	59	20	29	127
Bank's share in operating profit of investee company	-	-	-	-	-	8	8
Net profit:							
Before attribution to noncontrolling interests	6	2	11	59	20	37	135
Attributed to noncontrolling interests	-	(2)	(1)	-	(2)	(5)	(10)
Attributed to shareholders of the Bank	6	-	10	59	18	32	125
Return on equity (net profit as percentage of gross weighted capital)	5.3%	(0.2%)	8.7%	10.6%	9.0%	24.0%	7.5%
Average balance of assets	4,090	31,225	4,998	20,473	8,470	48,915	118,171

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

(NIS million)

	For the year ended December 31, 2015 (audited)						
	Private banking	Households	Small businesses	Corporate banking	Commercial banking	Financial management	Total
Net interest income							
- From external	60	890	263	408	294	38	1,953
- Inter - segment	79	(195)	(8)	(27)	(35)	186	-
Net interest income	139	695	255	381	259	224	1,953
Non interest income							
- From external	361	404	175	363	105	133	1,541
Total income	500	1,099	430	744	364	357	3,494
Expenses (Income) in respect of credit losses	2	46	9	(52)	13	-	18
Operating and other expenses							
-from external	506	1,082	371	428	237	86	2,710
Operating profit (loss) before taxes	(8)	(29)	50	368	114	271	766
Provision for taxes (tax saving) on operating profit	(3)	(10)	24	149	51	115	326
Operating profit (loss) after taxes	(5)	(19)	26	219	63	156	440
Bank's share in operating profit of investee company	-	-	-	-	-	38	38
Net profit (loss):							
Before attribution to noncontrolling interests	(5)	(19)	26	219	63	194	478
Attributed to noncontrolling interests	-	(12)	(3)	-	(9)	(8)	(32)
Attributed to shareholders of the Bank	(5)	(31)	23	219	54	186	446
Return on equity (net profit as percentage of gross weighted capital)	(1.0%)	(1.3%)	4.8%	9.9%	6.2%	31.9%	6.5%
Average balance of assets	4,761	32,507	4,956	19,321	8,152	52,382	122,079

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

(NIS million)

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

Provision for credit losses

1. Change in provision for credit losses

	For the three months ended March 31, 2016 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year	**498**	**119**	**207**	**824**	**-**	**824**
Expenses (income) in respect of credit losses	**(50)**	**3**	**9**	**(38)**	**-**	**(38)**
Accounting write-offs	**(20)**	**(1)**	**(36)**	**(57)**	**-**	**(57)**
Collection of debts written off in accounting in previous years	**22**	**-**	**36**	**58**	**-**	**58**
Net accounting write-offs	**2**	**(1)**	**-**	**1**	**-**	**1**
Provision for credit losses at end of the period	**450**	**121**	**216**	**787**	**-**	**787**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	**70**	**-**	**15**	**85**	**-**	**85**
Decrease in the provision	**(28)**	**-**	**(1)**	**(29)**	**-**	**(29)**
Provision in respect of off-balance sheet credit instruments at end of the period	**42**	**-**	**14**	**56**	**-**	**56**
Total provision for credit losses - debts and off-balance sheet credit instruments	**492**	**121**	**230**	**843**	**-**	**843**

	For the three months ended March 31, 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	31	1	5	37	-	37
Accounting write-offs	(95)	(10)	(22)	(127)	-	(127)
Collection of debts written off in accounting in previous years	44	-	19	63	-	63
Net accounting write-offs	(51)	(10)	(3)	(64)	-	(64)
Provision for credit losses at end of the period	514	123	212	849	-	849
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	(25)	-	-	(25)	-	(25)
Provision in respect of off-balance sheet credit instruments at end of the period	81	-	14	95	-	95
Total provision for credit losses - debts and off-balance sheet credit instruments	595	123	226	944	-	944

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

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

(NIS million)

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

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

	March 31, 2016 (unaudited)					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts(1)						
Examined on an individual basis	**32,961**	**-**	**412**	**33,373**	**3,458**	**36,831**
Examined on a collective basis	**4,592**	**20,612**	**16,744**	**41,948**	**-**	**41,948**
Of which: provision for which was calculated according to the extent of arrears	**310**	**20,612**	**-**	**20,922**	**-**	**20,922**
Total debts	**37,553**	**20,612**	**17,156**	**75,321**	**3,458**	**78,779**
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	**405**	**-**	**18**	**423**	**-**	**423**
Examined on a collective basis	**45**	**121**	**198**	**364**	**-**	**364**
Of which: provision for which was calculated according to the extent of arrears	**1**	(2)**121**	**-**	**122**	**-**	**122**
Total provision for credit losses	**450**	**121**	**216**	**787**	**-**	**787**

	March 31, 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	(4)33,139	-	425	33,564	4,375	37,939
Examined on a collective basis	3,944	18,606	15,481	38,031	-	38,031
Of which: provision for which was calculated according to the extent of arrears	317	18,606	-	18,923	-	18,923
Total debts	37,083	18,606	15,906	71,595	4,375	75,970
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	466	-	37	503	-	503
Examined on a collective basis	48	123	175	346	-	346
Of which: provision for which was calculated according to the extent of arrears	1	(2)123	-	124	-	124
Total provision for credit losses	514	123	212	849	-	849

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	382	20,032	-	20,414	-	20,414
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 77 million (31.3.15 - NIS 68 million, 31.12.15 - NIS 74 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 2,147 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.3.15 - NIS 1,887 million, 31.12.15 - NIS 2,256 million).

(4) Restated in respect of a change in accounting policy in a matter of the treatment of problematic debts secured by state guarantee. See note 1.D.4.

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

(NIS million)

B.Debts(1)

1. Credit quality and arrears

	March 31, 2016 (unaudited)					
		Problematic(2)			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**3,403**	**18**	**73**	**3,494**	**1**	**2**
Construction and real estate - real estate activities	**4,324**	**21**	**28**	**4,373**	**-**	**-**
Financial services	**7,277**	**14**	**12**	**7,303**	**3**	**6**
Commercial - other	**20,327**	**497**	**522**	**21,346**	**23**	**43**
Total commercial	**35,331**	**550**	**635**	**36,516**	**27**	**51**
Private individuals - housing loans	**20,415**	(6)**177**	**20**	**20,612**	**176**	**156**
Private individuals - others	**16,826**	**205**	**82**	**17,113**	**35**	**47**
Total public - activity in Israel	**72,572**	**932**	**737**	**74,241**	**238**	**254**
Banks in Israel	**1,228**	**-**	**-**	**1,228**	**-**	**-**
Israeli government	**645**	**-**	**-**	**645**	**-**	**-**
Total activity in Israel	**74,445**	**932**	**737**	**76,114**	**238**	**254**
Borrower activity abroad						
Public - commercial						
Construction and real estate	**220**	**-**	**13**	**233**	**-**	**-**
Other commercial	**796**	**-**	**8**	**804**	**-**	**-**
Total commercial	**1,016**	**-**	**21**	**1,037**	**-**	**-**
Private individuals	**43**	**-**	**-**	**43**	**-**	**-**
Total public - activity abroad	**1,059**	**-**	**21**	**1,080**	**-**	**-**
Banks abroad	**1,585**	**-**	**-**	**1,585**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**2,644**	**-**	**21**	**2,665**	**-**	**-**
Total public	**73,631**	**932**	**758**	**75,321**	**238**	**254**
Total banks	**2,813**	**-**	**-**	**2,813**	**-**	**-**
Total governments	**645**	**-**	**-**	**645**	**-**	**-**
Total	**77,089**	**932**	**758**	**78,779**	**238**	**254**

(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 98 million (31.3.15 - NIS 427 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately NIS 7 million (31.3.15 - 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.
(7) Restated in respect of a change in accounting policy in a matter of the treatment of problematic debts secured by state guarantee. See note 1.D.4.

