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STATEMENT BY THE CHAIRPERSON OF THE BOARD

Dear stakeholders,

The First International Group continued to maintain in 2016 its solidity and firmness while presenting impressive growth rates, noted in most areas of operation of the Group.

Credit to the public grew at a rate of 6.6% in 2016, a growth that is reflected in all customer segments. Deposits of the public grew at a rate of 2.5%.

Net earnings amounted in 2016 to NIS 521 million, and the return on equity amounted to 7.2%. Dividends in the amount of NIS 200 million were distributed in 2016, with the average return of the dividends distributed in the last three years amounting to 4%.

The maintenance of the financial stability of the Group is reflected, inter alia, in the continuing growth in equity attributed to the shareholders of the Bank at the rate of 3.5%, while the Tier I equity capital ratio reached 10.09% and the comprehensive capital ratio reached 13.79%.

The year 2016 presented many significant challenges to the banking sector. The global economy, which is characterized by the continuing low interest environment, by moderation in growth and the uncertainty prevailing in the capital and financial markets worldwide, creates a challenging economic environment for the global financial system.

Following this situation, the local economic environment also contains challenges for the banks:

- The continuing low interest environment;
- Increased regulation in a number of areas, including cross-border international regulation;
- Reforms and legislation initiatives relating to a variety of spheres in which banks operate;
- Increasing competition on the part of off-banking entities, credit card companies and institutional bodies.

Concurrently, the accelerated development of digital banking with all its layers is continuing, creating opportunities but requiring also heavy investments, including the necessity of educated risk management involved in this activity. Especially noted is the Israeli fintech industry, which is developing at an accelerated pace, creating opportunities for cooperation with banks, but which may also create a catalyst for the development of competition in the financial system.

All the above emphasize the need for the continuation of efficiency processes, performed in the banking sector in recent years, including in the First International Group. This trend is expressed in multiannual actions, which include improving the efficiency of work processes, improving efficiency in the branch and properties layout, as well as the reduction in the Group's workforce. Towards the end of 2016, the Board of Directors approved a revision of the strategic plan, including efficiency measures for the years 2016-2020. Within the framework of these actions, a gradual decrease in the workforce of the Bank is expected, on background of improvements and efficiency measures regarding work procedures at the branches and at head office and the continued expansion of online banking operations.

These moves follow the efficiency measures implemented successfully in recent years, in the center of which was the merger into the Bank of the subsidiary companies UBank and PAGI consummated at the end of 2015. Likewise, as a result of the focusing by the Group on the domestic arena in its core business activity, an agreement was signed at the end of 2016 for the sale of the operations of FIBI (Suisse) Bank, in continuation of the sale in 2014 of the London extension of the Bank.

Alongside the efficiency measures, the Bank continued the implementation of the strategic plan, which focuses on the investment in the customer, expressed in providing a comprehensive and personal response to the customer in a number of channels modified to the nature of the customer. Likewise, the Bank continues to focus on private banking and investment consulting, in corporate banking that includes middle market and large businesses, and in maintaining the leadership in the capital market. Also continued is the focus of the subsidiary companies, Otzar Hachayal Bank and Massad Bank as well as the PAGI and UBank brand names, on the promotion of the retail, small business and capital market segments, each of them in its own singular niche.

Special emphasis is put upon the advancement and upgrading of digital banking and on increasing the use of online banking channels, while integrating innovation by means of unique products and technologies on the Internet and on cellular communication and creating cooperation with fintech corporations. We believe that these moves bring about improvement of the interface with the customer and his user experience, while creating value for the customer.

The involvement of the First International Group in activities in aid of the community is expressed by means of the community project of the Bank focusing on youth at risk as well as by contribution to different projects providing assistance to populations at risk. We attach great importance in encouraging the involvement of Bank employees in activity in aid of the community, involvement expresses in personal voluntary work by many bank employees in many and varied activity for the benefit of the community.

Looking forward, we see that the year 2017 conceals significant challenges for the banking sector, and I have no doubt that the First International Group will succeed in facing these challenges, while continuing the growth outline and the maintenance of its stability.

On this occasion, I wish to thank, in the name of the Board of Directors, the Management of the Bank which successfully leads the Bank in accordance with the strategy, and, of course, to the staff of the Bank whose professionalism and dedication are essential to the continued success of the Bank. In conclusion, I would like to thank the retiring Chairman of the Board, Mr. Ronny Hizkiyahu, for his period of office, during which he navigated the First International Group with great professionalism and immensely contributed to its success.

I. Izakson

Irit Izakson
Chairperson of the Board of Directors

Tel-Aviv, 15 March, 2017

Report of the Board of Directors and Management

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

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REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT FOR THE YEAR 2016

The meeting of the Board of Directors held on March 15, 2017, resolved to approve and publish the audited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), at December 31, 2016.

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

Description of operation of the Bank Group

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 through the branches provides services to all customers segments. In this framework operate Ubank branches specializing in private banking and capital market operations, which in addition the PAGI sub-division branches specialize in the religious and orthodox segment, Otzar Hachayal Bank branches and Massad Bank branches.
- The customer asset division centralizing the whole operation in the capital market, money market and foreign currency operation with private customers, business customers, institutional customers and capital market pofessionals.Within the division operating dealing rooms of securities, foreign currency and deposits as well as investment and pension advisement settings, investment center and the trust company and portfolio management company.

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 521 million, compared with NIS 446 million in 2015, an increase of 16.8%.

Net return on equity attributed to the Bank's shareholders amounted to 7.2% compared with 6.5% in 2015.

Set out below are the central factors which affected the profit of the Group in 2016, in comparison with 2015:

- Increase in interest income, net, in the amount of NIS 216 million (11.1%), stemming from the increase in the volume of the credit to the public.
- Decline in non-interest financing income of NIS 34 million, due mainly to the decrease in gains on realization of bonds and gains from investment in shares amounting to NIS 40 million.
- Decrease in fee income in the amount of NIS 78 million (5.7%), stemming from decline in the volume of activity in the capital market.
- Increase of NIS 51 million in other income, stemming mostly from the Bank's share in the proceeds of the sale of Visa Europe shares (see notes 5 and 15.h. to the financial statements) and froman increase in the profit from sale of buildings and equipment.
- Increase in payroll and related benefits expenses in the amount of NIS 27 million explained by one-time decrease of NIS 72 million in payroll and related benefit expenses in the corresponding period last year from the implementation of the special collective labor agreement. Excluding this effect, a decrease of NIS 45 million in the payroll and related benefits expenses occurred due to decrease in cost of salaries stemming from the reduction in the panpower in the group (partialy offset by the selective payroll increase).
- Decrease of NIS 54 million (5%) in other and operating expenses, excluding payroll and related benefits expenses, stemming also from efficiency measures applied by the Group.
- One time increase in the income tax expenses in the amount of NIS 55 million, stemming mostly from the effect of the reduction in companies income tax rate on the balance of deffered taxes in the amount of NIS 34 million.
- Increase in the Bank's share in investee company profit in the amount of NIS 34 million, mainly due to its share in the proceeds in the sale of the Visa Europe shares (see note 25 to the financial statements), partialy offset by one-time provision.

Basic earnings per NIS 0.05 share amounted to NIS 5.19 compared with NIS 4.45 in 2015.

Net earnings attributed to the bank's shareholders totaled NIS 112 in the forth quarter of the year compared with NIS 117 million in the forth quarter of last year.

Return of net profit on capital attributed to the shareholders of the Bank amounted in the fourth quarter of the year to 6.2%, as compared to 6.8% in the fourth quarter last year.
Following are the main factors effecting the profit in the fourth quarter of the year:

- A one time increase in the provision for taxes on income in the amount of NIS 18 million, stemming from the effect of the reduction in companies income tax rate on the balance of deffered taxes.
- Provision for expenses in the amount of NIS 18 million, regarding the agreement for the sale of operation of FIBI (Suisse) (see note 18A to the financial statements.

The Bank Group's total assets on Decmber 31, 2016 amounted to NIS 127,907 million compared with NIS 125,476 million on December 31, 2015, an increase of 1.9%.

Credit to the public, net on December 31, 2016 amounted to NIS 77,328 million compared with NIS 72,555 million at the end of 2015, an increase of 6.6%.

Deposits from the public on December 31, 2016 amounted to NIS 105,817 million, compared with NIS 103,262 million at the end of 2015, an increase of 2.5%.

Capital attributed to shareholders totaled NIS 7,321 million on December 31, 2016, compared with NIS 7,035 million and at the end of 2015, an increase of 3.5%.

The ratio of comprehensive capital to risk components amounted to 13.79%, as compared to 13.26% at the end of 2015.

The ratio of Tier I equity capital to risk components as of December 31, 2016 amounted to 10.09%, as compared to 9.81% at the end of 2015.

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

Principal financial ratios	2016	2015	2014	2013	2012
					percent
Execution indices					
Return on equity	**7.2%**	6.5%	6.8%	8.4%	9.4%
Return on assets	**0.4%**	0.4%	0.4%	0.5%	0.5%
Ratio of equity capital tier 1	**10.09%**	9.81%	9.69%	9.98%	
Leverage ratio(1)	**5.52%**	5.43%			
Liquidity coverage ratio(1)	**123%**	104%			
Efficiency ratio	**73.5%**	77.6%	77.3%	74.3%	74.1%
Credit quality indices					
Ratio of provision for credit losses to credit to the public	**1.08%**	1.12%	1.25%	1.19%	1.22%
Ratio of impaired debts or in arrears of 90 days or more to credit to the public	**1.04%**	1.36%	1.50%	1.79%	2.09%
Ratio of provision for credit losses to total impaired credit to the public	**147%**	108%	110%	83%	75%
Ratio of net write-offs to average total credit to the public	**0.09%**	0.15%	0.05%	0.14%	0.25%

Principal data from the statement of income at the end of the reported year	2016	2015	2014	2013	2012
					NIS million
Net profit attributed to shareholders of the Bank	**521**	446	455	538	563
Interest Income, net	**2,169**	1,953	2,101	2,187	2,250
Expenses from credit losses	**80**	18	89	97	134
Total non Interest income	**1,480**	1,541	1,667	1,664	1,547
Of which: Fees	**1,300**	1,378	1,375	1,418	1,362
Total operating and other expenses	**2,683**	2,710	2,912	2,860	2,814
Of which: Salaries and related expenses	**1,656**	1,629	1,780	1,746	1,676
Primary net profit per share of NIS 0.05 par value (NIS)	**5.19**	4.45	4.54	5.36	5.61

Principal data from the balance sheet at the end of the reported year	2016	2015	2014	2013	2012
					NIS million
Total assets	**127,907**	125,476	117,807	111,025	105,569
of which: Cash and deposits with banks	**29,150**	30,727	29,182	26,100	22,939
Securities	**15,776**	16,439	12,554	10,799	9,756
Credit to the public, net	***77,328**	72,555	68,931	68,680	67,853
Total liabilities	**119,973**	117,813	110,764	104,124	98,901
of which: Deposits from banks	**755**	1,565	1,469	1,335	1,385
Deposits from the public	**105,817**	103,262	95,155	89,122	84,365
Bonds and subordinated capital notes	**5,801**	5,862	4,903	5,702	5,620
Capital attributed to the shareholders of the Bank	**7,321**	7,073	6,797	6,673	6,459

Additional data	2016	2015	2014	2013	2012
Share price (0.01 NIS)	**5,650**	4,594	4,990	4,766	5,449
Dividend per share (NIS)	**1.99**	1.30	2.84	1.99	-
Number of positions(2)	**4,563**	4,817	5,067	5,170	5,191
Ratio of fees to assets	**1.0%**	1.1%	1.2%	1.3%	1.3%

* Not including Credit to the public in FIBI Bank (Switzerland) in the amount of NIS 298 million, stated in the item Assets held for sale (see Note 18A to the financial statements).

(1) According to instructions of the Bank of Israel the Leverage ratio and the Liquidity coverage ratio were calculated since 2015. Therefor no comparative data is stated.

(2) The number of positions includes conversion of overtime in terms of positions.

Principal Risks To Which the Bank Is Exposed

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

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

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

Developing risks

Following is a summary review of the most significant leading and developing risks, inherent in the operations of the Group.

1. **Cross border risks (part of compliance risk)** - On background of the efforts made by different countries to locate funds belonging to their residents but held outside their country of residence and the trend of international cooperation in the combat against tax evasion, the Bank's operations with foreign residents, as above, might expose the Bank to compliance risks stemming from cross border activity as well as reputation risk.
   The Bank has formed a designated policy as well as work procedures in this respect, and has also adopted a series of operational steps for the management and reduction of the risk.
2. **Conduct risk (part of compliance risk)**- The Bank Group is required to integrate fairness and transparency values in its activity with customers, and as a general rule, is required to verify that offers presented to customers are modified to their needs. Noncompliance with these rules exposes the Bank to various risks, such as compliance, legal, reputation and such like risks. A policy with respect to conduct risk was approved towards the end of 2016.
3. **Risks stemming from innovation in online banking (part of the operating and strategic risk)** - Concurrently with the developments in digital banking and the larger freedom of operation in this field permitted by Bank of Israel, it is required to improve and modify the risk management framework to the dynamic technological environment. The risks inherent therein are operating risks, with an emphasis on information and cyber protection, as well as a strategic risk being part of the increased competition in the banking market.
   The Bank Group is preparing accordingly and has formed an online banking policy. As regards the strategic aspect - the strategic plan of the Group includes reference to the above mentioned changes while promoting innovation in this field.
4. **Cyber and data protection risks (part of operating risk)** - Cyber risk is defined as potential damage stemming from a cyber event considering its probability level and the seriousness of its implications. Cyber risk, the leaking of information and data protection have a high damage potential upon occurrence of an event of this nature, such as the usurping of financial assets, the disruption of operations leading even to complete shutdown and high costs of restoration. As a result thereof, and in order to properly manage cyber risks, the Bank is adopting many preventive

actions to reduce these risks. In addition, a strategy has been structured and a cyber and data protection policy has been written, as well as the appointment of a cyber defense manager.

5. **Regulation risk** - this is a cross organization risk, which is principally managed as part of the legal, compliance and strategy risks. The risk originates in the limitations imposed on the Bank and/or in the preparations required from the Bank as a result of changes and developments in legislation, regulation and Court rulings. Follow-up of these developments, their implementation and integration may lead to heavy expenditure. Changes and competition in the financial market stemming from regulation and the implementation of reforms increase uncertainty in the competitive environment. The possibility exists that the effects of regulation would lead to high investment, though on the other hand it comprises an opportunity for savings.

6. **Risks stemming from efficiency measures** - The operational efficiency of the banking sector is low in comparison with that of other advanced countries, as reflected in efficiency ratios. The increasing competition in the financial market and the low interest environment led to the promotion of efficiency measures, within the framework of which, various actions were taken, including changes in the long-term objectives of the Bank alongside efficiency in expenditure. Following the efficiency measures adopted by the Bank in the last tow years, the Board of Directors has approved a revision of the strategic plan regarding efficiency measures aspects, which includes, inter alia, the continuation of expansion of operations using digital means, the reduction in the number of branches and improvements in work procedures at branches and at head office.

For additional information, see the Chapter on risk review below and the risk report on the Internet website of the Bank.

Objectives and Strategy

Management of the Bank is guided and directed by the Board of Directors and its committees, with respect to the strategy and business policy of the Bank. In this framework, the Board of Directors approves the quantitative and qualitative targets and objectives 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 objectives and specific targets for the current year of operation.