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

(NIS million)

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

1. Credit quality and arrears (Cont'd)

	March 31, 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	3,237	44	[(7)]55	3,336	-	5
Construction and real estate - real estate activities	4,368	9	67	4,444	1	-
Financial services	7,583	74	6	7,663	-	5
Commercial - other	19,846	988	[(7)]459	21,293	3	370
Total commercial	35,034	1,115	587	36,736	4	380
Private individuals - housing loans	18,370	[(6)]215	21	18,606	213	203
Private individuals - others	15,562	156	113	15,831	8	47
Total public - activity in Israel	68,966	1,486	721	71,173	225	630
Banks in Israel	973	-	-	973	-	-
Israeli government	669	-	-	669	-	-
Total activity in Israel	70,608	1,486	721	72,815	225	630
Borrower activity abroad						
Public - commercial						
Construction and real estate	23	-	31	54	-	-
Other commercial	283	-	10	293	-	-
Total commercial	306	-	41	347	-	-
Private individuals	75	-	-	75	-	-
Total public - activity abroad	381	-	41	422	-	-
Banks abroad	2,733	-	-	2,733	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	3,114	-	41	3,155	-	-
Total public	69,347	1,486	762	71,595	225	630
Total banks	3,706	-	-	3,706	-	-
Total governments	669	-	-	669	-	-
Total	73,722	1,486	762	75,970	225	630

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

	March 31, 2016 (unaudited)				
A. Impaired debts and the individual provision	Balance[2] of impaired debts for which an individual provision exists[3]	Individual provision[3]	Balance[2] of impaired debts for which no individual provision exists[3]	Total Balance[2] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**22**	**19**	**51**	**73**	**790**
Construction and real estate - real estate activities	**-**	**-**	**28**	**28**	**470**
Financial services	**1**	**-**	**11**	**12**	**323**
Commercial - other	**397**	**193**	**125**	**522**	**2,379**
Total commercial	**420**	**212**	**215**	**635**	**3,962**
Private individuals - housing loans	**-**	**-**	**20**	**20**	**20**
Private individuals - others	**11**	**9**	**71**	**82**	**155**
Total public - activity in Israel	**431**	**221**	**306**	**737**	**4,137**
Banks in Israel	**-**	**-**	**-**	**-**	**-**
Israeli government	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**431**	**221**	**306**	**737**	**4,137**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**13**	**3**	**-**	**13**	**13**
Other commercial	**8**	**-**	**-**	**8**	**79**
Total commercial	**21**	**3**	**-**	**21**	**92**
Private individuals	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**21**	**3**	**-**	**21**	**92**
Banks abroad	**-**	**-**	**-**	**-**	**-**
Government abroad	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**21**	**3**	**-**	**21**	**92**
Total public	**452**	**224**	**306**	**758**	**4,229**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total(*)	**452**	**224**	**306**	**758**	**4,229**
(*) Of which:					
Measured at the present value of cash flows	**452**	**224**	**257**	**709**	
Debts in troubled debt restructuring	**20**	**9**	**208**	**228**	

(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.
(4) Restated in respect of a change in accounting policy in a matter of the treatment of problematic debts secured by state guarantee. See note 1.D.4.

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

(NIS million)

B. Debts[1] (Cont'd)

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

	March 31, 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	21	14	[4]34	55	729
Construction and real estate - real estate activities	4	2	63	67	491
Financial services	-	-	6	6	333
Commercial - other	296	136	[4]163	459	2,360
Total commercial	321	152	266	587	3,913
Private individuals - housing loans	-	-	21	21	21
Private individuals - others	32	30	81	113	406
Total public - activity in Israel	353	182	368	721	4,340
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	353	182	368	721	4,340
Borrower activity abroad					
Public - commercial					
Construction and real estate	31	12	-	31	56
Other commercial	10	-	-	10	90
Total commercial	41	12	-	41	146
Private individuals	-	-	-	-	-
Total public - activity abroad	41	12	-	41	146
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	41	12	-	41	146
Total public	394	194	368	762	4,486
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	394	194	368	762	4,486
(*) Of which:					
Measured at the present value of cash flows	392	194	[4]271	663	
Debts in troubled debt restructuring	26	12	211	237	

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 March 31					
	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	**55**	**-**	**-**	(5)81	-	-
Construction and real estate - real estate activities	**43**	**-**	**-**	49	-	-
Financial services	**17**	**-**	**-**	8	-	-
Commercial - other	**492**	**-**	**-**	(5)463	1	1
Total commercial	**607**	**-**	**-**	601	1	1
Private individuals - housing loans	**15**	**-**	**-**	19	-	-
Private individuals - others	**64**	**1**	**-**	113	-	-
Total public - activity in Israel	**686**	**1**	**-**	733	1	1
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**686**	**1**	**-**	733	1	1
Borrower activity abroad						
Public - commercial						
Construction and real estate	**14**	**-**	**-**	32	-	-
Other commercial	**8**	**-**	**-**	10	-	-
Total commercial	**22**	**-**	**-**	42	-	-
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**22**	**-**	**-**	42	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Government abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**22**	**-**	**-**	42	-	-
Total public	**708**	**1**	**-**	775	1	1
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**708**	(4)**1**	**-**	775	(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 16 million was recorded in three months ended March 31, 2016 (for three months ended March 31, 2015 - NIS 18 million).
(5) Restated in respect of a change in accounting policy in a matter of the treatment of problematic debts secured by state guarantee. See note 1.D.4.