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

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

The Bank has a strategic plan for the years 2016-2018, which was approved by the Board of Directors in September 2015 and validated in 2016. The supreme objectives 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, on promoting the retail banking sector and on medium to large businesses, by providing a comprehensive response modified to the needs of the customer including digital and technological area; the Bank is to maintain the leadership of its subsidiaries (Otsar Hahayal and Massad) and the merged banks (UBank and PAGI) in their unique operating niches, mostly in the retail and small business sectors. The Bank is to maintain leadership in the capital market; would conduct actions leading to efficiency in expenses, while improving its manpower position, improving procedures, continue efficiency measures in the branch layout and increase the use of online banking channels, and support performance directed culture and measurement in the Group.

In addition, the Bank promotes innovation thruogh implementation of products and technologies from stat-up companies, along side the current operation of in-house development of products and technologies by the IT layout of the Bank. The fintech operation of the Bank focuses and adjusted to the Bank's needs and its stategic objectives, and as part of the Bank's strategy- "investing in you"- the Bank emphasises on solutions that it will be able to integrate in the interface with the client and by that to improve the client's experience and giving it added value.

On November 17, 2016 the Board of Directors of the Bank approved the update of the strategic plan of the Group in the aspect of efficiency measures (see chapter major changes in the passing period).

As stated, the Bank reviews the plan at half-yearly intervals, in relation to the macro-economic environment, to developments in market competition, to the regulatory environment, to technological developments, 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

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EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

Principal changes in the passing period

Efficiency

The Supervisor of banks issued a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multi-annual program for the improvement of efficiency.

A banking corporation that complies with the terms of the letter would be entitled to a relief, whereby it may spread, by the "straight line" method, over a period of five years, the effect of the cost of the program for the purpose of calculating the capital adequacy.

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

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

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

Accounting treatment principles

The cost of updating the actuarial liabilities to employees in respect to the efficiency measures, are treated as an actuarial loss and recognized in other comprehensive profit, with the exception of the costs of the gradual discontinuation of operations, which are recognized in profit and loss.

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

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

PRINCIPAL ECONOMIC DEVELOPMENTS IN ISRAEL

Principal economic developments

Following are the principal economic developments, which impacted the economic environment in which the Israeli banking sector, including the Bank, operated in 2016.

Growth

Nonfinancial economic activity indicators, published at the beginning of 2017, continue to be positive indicating that the economy continued growing in 2016 at an increasing pace. In the second half of 2016 the economy grew by 5% (in annualized terms) following a growth of 3.8% in the first half of the year. Also Bank of Israel's Composite State-of-the-Economy Index indicates the stable positive growth of the economy, when in 2016 the Index rose by 3.7%. Bank of Israel raised the product growth forecast for 2016 to 3.5% and the growth forecast for 2017 to 3.2%.

State budget

The Government deficit for 2016 is expected to amount to NIS 25.9 billion, comprising 2.15% of the GDP. The original budget for 2016 planned for a higher deficit in the amount of NIS 35 billion, comprising 2.9% of the GDP.

Inflation

The year 2016 sums up three years of a negative rate of inflation in the Israeli economy. The Consumer Price Index dropped by 0.2% in 2016. Bank of Israel has estimated that the inflation rate in 2017 would be at the lower edge of the price stability range set by the Government (1%-3%). As of December 2016, the inflationary expectations for the coming twelve months, derived from the capital market, indicate an inflation rate of 0.3%.

Housing market

Moderation in the rise of housing prices was noted in recent months, so that according to the Central Bureau of Statistics, a moderate increase of 0.4% was recorded in the months of October and November 2016, in contrast to the months of September and October 2016. Housing prices in the twelve months ended in October 2016 rose at the rate of 8.6%.
In parallel, reduction was recorded in the supply of housing and in the number of beginnings of housing projects in the first nine months of 2016. Since the beginning of 2015, a continuing trend of reduction in the number of completed housing units exists.
Reduction was recorded also in the number of new apartments sold, and the volume of new mortgage loans taken in 2016 was lower by 10% than the corresponding data in 2015.

Labor market

Unemployment data continues to be positive with a continuing trend of improvement in the data. The rate of unemployment in December 2016 was 4.3%.

Exchange rate

The exchanged rate of the shekel as against the US dollar weakened by 1.5% in 2016, and as against the Euro the exchange rate weakened by 4.8%.

Bank of Israel interest rate

On background of the low inflation rate, the interest rate remained stable in the course of 2016 at the rate of 0.1%. Bank of Israel estimates that the interest rate is expected to remain at its present level until the third quarter of 2017, rising in the fourth quarter of 2017 to 0.25%.

The global environment

A review made by the International Monetary Fund indicates a moderate growth of the global economy, with a light improvement on growth rate. The Growth forecast for 2017 stands at 3.4%, while the forecast for 2018 is 3.6%. The economic growth forecast of the United States for 2017 is 2.3%, while the forecast for 2018 is 2.5%. The economic growth forecast for the developed economies for 2017 is 1.9%. Towards the end of 2016, the US Federal Reserve Bank raised the interest rate by 0.25%. The political uncertainty remained at a high level, in view of the election campaigns expected to take place in 2017 in several countries in Europe and the significant challenges facing the banking sector.

Capital market

The principal equities indices in the local capital market in 2016 fell, as follows: the TA-100 Index fell by 2.5% and the TA-25 Index fell by 3.8%. The General bond Index raised by 2.1%.
The S&P-500 Index rose by 9.6% during 2016. The Eurostocks-600 Index fell by 1.2% and the developing countries Index (the EM-MSCI Index) raised by 8.6%.

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

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 521 million, as compared to NIS 446 million in 2015, an increase of 16.8%.

The basic net profit per share of NIS 0.05 amounted to NIS5.19 as compared to NIS 4.45 in 2015.

The return of net profit to the capital attributed to the shareholders of the Bank amounted to 7.2%, as compared to 6.5% in 2015.

DEVELOPMENT IN INCOME AND EXPENSES

Following are details of significant changes in consequential items:

Net interest income amounted to NIS 2,169 million, compared with NIS 1,953 million in 2015, an increase of 11.1%.

Interest spread, excluding the effect of derivatives amounted to 1.75% in 2016, compared to 1.66% in 2015. The average balance of interest bearing assets rose by 3.8%, from NIS 108,036 Million to an amount of NIS 112,115 million. The average balance of interest bearing liabilities rose by 0.07% from an amount of 71,721 million to an amount of NIS 71,772 million.

Details regarding the distribution of activity volume of interest bearing assets, interest income, and interest spread according to linkage segments:

	2016			2015		
	Volume of activity	Interest income, net	Interest spread	Volume of activity	Interest income, net	Interest spread
	in %	NIS million	in %	in %	NIS million	in %
Non-linked Israeli currency	**76.4**	**1,903**	**2.17**	75.5	1,695	2.04
Israeli currency linked to CPI	**11.1**	**79**	**0.42**	13.0	72	0.42
Foreign currency	**12.5**	**187**	**1.19**	11.5	186	1.41
Interest income, net and interest spread	**100.0**	**2,169**	**1.76**	100.0	1,953	1.67

Non- linked Israeli currency - the net interest income amounted to NIS 1,903 million in 2016, compared with 1,695 million in 2015, an increase of 12.3% and their weight of total net interest income in 2016 was 87.7%, compared with 86.8% in 2015.

The average balance of assets in this segment in 2016 rose by 5.3%, compared with 2015 and the volume of assets avaraged 76.4% of all interest bearing assets in 2016, compared with 75.5% in 2015.

Interest spread in this segment rose from 2.04% in 2015 to 2.17% in 2016.

The increase in the net interest income in this segment derived mainly from the rise in the net volume of interest bearing assets and partly from interest from previous years. The recording of interest from previous years was due to the canceletion of a liability recorded in the books of consolidated subsidiary due to settelement agreement, signed on March 2016, between a consolidated subsidiary and third party for the settelement a disagreement between the parties concerning the interest differentials that the consolidated subsidiary had to pay.

Israeli currency linked to the CPI - the net interest income amounted to NIS 79 million in 2016, compared to NIS 72 million in 2015, an increase of 9.7% and their weight of total net interest income was 3.6% in 2016, similar to 2015.

The average balance of assets in this segment in 2016 declined by 10.9%, compared with 2015 and the volume of assets averaged 11.1% of all interest bearing assets in 2016, compared with 13.0% in 2015.

The interest spread in this segment was 0.42%, identical to 2015.

Foreign currency, including the activity in the linked to froeign currency segment, the net interest income amounted to NIS 187 million in 2016, compared to NIS 186 million in 2015, and their weight was 8.6% in 2016 compared to 9.5% in 2015.

The average balance of assets in this segment rose by 13.2% in 2016 compared with 2015 and the volume of assets averaged 12.5% of all interest bearing assets in 2016, compared with 11.5% in 2015.

Interest spread in this segment declined from 1.41% in 2015 to 1.19% in 2016.

For the detailed report on interest income and expenses of the Bank and its subsidiaries and analysis of changes in the interest income and expenses, see apendix 1 to the chapter of Corporate Governance, apendices.

Non-interest financing income amounted to NIS 115 million in 2016 compared with NIS 149 million in 2015, a decrease of 22.8%.

The decrease derived from decline in the gain from realization of bonds and shares, amounting to NIS 66 million in 2016 compared to NIS 106 million in 2015. Non interest financing income includes financing income in respect of derivative instruments comprising an integral part of management of the interest exposure and base exposure of the Bank. Therefore, in order to analyse the financing income from currenct activity one needs to agregate the net interest income and the non-interest income.

Set out below is the composition of net financing earnings:

	Year ended December 31	
	2016	**2015**
		NIS million
Interest income	**2,526**	2,260
Interest expenses	**357**	307
Net interest income	**2,169**	1,953
Non-interest financing income	**115**	149
Net financing earnings	**2,284**	2,102

				2016				**2015**
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
				NIS million				NIS million
Interest income	**627**	**682**	**670**	**547**	527	621	730	382
Interest expenses (income)	**71**	**129**	**136**	**21**	28	124	217	(62)
Net interest income	**556**	**553**	**534**	**526**	499	497	513	444
Non-interest financing income	**24**	**24**	**33**	**34**	32	14	28	75
Net financing earnings	**580**	**577**	**567**	**560**	531	511	541	519

Set out below is an analysis of net financing earnings:

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
				NIS million				NIS million
Earnings from current activity	**571**	**555**	**536**	**540**	508	500	499	470
Reconciliations to fair value of derivative instruments	**5**	**10**	**3**	**(2)**	9	9	18	(17)
Income from realization and reconciliations to fair value of bonds	**4**	**3**	**21**	**13**	7	23	-	54
Earnings from investments in shares:								
Expense from verdict on lawsuit	**-**	**-**	**-**	**-**	-	(37)	-	-
Other	**-**	**9**	**7**	**9**	7	16	24	12
Net financing earnings	**580**	**577**	**567**	**560**	531	511	541	519

	Year ended December 31	
	2016	2015
		NIS million
Earnings from current activity	**2,202**	1,977
Reconciliations to fair value of derivative instruments	**16**	19
Income from realization and reconciliations to fair value of bonds	**41**	84
Earnings (loss) from investments in shares:		
Expense from verdict on lawsuit	**-**	(37)
Other	**25**	59
Net financing earnings	**2,284**	2,102

Expenses from credit losses were compiled on a conservative basis and amounted to NIS 80 million in 2016 compared with NIS 18 million in 2015.

Expenses from credit losses as a ratio of total credit to the public amounted to 0.1% in 2016 compared with a 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:

	Year ended December 31	
	2016	2015
		NIS million
Individual expense in respect of credit losses	**13**	22
Collective expense (income) in respect of credit losses	**67**	(4)
Total Expense in respect of credit losses	**80**	18
Of which:		
Expense (income) in respect of commercial credit	**31**	(24)
Expense in respect of housing credit	**2**	3
Expense in respect of other private credit	**47**	39
Ratio of individual expense in respect of credit losses to average total credit to the public	**0.01%**	0.03%
Ratio of collective expense (income) in respect of credit losses to average total credit to the public	**0.09%**	(0.01%)
Ratio of total expense in respect of credit losses to average total credit to the public	**0.10%**	0.02%

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.

Set out below is the distribution of expenses (income) in respect of credit losses by sectors of the economy:

	Year ended December 31	
	2016	2015
		NIS million
Agriculture	**8**	(1)
Industry	**(32)**	73
Construction and real estate	**(20)**	(98)
Commerce	**60**	36
Electricity and water supply	**1**	1
Hotels, hospitality and food services	**3**	12
Transport and storage	**3**	(17)
Information and communications	**-**	(30)
Financial services	**6**	1
Other business services	**2**	3
Public and community services	**2**	(4)
Private customers including housing loans	**47**	42
Total	**80**	18

Fees and other income totaled NIS 1,365 million, compared with NIS 1,392 million in 2015, a decrease of 1.9%.
Set out below are details of fees income and other income:

	Year ended December 31	
	2016	2015
		NIS million
Fees:		
Account management	**250**	263
Credit cards	**107**	105
Transactions in securities	**422**	459
Financial product distribution fees	**73**	81
Management, operation and trusteeship for institutional investors	**90**	102
Credit processing	**15**	21
Conversion differentials	**140**	141
Foreign trade activity	**57**	56
Fees from financing transactions	**91**	90
Other Fees	**55**	60
Total Fees	**1,300**	1,378
Other income	**65**	14
Total Fees and other income	**1,365**	1,392

Fees totaled to NIS 1,300 million, compared with NIS 1,378 million in 2015.
The amount of NIS 57 million of the decline is explained by the decrease in the activity in the capital market deriving from the decline in the volume of activity of in the capital market.

Other income totaled NIS 65 million, compared with NIS 14 million in 2015, an increase derived mainly from the Bank's share in the proceed from the sale of Visa Europe shares to Visa Inc by being principal member in Visa Europe (see note 15.h. to the financial statements) and from the gain from the sale of premises.

Operating and other expenses totaled NIS 2,683 million compared with NIS 2,710 million in 2015, a decrease of 1.0%.

Set out below are details of operating and other expenses:

	Year ended December 31	
	2016	**2015**
		NIS million
Salaries and related expenses	**1,656**	1,629
Maintenance and depreciation of premises and equipment	**409**	428
Amortization of intangible assets	**116**	131
Other expenses	**502**	522
Total operating and other expenses	**2,683**	2,710

Salaries and related expenses totaled NIS 1,656 million compared with NIS 1,629 million in 2015, an increase of 1.7%, explained by a one-time decline in the coresponding period last year in the amount of NIS 72 million, derives among other things by the implementation of the special collective agreement. Excluding this effect, a NIS 45 million decrease was recorded in this item. The decrease derived, among other things, from reduction in the number of employees in the group. This decrease was partialy offset by the selective salary increase.

Expenses on depreciation and maintenance of premises and equipment totaled NIS 409million, compared to NIS 428 million in 2015, a decrease of 4.4%. The decrease derives from the efficiency measures including closure and consolidation of branches and headoffice space.

Amortizations of intangible assets totaled NIS 116 million compared to NIS 131 million in 2015. Amortization of the excess of cost of the acquisition attributed to customer relations which was included in this item amounted to NIS 33 million, compare to NIS 44 million in 2015. Since amortization of the excess of cost of the acquisition is not a recognized expense for tax purposes, it has the effect of reducing net earnings by the full amount of the amortization. The amortization of excess cost of acquisition concerning Otzar Hachayal ended on August 17, 2016 and amounted to NIS 23 million in 2016.

For details of income and expenses by quarters for the years 2015 and 2016 see apendix 3 of corporate governance section, apendices.

INFORMATION AND COMPUTER SYSTEMS AT THE BANK

MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF") is a subsidiary of the bank and supplies IT to the bank and to other banks in the Group: Otsar Hahayal and Massad.

MATAF manages, operates and maintains the software and hardware of the central computers, of the central and the dispersed servers, and of the end stations, the communications and all the specialized peripheral equipment connected with IT at the branches of the banks in the Group, with entities receiving from the Bank operation services for provident funds and portfolios managers.

Description of the computer network

MATAF has a main computer site and a secondary computer site that also serves as an independent backup site. Main operational and development work is carried out at the central computer site. During 2015 MATAF moved the main computer site to a new location in the area of Rishon LeZion. In the site a new modern computer center that meets the highest standards and in accordance with the Bank of Israel directives. A third site where the Group's data are copied exists. The users of MATAF's operational systems are: all branches of the banks in the Group, other parties such as investment portfolios managers, managers of mutual trust funds, provident fund and the banks' customers via internet systems and by means of virtual banking.

Both the sites are connected to MATAF's customers by a high-speed, high-survivability communications network. At the centrals computer sites, the main and the secondary, MATAF operates an MF, servers, data storage systems, communications equipment and end equipment. For customers and the branches, MATAF operates servers, end equipment, specialized equipment such as check readers, ATM's, information positions and communications equipment.

Information security, quality control and backup

The Group's computer network is a central and critical component of the current activity of the banks in the Group. This network is intended to provide a solution to the business requirements of the Banks' divisions, a solution to regulatory requirements and directives, and a solution for the requirements of the numerous customers of the Group.

These challenges expose the computer network to various risks, for which MATAF must provide solutions. MATAF employs advanced technologies in order to adhere to business targets, to facilitate internet and cellular services, and to face the threat of cyber attacks.

Risks to the computer network exist in several areas: access by unauthorized entities, involving the copying or distortion of data or systems, illicit use of data by internal entities, malfunctions in systems' current operation caused by software and hardware changes, hardware malfunctions and operational malfunctions.

Accordingly and subject to laws and Bank of Israel directives, assuring the proper activity of the information network is a vital interest for the Group, and is applied by means of diverse activities relating to information security, working procedures, controlled work processes, special software programs, computing architecture, and backup and retrieval mechanisms, for the purpose of ensuring that the information systems are protected against unauthorized access, and are protected against any damage to the accuracy and propriety of the information banks.

The Management and the Board of Directors of the Bank have prescribed a detailed policy concerning information security and IT management, with an emphasis on carrying out the requisite surveys and mapping, in order to conform to Proper Conduct of Banking Business Regulation 357. The Bank has made all the dispositions required under Bank of Israel directives with respect to social media and cyber attacks. The Bank has appointed the Information Security Manager as Head of Information Security Risk Management.

In accordance to the Bank of Israel directive no. 361 that went into effect on September 2015, strategy for defending from cyber attack of the Bank and the group was defined, which is based on the threats analysis relevant to the Bank (relating threat), policy of defence from cyber attack was defined and a cyber defence manager was appointed.

A constant test for new cyber defence technologies is carried and the technologies most suitable to be implemented in the computer layout of the Bank are tested, in order to deal with the cyber thearts. Cocurrently cyber exercise are carried out in order to test and exercise the computer infrastructures and the response procedures of the teams that are involved in the cyber defence.

The internal communications network is kept separate from the external system, employing for this purpose sophisticated firewall devices, antivirus programs and safe deposit servers.

An advanced authorizations system, including current control, investigation and reporting facilities, is applied to all information security events in the computer network. The issue of operational risks as a whole and IT risks in particular is subject to extensive structured processing and considerable emphasis is placed on this issue.

The development of software and its transfer to production are carried out in accordance with development procedures and advanced software engineering standards, structured work processes, and control and quality assurance procedures.

Investments and expenses in respect of the IT network:

Software purchased by the Group is measured by cost, usualy including transaction costs less accrued depreciation and losses from impairement.

Costs relating to the development of software for the purpose of own use were only discounted if: the initial phase in the project is completed; and Management, which has the appropriate athority, approved and has the liability to finance, directly or indirectly, a project of developing software and it is expected that the development will be completed and if future economic benefits are expected from it. Costs that were recognized as intangible assets include direct costs of services and direct labor costs for employees. These costs are measured on the basis of cost minus accrued depreciation and losses from writedown. Overhead costs that cannot be directly attributed to software development and research costs are recognized as an expense as they arise.

The Supervisor of Bank determined that commencing with the financial statements for 2014, the Bank is required to implement the following provisions:

- Where the software costs that may be capitalized are lower than NIS 600 thousand, respective the software development project will be recognized in the statement of income and may not be capitalized.
- The amortization period for software costs shall not exceed 5 years.
- The rank of employees whose costs are capitalized to assets will be limited such that the top-ranking employee will be the head of staff.
- A discount coefficient below 1 will be determined for work hours and take into account the potential increase in recorded work hours as well as the potential for economic inefficiency.

Details of expenses and investments in information systems carried out:

Additions to assets in respect of the information technology system not charged as an expense:

				Year 2016				Year 2015
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Costs in respect of wages and related expenses	**38**	**-**	**-**	**38**	34	-	-	34
Outsourcing costs	**6**	**-**	**-**	**6**	7	-	-	7
Costs of acquisitions or usage licenses	**49**	**-**	**-**	**49**	35	-	-	35
Costs of equipment, buildings and land	**-**	**16**	**-**	**16**	-	29	2	31
Total	**93**	**16**	**-**	**109**	76	29	2	107

Balances of assets in respect of the information technology system:

	As of December 31, 2016				As of December 31, 2015			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Total depreciated cost	**219**	**67**	**3**	**289**	208	76	4	288
Of chich: in respect of wages and related expenses	**102**	**-**	**-**	**102**	94	-	-	94

Expenses in respect of the information technology system as included in the statment of profit and loss:

	Year 2016				Year 2015			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Expenses in respect of wages and related expenses	**144**	**6**	**-**	**150**	155	5	-	160
Expenses in respect of acquisitions or usage licenses not discounted to assets	**49**	**-**	**-**	**49**	46	-	-	46
Outsourcing expenses	**17**	**15**	**-**	**32**	18	14	-	32
Depreciation expenses	**83**	**25**	**-**	**108**	86	25	2	113
Other expenses	**-**	**2**	**28**	**30**	-	2	37	39
Total	**293**	**48**	**28**	**369**	305	46	39	390

Other expenses totaled NIS 502 million compared with NIS 522 million in the same period last year, a decrease of 3.8%.

Set out below are details of other expenses:

	Year ended December 31		
	2016	2015	Change
		NIS million	in %
Marketing and advertising	**50**	51	(2.0)
Communications	**79**	88	(10.2)
Computers	**109**	111	(1.8)
Office	**14**	15	(6.7)
Insurance	**5**	6	(16.7)
Legal, audit and professional consulting	**57**	58	(1.7)
Compensation of Board members and attendance fees for Board meetings	**9**	12	(25.0)
Instruction and professional training	**5**	5	-
Fees	**106**	108	(1.9)
Other	**68**	68	-
Total other expenses	**502**	522	(3.8)

The provision for taxes on operating earnings amounted to NIS 398 million compared with NIS 326 million in 2015. The effective tax rate as a proportion of earnings before taxes amounted to 44.9%, compared with the statutory rate of tax of 35.9%.

Detailed below are the factors that affected the effective tax rate:

- On January 4, 2016 the plenum of the Kneset approved the law for amendment of theTax Ordinance (amendment No. 216), 2016- that determined, inter alia, the reduction in the rate of corporate tax starting with 2016 in the rate of 1.5% thus setting the rate at 25%. The effect of the change was a one-time increase of NIS 16 million in the income tax expense in the first quarter of 2016.
- On December 21, 2016 the plenum of the Kneset approved in the second and third reading the law for economic efficiency (law amendments for achiving the budget objectives for the years 2017-2018), 2016. In this framework a reduction in the companies tax from a rate of 25% to 23% was approved to be carried out in two counts. The first count to 24% starting in January 2017 and the second count to 23% stating with January 2018 and onwards. The effect of the change was a one-time increase in the amount of NIS 18 million in the income tax expense recorded in the forth quarter of 2016.

  The total effect of the changes in the tax rate in the year 2016 was an increase in the amount of NIS 34 million in the income tax expenses.

  In accordance with the legislation changes, the statutorical tax rate in 2017 will be 35% and from 2018 34.2%.
- A one-time expense due to recording of a liability to deffered taxes in the amount of NIS 21 million deriving from temporary differensial from past years profits.
- Unrecognized expenses, mainly the amortization of intangible assets.

For additional details, see Note 8 to the financial statements.

The Bank's share in the operating earnings of investee company after the tax effect amounted to NIS 72 million, compare to NIS 38 million in 2015. The main increase is expalined by the share of the investee company in the proceeds of the transaction for the sale of Visa Europe (see note 15.h. to the financial statements), partialy offset by a one-time provision.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 449 million. This amount was affected by the net profit attributed to the shareholders of the Bank of NIS 521 million, by other comprehensive income from adjustments in respect of available-for-sale securities in the amount of NIS 9 million, and by other comprehensive loss derived from employee benefits of NIS 80 million, derived mainly from updating the strategic plan of the Bank concerning long term efficiency measures (see note 23.c. to the financial statements).

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

The consolidated balance sheet as of December 31, 2016 amounted to NIS 127,907 million compared with NIS 125,476 million as of December 31, 2015, an increase of 1.9%.

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

	December 31		
	2016	2015	Change
		NIS million	%
Credit to the public, net	**77,328**	72,555	6.6
Securities	**15,776**	16,439	(4.0)
Cash and deposits with banks	**29,150**	30,727	(5.1)
Premises and equipment	**1,133**	1,229	(7.8)
Deposits from the public	**105,817**	103,262	2.5
Bonds and subordinated capital notes	**5,801**	5,862	(1.0)
Shareholders' equity	**7,321**	7,073	3.5

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

	December 31		
	2016	2015	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**119**	130	(8.5)
Guarantees and other liabilities	**7,960**	7,473	6.5
Unutilized credit lines for derivatives instruments	**2,857**	2,629	8.7
Unutilized revolving credit and other on-call credit facilities	**10,806**	11,560	(6.5)
Unutilized credit lines for credit card facilities and Facilities for the lending of securities	**6,551**	6,619	(1.0)
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**6,636**	5,108	29.9
Total	**34,929**	33,519	4.2

Derivative financial instruments:

	December 31, 2016			December 31, 2015		
	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value	Face value
						NIS million
Interest contracts	**261**	**282**	**18,464**	261	339	19,274
Currency contracts	**445**	**464**	**67,412**	513	469	79,514
Contracts in respect of shares	**625**	**625**	**62,914**	859	859	104,863
Commodities and other contracts	**1**	**1**	**106**	3	2	329
Total	**1,332**	**1,372**	**148,896**	1,636	1,669	203,980

Credit to the public, net as of December 31, 2016 amounted to NIS 77,328 million compared with NIS 72,555 million as of December 31, 2015, an increase of 6.6%.

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

	As of December 31				Segment's share of credit to the public on December 31	
	2016	2015		Change	2016	2015
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**62,356**	55,908	6,448	11.5	**80.7**	77.1
- CPI-linked	**10,142**	10,700	(558)	(5.2)	**13.1**	14.7
Foreign currency (including f-c linked)	**4,381**	5,316	(935)	(17.6)	**5.6**	7.3
Non-monetary items	**449**	631	(182)	(28.8)	**0.6**	0.9
Total	**77,328**	72,555	4,773	6.6	**100.0**	100.0

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

	As of December 31		
	2016	2015	Change
		NIS million	%
Large business segment	**18,320**	16,814	9.0
Medium business segment	**4,178**	4,001	4.4
Small and minute business segment	**15,068**	14,164	6.4
Household segment	**39,878**	37,178	7.3
Private banking segment	**47**	406	*(88.4)
Institutional entities	**684**	816	(16.2)
Total	**78,175**	73,379	6.5
Of which, consumer credit excluding housing loans and credit cards:			
Household segment	**15,204**	14,146	7.5
Private banking segment	**18**	379	(95.2)
Total	**15,223**	14,525	4.8
Housing loans in Israel:			
Household segment	**21,741**	20,032	8.5
Total	**21,741**	20,032	8.5

* An amount of NIS 298 from the decrease in this segment derives from the classification of the credit to the public of FIBI Swizerland as assets held for sale (see note 18A to the financial statements).

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 112,924 million on December 31, 2016 compared with NIS 108,451 million on December 31, 2015, an increase of 4.1%.

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

Sector	Total credit risk on December 31		Sector's share in total credit risk	
	2016	2015	2016	2015
		NIS million	%	%
Financial services (including holding companies)	**14,250**	14,710	**12.6**	13.6
Construction and real estate	**15,175**	14,263	**13.4**	13.1
Industry	**10,860**	10,938	**9.6**	10.1
Commerce	**9,121**	8,693	**8.1**	8.0
Information and communications	**2,508**	2,414	**2.2**	2.2
Private customer, including housing loans	**52,019**	48,993	**46.1**	45.2
Others	**8,991**	8,440	**8.0**	7.8
Total	**112,924**	108,451	**100.0**	100.0

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):

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

Borrower no.	Sector of the economy	Balance-sheet credit risk(*)	Off-balance-sheet credit risk	Aggregate credit risk	Aggregate credit risk after permitted deductions
					As of December 31, 2015
					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.

On the basis of the distribution of credit by size of borrower indebtedness on December 31, 2016, as stated in Note 29.c to the financial statements, 47% of the Group's total credit risk was granted to borrowers whose total credit reached an amount of up to NIS 1.2 million per borrower. Credit amounts of between NIS 1.2 million and NIS 20 million accounted for 19% of total credit risk, and credit amounts of over NIS 20 million accounted for 34% of the Group's total credit risk.

Set out below are balances of the total credit risk of the borrowers included in the upper brackets in Note 29.c to the financial statements, exclusive of collateral whose deduction is permissible for the purpose of calculating the restriction on single-borrower indebtedness, in the consolidated and at the Bank:

						Consolidated
						December 31, 2016
Credit range for borrowers	**Balance-sheet credit risk**	**Off-balance-sheet credit risk**	**Total**	**Permitted deductions**	**Net indebtedness**	**No. of borrowers**
NIS thousand					NIS million	
From 400,000 to 800,000	**1,960**	**582**	**2,542**	**1,169**	**1,373**	**5**
From 800,000 to 1,200,000	**800**	**6**	**806**	**-**	**806**	**1**
From 1,200,000 to 1,904,375	**1,625**	**279**	**1,904**	**1,186**	**718**	**1**
Total	**4,385**	**867**	**5,252**	**2,355**	**2,897**	**7**

						Consolidated
						December 31, 2015
Credit range for borrowers	**Balance-sheet credit risk**	**Off-balance-sheet credit risk**	**Total**	**Permitted deductions**	**Net indebtedness**	**No. of borrowers**
NIS thousand					NIS million	
From 400,000 to 800,000	2,051	359	2,410	1,377	1,033	5
From 800,000 to 1,200,000	999	3	1,002	896	106	1
From 1,200,000 to 1,554,436	1,238	316	1,554	873	681	1
Total	4,288	678	4,966	3,146	1,820	7

						The Bank
						December 31, 2016
Credit range for borrowers	**Balance-sheet credit risk**	**Off-balance-sheet credit risk**	**Total**	**Permitted deductions**	**Net indebtedness**	**No. of borrowers**
NIS thousand					NIS million	
From 400,000 to 800,000	**1,926**	**582**	**2,508**	**1,169**	**1,339**	**5**
From 800,000 to 1,200,000	**800**	**6**	**806**	**-**	**806**	**1**
From 1,200,000 to 1,904,375	**1,625**	**279**	**1,904**	**1,186**	**718**	**1**
Total	**4,351**	**867**	**5,218**	**2,355**	**2,863**	**7**

						The Bank
						December 31, 2015
Credit range for borrowers	**Balance-sheet credit risk**	**Off-balance-sheet credit risk**	**Total**	**Permitted deductions**	**Net indebtedness**	**No. of borrowers**
NIS thousand					NIS million	
From 400,000 to 800,000	2,014	359	2,373	1,377	996	5
From 800,000 to 1,200,000	999	3	1,002	896	106	1
From 1,200,000 to 1,554,436	1,238	316	1,554	873	681	1
Total	4,251	678	4,929	3,146	1,783	7

For detailed information regarding credit risk, see chapter of risks review and sub-chapter "additional supervisory disclosures" in "financial information" at the Bank's internet site.