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

(NIS million)

B. Debts(1) (Cont'd)

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

	March 31, 2016 (unaudited)				
	Recorded debt balance				
C. Troubled debt restructuring	Not accruing interest income	accruing(2) in arrears of 90 days or more	accruing (2) in arrears of 30 to 89 days	Accruing(2), not in arrears	Total(3)
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**17**	**-**	**-**	**1**	**18**
Construction and real estate - real estate activities	**8**	**-**	**-**	**1**	**9**
Financial services	**4**	**-**	**-**	**1**	**5**
Commercial - other	**103**	**-**	**-**	**12**	**115**
Total commercial	**132**	**-**	**-**	**15**	**147**
Private individuals - housing loans	**-**	**-**	**-**	**-**	**-**
Private individuals - others	**60**	**-**	**-**	**13**	**73**
Total public - activity in Israel	**192**	**-**	**-**	**28**	**220**
Banks in Israel	**-**	**-**	**-**	**-**	**-**
Israeli government	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**192**	**-**	**-**	**28**	**220**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**-**	**-**	**-**	**-**	**-**
Other commercial	**8**	**-**	**-**	**-**	**8**
Total commercial	**8**	**-**	**-**	**-**	**8**
Private individuals	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**8**	**-**	**-**	**-**	**8**
Banks abroad	**-**	**-**	**-**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**8**	**-**	**-**	**-**	**8**
Total public	**200**	**-**	**-**	**28**	**228**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**200**	**-**	**-**	**28**	**228**

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

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

(NIS million)

B. Debts[1] (Cont'd)

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

	March 31, 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	-	-	2	10
Construction and real estate - real estate activities	6	-	-	4	10
Financial services	2	-	-	1	3
Commercial - other	114	-	-	27	141
Total commercial	130	-	-	34	164
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	54	-	-	9	63
Total public - activity in Israel	184	-	-	43	227
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	184	-	-	43	227
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	10	-	-	-	10
Total commercial	10	-	-	-	10
Private individuals	-	-	-	-	-
Total public - activity abroad	10	-	-	-	10
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	10	-	-	-	10
Total public	194	-	-	43	237
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	194	-	-	43	237

(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 March 31					
	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	**5**	**5**	**5**	7	1	1
Construction and real estate - real estate activities	**-**	**-**	**-**	1	-	-
Financial services	**2**	**1**	**1**	2	-	-
Commercial - other	**73**	**11**	**10**	90	13	11
Total commercial	**80**	**17**	**16**	100	14	12
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - others	**283**	**12**	**12**	258	11	11
Total public - activity in Israel	**363**	**29**	**28**	358	25	23
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**363**	**29**	**28**	358	25	23
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	**363**	**29**	**28**	358	25	23
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**363**	**29**	**28**	358	25	23

(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)			
	For the three months ended March 31			
	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**	**1**	2	-
Construction and real estate - real estate activities	**1**	**1**	-	-
Financial services	**-**	**-**	-	-
Commercial - other	**17**	**11**	22	3
Total commercial	**20**	**13**	24	3
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - others	**72**	(3)**2**	81	3
Total public - activity in Israel	**92**	**15**	105	6
Banks in Israel	**-**	**-**	-	-
Israeli government	**-**	**-**	-	-
Total activity in Israel	**92**	**15**	105	6
Borrower activity abroad				
Public - commercial				
Construction and real estate	**-**	**-**	-	-
Other commercial	**-**	**-**	2	10
Total commercial	**-**	**-**	2	10
Private individuals	**-**	**-**	-	-
Total public - activity abroad	**-**	**-**	2	10
Banks abroad	**-**	**-**	-	-
Governments abroad	**-**	**-**	-	-
Total activity abroad	**-**	**-**	2	10
Total public	**92**	**15**	107	16
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**92**	**15**	107	16

(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 tjis 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

	March 31, 2016 (unaudited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	**14,456**	**420**	**8,964**	**1,248**
- Over 60%	**6,013**	**116**	**4,046**	**654**
Secondary lien or no lien	**143**	**5**	**79**	**21**
Total	**20,612**	**541**	**13,089**	**1,923**

	March 31, 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%	12,970	558	8,531	1,407
- Over 60%	5,539	149	3,961	684
Secondary lien or no lien	97	6	54	5
Total	18,606	713	12,546	2,096

	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		
	31.3.16	**31.3.15**	**31.12.15**	**31.3.16**	**31.3.15**	**31.12.15**
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)	(audited)
Transactions the balance of which represents credit risk:						
Documentary credit	**267**	157	130	**-**	-	-
Guarantees securing credit	**1,019**	929	972	**9**	10	11
Guarantees to home purchasers	**2,867**	2,462	2,614	**6**	14	14
Guarantees and other liabilities	**3,586**	3,593	3,529	**13**	28	22
Unutilized credit lines for derivatives instruments	**33,926**	29,743	32,967	**-**	1	-
Unutilized revolving credit and other on-call credit facilities	**10,948**	11,528	12,400	**17**	13	21
Irrevocable commitments to grant credit, not yet executed	**3,952**	4,496	2,755	**2**	13	4
Unutilized credit lines for credit card facilities	**5,856**	6,188	6,509	**4**	4	5
Facilities for the lending of securities	**115**	135	110	**-**	-	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses	**187**	301	254	**-**	1	-
Commitments to issue guarantees	**1,474**	2,103	1,513	**5**	11	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)	**102**	101	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)

	March 31, 2016 (unaudited)						
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	**27,134**	**110**	**1,542**	**253**	**297**	**-**	**29,336**
Securities	**7,023**	**1,704**	**7,070**	**470**	**115**	**217**	**16,599**
Securities which were borrowed	**726**	**-**	**-**	**-**	**-**	**-**	**726**
Credit to the public, net(3)	**57,394**	**11,016**	**3,896**	**1,268**	**385**	**575**	**74,534**
Credit to the government	**27**	**618**	**-**	**-**	**-**	**-**	**645**
Investee company	**-**	**-**	**-**	**-**	**-**	**450**	**450**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**1,206**	**1,206**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**255**	**255**
Assets in respect of derivative instruments	**731**	**51**	**164**	**95**	**78**	**753**	**1,872**
Other assets	**641**	**34**	**11**	**-**	**12**	**287**	**985**
Total assets	**93,676**	**13,533**	**12,683**	**2,086**	**887**	**3,743**	**126,608**
Liabilities							
Deposits from the public	**73,984**	**6,244**	**17,907**	**3,655**	**1,478**	**585**	**103,853**
Deposits from banks	**1,128**	**-**	**414**	**55**	**27**	**-**	**1,624**
Deposits from the Government	**289**	**303**	**74**	**2**	**1**	**-**	**669**
Bonds and subordinated capital notes	**769**	**4,928**	**-**	**-**	**-**	**-**	**5,697**
Liabilities in respect of derivative instruments	**836**	**36**	**235**	**126**	**67**	**741**	**2,041**
Other liabilities	**4,383**	**161**	**56**	**5**	**13**	**298**	**4,916**
Total liabilities	**81,389**	**11,672**	**18,686**	**3,843**	**1,586**	**1,624**	**118,800**
Difference	**12,287**	**1,861**	**(6,003)**	**(1,757)**	**(699)**	**2,119**	**7,808**
Hedging financial instruments							
Derivative instruments (not including options)	**393**	**-**	**-**	**-**	**(393)**	**-**	**-**
Non-hedging derivatives							
Derivative instruments (not including options)	**(8,689)**	**(430)**	**6,286**	**1,856**	**977**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**568**	**-**	**(452)**	**(115)**	**(1)**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**(210)**	**-**	**225**	**(15)**	**-**	**-**	**-**
Total	**4,349**	**1,431**	**56**	**(31)**	**(116)**	**2,119**	**7,808**
Options in the money, net (present value of stated amount)	**585**	**-**	**(421)**	**(163)**	**(1)**	**-**	**-**
Options out of the money, net (present value of stated amount)	**(694)**	**-**	**774**	**(85)**	**5**	**-**	**-**

(1) Including linked to foreign currency.