The investment in securities totaled NIS 15,776 million compared with NIS 16,439 million at the end of 2015, a decrease of 4.0%.

Set out below is the composition of the portfolio:

	As of December 31		Share of total securities	
	2016	2015	2016	2015
		NIS million		%
Government bonds	**12,377**	11,637	**78.5**	70.8
Banks' bonds(1)	**1,705**	2,368	**10.8**	14.4
Other bonds (corporate and asset-backed)	**764**	1,490	**4.8**	9.0
Other bonds (corporate and asset-backed) guaranteed by governments	**752**	683	**4.8**	4.2
Shares(2)	**178**	261	**1.1**	1.6
Total	**15,776**	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 and owned by foreign governments in the amount of NIS 978 million (December 31, 2015 - NIS 98 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 111 million, perpetual capital notes amounting to NIS 4 million, investment in foreign currency shares of NIS 47 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 10 million (31.12.15 - investment in private equity funds in the amount of NIS 115 million, perpetual capital notes amounting to NIS 19 million, investment in foreign currency shares of NIS 56 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 December 31				Segment's share of total securities	
	2016	2015		Change	2016	2015
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**6,966**	6,915	51	0.7	**44.2**	42.0
- CPI-linked	**1,667**	1,655	12	0.7	**10.6**	10.1
Foreign currency denominated & linked	**6,965**	7,608	(643)	(8.5)	**44.1**	46.3
Non-monetary items	**178**	261	(83)	(31.8)	**1.1**	1.6
Total	**15,776**	16,439	(663)	(4.0)	**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 December 31, 2016:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**49**	**4**	**125**	**178**
Local currency government bonds	**7,497**	**-**	**-**	**7,497**
Local currency corporate bonds	**828**	**308**	**-**	**1,136**
Non-asset backed foreign-currency and f-c linked bonds	**28**	**6,517**	**-**	**6,545**
MBS bonds	**-**	**409**	**-**	**409**
Others (structured and credit-based structured)	**-**	**-**	**11**	**11**
Total	**8,402**	**7,238**	**136**	**15,776**
% of portfolio	**53.3**	**45.9**	**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 December 31	
	2016	**2015**
		NIS million
Israel (incl. Israel Government - 31.12.16 - NIS 1,961 million, 31.12.15 - NIS 1,377 million)	**2,140**	1,617
USA (incl. US Government- 31.12.16- NIS 2,001 million)	**2,325**	3,672
France	**314**	150
UK	**228**	247
Europe - others * (31.12.16 - 6 countries; 31.12.15 - 5 countries)	**474**	343
Australia	**88**	275
Canada	**129**	14
Germany (incl. gauranteed by German Government- 31.12.16- NIS 450 million)	**582**	158
Netherlands	**66**	288
Far East, New Zealand* and others (31.12.16 - 5 countries; 31.12.15 - 6 countries)	**199**	322
Total	**6,545**	7,086

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

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

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

	As of December 31	
	2016	**2015**
		NIS million
Financial services	**69**	77
Banks	**262**	527
Industry	**34**	119
Electricity and water	***515**	*520
Construction and real estate	**108**	198
Communications and computer services	**19**	41
Commerce	**20**	41
Public and community services	**20**	11
Transportation	**74**	21
Hotels, hospitality and food services	**15**	-
Total	**1,136**	1,555

* Including NIS 351 million guaranteed by the Israel Government (31.12.15 - NIS 354 million).

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

- **Non asset-backed bonds denominated in or linked to foreign currency** - amounting to NIS 6,545 million (Dollar 1,702 million) (includes foreign corporations amounting to NIS 1,486 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 180 million, foreign currency denominated Israel Government bonds amounting to NIS 1,961 million and foreign government bonds amounting to NIS 2,918 million). All of the foreign bonds are investment grade and 95% of the portfolio is rated A or higher; 7% 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 that is not Governement or banks and financial institutions owned by more than one government does not exceed 1% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 2 years. The balance of unrealized gross earnings (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 2 million (Dollar 1 million) compared with unrealized losses of NIS 20 million (Dollar 5 million) on December 31, 2015.
- **Mortgage Backed Securities (MBS)** - amount to NIS 409 million (Dollar 106 million).
  The bonds were issued by federal agencies in the USA. Of these, NIS 401 million (Dollar 104 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 8 million (Dollar 2 million) was issued by the US federal agencies Fannie Mae and Freddie Mac.
  Set out below is a sensitivity analysis as of December 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 200 base points	**(3.8)**	**(7.2)**
Increase of 100 base points	**(3.2)**	**(3.4)**
Decrease of 100 base points	**11.0**	**2.4**
Decrease of 200 base points	**27.7**	**2.5**

- **Private equity funds** - investments in private equity funds amounted to NIS 111 million (Dollar 29 million). The balance of Commitments to invest in private equity funds amounted to NIS 58 million as of December 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 December 31, 2016, amounted to NIS 20 million, compared with losses of NIS 29 million on December 31, 2015.

Cash and deposits at banks on December 31, 2016 totaled NIS 29,150 million compared with NIS 30,727 million at the end of 2015, an increase of 5.1%

Deposits from the public on December 31, 2016 totaled NIS 105,817 million compared with NIS 103,262 million at the end of 2015, an increase of 2.5%.
The composition of deposits by linkage segment shows that at the end of 2016, 73.1% of deposits (mainly term deposits) were in the unlinked shekel segment, 20.7% were in foreign currency and linked to foreign currency, 5.8% were CPI-linked and 0.4% were non-monetary items.
The ratio of deposits from the public to credit to the public amounted to 136.8% as of December 31, 2016, compared with 142.3% at the end of 2015.

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

	As of December 31				Segment's share of total deposits from the public on December 31	
	2016	2015		Change	2016	2015
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**77,324**	70,392	6,932	9.8	**73.1**	68.2
- CPI-linked	**6,125**	7,095	(970)	(13.7)	**5.8**	6.9
Foreign currency denominated & linked	**21,906**	25,135	(3,229)	(12.8)	**20.7**	24.3
Non-monetary items	**462**	640	(178)	(27.8)	**0.4**	0.6
Total	**105,817**	103,262	2,555	2.5	**100.0**	100.0

Deposits from the public by segment of activity

	As of December 31		
	2016	2015	Change
		NIS million	%
Large business segment	**10,438**	10,760	(3.0)
Medium business segment	**6,029**	5,241	15.0
Small and minute business segment	**15,868**	15,047	5.5
Household segment	**45,433**	41,792	8.7
Private banking segment	**8,601**	7,974	7.9
Institutional entities	**19,448**	22,448	(13.4)
Total	**105,817**	103,262	2.5

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of December 31, 2016, amounted to NIS 329 billion, as compared to NIS 331 billion at the end of 2015.

Bonds and deferred debt notes amounted at the end of the year to NIS 5,801 million, as compared with NIS 5,862 million at December 31, 2015, a decrease of 1.0%.

On June 26, 2016, and December 27, 2016 the First International Issuance Ltd. (hereinafter - "International Issuance"), a wholly owned subsidiary of the Bank, issued to the public, in a public offering, subordinated capital notes with loss absorb mechanism, in par value of NIS 580 million and NIS 254 million, respectively, the proceeds were NIS 580 million and NIS 261 million, respectively. After balance sheet date, on February 8, 2017 the First International Issuance, issued in private offering, additional subordinated capital notes with loss absorb mechanism, in par value of NIS 50 million for the proceed of NIS 52 million. The cash amounts received in respect of the said issues have been deposited with the Bank. The Bank is committed to fulfill the terms of the subordinated capital notes issued as above (see note 24.b. to the financial statements).

For details regarding assets and liabilities according to quarters in the years 2015 and 2016, see Appendix 5 to the Chapter "Corporate governance", appendices.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on December 31, 2016 to NIS 7,321 million, as compared with NIS 7,073 million on December 31, 2015, an increase of 3.5%.

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 December 31, 2016, shall not be lass than 9.25%, and the minimum ratio of the comprehensive capital shall no be less than 12.75%. This requirement was applied gradually over eight quarters until January 1, 2017.

The internal capital objectives that were determined by the Board of Directors, are as follows:

- In a regular business situation – the capital objectives will be the higher of the ratio of Tier I equity capital 9.30%, and the ratio of the comprehensive capital 12.79%, which is determined in accordance with the estimated regulatory demand in the time of approval of the capital objectives within the ICAAP process to actual regulatory capital ratio demanded.
- 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%. As of January 1, 2017, the rate of deduction from the regulatory capital amounts to 80%, and the maximum rate of instruments qualified as supervisory capital amounts to 50%.

Operational Efficiency

The Supervisor of banks issued a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multi-annual program for the improvement of efficiency.

A banking corporation that complies with the terms of the letter would be entitled to a relief, whereby it may spread, by the "straight line" method, over a period of five years, the effect of the cost of the program for the purpose of calculating the capital adequacy.

The Board of Directors approved on November 17, 2016, a revision of the strategic program of the Bank concerning the efficiency measures aspect.

The cost of the program is estimated at NIS 207 million (before the tax effect). Without the said relief, the implementation of the efficiency measures, as of December 31, 2016 would have reduced the capital adequacy ratio by 0.19%.

Implementation of the instructions

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

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

Pillar II - the Bank is required to conduct an internal process for the assessment of capital adequacy (the ICAAP process). This process is designed to ensure the maintenance of an adequate level of capital means supporting the overall risks inherent in the operations of the Bank. The ICAAP document relating to the data as of June 30, 2016, has been dully submitted to bank of Israel. The infrastructure for the capital adequacy, as approved by the Bank, serves as a basis for the internal process conducted at each of the banking subsidiaries in Israel, subject to required adjustments, and on the basis of the specific risk profile of each subsidiry. The subsidiary companies in Israel had conducted the ICAAP process in relation to the December 31, 2015 data.

		December 31,	
		2016	**2015**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments**		
	Tier 1 capital, after deductions and supervisory adjustments	**7,684**	7,349
	Tier 2 capital	**2,819**	2,580
	Total capital	**10,503**	9,929
2.	**Weighted balances of risk assets**		
	Credit risk	**69,262**	67,766
	Market risk	**748**	995
	Operational risk	**6,168**	6,141
	Total weighted balances of risk assets	**76,178**	74,902
3.	**Ratio of capital to risk assets**		
	Raito of tier 1 equity capital to risk assets	**10.09%**	9.81%
	Total ratio of capital to risk assets	**13.79%**	13.26%
	Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.25%**	9.10%
	Minimal ratio of capital required by the Supervisor of Banks	**12.75%**	12.60%

The Tier I equity capital ratio as of December 31, 2016, amounted to 10.09%, in comparison with 9.81% on December 31, 2015. The ratio of comprehensive capital to risk components as of December 31, 2016, amounted to 13.79%, in comparison with 13.26% on December 31, 2015. The comprehensive capital as of December 31, 2016 amounted to NIS 10,503 million, in comparison with NIS 9,929 million on December 31, 2015. The increase in the capital base stemmed mostly from a issuance of subordinated capital notes with loss absorbance mechanism by deleting principal in the amount of NIS 834 million and profits for the year in the amount of NIS 521 million. This increase was partialy offset by reduction in the amount of NIS 607 million in instruments issued by the Bank qualified for inclusion in the supervisory capital, and from the distribution of a dividend in the amount of NIS 200 million. The risk assets as of December 31, 2016 amounted to NIS 76,178 million as compared with NIS 74,902 million on December 31, 2015. The increase in risk assets stems mostly from the increase in credit to the public.

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:

		December 31,
	2016	**2015**
		In percent
Significant subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of Tier 1 capital to risk assets	**10.63**	9.83
Ratio of overall capital to risk assets	**13.39**	13.25
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**13.17**	13.76
Ratio of overall capital to risk assets	**14.31**	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 December 31, 2016, amounts to 5.52%.

DIVIDEND DISTRIBUTION POLICY

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

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

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

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

On November 17, 2016, the Board of Directors of the Bank resolved to distribute a cash dividend to the Bank's shareholders in the overall amount of NIS 200 million. The determinant date concerning payment of the dividend was November 27, 2016, and the payment date was December 5, 2016.

The amounts of the dividend are before any tax, including tax at source which the Bank must deduct in accordance with the law.

The resolutions and the considerations guiding them are detailed in the immediate reports which the Bank issued on the date of the resolution (reference number 2016-01-072258). The said in these reports is included here by way of reference.

After balance sheet date, on March 15, 2017 the Board of Directors of the Bank resolved on cash dividend distribution to the Bank's shareholders in an overall amount of NIS 70 million. The determinante date for the dividend payment will be March 23, 2017 and payment date will be April 2, 2017.

SUPERVISORY SEGMENTS OF ACTIVITY

A. Definitions and characteristic of the supervisory segments of activity

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

Where the income turnover of business customer does not represents its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment.
According to the transition directive set in the FAQ file of the Bank of Israel, it was determined that business customer, which is indebtness to the bank is up to NIS 300 thousands (including credit facilities etc.) and the bank does not have information regarding its activity turnover, will be classified to the relevant supervisory segment of activity according to the total assets in the balance sheet of the business, and in the event that this information is also unavailable, the bank is entitled to classify the customer according to its total financial assets at the bank (including financial deposits, securities portfolio and other financial assets), where instead of total balance sheet assets the classification will be according to total financial assets after multiplying them by 10.

- **Financial management segment** - includes trading and asset and liability management operations as defined in the Directives of the Supervisor of Banks.