(2) Including derivatives instruments which their underlying assets represent non-monetary item.

(3) After deduction of provisions for credit losses attributed to the linkage base.

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

(NIS million)

	March 31, 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	25,100	208	2,880	669	457	-	29,314
Securities	6,317	2,212	3,548	1,058	211	268	13,614
Securities which were borrowed	479	-	-	-	-	-	479
Credit to the public, net(3)	(4)52,754	12,037	4,231	859	400	465	70,746
Credit to the government	51	618	-	-	-	-	669
Investee company	-	-	-	-	-	(4)404	404
Premises and equipment	-	-	-	-	-	1,230	1,230
Intangible assets and goodwill	-	-	-	-	-	313	313
Assets in respect of derivative instruments	461	60	1,066	48	60	757	2,452
Other assets	(4)806	62	6	6	9	195	1,084
Total assets	85,968	15,197	11,731	2,640	1,137	3,632	120,305
Liabilities							
Deposits from the public	65,090	7,650	18,519	3,988	1,557	473	97,277
Deposits from banks	1,020	-	211	31	9	-	1,271
Deposits from the Government	448	15	71	3	1	-	538
Bonds and subordinated capital notes	770	5,336	-	-	-	-	6,106
Liabilities in respect of derivative instruments	548	70	875	67	65	748	2,373
Other liabilities	4,430	527	44	6	50	210	5,267
Total liabilities	72,306	13,598	19,720	4,095	1,682	1,431	112,832
Difference	13,662	1,599	(7,989)	(1,455)	(545)	2,201	7,473
Hedging financial instruments							
Derivative instruments (not including options)	379	-	-	-	(379)	-	-
Non-hedging derivatives							
Derivative instruments (not including options)	(7,902)	(945)	6,694	1,334	819	-	-
Options in the money, net (in terms of underlying asset)	(712)	-	618	80	14	-	-
Options out of the money, net (in terms of underlying asset)	(919)	-	864	54	1	-	-
Total	4,508	654	187	13	(90)	2,201	7,473
Options in the money, net (present value of stated amount)	(1,227)	-	950	261	16	-	-
Options out of the money, net (present value of stated amount)	(3,613)	-	3,032	580	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.
(4) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.D.4.

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 and goodwill	-	-	-	-	-	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)

					March 31, 2016 (unaudited)
	Stated in the				Fair value[1]
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	**29,336**	**586**	**28,553**	**196**	**29,335**
Securities[2]	**16,599**	**8,376**	**8,151**	**128**	**16,655**
Securities which were borrowed	**726**	**-**	**726**	**-**	**726**
Credit to the public, net	**74,534**	**2,767**	**993**	**71,730**	**75,490**
Credit to the government	**645**	**-**	**27**	**604**	**631**
Assets in respect of derivative instruments	**1,872**	**860**	**652**	**360**	**1,872**
Other financial assets	**424**	**261**	**-**	**163**	**424**
Total financial assets	**(3)124,136**	**12,850**	**39,102**	**73,181**	**125,133**
Financial liabilities					
Deposits from the public	**103,853**	**2,200**	**87,220**	**14,723**	**104,143**
Deposits from Banks	**1,624**	**-**	**1,513**	**108**	**1,621**
Deposits from the Government	**669**	**306**	**285**	**99**	**690**
Bonds and non-convertible subordinated capital notes	**5,697**	**4,996**	**-**	**1,010**	**6,006**
Liabilities in respect of derivative instruments	**2,041**	**851**	**1,146**	**44**	**2,041**
Other financing liabilities	**3,861**	**444**	**994**	**2,422**	**3,860**
Total financial liabilities	**(3)117,745**	**8,797**	**91,158**	**18,406**	**118,361**
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	**36**	**-**	**-**	**36**	**36**

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

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

(3) Of which: assets of NIS 20,078 million and liabilities of NIS 5,003 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

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

(NIS million)

					March 31, 2015 (unaudited)
	Stated in the				Fair value[1]
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	29,314	593	28,450	267	29,310
Securities[2]	13,614	8,328	5,219	139	13,686
Securities which were borrowed	479	-	479	-	479
Credit to the public, net	[4]70,746	2,764	1,846	[4]67,158	71,768
Credit to the government	669	-	51	612	663
Assets in respect of derivative instruments	2,452	863	908	681	2,452
Other financial assets	332	170	-	162	332
Total financial assets	[3]117,606	12,718	36,953	69,019	118,690
Financial liabilities					
Deposits from the public	97,277	2,582	83,820	11,382	97,784
Deposits from Banks	1,271	-	1,243	70	1,313
Deposits from the Government	538	112	340	112	564
Bonds and non-convertible subordinated capital notes	6,106	5,379	-	1,252	6,631
Liabilities held for sale	2,373	871	1,413	89	2,373
Other financing liabilities	4,109	732	1,846	1,531	4,109
Total financial liabilities	[3]111,674	9,676	88,662	14,436	112,774
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 17,993 million and liabilities of NIS 5,808 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

(4) Initial implementation of accounting standards and instructions of the Supervisor of Banks. See Note 1.D.4.

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

	March 31, 2016 (unaudited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	5,682	1,804	-	-	7,486
Government bonds - Foreign governments	-	2,742	-	-	2,742
Bonds of financial institutions in Israel	401	-	-	-	401
Bonds of foreign financial institutions	-	1,940	-	-	1,940
Mortgage backed (MBS)	-	562	-	-	562
Bonds of others in Israel	544	245	-	-	789
Bonds of foreign others	-	316	-	-	316
Shares of others	77	12	-	-	89
Total available for sale securities	6,704	7,621	-	-	14,325
Trading Securities:					
Government bonds -Israeli Government	797	-	-	-	797
Bonds of financial institutions in Israel	27	-	-	-	27
Bonds of others in Israel	29	-	-	-	29
Total trading securities	853	-	-	-	853
Credit in respect of security borrowing	2,767	-	-	-	2,767
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	31	-	31
Interest rate contract: other	6	238	10	-	254
Foreign currency contracts	113	400	319	-	832
Shares contracts	738	13	-	-	751
Commodities and other contracts	3	1	-	-	4
Total assets in respect of derivative instruments	860	652	360	-	1,872
Assets in respect of MAOF activity	261	-	-	-	261
Total assets	11,445	8,273	360	-	20,078
Liabilities					
Deposits in respect of borrowing between customers	2,200	-	-	-	2,200
Deposits from the Government	306	-	-	-	306
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	8	-	8
Interest rate contract: other	6	396	-	-	402
Foreign currency contracts	104	749	36	-	889
Shares contracts	738	13	-	-	751
Commodities and other contracts	3	-	-	-	3
Total liabilities in respect of derivative instruments	851	1,158	44	-	2,053
Other liabilities					
Liabilities in respect of activity in the maof market	261	-	-	-	261
Short selling of securities	183	-	-	-	183
Total other liabilities	444	-	-	-	444
Total liabilities	3,801	1,158	44	-	5,003