Principles for apportioning operating results among the different segments

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

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

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

a. Total income*

	For the year ended December 31,			Segment's share of total income For the year ended December 31,	
	2016	**2015**	**Change**	**2016**	**2015**
		NIS million	%		%
Large business segment	**431**	409	5.4	**11.8**	11.7
Medium business segment	**185**	186	(0.5)	**5.1**	5.3
Small and minute business segment	**861**	854	0.8	**23.6**	24.4
Household segment	**1,488**	1,384	7.5	**40.8**	39.6
Private banking segment	**105**	102	2.9	**2.9**	2.9
Institutional entities	**200**	226	(11.5)	**5.5**	6.5
Financial management segment	**379**	333	13.8	**10.3**	9.6
Total	**3,649**	3,494	4.4	**100.0**	100.0

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

	For the year ended December 31,	
	2016	**2015**
		NIS million
Large business segment	**128**	119
Medium business segment	**45**	44
Small and minute business segment	**119**	142
Household segment	**(3)**	(59)
Private banking segment	**(9)**	7
Institutional entities	**-**	27
Financial management segment	**241**	166
Total	**521**	446

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Total assets			% of total assets	
	For the year ended December 31,			For the year ended December 31,	
	2016	**2015**	**Change**	**2016**	**2015**
		NIS million	%	%	%
Large business segment	**18,213**	16,047	13.5	**14.3**	13.1
Medium business segment	**4,024**	3,960	1.6	**3.2**	3.2
Small and minute business segment	**14,861**	14,281	4.1	**11.7**	11.7
Household segment	**38,499**	35,562	8.3	**30.2**	29.1
Private banking segment	**399**	425	(6.1)	**0.3**	0.3
Institutional entities	**640**	860	(25.6)	**0.5**	0.7
Financial management segment	**50,676**	50,944	(0.5)	**39.8**	41.9
Total	**127,312**	122,079	4.3	**100.0**	100.0

	Total liabilities			% of total liabilities	
	For the year ended December 31,			For the year ended December 31,	
	2015	**2016**	**Change**	**2015**	**2016**
		NIS million	%	%	%
Large business segment	**11,349**	10,191	11.4	**9.5**	8.9
Medium business segment	**5,372**	5,168	3.9	**4.5**	4.5
Small and minute business segment	**15,751**	14,191	11.0	**13.2**	12.4
Household segment	**44,464**	40,471	9.9	**37.2**	35.2
Private banking segment	**8,366**	7,309	14.5	**7.0**	6.4
Institutional entities	**21,623**	23,279	(7.1)	**18.1**	20.3
Financial management segment	**12,497**	14,228	(12.2)	**10.5**	12.3
Total	**119,422**	114,837	4.0	**100.0**	100.0

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

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

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

	For the year ended December 31, 2016				For the year ended December 31, 2015			
	Small and minute bussiness segment	Medium bussiness segment	Large bussiness segment	Total	Small and minute bussiness segment	Medium bussiness segment	Large bussiness segment	Total
								NIS million
Net interest income	**538**	**126**	**299**	**963**	519	123	283	925
Non-interest income	**323**	**59**	**132**	**514**	335	63	126	524
Total income	**861**	**185**	**431**	**1,477**	854	186	409	1,449
Expenses (income) from credit losses	**24**	**1**	**(2)**	**23**	(26)	4	2	(20)
Operating and other expenses	**610**	**99**	**196**	**905**	616	99	191	906
Net profit (loss) attributed to the shareholders of the Bank	**119**	**45**	**128**	**292**	142	44	119	305
Average balance of assets	**14,861**	**4,024**	**18,213**	**37,098**	14,281	3,960	16,047	34,288
Balance of credit to the public at the end of the reported period	**15,068**	**4,178**	**18,320**	**37,566**	14,164	4,001	16,814	34,979
Average balance of liabilities	**15,751**	**5,372**	**11,349**	**32,472**	14,191	5,168	10,191	29,550
Balance of deposits from the public at the end of the reported period	**15,868**	**6,029**	**10,438**	**32,335**	15,047	5,241	10,760	31,048

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 292 million, in comparison with NIS 305 million in 2015. The decrease in profit is explained by the increase in expense for credit losses attributedto the small and minute business segment.

Total net interest income amounted to NIS 963 million, compared with NIS 925 million in 2015, an increase of 4.1% explained mainly by the increase in the volume of credit to the public in these segments.

Credit to the public as of December 31, 2016 amounted to NIS 37,566 million, in comparison with NIS 34,979 million on December 31, 2015, an increase of 7.4%.

Deposits from the public as of December 31, 2016 amounted to NIS 32,335 million, in comparison with NIS 31,048 million on December 31, 2015, an increase of 4.1%.

PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLDS AND PRIVATE BANKING

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

	For the year ended December 31, 2016			For the year ended December 31, 2015		
	household segment	private banking segment	Total	household segment	private banking segment	Total
						NIS million
Net interest income	**915**	**20**	**935**	758	14	772
Non-interest income	**573**	**55**	**628**	626	52	678
Total income	**1,488**	**75**	**1,563**	1,384	66	1,450
Expenses from credit losses	**49**	**-**	**49**	38	-	38
Operating and other expenses	**1,419**	**55**	**1,474**	1,441	54	1,495
Net profit (loss) attributed to the shareholders of the Bank	**(3)**	**10**	**7**	(59)	7	(52)
Average balance of assets	**38,499**	**49**	**38,548**	35,562	48	35,610
Balance of credit to the public at the end of the reported period	**39,878**	**47**	**39,925**	37,178	53	37,231
Average balance of liabilities	**44,464**	**7,598**	**52,062**	40,471	6,272	46,743
Balance of deposits from the public at the end of the reported period	**45,433**	**8,601**	**54,034**	41,792	7,090	48,882

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 7 million, compared with a loss of NIS 52 million in 2015. The growth in profits stems mainly from an increase in income and from a decrease in other and operating expenses.

Total net interest income amounted to NIS 935 million, as compared with NIS 772 million in 2015. 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 628 million, in comparison with NIS 678 million in 2015. Most of the decrease in this income is explained by a reduction in capital market activity stemming from a decline in the scope of operation.

Operating and other expenses amounted to NIS 1,474 million, as compared to NIS 1,495 million in 2015. The decrease in expenses stemming mainly from the efficiency measures including the merger and closure of branches.

Credit to the public as of December 31, 2016 amounted to NIS 39,925 million, in comparison with NIS 37,231 million on December 31, 2015, an increase of 7.2%.

Deposits from the public as of December 31, 2016 amounted to NIS 54,034 million, in comparison with NIS 48,882 million on December 31, 2015, an increase of 10.5%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 379 million compared with NIS 333 million in 2015.
The net earnings of the Financial Management Segment amounted to NIS 243 million compared with NIS 166 million in 2015.

Following are the main factors affecting the frofit in this segment:

- An increase in non-interest income and in the Bank's share in the profit of investee company stemming from the proceeds of the transaction of the sale of Visa Europe (see note 15.h. and note 5 to the financial statements).
- An increase in capital gain from the sale of buildings and equipment amounting NIS 24 million, gross before tax effect, compared to NIS 6 million in 2015.

PRINCIPAL INVESTEE COMPANIES

INVESTEE COMPANIES IN ISRAEL

The Bank's investments in investee companies in Israel totaled NIS 2,330 million on December 31, 2016, compared with NIS 2,765 million on December 31, 2015, a decrease of 15.7%. The decrease in investments of the Bank in investee companies in Israel stems from the merger of PAGI, a wholly owned subsidiary, with and into the Bank For further details see note 15e to the financial statements.
The Bank’s share in the net earnings of investee companies in Israel amounted to NIS 152 million compared with NIS 131 million in 2015.

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 1,209 million on December 31, 2016. Total assets of Otsar Hahayal on December 31, 2016 amounted to NIS 20,774 million compared with NIS 19,172 million on December 31, 2015, an increase of 8.4%. Shareholders' equity of Otsar Hahayal on December 31, 2016 amounted to NIS 1,209 million compared with NIS 1,165 million on December 31, 2015, an increase of 3.8%.
Net earnings of Otsar Hahayal amounted to NIS 83.8 million compared with NIS 65.6 million in 2015, an increase of 27.7%. The increase is explained by increase in interest income stemming from previous years interest income, partialy offset by decrease in gains from realization of securities and increase in expenses in respect of credit losses reflecting an increase in the current provision in respect of households and business customers and an increase in the collective provision derived from changes in the collective provision coefficient for credit losses. The Bank's share of Otsar Hahayal's results, net of amortization of excess of cost of the acquisition, amounted to NIS 42.8 million compared with NIS 17.4 million in 2015.
The amortization of the excess of cost of the equisition of Otsar HaHayal ended August 17, 2016.
Net return on equity amounted to 7.0% compared with 5.8% in 2015.
The ratio of capital to risk assets in accordance with the Proper Conduct of Banking Business Regulations concerning capital measurement and capital adequacy (Basel) amounted to 13.39% compared with 13.25% at the end of 2015. The Tier 1 equity capital ratio amounted to 10.63% compared with 9.83% at the end of 2015.
On April 2016, The Board of Directors of Otsar Hahayal resolved after discussion of the ICAAP document regarding the evaluation of the capital adequacy, that during 2016 the overall capital ratio of Otsar Hahayal will not be less than 12.5%, and that the Tier 1 equity capital ratio will not be less than 9.3%.

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

The Bank's investment in Massad amounted to NIS 306 million on December 31, 2016. Total assets of Massad on December 31, 2016 amounted to NIS 7,115 million compared with NIS 6,421 million on December 31, 2015, an increase of 10.8%. Shareholders' equity of Massad on December 31, 2016, totaled NIS 577 million compared with NIS 538 million on December 31, 2015, an increase of 7.2%.

Net earnings of Massad totaled NIS 42.1 million in 2016 compared with NIS 36.5 million in 2015, an increase of 15.3%. The main increase in earnings is explained by increase in interest income due to an increase in the volume of credit to the public, partialy offset by decline in gains from realization of securities and from an increase in the provision for credit losses.

The Bank's share in Massad's operating results, net of amortization of excess of cost of the acquisition, amounted to NIS 12.9 million compared with NIS 9.9 million in 2015.

The unamortized balance of the excess of cost of the acquisition of Massad amounted to NIS 11 million on December 31, 2016.

Net return on equity in 2016 amounted to 7.6% compared with 7.1% in 2015. 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 14.31%, compared with 15.01% at the end of 2015. The Tier 1 capital ratio amounted to 13.17% compared with 13.76% at the end of 2015.

Within the framework of the ICAAP procedure for the data of December 31, 2015 the minimal capital targets were set as follows: the Tier 1 equity capital ratio was set at no less than 10.5% until December 31, 2018 and the overall capital ratio was set at no less than 13.25% until December 31, 2018.

Israel Credit Cards Ltd. ("ICC") - The Bank holds 28.2% of equity and 21.0% of voting rights in ICC.

ICC markets and issues credit cards and settles credit card transactions of the international Visa brand, markets and operates Diners credit cards on an exclusive basis in Israel, and also markets to an only limited extent MasterCard credit cards.

The Bank's investment in ICC amounted to NIS 514 million on December 31, 2016.

The ratio of capital to risk assets on December 31, 2016, calculated in accordance with the Proper Conduct of Banking Business Regulations concerning capital measurement and capital adequacy (Basel), amounted to 15.8%, compared with 15.4% at the end of 2015.

The Bank's share in the net earnings of ICC before the tax effect amounted to NIS 81.5 million compared with NIS 42.3 million in 2015, an increase of 92.7%. The main increase is explained by the share of ICC in the proceeds of the transaction for the sale of Visa Europe, partialy offset by a one-time nature provision (see note 15.h. to the financial statements).

See note 25 to the financial statements concerning request to approve class action suits against ICC, a request to approve derivative lawsuit against office holders in ICC in the relevant period in ICC and additional matters.

REVIEW OF RISKS

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Market Risk	68
Liquidity Risk	82
Financing Risk	85
Operational Risk	86
Other Risks	89

REVIEW OF RISKS

Additional information about the risks can be found on the report on risks and additional supervisory reporting in the Bank's internet website.

General

a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk (cross system risk), liquidity risk, operational risk, compliance risk and ALM risk, strategy risk, legal risk and reputation risk. Members of the Board of Management are responsible for management of these risks. With respect to credit risk, market risk and operational risk, a regulatory requirement for capital adequacy in accordance with the Pillar 1 Basel directives exists. Within the ICAAP process, the Group performes an indepth process of identifying additional risks focals and challenging the risks focals identified in the first pillar. If needed the Group makes an additional capital allocation in respect of Pillar 1 risks and other risks.
b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group and at increasing its earnings expectancy by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.
c. The overall risk perceptive of the Group is in line with the regulatory framework set by the Supervisor of Banks and in line with the Sound Practices of the Basel Committee, based on the principal that every banking activity involving risk, the following will be defined and characterized: risk policy and apetite, limitations for bordering and defining the volume of exposure, control and auditing circles, reporting arrangement and earnings estimation mechanism, its measurement and reporting according to acceptable standard.
d. Risk management and control at the Group are implemented by means of a suitable infrastructure of control, supervision, review and auditing mechanisms, and are applied via three lines of defense: The first line of defense consists of those responsible for the creation and management of risk. The second line is maintained by units of the Risk Management Division and Chief Accountant by means of independent control. The third line consists of the internal and external auditing functions.
e. Chief Risk Manager and member of Management incharge of the risk management division and across the organization risk management infrastructure- Mr. Bentzi Adiri CPA.
f. Those responsible for risk management at the Group are:
   Mr. Ilan Batzri CPA, Head of the Business Division-serves as Credit Risk Manager;
   Mr. Avi Sterenshous- head of the financial sub-division- serves as financial risk manager;
   Mr. Yaacov Konortov- compliance manager, including, among other things AML, internal enforcement and cross border risks;
   Yossi Levi- head of resources division- Strategic risk manager;
   Mr. Amnon Beck- which served as the CEO of MATAF- was during 2016 the IT risk manager. On February 19, 2017 Mr. Beck retired from its position. At this stage and up to the appointment of replacement, Mrs. Iris Levanon serves as the stand-in for the CEO and IT risk officer.
   Mr. Yehoshua Peleg, manager of cyber defence and information security- cyber risks manager;
   Adv. Dalia Blank, Chief Legal Counsel-Legal Risk Manager;
   Nachman Nitzan, CPA- head of the chief accounting division- reputation risk manager;
   Bentzi Adiri CPA- operational risk manager, supervisor of the internal enforcement and manager of business continuity. In addition, the cyber risks manager is subordinated to him.

g. Additional risks to which the Bank is exposed- regulatory and legislative risks - are managed and supervised as part of overall business management members of the Board of Management and department heads in the areas for which they are responsible.
h. Risk management is carried out at each banking subsidiary in the Group separately, in accordance with the policy determined by the subsidiary’s board of directors on the basis of Group policy, and on the basis of Group risk management methodology with an emphasis on the special nature of each subsidiary’s activity. In accordance with the Supervisor of Banks' directive on "the Chief Risk Manager and the risk management function," a Chief Risk Manager was appointed at each banking subsidiary, subordinate to the subsidiary's CEO and guided professionally by the Bank's Chief Risk Manager.
i. Every quarter, the Risk Management Division, which is independent of the risk-taking units, compiles a risks document which is presented to the Management of the Bank, the Risk Management Committee and the Board of Directors of the Bank.
j. The risks document contains an examination of all the risks to which the Bank Group is exposed in the course of its activity, with details of the findings at the specific risk level as well as the results of stress scenarios that were conducted.
   Presented in the document is the Chief Risk Manager's review of the risk management situation at the group and of the effectiveness and the quality of the risk management. Also reviewed in the document are developments in the business environment and in the financial markets, and the measures taken by the division with respect to the main process involved with the different types of risks and special action which the division took during the relevant quarter.
k. The Bank applies stress scenarios for reviewing capital adequacy. In this respect, the Bank examines the effect of the materialization of risk on the capital base and the ratio of capital to risk assets. The scenarios which the Bank operates are forward looking and are used as an additional tool for risk management and for indication for the capital required for loss absorbent in case of major crisis. The importance of the stress scenarios come into effect in the planning of capital.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented below.

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

CREDIT RISK

a. General

Credit risk is the risk borrowers' inability or counterparty's inability to fulfill their obligations to the Bank.
As required under Proper Conduct of Banking Business Regulation 311, the credit risk is managed by applying an overall credit risk management policy.

b. Risk policy and risk appetite

General

The risk management division leads the process of the formulation of the credit risk policy, with the participation of the employees incharge of the credit extension in the Bank. The credit policy is discussed and approved at least once a year by the Management, loan and risk management committee and the Board of Directors of the Bank, and is revised according to changes in the financial markets in Israel and globaly, changes in regulation, etc, as detailed below. The Bank's procedures in the area of credit and credit risk management support and express this policy in practice.
The Board of Directors of the Bank has outlined a strategy for reducing undesirable exposure to credit risk by defining risk apetite.In this respect were defined areas of activities which are not in the marketing focus of the Bank, in cases were the risk level imbedded in them are high or if the level of management and control over them is not high enough, even though the potential yield from them is expected to be high.