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

(NIS million)

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

	March 31, 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	5,810	1,483	-	-	7,293
Government bonds - Foreign governments	-	132	-	-	132
Bonds of financial institutions in Israel	536	-	-	-	536
Bonds of foreign financial institutions	-	1,913	-	-	1,913
Mortgage backed (MBS)	-	567	-	-	567
Bonds of others in Israel	768	255	-	-	1,023
Bonds of foreign others	-	163	-	-	163
Shares of others	106	23	-	-	129
Total available for sale securities	7,220	4,536	-	-	11,756
Trading Securities:					
Government bonds -Israeli Government	508	-	-	-	508
Bonds of financial institutions in Israel	50	-	-	-	50
Bonds of foreign financial institutions	-	192	-	-	192
Bonds of others in Israel	50	-	-	-	50
Bonds of foreign others	-	51	-	-	51
Total trading securities	608	243	-	-	851
Credit in respect of security borrowing	2,764	-	-	-	2,764
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	40	-	40
Interest rate contract: other	4	275	17	-	296
Foreign currency contracts	111	622	624	-	1,357
Shares contracts	732	9	-	-	741
Commodities and other contracts	16	2	-	-	18
Total assets in respect of derivative instruments	863	908	681	-	2,452
Assets in respect of MAOF activity	170	-	-	-	170
Total assets	11,625	5,687	681	-	17,993
Liabilities					
Deposits in respect of borrowing between customers	2,582	-	-	-	2,582
Deposits from the Government	112	-	-	-	112
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	20	-	20
Interest rate contract: other	5	433	-	-	438
Foreign currency contracts	118	980	69	-	1,167
Shares contracts	732	9	-	-	741
Commodities and other contracts	16	-	-	-	16
Total liabilities in respect of derivative instruments	871	1,422	89	-	2,382
Other liabilities					
Liabilities in respect of activity in the maof market	170	-	-	-	170
Short selling of securities	562	-	-	-	562
Total Other Liabilities	732	-	-	-	732
Total liabilities	4,297	1,422	89	-	5,808

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

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

	March 31, 2015 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	2	-	96	98	(15)
Other	-	-	3	3	-

	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 March 31, 2016 (unaudited)							
	Fair value as at December 31, 2015	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at March 31, 2016	Unrealized profits (losses) in respect of instruments held as at March 31, 2016
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**27**	**4**	**-**	**-**	**-**	**-**	**31**	**5**
Interest rate contracts: Other	**10**	**3**	**-**	**(3)**	**-**	**-**	**10**	**3**
Foreign currency contracts	**241**	**674**	**25**	**(621)**	**-**	**-**	**319**	**181**
Total assets	**278**	**681**	**25**	**(624)**	**-**	**-**	**360**	**189**
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**8**	**(1)**	**-**	**(1)**	**-**	**-**	**8**	**(1)**
Foreign currency contracts	**60**	**(1)**	**-**	**(25)**	**-**	**-**	**36**	**(1)**
Total liabilities	**68**	**(2)**	**-**	**(26)**	**-**	**-**	**44**	**(2)**

	For the three months ended March 31, 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 March 31, 2015	Unrealized profits (losses) in respect of instruments held as at March 31, 2015
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	31	9	-	-	-	-	40	10
Interest rate contracts: Other	20	5	-	(8)	-	-	17	5
Commodities and other contracts	-	13	-	(13)	-	-	-	-
Foreign currency contracts	407	862	44	(689)	-	-	624	367
Total assets	458	889	44	(710)	-	-	681	382
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	18	(6)	-	(4)	-	-	20	(5)
Foreign currency contracts	79	(14)	-	(24)	-	-	69	(14)
Total liabilities	97	(20)	-	(28)	-	-	89	(19)

(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

	As of March 31, 2016 (unaudited)			
	Value Assessment technique	Unobservable inputs	Fair value	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	**31**	**(1.65)-1.35**
Interest rate contract: Other	Discounted cash flow	Counter-party credit risk	**10**	**1.05-7.43**
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	**53**	**(1.39)- (0.10)**
		2. Counter-party credit risk	**266**	**1.05-7.43**
Liabilities				
Liabilities in respect of derivative instruments:				
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	**8**	**(1.65)-1.35**
Foreign currency contracts	Discounted cash flow	CPI-linked interest	**36**	**(1.39)- (0.10)**
B. Items measured at fair value on a non-recurrent basis				
Impaired credit the collection of which is contingent on collateral	Collaterals value		**49**	

	As of March 31, 2015 (unaudited)			
	Value Assessment technique	Unobservable inputs	Fair value	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	40	(4.50)-0.62
Interest rate contract: Other	Discounted cash flow	Counter-party credit risk	17	1.05-5.65
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	121	(4.74)-0.62
		2. Counter-party credit risk	503	1.05-5.65
Liabilities				
Liabilities in respect of derivative instruments:				
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	20	(4.50)-0.62
Foreign currency contracts	Discounted cash flow	CPI-linked interest	69	(4.74)-0.62
B. Items measured at fair value on a non-recurrent basis				
Impaired credit the collection of which is contingent on collateral	Collaterals value		96	

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

	As of 31 December 31, 2015 (audited)			
	Value Assessment technique	Unobservable inputs	Fair value	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	0.10-0.59
Interest rate contract: Other	Discounted cash flow	Counter-party credit risk	10	1.05-7.44
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	56	(1.12)-4.21
	Discounted cash flow	2. Counter-party credit risk	185	1.05-7.44
Liabilities				
Liabilities in respect of derivative instruments:				
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	8	0.10-0.59
Foreign currency contracts	Discounted cash flow	CPI-linked interest	60	(1.12)-4.21
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 - MATERIAL EVENTS IN THE REPORTING PERIOD

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 March 31, 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 March 31, 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 - EVENTS SUBSEQUENT TO THE REPORTING DATE

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 on April 5, 2016, to approve in principle 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, into shares of the Bank, in a similar manner to the conversion of such rights effected by Bank Leumi, provided that the offer of shares to employees within the framework of a statement in lieu of prospectus, would be subject to an additional decision of the Board of Directors.
The conversion will be made as follows:

1. The conversion will be made on the basis of the amount of liability for jubilee award stated in the books of the Bank at December 31, 2015, net of the application of a 3.5% discount rate, of slight adjustments required as a result of events occurring since the date of the actuarial computation, as well as adjustments stemming from technical corrections in respect of certain employees, which is divided by the closing market rate of the Bank's shares on March 6, 2016. Each of the employees whose jubilee award becomes due for realization before January 1, 2017 (and that at date of allotment of the shares the jubilee award had not yet been paid to him), would be entitled to a cash payment in respect of that part of the award payable in cash, while the part of the award expressed in a vacation period would be converted into shares of the Bank.
2. In any event, the shares that would be issued would be subject to the provisions of Section 102 of the Income Tax Ordinance, namely, issued to a Trustee on behalf of the employees and blocked for a period applying to the capital gains option, as stated in the Section.
3. The conversion would not be voluntary and shall be effected in respect of all employees entitled to a jubilee award.

As a result of the conversion of employee rights to jubilee awards into shares of the Bank, as stated above, the maximum rate of shares which the Bank is expected to issue to employees shall not exceed 2.1% of the issued and paid share capital of the Bank following the said issue.
The Board of Directors instructed the Management of the Bank to continue to study the aspects relating to the said process and is preparing for the execution thereof.
The conversion of the jubillee awards and the issue of the shares are subject, inter alia, to recievimg specific decisins of the authorized organs of the Bank, including the Board of Directors, to offer of shares to the employees, to submit an outline, to submit a plan of the issuance of shares to the tax authority and the approval of the stock exchange in Tel aviv. In addition contacts are made with the Bank of Israel regarding this issue.

LIST OF TABLES -CORPORATE GOVERNANCE

Corporate Governance, Additional Information and Appendices to the Annual Report

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: Airports Authority, Paz Oil Refinery Ashdod Ltd. Serves as Director at: Strauss Group Ltd; Paz Oil Co. Ltd; Belgal Ltd.
6. **Mr. Ilan (Eilon) Aish**, a member of the Audit Committee, serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is qualified as an independent director. Has accounting and financial speciality. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, BA in Economic and accounting from the University of Tel Aviv. Served as external director in Israel Discount Bank Ltd. Serves as director and joined CEO at Harvest Capital Markets Ltd.

As in each quarter, the Board of Directors' Audit Committee at its meeting on May 3, 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 May 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 May 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 May 19, 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 May 15, 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-March 2016, the Bank's Board of Directors held 9 meetings in plenary session and 13 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
March 31, 2016									
Paz group(1)	**47,582**	**-**	**-**	**47,582**	**2,648**	**174**	**-**	**-**	**50,404**
Others(3)	**42**	**-**	**-**	**42**	**162**	**-**	**90**	**-**	**294**
Total	**47,624**	**-**	**-**	**47,624**	**2,810**	**174**	**90**	**-**	**50,698**
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	March 31, 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)	**5,449**	**21,635**	15,149	109,525
FIBI Holdings group(2)	**-**	**-**	-	2,730
Others(3)	**2,104**	**3,487**	1,766	4,624
Total	**7,553**	**25,127**	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 as of date of this financial report, the holdings of the controlling stakeholders in FIBI (in equity and voting) are as follows: Binohon – 38.29%, Instanz No. 2 Ltd. – 15.66% and Dolphin Energies Ltd – 15.66%.

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.

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 in principle 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, into shares of the Bank, in a similar manner for the conversion of such rights at bank Leumi, save that the offer of shares to the employees or the publication of a statement in lieu of prospectus shall be subject to an additional decision of the Board.

B. Otzar Hahayal

The Histadrut labor federation declared labor dispute in Otzar Hahayal, which will enter into effect on May 22, 2016. The cause of the dispute are differences in the negotiation of payroll agreement and other organizational issues which did not come up at the negotiations. The management of Otzar Hahayal will meet again with the Histadrut in an attempt to settle the differences and to prevent the entering into effect of the dispute.

OTHER MATTERS

On February 22, 2016, an additional draft of the Securities Bill Memorandum (Amendment No. ___) (Change in the Structure of the Stock Exchange), 2016, was published intended to create a change in ownership of the Stock Exchange and the Clearinghouses, while separating the ownership of the Stock Exchange and the Clearinghouses from the membership therein and turning them into profit earning corporations. Following this proposed structural change, access to trading on the Stock Exchange and/or to clearing would no longer be dependent on the existence of ownership rights in the Stock Exchang and/or the Clearinghouses, but would be based upon contractual engagements between the Stock Exchange and/or the Clearinghouses and potential members thereof. The amendment regularizes the licensing, ownership and manner of management of the Stock Exchange and/or the Clearinghouses following the change.

The draft Bill Memorandum states that a Stock Exchange member or a banking corporation shall not be permitted to obtain a holding permit of over 5% or a permit for the control of the Stock Exchange and the Clearinghouses following the change in the structure of ownership.

The draft Bill Memorandum further states that the sale of the means of control by existing members of the Stock Exchange, shall be taxable for the purpose of capital gains tax in an amount equal to the capital gains earned in excess of their value at date of the equalization of rights, as detailed below.

On background of eatrlier drafts of the Bill Memorandum and as a preliminary move, the General Meeting of the Stock Exchange held on July 30, 2015, approved a proposal for an arrangement plan between the present members of the Stock Exchange, among themselves, and between them and the Stock exchange, for the purpose of implementing the structural change of the Stock Exchange turning it into a profit earning corporation, having a share capital of one class of shares; this by the allotment of shares to the present members of the Stock Exchange, on the basis of an economic model, while making a number of adjustments. According to the approved outline, the share of the Bank group (prior to allotment of shares to officers and other employees of the Stock Exchange) would amount to 21.6%.

In addition, the arrangement plan includes a framework for the application of a compensation plan to officers and employees of the Stock Exchange and of Clearinghouses under its ownership at the present time. The arrangement plan, if realized, would first of all be subject to the completion of legislation proceedings. Furthermore, to the extent that the legislation proceedings are concluded, and subject to the final terms determined by the legislation, it is the intention of the Stock Exchange to present a detailed arrangement plan for approval of its members in terms of a process under Section 350 of the Companies Act.

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

Bank of Israel letter regarding measures applying to commission fees.

In accordance with draft amendment of the Banking rules (Customer service) (Commission fees), 2008, published on February 17, 2016, banks would be required, 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 draft, may benefit from the transfer to the basic channel. The customer is entitled to cancell the attachment to the channel, as stated.

In a letter published earlier, Bank of Israel further stated that, within the framework of the treatment of exceptional commissions, it plans to perform during 2016 a comprehensive survey of all prices of bank services included in the First Addendum to the commission rules, as above, with a view of identifying and dealing with such commissions. Specific guidelines would be issued to the banks in accordance with the findings of the survey.

Moreover, Bank of Israel has issued drafts for the supervision/limitation of the prices of several commissions charged to individuals and small businesses: reports requested by the customer – standard reports, changes in repayment dates of housing loans, and as regards services applying to securities transactions – commissions on the purchase, sale and redemption of marketable securities traded on the Tel Aviv Stock Exchange (excluding short-term loans MAKAM)

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 – Early repayment of non-housing loan

Bank of Israel published on June 21, 2015, an amendment to Proper Banking Business Directive in the matter of early 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.

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, 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 gtoups 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 March 27, 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.

Draft Bank of Israel instructions regarding online banking

On March 16, 2016, Bank of Israel published a revised draft of a new designated Proper Conduct of Banking Business Directive in the matter of "Online banking", as well as other drafts that increase the number of agreements, which may be approved via the Internet, and the online delivery of notices and letters.