Risk appetite

The Group's credit risk appetite reflects proportional willingness of taking credit risks, correcsponding with coutious banking activity, corresponding with the supervisory requirements and corresponding with the volume of the Bank's activity and its character. Accordingly, the Bank's policy includes an extensive and detailed discussion of objectives and the manner of business credit development in different sectors and areas of activity, while defining detailed principles for each sector and area, including individual restrictions at the sub-sector level and the activities areas that are notable for a high level of risk.

c. Credit risk measurement, estimation and management systems

The Bank employs internal models for rating the credit risk inherent in the customer’s activity. The models are based mostly on objective criteria relating to the borrower’s position (the customer’s characteristics, the composition of his collateral, the financial resilience apparent in the customer’s financial reports, sector-specific data and other financial data).

d. Collaterals management policy

The Bank has a clearly defined policy regarding the acceptance of assets as collateral for credit, the manner in which collateral is pledged and the rates of reliance on each type of collateral.
Collateral reliance policy is conservative and based on the updated fair value of the collaterals, their liquidity and the speed at which they can be realized if necessary.

e. Problem loan policy and the provision for credit losses

- The Bank has lucid and orderly working procedures for facilitating the early detection of problem borrowers. The Bank determined procedures for identification of problematic debts and classification of problematic debts. In addition, the Bank determined a policy for the measurement of the provision for credit losses in order to maintain provision in an appropriate level to cover anticipated credit losses.
- Operating within the Bank are specialist units that process problem loans.

- As stated in the section on accounting policy and accounting estimates in critical matters, under a new directive from the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk and the allowance for credit losses, since January 1, 2011, and as adopted in the directives for reporting to the public, the Bank has applied US accounting standards in the matter (ASC 310) and the positions adopted by the banking supervision authorities, and the US Securities and Exchange Commission (SEC).

f. Supervision and control of the management of credit risk exposure

The Bank maintains suitable mechanisms for the control, management, supervision and audit of the credit risk management process. The Bank's managerial and control concept is to identify, quantify and estimate the exposure to credit risks on a current basis, and to control the adherence to the prescribed restrictions.

Credit risk exposure management is examined and reviewed constantly, within the review of all risks, by specialist committees and forums at the level of the Board of Directors, Management and the middle-management grades, as detailed in the risk report in the internet.

The Bank has a system for documenting the legal documents creating the liens on the assets pledged as colateral in the cusromers files and a system that controls the value of the assets, enabaling current daily supervision.

g. Environmental risk management

Within the credit policy of the Bank, the Management and the Board of Directors of the Bank have approved policy for the management of environmental risks in the area of credit. In the compilation of this policy and its processing of the matter, the Bank is assisted by external advisers and assimilates a group methodology for the management of environmental risks.

h. Reporting on exposure to credit risks

Management and the Board of Directors of the Bank receive a range of reports on exposure to credit risks, and in various cross-sections by management, supervision and control entities.

In addition, actual credit risk exposure as compared to the permitted frameworks and restrictions determined by the Board of Directors and the authorities for their management are reported in the quarterly Risks Document as required in Proper Conduct of Banking Business Regulations 310 and 311.

i. Significant exposures to borrower groups

As of December 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.

j. Credit quality and problematic credit risk

Problematic credit risk, including off-balance-sheet components, totaled NIS 2,069 million compared with NIS 2,219 million at the end of 2015, a decrease of 6.8%

The ratio of problematic credit risk to total credit risk at the group amounted to 1.8% at the end of 2016, compared with 2.0% at the end of 2015. 16.6% of problematic credit risk at the group are attributed to the manufacturing sector, 12.5% to the real estate sector, 23.4% to the commerce sector, 11.7% to the financial services sector and 24.9% to the private customers sector including housing loans. 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.

For additional information regarding credit quality see note 29.b.(1) to the financial statements.

1. Problematic credit risk

	December 31, 2016			December 31, 2015		
	Balance-sheet	Off-balance-sheet	Total	Balance-sheet	Off-balance-sheet	Total
						NIS million
Impaired credit risk	**582**	**174**	**756**	771	151	922
Inferior credit risk	**475**	**21**	**496**	220	45	265
Credit under special supervision risk	**740**	**77**	**817**	770	262	1,032
Total problematic credit risk*	**1,797**	**272**	**2,069**	1,761	458	2,219
* Of which: Non-impaired debts in arrears of 90 days or more	**235**	**-**	**235**	234	-	234

	Balance on December 31, 2016	Balance on December 31, 2015
	NIS million	NIS million
2. Non-performing assets		
Impaired credit to the public not accruing interest income:	**541**	735
3. Performing impaired assets		
Impaired debts undergoing problematic debts restructuring and accruing interest income	**36**	29
Impaired bonds accruing interest income	**5**	7
Total performing impaired assets	**41**	36

	For the year ended December 31,	
	2016	2015
		NIS million
4. Changes in impaired debts		
Balance of impaired debts at beginning of year	**764**	799
Classified as impaired	**243**	435
Removed from impaired classification	**(61)**	(73)
Collection of debts	**(258)**	(212)
Accounting wirte-offs	**(111)**	(185)
Balance of impaired debts at end of year	**577**	764

	2016	2015
5. Risk Indices		
Ratio of impaired credit to the public to total credit to the public	**0.7%**	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%
Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public	**1.8%**	2.0%
Ratio of expenses for credit losses to average total credit to the public	**0.10%**	0.02%
Ratio of net write-offs in respect of credit to the public to average total credit to the public	**0.09%**	0.15%

The Decline in the ratio of impaired credit to the public to total credit to the public, and the decline in the ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public, derive from a decrease in the balance of impaired credit, mainly due to repayments of debts and due to accounting write-offs. Concurrently, during the year an increase in the inferior debts balance ocured, that was offset by a decrease in in the balance of special supervision. The increase in the ratio of expenses for credit losses to average total credit to the public, derives mainly from an increase in the expense for collective provision for credit losses. In 2016 the expense for collective provision for credit losses amounted to NIS 67 million, compared with an income of NIS 4 million in 2015.

k. Provision for credit losses

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

For additional information regarding provisions for credit losses see note 13.

	December 31, 2016	December 31, 2015
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.1%**	1.1%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**146.8%**	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	**104.3%**	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	**7.9%**	12.7%

I. Total credit risk according to economic sectors

(NIS million)

	as at December 31, 2016									
	Total credit risk(1)			Debts(2) and off-balance credit risk (excluding derivatives)(3)						
								Credit losses(4)		
	Total	Credit execution rating(5)	Problematic (6)	Total	Of which: Debts(2)	Problematic (6)	Impaired	Expenses (income) for credit losses	Net write-offs	Provision for Credit losses
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	543	493	25	542	437	25	7	8	2	10
Mining and quarrying	151	148	-	67	55	-	-	-	-	-
Industry	10,601	9,960	344	10,348	7,378	344	182	(32)	26	150
Construction and Real estate - construction(7)	9,673	9,207	167	9,627	3,439	166	119	(13)	(22)	90
Construction and Real estate - real estate activities	5,450	5,261	91	5,363	4,817	91	78	(3)	(4)	23
Electricity and water supply	1,512	1,447	3	944	686	3	2	1	-	5
Commerce	9,118	8,257	485	9,030	7,875	485	194	58	33	182
Hotels, hospitality and food services	914	785	30	897	743	30	15	3	3	18
Transport and storage	1,060	962	33	951	764	28	6	3	-	13
Information and communications	2,491	2,402	50	2,398	1,378	50	19	-	(2)	13
Financial services	13,311	12,961	242	9,764	7,221	242	2	6	2	31
Other business services	2,431	2,256	27	2,388	1,521	27	6	2	-	12
Public and community services	2,351	2,191	48	2,314	1,706	48	21	2	1	10
Total commercial(8)	59,606	56,330	1,545	54,633	38,020	1,539	651	35	39	557
Private individuals - housing loans	22,893	22,292	174	22,893	21,741	174	8	2	6	115
Private individuals - others	29,120	27,112	342	29,094	17,937	342	84	47	24	245
Total public - ectivity in Israel	111,619	105,734	2,061	106,620	77,698	2,055	743	84	69	917
Banks in Israel	946	946	-	481	481	-	-	-	-	-
Israeli government	10,535	10,535	-	659	654	-	-	-	-	-
Total activity in Israel	123,100	117,215	2,061	107,760	78,833	2,055	743	84	69	917
In respect of borrowers abroad										
Public-Commercial:										
Mining and quarrying	12	12	-	-	-	-	-	-	-	-
Industry	259	259	-	228	228	-	-	-	(1)	-
Construction and Real estate - construction	3	3	-	3	3	-	-	-	-	-
Construction and Real estate - real estate activities	49	49	-	49	48	-	-	(4)	(1)	-
Commerce	3	3	-	-	-	-	-	-	-	-
Transport and storage	17	9	8	17	8	8	8	-	-	-
Information and communications	17	17	-	5	4	-	-	-	-	-
Financial services*	939	939	-	189	186	-	-	-	-	1
Total commercial	1,299	1,291	8	491	477	8	8	(4)	(2)	1
Private individuals - others	6	6	-	1	-	-	-	-	-	-
Total public - ectivity abroad	1,305	1,297	8	492	477	8	8	(4)	(2)	1
Banks abroad	3,451	3,451	-	1,443	1,443	-	-	-	-	-
Foreign governments	2,918	2,918	-	-	-	-	-	-	-	-
Total activity abroad	7,674	7,666	8	1,935	1,920	8	8	(4)	(2)	1
Total public	112,924	107,031	2,069	107,112	78,175	2,063	751	80	67	918
Total banks	4,397	4,397	-	1,924	1,924	-	-	-	-	-
Total governments	13,453	13,453	-	659	654	-	-	-	-	-
Total	130,774	124,881	2,069	109,695	80,753	2,063	751	80	67	918

See note on page 58.

I. Total credit risk according to economic sectors (Cont'd)
(NIS million)

	as at December 31, 2015									
	Total credit risk(1)			Debts(2) and off-balance credit risk (excluding derivatives)(3)						
								Credit losses(4)		
	Total	Credit execution rating(5)	Problematic(6)	Total	Of which: Debts(2)	Problematic(6)	Impaired	Expenses (income) for credit losses	Net charge-offs	Provision for Credit losses
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	564	475	12	559	456	12	7	(1)	2	4
Mining and quarrying	273	266	-	75	63	-	-	-	-	-
Industry	10,767	9,622	704	10,450	7,547	704	274	76	33	212
Construction and Real estate - construction(7)	9,443	8,953	218	9,342	3,285	216	64	(69)	(4)	82
Construction and Real estate - real estate activities	4,604	4,389	113	4,460	4,160	113	109	(20)	(23)	21
Electricity and water supply	1,242	1,228	3	669	432	3	-	1	-	3
Commerce	8,525	7,609	419	8,420	7,083	419	253	36	37	158
Hotels, hospitality and food services	816	636	30	815	678	30	14	12	8	17
Transport and storage	859	717	21	826	674	14	6	(17)	6	11
Information and communications	2,359	2,163	63	2,258	1,216	63	22	(30)	(6)	12
Financial services	13,729	13,424	44	10,042	7,400	44	25	2	(5)	22
Other business services	2,140	1,890	26	2,127	1,342	26	10	3	5	11
Public and community services	2,000	1,746	45	1,967	1,464	45	22	(4)	(1)	8
Total commercial(8)	57,321	53,118	1,698	52,010	35,800	1,689	806	(11)	52	561
Private individuals - housing loans	21,724	21,138	194	21,724	20,032	194	10	3	16	119
Private individuals - others	27,115	23,690	304	27,074	16,851	304	76	39	41	221
Total public - ectivity in Israel	106,160	97,946	2,196	100,808	72,683	2,187	892	31	109	901
Banks in Israel	2,149	2,149	-	1,362	1,362	-	-	-	-	-
Israeli government	9,416	9,416	-	670	669	-	-	-	-	-
Total activity in Israel	117,725	109,511	2,196	102,840	74,714	2,187	892	31	109	901
In respect of borrowers abroad										
Public-Commercial:										
Agriculture	13	13	-	13	10	-	-	-	-	-
Mining and quarrying	181	181	-	-	-	-	-	-	-	-
Industry	171	162	9	54	31	9	9	(3)	(3)	1
Construction and Real estate - construction	64	64	-	64	-	-	-	-	-	1
Construction and Real estate - real estate activities	152	138	14	140	138	14	14	(9)	-	3
Electricity and water supply	20	20		-	-	-	-	-	-	-
Commerce	168	167	-	163	107	-	-	-	-	-
Hotels, hospitality and food services	10	10	-	10	10	-	-	-	-	-
Transport and storage	9	9	-	9	2	-	-	-	-	-
Information and communications	55	55	-	6	5	-	-	-	-	-
Financial services*	981	980	-	290	262	-	-	(1)	(1)	-
Other business services	313	313	-	313	83	-	-	-	-	2
Total commercial	2,137	2,112	23	1,062	648	23	23	(13)	(4)	7
Private individuals - others	154	154	-	150	48	-	-	-	-	1
Total public - ectivity abroad	2,291	2,266	23	1,212	696	23	23	(13)	(4)	8
Banks abroad	4,744	4,744	-	2,249	2,249	-	-	-	-	-
Foreign governments	3,244	3,244	-	-	-	-	-	-	-	-
Total activity abroad	10,279	10,254	23	3,461	2,945	23	23	(13)	(4)	8
Total public	108,451	100,212	2,219	102,020	73,379	2,210	915	18	105	909
Total banks	6,893	6,893	-	3,611	3,611	-	-	-	-	-
Total governments	12,660	12,660	-	670	669	-	-	-	-	-
Total	128,004	119,765	2,219	106,301	77,659	2,210	915	18	105	909

See note on page 58.

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

NOTES:
* Of which, NIS 409 million of investments in mortgage-backed bonds (31.12.15 - NIS 510 million).

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 80,753, 15,598, 414, 1,332 and 32,677 million respectively (31.12.15 - NIS 77,659, 16,178, 353, 1,636 and 32,178 million respectively).
(2) Credit to the public, credit to governments, deposits with banks and other debts excluding bonds.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instrument.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank. The increase in the volume of the credit rated in 2015 is explained by improvement in the Bank's credit rating systems.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an provision based on the extent of arrears exists, and housing loans for which an provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(7) Including balance sheet credit risk amounting to NIS 247 million, and non-utilized credit facilities amounting to NIS 700 million, in respect of loans extended to certain purchasing groups currently in the process of constuction (31.12.15 - balance sheet credit risk NIS 397 million and non-utilized credit facilities amounting to NIS 890 million).
(8) The balance of commercial debts includes housing loans in the amount of NIS 2,058 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currencty in the process of constructions (31.12.15 - NIS 2,256 million).

m. Counter-party credit risk management

a. General

Counter-party credit risk is the risk that the counter-party to a transaction will become insolvent before the final settlement date for the payments in respect of the transaction. An economic loss will be caused if transactions with the counter-party have a positive economic value at the time when the counter-party becomes insolvent.

In contrast to credit exposure, in which the exposure is unilateral and the Bank alone bears the risk of a loss, counter-party risk creates a bilateral risk of a loss, dependent on the existence of a positive or negative transaction value for each of the parties to the transaction. Exposure to counter-party risk is also apparent in the transactions' market value. The market value of the transactions may change over the lifetime of the transaction.

b. Policy

The Bank has risk policy and risk appetite at the Group level for activity with banks and investment houses, both at the overall risk appetite level and at the level of exposure to the single counter-party in a particular type of exposure and single transaction, taking due account of the Bank's equity capital and proportion of positions in it and based on parameters derived from the financial resilience of the counter-party.

The Group manages positions in respect of counter-parties by means of netting agreements which significantly reduce the risks to the Group's capital in situations of counter-party repayment default.

As part of its current counter-party risk management, the Bank monitors daily the adherence to the credit line restrictions allocated for activity with banks and investment houses.

c. 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 December, 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-	**945**	**100**	**1,045**	*1,258	3	1,261
A+ to A-	**1,161**	**14**	**1,175**	2,543	17	2,560
BBB+ to BBB-	**205**	**14**	**219**	707	16	723
BB+ to B-	**64**	**-**	**64**	53	-	53
Unrated	**55**	**8**	**63**	33	7	40
Total credit exposure to foreign financial institutions	**2,430**	**136**	**2,566**	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.
(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 27.B 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 322 million on December 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.

Most of the Group’s present credit exposure (86%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 41% of the total exposure is rated in the range between AAA to AA-.

The Group’s balance-sheet credit exposure to foreign financial institutions includes an NIS 0.5 billion investment in foreign currency bonds. All these bonds are investment grade bonds, 81% of which are rated A- or higher. The average duration of the portfolio is two years.

In addition, balance-sheet credit risk includes NIS 1.7 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of December 31, 2016 there is no country for which the Group has credit exposure to sovereigns exceeding 15% of the Bank’s equity capital, which amounted to NIS 1,575 million (as defined in Proper Conduct of Banking Business Regulation No. 202 concerning capital components):

d. Reporting of exposure to counter-party credit risks

Management and the Board of Directors of the Bank and its committees receive a range of reports on the exposure to counter-party credit risks in various cross-sections by management, supervision and control entities.

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 78 million of Italian government bonds rated BBB- and due for redemption in 2017. The interest payments on all of these bonds are being paid as required.

A. Information regarding total exposures to foreign countries 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 December 31, 2016					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	**2,405**	**972**	**405**	**-**	**-**	**-**
Spain	**-**	**4**	**3**	**-**	**-**	**-**
Italy	**78**	**1**	**20**	**-**	**-**	**-**
Ireland	**-**	**-**	**14**	**-**	**-**	**-**
Greece	**-**	**-**	**-**	**-**	**-**	**-**
Portugal	**-**	**-**	**2**	**-**	**-**	**-**
Other	**837**	**2,116**	**1,079**	**245**	**32**	**213**
Total exposure to foreign countries	**3,320**	**3,093**	**1,523**	**245**	**32**	**213**
Total exposure to LDC countries	**-**	**80**	**204**	**-**	**-**	**-**

	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	-	-	-
United Kingdom	-	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	-	-	-

(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.

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

	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
December,31	**December,31**
2016	**2015**
United Kingdom 880	-

C. **Information regarding balance-sheet exposure to foreign countries with liquidity problems** (NIS million)

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

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

n. 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 4,340 million in 2016 compared with NIS 4,799 million in 2015, a decrease of 9.6%. These data include housing loans from the Bank's own sources (excluding credit from Treasury funds) in the amount of NIS 4,337 million compared with NIS 4,796 million in 2015. Rollovers deriving from early repayments in 2016, totaled NIS 336 million compared with NIS 1,173 million in 2015, a decrease of 71.4%.

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 the ratio of the floating interest in the loan mix and on loan size per single borrower. The Bank adopts a particularly cautious approach to properties notable for a complex registration situation, taking due account of the quality of the customer and the LTV.

When granting credit to purchase groups, the Bank focuses on groups that are building in demand areas, and in groups that the orgenizer has an approved experience. Apart from conducting current examinations, the Bank holds a quarterly

discussion on all purchase groups' portfolios, examines the projects in question, and ascertains whether an allowance for credit losses is necessary with respect to the purchase groups, over and above the individual risk of each member of the groups. During the forth quarter the dealing with new and existing purchase groups for housing (above ten housing units) with performance rate lower then 50%, to the construction and real estate sector in the corporate division.
The Bank ensures that each transaction is priced in accordance with the risk involved and the capital retention required by means of advanced yield calculation tools.
The Bank performs monthly control on the development of risks charechteristics, among them: LTV, income-debt ratio, loan purpose etc.

Loan to value

One of the main parameters used by the Bank in examining the risk in the housing loan portfolio is the loan to value ratio (LTV). The LTV is calculated in accordance with the Banking Supervision Division's Directive No. 876- "Report on housing loans," and is the ratio between the amount of credit and the value of the assets serving as collateral on the date at the time the loan is approved. It should be noted that in itself, a rise in the value of the property does not constitute an event for the purpose of re-calculating the LTV. However, when additional credit secured by the same property is granted, the LTV can be calculated on the basis of a revised value appraisal.
The portfolio of housing loans extended from the Bank's sources on December 31, 2016 amounted to NIS 21,624 million, including 71% of credit granted at an LTV of up to 60% compared to 70% on December 31, 2015. 95% of total loans were granted at an LTV of up to 75%, compared to 94% on December 31, 2015.
Housing loan extensions from the Bank's sources in 2016 totaled NIS 4,337 million, including 73% of credit granted at an LTV of up to 60%, compared with 71% in 2015. All loan extensions were granted at an LTV of up to 75%, similar to 2015.

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 December 31, 2016 included 79% of credit granted at a debt-income ratio of up to 35% compared with 78% on December 31, 2015. 90% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, compared with 89% on December, 2015.
Housing loan extensions from the Bank's sources in 2016 included 84% of credit granted at a debt-income ratio of up to 35% compared with 82% in 2015. 92% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% compared with 91% in 2015. This information includes loans secured by residential apartments.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of December 31, 2016 includes 63% of credit that was granted at floating-rate interest and amounts to NIS 13,654 million.
Housing loan extensions from the Bank's sources in 2016 include NIS 1,387 million of credit granted at floating-rate interest of up to five years constituting 32% of extentions. An amount of NIS 897 million (21% 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 December 31, 2016 includes 63% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 13,694 million.
Housing loan extensions from the Bank's sources in 2016 include 50% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 2,167 million.

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

	For residential purposes											Secured by a residential apartment	
	Unlinked segment				CPI-linked segment				Foreign-currency linked segment		Total		Total
	Fixed-rate		Floating rate		Fixed-rate		Floating rate		Floating rate				
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Balance	Balance
	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	NIS million	NIS million
31.12.16	**4,494**	**22.8**	**8,530**	**43.4**	**2,873**	**14.6**	**3,708**	**18.8**	**72**	**0.4**	**19,677**	**1,947**	**21,624**
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)

	2016	2015	2014	2013	2012
Total housing loan extensions (NIS million)	**4,337**	4,796	3,707	3,550	3,744
Rate of change in housing loan extensions compared with previous year	**(10%)**	29%	4%	(5%)	8%
Rate of expense on credit losses relative to mortgages at the Bank's risk	**0.01%**	0.01%	0.01%	0.20%	0.08%
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.55%**	0.60%	0.74%	0.86%	0.76%

o. Private individuals credit risk (excluding housing loans)

General

The banks in the Group grant consumer credit to a variety of households, made up mainly of individuals in employee positions, part of whom in the education system and part in the defense system.The bank provides also services to other private customers on the basis of personal agreements and on the basis of collective agreements.

The granting of credit is based on statistical models for the rating of credit risk, which take into account the personal parameters of each customer, including: his income and and stability of income, financial wealth, his repayment ability and past experience of the Bank with the customer. In 2016, the Group introduced new credit risk rating models, used by the banks both for the direct granting of credit via the Internet, the cellular application and via "International Bank Call", and in the underwriting process of credit at the branches. The credit recommendations derived from the statistical models together with procedures of the Bank based on the credit policy of the Bank and the qualitative and quantitative limitations included therein – shape the proportional risk appetite of the Group as regards the condumer credit field.

The Bank focuses on retail credit, typified by a high level of distribution and a low level of risk, taking into account the fact that the Bank has subsidiaries engaged in the credit field, the Bank operates from a Group viewpoint and acts for the implementation of an orderly work format of the Group, which defines, inter alia, a business focused format for each subsidiary in the Group. The targeted population is mostly a population having stable sources of income, which requires finance in the consumer field and has credit repayment ability, inter alia, salaried persons and those having a fixed income, designated populations having a joint connection on a country-wide level (such as:teaching spersonel, Ministry of Defense personnel, etc.)having repayment ability or realizable collateral.

Teaching personnel loan tender are loans repaid by the direct withholding from salary. Loans to Ministry of Defense personnel are granted within the framework of different tender, reflect the capitalization of rights for interim periods and are characterized by large amounts and long periods. Moreover, within the framework of the terms of the tender, the responsibility of the Ministry of Defense for the repayment of the credit in default cases is determined, thus reducing to a minimum the risk of credit granted to Ministry of Defense personnel within this framework.

The volume of the stated outstanding credit to private individuals as of December 31, 2016, amounted to NIS 17,937 million,in comparison with NIS 16,899 million at the end of 2015, a growth of 6.1%, stemming, inter alia, from attracting new customers.

The average volume of credit, including overdrafts on current accounts, outstanding credit card transaction and loans to private individuals as of December 31, 2016, amounted to NIS 17,756 million, in comparison with NIS 15,505 million at the end of 2015.

The total non-utilized current account credit facilities to private individuals amounted to NIS 3,804 million on December 31, 2016, as compared to NIS 3,757 million at the end of 2015.

The total non-utilized balances of credit card facilities to private individuals as of December 31, 2016, amounted to NIS 5,561 million, as compared with NIS 5,754 million at the end of 2015.

The rate of credit losses and scope of debt arrangement with respect to private individuals are low and reflect both the quality of credit and the quality of the monitoring, control and collection mechanisms. The ratio of credit loss expense in respect of private individuals to total credit amounted to 0.27%, as compared with 0.23% at the end of 2015. The total oustanding balance of troubled debts of private individuals as of December 31, 2016 amounted to NIS 319 million, as compared with NIS 279 million at the end of 2015.

The total balance of debt arrangements out of the troubled credit of private individuals amounted to NIS 71 million at December 31, 2016, as compared with NIS 69 million at the end of 2015.

Description of operations

A. The underwriting of credit to households

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

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

During the course of 2016, the Group implemented the directives of Bank of Israel in the matter of initiated marketing of retail loans.

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

B. The manner of supervising and monitoring risk characteristics

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

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

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

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

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

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

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

p. Construction and real estate sector risks

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

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

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

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

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

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

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

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

(1) Of which: credit secured by housing property in the amount of NIS 5,214 million, Credit secured by industrial property in the amount of NIS 392 million and credit secured by commercial property in the amount of 4,638 million.

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

q. Leveraged Finance

In view of the new Bank of Israel directive no. 327 that started from January 1, 2016, the Bank is changed and matched the definition of leveraged finance in accordance to the Bank of Isarel definitions. In general, leveraged finance is defined as credit granted for financing capital transaction in corporation (as defined in the Bank of Israel directive 323) that meats certain criteria, and credit granted to debtors characterized with high finance leverage. The Bank considers leveraged finance as credit included in one of the four groups as detailed in the risk report in the internet website of the Bank.

In view of the high risk profile imbedded in leveraged finance, the credit policy of the Bank determines strict guidelines for underwriting and restrictions on the volume of exposure to leveraged finance.

As of December 31, 2016 total aggregate balances (balance sheet credit and off-balance sheet credit net of provisions for credit losses and deductible collateral) considered as leveraged finance, ampounted to NIS 1,172 million.

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

MARKET RISK

a. General

1. Market risk (financial risk) is the actual or future existence of a risk to the Group’s income and capital and risk of erosion in the Group's fair value as the result of changes in prices, rates and margins in the financial markets in which it operates or is likely to operate, and which affect the value of the Group’s assets or liabilities: interest rates, exchange rates, inflation, securities prices, volatility in these parameters and changes in other economic indexes.
2. The Bank has a detailed policy for the management of exposure to financial risks. The policy document outlines and details, inter alia, overall financial risk appetite and risk appetite across a single cross-section of risk and principles for activity.

b. Supervision and control of market risk exposure management

The Bank employs a suitable network of control, management, supervision, independent control and audit mechanisms with respect to the market risk management process. The managerial and review concept employed by the Bank is to detect, quantify and estimate exposure to market risks and to control the adherence to the restrictions prescribed.
Market risk management is examined and controlled on a current basis by special committees and forums at the Board of Directors, Management and middle-management grades (as detailed in the risk report in the internet website of the Bank).

c. Reporting of market risk exposures

The Management, the Risk Management Committee and the Board of Directors of the Bank receive a variety of reports on exposure to market risks and in various cross-sections and among other things, development in the risk and in the financial environment and adherence to restrictions. These reports are submitted by management, supervisory and control entities.

d. Risk appetite

The Group's risk appetite reflects proportional willingness of taking financial risks, correcsponding with coutious banking activity, conservative, corresponding with the supervisory requirements and corresponding with the volume of the Bank's activity and its character. In general, the Bank aspires to minimize the financial risks it is taking, and endeavors to create proper profitability while taking low financial risks.
Accordingly, the Bank's policy includes an extensive variety of risk/loss quantity restrictions, proportional to the Bank's capital, and tight control processes and structured working processes in the various control lines of defense.

e. 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, interest exposure management and control tools, such as: duration, fair value, analyses of sensitivity to changes in the interest-rate curve.

f. Interest exposure

General

Interest risk is the actual or future existence of a risk to the Group’s income as the result of a difference between the redemption dates or interest adjustment dates of assets and liabilities in each of the segments of activity. The main shapes of the interest risk to which the Bank is exposued to are: risk of repricing, yield curve risk, basis risk and option risk. Interest risks in respect of the entire portfolio are the dominant risks to which the Bank is exposed in all matters relating to their effect on the fair value of assets and liabilities and its effect on earnings. The Bank manages the interest risks in accordance with the Bank of Israel directive 333, a specific directive in the area of interest risk management with emphasis on the banking portfolio. The Bank implemented policy for the management of interest risk, in accordance with the regulations.

Exposure management

Interest risk exposure is managed by means of adjusting the duration of sources and uses and reducing exposure to erosion in fair value as the result of unexpected changes in interest rates, subject to the limits determined by the Board of Directors. In each segment the exposure for unpredicted change in the interest rate for all periods and different interest senarios is measured, and its potential erosion on the economic value and the accounting profit for 12 months forward, in each of the segments seperately, and all segments together, is measured. The Bank sees in the economic approach the main tool for managing its interest risks. The Bank's principal exposure to interest risks is attributed to financing activity in the non-linked shekel segment and in the CPI linked segment, and results from the characteristics of the investment in those segments, which derive from the range of uses and sources in these segments.

The Bank uses derivative financial instruments part of its assets and liabilities management, including for hedging, in order to minimize the interest risk in specific activities in the nostro portfolios.

Risk appetite

- The interest risk appetite is conservative, as reflects in the restrictions, and the utilization of the exposure limits is conducted according to the Bank's estimates regarding expected interest rates and the structure of the interest curve in different time horizons and subject to the restrictions defined in the financial risks policy.
- The Bank has searies of restrictions on changes in the interest curve and specific restrictions on the extent of interest exposure at the level of the dealing rooms and the interest-risk generating units and restrictions on the maximum erosion in fair value in crisis scenario.

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 housing loans is also taken into account in risk management.

Non-interest bearing current accounts have credit balances at a stable amount over time. The Bank bases on specific model and determined that the redemption period of the stable current accounts will be for several years.