The aim of these instructions is to remove existing barriers hindering the continued development of digital banking, and allowing flexibility in accordance with the changing technology, while expanding the variety of services and products, which may be offered to customers online.

The new instructions include relief and changes, among other, regarding the following issues – the opening of a new bank account with no need to visit the bank branch, joining online banking services via the Internet, online agreements, online payments and transfer of funds, updating personal details of customers without having to visit the branch, data aggragation services, correspondence with the bank via e-mail and receipt of notices from the bank otherwise than by postal services.

Alongside the proposed reliefs, the instruction imposes on banks 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.

In addition, the amended Proper Conduct of Banking Business Directive No. 420 added a duty on banks to inform a customer, by means of an SMS message, of five checks drawn on his account that have been dishonored or that his account has been restricted.

A project for locating dormant deposits and accounts of deceased persons

Bank of Israel published on April 10, 2016, a draft 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 to be 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 draft 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 crediros;

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.

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.

The Committee for the increase of competition regarding prevalent banking and financial services

In June 2015, "a committee for the increase of competition regarding prevalent banking and financial services" was appointed, headed by Adv. Dror Strom. The task of the Committee was recommend measures required to increase competition in the said sectors. On December 14, 2015, the Committee presented the interim report formed by it, which includes recommendations regarding the changes required in this field. Among other things, the Committee recommends to increase competition regarding retail banking services by the introduction of new players to the market, including by means of separating the holdings and control of credit card companies from the large banks within a period of three years, with the intention that these companies would offer credit to households and small businesses in competion to the banks. In this respect, the Committee had determined that "large banks" are banks that have a retail credit activity with households in an amount of 20% and over of the total credit granted to households by the banking sector as a whole. It is further recommended that an examination would be made within four years as to the need to separate the ownership of ICC from Discount Bank and the Bank, taking into consideration the development of competition in this field. In addition, the Committee recommends further measures, such as the increase of competition with respect to the clearing of transactions, the increase in the supply of credit offered by institutional bodies by granting them incentives, introducing into the market, under supervision, of new off-banking financial corporations, increasing competition between existing banks, and the granting of relief to new competitors.

Bank of Israel letter regarding operating efficiency in the banking sector in Israel

On January 12, 2016, Bank of Israel published a letter regarding operating 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, 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.

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 the posibility 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 were published on May 5, 2016, taking effect within six months since date of publication, so the the amendment of the Act dealing with the offer of foreign mutual funds, will take effect on November 5, 2016.

B. Provident funds

The Capital market group at the Ministry of Finance published on July 29, 2015, a draft of the Supervision over Financial Services Regulations (Provident funds) (Purchase, sale and holding of securities) (Amendment), 2015. Among other things, it is proposed in the draft Regulations that, with certain exceptions, an institutional investor, being a member of a group of investors (according to the relevant definitions in the draft Amendment) one of whom has an engagement agreement with a banking corporation for the granting of management or operating services, shall not be entitled to buy or sell securities or foreign currency and shall not be entitled to hold and settle securities by means of or with that banking corporation. Restrictions in this matter have also been determined with respect to a related party to that institutional investor. The draft further proposes extension of the rules and number of participants in the required competitive process, including a demand for a competitive process, at least once every three years, with respect to the holding of securities.

A a draft of the Supervision over Financial Services Regulations (Provident funds) (Personally managed provident funds) (Amendment), 2015, was also published at the same time, proposing a parallel amendment to the Amendment described above, with certain changes.

The Bank is studying the possible implications of the said drafts on its operations.

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) 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.

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.

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.

Foreign Account Tax Compliance Act - FATCA

Under the provisions of the Foreign Account Tax Compliance Act (FATCA), The regulations enacted by the US Treasury for its implementation entered into effect on July 1, 2014. With a view of increasing the collection of taxes from American entities owning assets outside the USA, foreign financial institutions, including banks worldwide, are required to send information on accounts which those 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 June 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 Bank is following legislative developments in this respect and has made the appropriate dispositions.

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, 98 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 February 22, 2016, the Income Tax Ordinance Amendment Bill (Amendment No. 221), 2016, passed its first reading by the Knesset. According to this Bill, 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, the Minister of Finance shall be authorized to issue Regulations regarding measures which a reporting financial institution has to take in order to identify the owners of accounts managed at the financial institution and their details, which the financial institution has to obtain from the account owner, and instructions regarding the information that has to be provided in respect of the accounts held with the financial institution and the manner of providing such information. In accordance with the Bill, effective enforcement would be ensured by a prompt process of imposing monetary sanctions on a financial institution, which had failed to obtain the required information from the account owner, or which had not performed the required examinations as regards the account owner. Moreover, the Bill includes a proposed amendment of 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)

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, certain 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.

The Bank is studying the Amendment to the Act and its implications on the operations of the Bank and the Group, and is preparing accordingly.

The Intensification of Tax Collection and of Enforcement (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 joint 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.

It is further proposed to amend the Prevention of Money Laundering Act by adding severe tax offenses as original offences, including offences under Section 220 of the Income Tax Ordinance and additional tax offenses characterized by a special basic mental intention to evade the payment of tax.

Draft letter of Bank of Israel to banking corporations in the matter of operations of Israeli residents with banking corporations and their overseas extensions.

According to the last draft letter, dated December 14, 2015, a banking corporation may be exposed to risk when opening or maintaining an account in which funds are deposited, that might have originated in the customer's tax evasion or which originated in income that had not been reported to the Tax Authorities, as required. Accordingly, banking corporations are required to adopt measures required to minimize such risk and to integrate them within the risk management framework of the banking corporation. It is further stated in the draft letter, that refusal to provide banking services stemming from the implementation of the policy and procedures determined under power of this letter, shall be considered a reasonable refusal as regards the Banking Act (Customer service).

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 is planned to begin in June 2016, for the European members of the clearing house.

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.
- 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, this after an upgrading in June 2015 of the rating forecast form negative to 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

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

A. Average balances and interest rates - assets

	For the three months ended March 31, 2016			For the three months ended March 31, 2015		
	Average balance(1)	**Interest income**	**Rate of income**	**Average balance(1)**	**Interest income (expense)**	**Rate of income (expense)**
		NIS million	%		NIS million	%
Assets bearing interest						
Credit to the public(2)(5)						
- In Israel	**68,525**	**515**	**3.04**	64,410	382	2.39
- Outside Israel	**364**	**2**	**2.22**	395	2	2.04
Total	**68,889**	**517**	**3.04**	64,805	384	2.39
Credit to the Government						
- In Israel	**646**	**-**	**-**	648	(3)	(1.84)
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**646**	**-**	**-**	648	(3)	(1.84)
Deposits with banks						
- In Israel	**3,713**	**2**	**0.22**	3,195	(8)	(1.00)
- Outside Israel	**342**	**-**	**-**	560	-	-
Total	**4,055**	**2**	**0.20**	3,755	(8)	(0.85)
Deposits with central banks						
- In Israel	**22,698**	**6**	**0.11**	21,696	10	0.18
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**22,698**	**6**	**0.11**	21,696	10	0.18
Securities borrowed or repurchased						
- In Israel	**499**	**-**	**-**	488	-	-
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**499**	**-**	**-**	488	-	-
Held to maturity or available for sale bonds(3)						
- In Israel	**14,889**	**20**	**0.54**	11,368	(1)	(0.04)
- Outside Israel	**112**	**-**	**-**	129	-	-
Total	**15,001**	**20**	**0.53**	11,497	(1)	(0.03)
Trading bonds						
- In Israel	**901**	**1**	**0.44**	1,185	(1)	(0.34)
- Outside Israel	**1**	**-**	**-**	5	-	-
Total	**902**	**1**	**0.44**	1,190	(1)	(0.34)
Other assets						
- In Israel	**52**	**1**	**7.92**	71	1	5.75
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**52**	**1**	**7.92**	71	1	5.75
Total assets bearing interest	**112,742**	**547**	**1.95**	104,150	382	1.48
Debtors regarding credit cards non-bearing interest	**3,050**			2,916		
Other assets non-bearing interest(4)	**11,030**			11,067		
Total assets	**126,822**			118,133		
Total assets bearing interest attributed to activity outside Israel	**819**	**2**	**0.98**	1,089	2	0.74

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

B. Average balances and interest rates - liabilities and capital

	For the three months ended March 31, 2016			For the three months ended March 31, 2015		
	Average balace (1)	Interest expense	Rate of expense	Average balace (1)	Interest expense (income)	Rate of expense (income)
		NIS million	%		NIS million	%
Liabilities bearing interest						
Deposits from the public						
- In Israel						
Demand	**6,937**	**-**	**-**	5,213	(2)	(0.15)
Fixed-term	**59,183**	**15**	**0.10**	59,027	(26)	(0.18)
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**66,120**	**15**	**0.09**	64,240	(28)	(0.17)
Deposits from the Government						
- In Israel	**261**	**1**	**1.54**	298	2	2.71
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**261**	**1**	**1.54**	298	2	2.71
Deposits from banks						
- In Israel	**1,147**	**1**	**0.35**	1,126	(8)	(2.81)
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,147**	**1**	**0.35**	1,126	(8)	(2.81)
Bonds						
- In Israel	**5,801**	**3**	**0.21**	5,469	(25)	(1.82)
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**5,801**	**3**	**0.21**	5,469	(25)	(1.82)
Other liabilities						
- In Israel	**185**	**1**	**2.18**	684	(3)	(1.74)
- Outside Israel	**-**	**-**	**-**	-	-	-
Total	**185**	**1**	**2.18**	684	(3)	(1.74)
Total liabilities bearing interest	**73,514**	**21**	**0.11**	71,817	(62)	(0.34)
Deposits from the public non-bearing interest	**39,611**			33,400		
Creditors in respect of credit cards non-bearing interest	**3,050**			2,916		
Other liabilities non-bearing interest (6)	**3,263**			2,790		
Total liabilities	**119,438**			110,923		
Total capital resources	**7,384**			7,210		
Total liabilities and capital resources	**126,822**			118,133		
Interest spraed			**1.84**			1.82
Net return on assets bearing interest (7)						
- In Israel	**111,923**	**524**	**1.89**	103,061	442	1.73
- Outside Israel	**819**	**2**	**0.98**	1,089	2	0.74
Total	**112,742**	**526**	**1.88**	104,150	444	1.72
Total liabilities bearing interest attributed to activity outside Israel	**-**	**-**	**-**	-	-	-

See notes in page 230.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

C. Average balances and income rates - additional information on interest bearing assets and liabilities attributed to activity in Israel

	For the three months ended March 31, 2016			For the three months ended March 31, 2015		
	Average balance(1)	Income (expense) interest	Income (expense) ratio	Average balance (1)	Income (expense) interest	Income (expense) ratio
		NIS million	%		NIS million	%
Non-linked Istaeli currency						
Total assets bearing interest	**83,811**	**506**	**2.44**	76,583	437	2.30
Total liabilities bearing interest	**48,676**	**(18)**	**(0.15)**	45,638	(18)	(0.16)
Interest spread			**2.29**			2.14
Israeli currency linked to the CPI						
Total assets bearing interest	**12,682**	**(17)**	**(0.54)**	14,690	(115)	(3.09)
Total liabilities bearing interest	**11,647**	**14**	**0.48**	12,676	90	2.81
Interest spread			**(0.06)**			(0.28)
Foreign currency (including linked to f-c)						
Total assets bearing interest	**15,430**	**56**	**1.46**	11,788	58	1.98
Total liabilities bearing interest	**13,191**	**(17)**	**(0.52)**	13,503	(10)	(0.29)
Interest spread			**0.94**			1.69
Total activity in Israel						
Total assets bearing interest	**111,923**	**545**	**1.96**	103,061	380	1.48
Total liabilities bearing interest	**73,514**	**(21)**	**(0.11)**	71,817	62	0.34
Interest spread			**1.85**			1.82

See notes in page 230.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analaysis of changes in interest income and expenses

	For the three months ended March 31, 2016 compared with the same period last year		
	Increase (decrease) due to the change		
	Quantity	**Price**	**Net change**
			NIS million
Interest bearing assets			
Credit to the public			
- In Israel	**31**	**102**	**133**
- Outside Israel	**-**	**-**	**-**
Total	**31**	**102**	**133**
Other interest bearing assets			
- In Israel	**3**	**29**	**32**
- Outside Israel	**-**	**-**	**-**
Total	**3**	**29**	**32**
Total interest income	**34**	**131**	**165**
Interest bearing liabilities			
Deposits from the public			
- In Israel			
Demand	**-**	**2**	**2**
Fixed-term	**-**	**41**	**41**
- Outside Israel			
Fixed-term	**-**	**-**	**-**
Total	**-**	**43**	**43**
Other interest bearing liabilities			
- In Israel	**-**	**40**	**40**
- Outside Israel	**-**	**-**	**-**
Total	**-**	**40**	**40**
Total interest expenses	**-**	**83**	**83**
Total interest income less interest expenses	**34**	**48**	**82**

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analaysis of changes in interest income and expenses (CONT'D)

NOTES:

(1) On the basis of monthly opening balances, excluding the non linked Shekel segment in which calculated on daily balances.
(2) Before deduction of the average balance of provisions for credit losses including impaired debts which are non-bearing interest income.
(3) From the average balance of available for sale bonds was deducted the average balance of unrealized gains from adjustments to fair value of bonds, included in other comprehensive profit in the item "adjustments to fair value of available for sale securities" for the three months ended on March 31, 2016 in the amount of NIS 43 million. (for the three months ended March 31, 2015 balance of NIS 38 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 26 million and NIS 35 million were included in interest income for the three months ended March 31, 2016 and March 31, 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.

Rony Hizkiaho
Chairman of the Board of Directors

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 19, May, 2016