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

	% actual exposure	
	December 31, 2016	**December 31, 2015**
Non-linked local currency	**(0.90)**	(0.24)
CPI-linked local currency	**(1.57)**	(1.69)
Foreign currency and foreign-currency linked	**(0.60)**	(0.74)

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

As of December 31, 2015	Local currency		Foreign currency (2)			
	Non-linked	CPI-linked	Dollar	Euro	Other	Total
						NIS million
Financial assets (1)	91,193	13,423	12,809	2,096	816	120,337
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	5,519	27	114	(11)	(124)	5,525

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

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		Total change in	
	Non-linked	Linked	Dollar	Euro	Other	effects	Total	fair value	
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	5,195	(43)	64	(18)	(125)	-	5,073	(452)	(8.18)
Immediate parallel increase of 0.1 percent	5,486	19	109	(11)	(125)	-	5,478	(47)	(0.85)
Immediate parallel decrease of one percent	5,909	117	166	14	(124)	-	6,082	557	10.08

* Reclassified.

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

(2) Including foreign-currency linked local currency.

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

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

(5) In 2016 including the fair value of actuarial liability to employees in the amount of NIS 1,166 million and not including the value of the assets of the program. Comparative data were not reclassified.

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

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

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Israeli currency - unlinked						
Financial assets, amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets(1)	**75,899**	**4,161**	**3,236**	**4,984**	**3,316**	**3,535**
Derivative financial instruments (except options)	**5,818**	**8,333**	**2,903**	**1,797**	**884**	**908**
Options (in terms of the underlying asset)	**170**	**347**	**546**	**-**	**-**	**-**
Total fair value	**81,887**	**12,841**	**6,685**	**6,781**	**4,200**	**4,443**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**70,386**	**2,187**	**4,550**	**2,980**	**2,004**	**219**
Derivative financial instruments (except options)	**12,571**	**8,870**	**4,428**	**1,977**	**878**	**1,618**
Options (in terms of the underlying asset)	**147**	**167**	**479**	**-**	**-**	**-**
Total fair value	**83,104**	**11,224**	**9,457**	**4,957**	**2,882**	**1,837**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(1,217)**	**1,617**	**(2,772)**	**1,824**	**1,318**	**2,606**
Cumulative exposure in the segment	**(1,217)**	**400**	**(2,372)**	**(548)**	**770**	**3,376**
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)	**746**	**306**	**2,360**	**4,567**	**2,650**	**1,432**
Derivative financial instruments (except options)	**-**	**82**	**82**	**50**	**134**	**27**
Total fair value	**746**	**388**	**2,442**	**4,617**	**2,784**	**1,459**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**968**	**238**	**1,625**	**4,929**	**2,921**	**989**
Derivative financial instruments (except options)	**-**	**99**	**42**	**419**	**16**	**27**
Total fair value	**968**	**337**	**1,667**	**5,348**	**2,937**	**1,016**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(222)**	**51**	**775**	**(731)**	**(153)**	**443**
Cumulative exposure in the segment	**(222)**	**(171)**	**604**	**(127)**	**(280)**	**163**

See notes in page 76.

			December 31, 2016			*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
			NIS million	%	years	NIS million	%	years
1,104	**82**	**145**	**96,462**	**3.26**	**0.71**	91,193	2.84	0.56
-	**-**	**-**	**20,643**		**0.79**	27,889		0.62
-	**-**	**-**	**1,063**		**0.36**	1,151		0.15
1,104	**82**	**145**	**118,168**		(2)**0.72**	120,233		(2)0.57
-	**-**	**-**	**82,326**	**1.12**	**0.22**	76,334	0.99	0.20
-	**-**	**-**	**30,342**		**0.76**	37,057		0.52
-	**-**	**-**	**793**		**0.40**	1,323		0.23
-	**-**	**-**	**113,461**		(2)**0.36**	114,714		(2)0.30
1,104	**82**							
4,480	**4,562**							
666	**74**	**-**	**12,801**	**3.15**	**3.18**	13,423	2.50	3.36
-	**-**	**-**	**375**		**2.38**	450		2.88
666	**74**	**-**	**13,176**		(2)**3.15**	13,873		(2)3.35
124	**8**	**-**	**11,802**	**1.11**	**2.82**	12,884	0.95	2.81
-	**-**	**-**	**603**		**1.56**	962		1.84
124	**8**	**-**	**12,405**		(2)**2.76**	13,846		(2)2.74
542	**66**							
705	**771**							

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

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Foreign Currency(4)						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets(1)	**4,928**	**1,629**	**3,075**	**1,823**	**532**	**1,585**
Derivative financial instruments (except options)	**22,750**	**10,355**	**5,569**	**799**	**215**	**467**
Options (in terms of the underlying asset)	**179**	**217**	**535**	**2**	**-**	**-**
Total fair value	**27,857**	**12,201**	**9,179**	**2,624**	**747**	**2,052**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**18,984**	**1,855**	**2,014**	**203**	**13**	**30**
Derivative financial instruments (except options)	**15,187**	**7,096**	**4,241**	**1,195**	**619**	**1,939**
Options (in terms of the underlying asset)	**201**	**388**	**603**	**2**	**-**	**-**
Total fair value	**34,372**	**9,339**	**6,858**	**1,400**	**632**	**1,969**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(6,515)**	**2,862**	**2,321**	**1,224**	**115**	**83**
Cumulative exposure in the segment	**(6,515)**	**(3,653)**	**(1,332)**	**(108)**	**7**	**90**

See notes in page 76.

Ten to twenty years	Over twenty years	With no repayment period	December 31, 2016 Total fair value	Internal rate of return	Effective duration	December 31, 2015 Total fair value	Internal rate of return	Effective duration
			NIS million	%	years	NIS million	%	years
21	**1**	**-**	**13,594**	**2.15**	**1.31**	15,721	2.32	1.18
-	**-**	**-**	**40,155**		**0.24**	46,203		0.31
-	**-**	**-**	**933**		**0.37**	1,835		0.16
21	**1**	**-**	**54,682**		(2)**0.51**	63,759		(2)0.52
5	**-**	**-**	**23,104**	**1.33**	**0.09**	25,561	1.14	0.09
-	**-**	**-**	**30,277**		**0.68**	36,573		0.69
-	**-**	**-**	**1,194**		**0.32**	1,646		0.10
5	**-**	**-**	**54,575**		(2)**0.42**	63,780		(2)0.43
16	**1**							
106	**107**							

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)	**81,573**	**6,096**	**8,671**	**11,374**	**6,498**	**6,552**
Derivative financial instruments (except options)	**28,568**	**18,770**	**8,554**	**2,646**	**1,233**	**1,402**
Options (in terms of the underlying asset)	**349**	**564**	**1,081**	**2**	**-**	**-**
Total fair value	**110,490**	**25,430**	**18,306**	**14,022**	**7,731**	**7,954**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**90,338**	**4,280**	**8,189**	**8,112**	**4,938**	**1,238**
Derivative financial instruments (except options)	**27,758**	**16,065**	**8,711**	**3,591**	**1,513**	**3,584**
Options (in terms of the underlying asset)	**348**	**555**	**1,082**	**2**	**-**	**-**
Total fair value	**118,444**	**20,900**	**17,982**	**11,705**	**6,451**	**4,822**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(7,954)**	**4,530**	**324**	**2,317**	**1,280**	**3,132**
Cumulative exposure in the segment	**(7,954)**	**(3,424)**	**(3,100)**	**(783)**	**497**	**3,629**
In addition, exposure to interest rates in respect of liabilities for employee rights, gross - pension and severance pay	**9**	**22**	**78**	**245**	**167**	**247**

* Reclassified.

Notes:
- Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance-sheet items, will be provided upon request.
- In this table, data by period reflect the present value of future cash flows of each financial instrument, discounted by the interest rate used for deduction to the fair value, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 32.A. to the Financial Statments.
- The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect thereof.
- The effective average duration of a group of financial instruments constitutes an approximation of the change, in precent, in the fair value of the group of financial instruments which whould be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

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

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

Ten to twenty years	Over twenty years	With no repayment period	December 31, 2016 Total fair value	Internal rate of return	Effective duration	December 31, 2015 Total fair value	Internal rate of return	Effective duration
			NIS million	%	years	NIS million	%	years
1,791	157	1,005	123,717	3.07	1.04	121,531	2.62	0.95
-	-	62	61,235		0.44	74,772		0.44
-	-	564	2,560		0.36	3,617		0.15
1,791	157	1,631	187,512		(2)0.83	199,920		(2)0.75
129	8	679	117,911	1.12	0.46	115,710	0.97	0.47
-	-	62	61,284		0.73	74,822		0.62
-	-	564	2,551		0.35	3,600		0.16
129	8	1,305	181,746		(2)0.55	194,132		(2)0.52
1,662	149							
5,291	5,440							
310	88	-	1,166	1.70	14.95			

g. Basis exposure

General

Basis exposure is created as a result of unmatching in timing, in the basis of measurement and the investment amount with or without hedging activities.

Since capital is defined as a non-linked shekel source under accounting principles, the investment of capital in a segment other than the non-linked shekel segment (the CPI segment and the foreign currency denominated and linked segment) is defined as basis risk exposure.

Exposure management

- Management of the basis risks and the investment in active capital (defined as shareholders' equity plus minority interest and less non-monetary items, net) in the different linkage segments is based on current assessments and forecasts by various management entities at the Finance Division regarding developments in the money and capital markets.
- The composition of the investment of active capital in the different linkage segments is managed on a current basis subject to the restrictions presented below, and on the basis of forecasts regarding the relevant market variables when exploiting price differences between the cost of sources and the yield on uses in the different linkage segments and the feasibility of long or short positions in each and every segment of activity.
- In its linkage base management, the Bank uses derivative financial instruments as a means of neutralizing the exposure to linkage basis and interest risks.

Risk appetite

- The Board of Directors of the Bank has determined restrictions on the permitted positions (surplus or deficit) in assets and liabilities and the exposure of active capital
- Apart from determining restrictions on overall risk appetite to basis risks at the active capital exposure level, Management of the Bank has prescribed individual restrictions on the extent of basis risk exposure at the level of the dealing rooms and the units that generate basis risks.

Actual basis exposure

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

	Active Capital		% of active capital	
	As of December 31,		As of December 31,	
	2016	2015	**2016**	2015
Non-linked local currency	**4,943**	5,290	**85**	96
CPI-linked local currency	**814**	197	**14**	4
Foreign currency and f-C linked	**78**	(10)	**1**	-

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 December 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	**(4)**	**4**
10% decrease	**(9)**	**9**
5% increase	**8**	**1**
10% increase	**20**	**7**

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.

h. Option risk

General

Option risk is the risk of a loss deriving from changes in the parameters that affect the value of options, including implied volatility.

Risk appetite

- The Bank's foreign currency dealing room trades in a variety of financial products, including options. Apart from the restrictions set on the amount of basis and interest-rate exposure, and in view of the sensitivity of options' economic value to changes in linkage bases, interest rates and especially to changes in the volatility of the underlying assets, the Board of Directors has determined additional restrictions for the dealing room's activity in options.
- The Board of Directors of the Bank has determined restrictions with respect to activity permitted in options in terms of maximum loss under defined scenarios. The scenarios refer to simultaneous changes in the exchange rate and in the volatility of the underlying assets. The Board of Directors has also determined restrictions on the maximum changes in the value of the options portfolio in terms of sensitivity indexes (Greeks), and the maximum erosion in the fair value at crisis scenario..

Exposure management

Tools for the management of exposure to options risks include a Vol-Spot sensitivity matrix, which presents the exposure deriving from a combination of scenarios on the exchange rate and volatility. Also used is an RHO interest-rate curve risk exposure scenario, which examines the change in the value of the position in the event of 1% fluctuations in the interest curve. In addition, the Bank uses a Weighted Vega model for the management of exposure to volatility risk.

i. Management of risks in derivative financial instruments

General

The Bank operates in a variety of derivative financial instruments as part of risk management policy (base, currency and interest exposures), and as a service to its customers. These instruments include options (including option tracks), which is the area of activity with the higher element of market risk. In this respect, the Bank is mainly active in options on the exchange rates of a number of foreign currencies against the shekel.

Rist appetite

The Bank has a policy for the management of risks in derivative instruments, including activity volumes of option tracks containing “implied” options, and the level of the maximum loss under certain scenarios in respect of the options in which the Bank acts as a market maker.

Investment in various derivative instrument is carried out after the measurement of each instrument and its adjustments to the financial needs of the Nank and its ability to operate in an optimal manner, as well as its ability to monitor the risk attached to it, both in the market risk and in the credit risk for transactions were the Bank acts on behafe of its customers.

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 December 31, 2016	As of December 31, 2015
Hedging transactions:		
Interest rate contracts	**2,943**	2,350
Foreign currency contracts	**241**	402
ALM and other transactions:		
Interest rate contracts	**15,521**	16,924
Foreign currency contracts (including spot)	**67,171**	79,112
Contracts on shares, share indexes, commodities and other contracts	**63,020**	105,192
Total derivative financial instruments	**148,896**	203,980

Supervision and control of management of derivative instrument risk

The Bank’s activity in derivative financial instruments on its own behalf is controlled and supervised by the lines of defense and the exposures are reported in the risk report document.

SHARE PRICE RISK

Risk review and the way of managing it

The investment in shares and instruments reflecting share risk, is designated to improve the risks diversification and to vary the sources of income for the mediate-long run in investing the free capital. The investment is carried out as a rule in Israeli shares traded in the TA 100 and leading share indices abroad, while performing due diligence on the worthwhileness of the investment prior to the requisition.

Risk apetite

In addition to the regulatory restrictions regarding the volume of investment permitted to banking corporation in non-financial entities, the Board of Directors defined risk apetite for activity in shares. The Board of Directors established restrictions on the amount of investment, the mix of the investment- including restriction on the currency exposure and economic segments restrictions.

For qualitive and quantetive information regarding share price risk provided in accordance with the disclosure requirements of pillar III of Basel, and additional information regarding risks - see additional supervisory disclosure and report on risks on the Internet website of the bank.

LIQUIDITY RISK

a. General

Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, unexpected withdrawals of deposits from the public, unexpected demand for credit, uncertainty regarding the availability of sources, including sharp decline in the value of assetsavailable to the Bank. Materialization of the risk might effect the Bank profitability and might endanger the stability of the Bank.

b. Risk management policy

The Bank applies a comprehensive policy for the management of liquidity risk in accordance with the requirements of Proper Conduct of Banking Business Directives Nos. 342 and 221.

The policy includes, inter alia, restrictions of the liquidity coverage ratios, internal liquidity ratios in ordinary scenarios and in stress tests including the survival range, and on the cash flows, and reference to measurement tools, the supervision and control and the reporting mechanisms that have to be maintained as part of the current liquidity risk management. Furthermore, the Bank has established a methodology assisting the identification of a liquidity crisis at the Bank, this in order to ensure the ability of the Bank to withstand the challenges arising from current business management, and those which might arise in case of pressure situations in the financial markets.

c. Risk appetite

The Bank and the Group endeavors to sustain appropriate inventory of assets, concurrect with the management of uses that will produce income to the Bank.

The Bank attributes great importance to the conservative though active liquidity management of the Bank. The Bank's and the Group's risk appetite in this aspect is conservative and is expressed in the structure of assets and liabilities, in the maintenance of management, control and supervision tools allotted to this matter, and in the management and control layouts in charge of management of this risk.

Liquidity coverage ratio in accordance with Proper Conduct of Banking Business Directive No. 221

The Bank calculates the LCR (Liquidity Coverage Ratio) in accordance with Proper Conduct of Banking Business Directive No. 221, dated September 28, 2014, in the matter of liquidity coverage ratio, which adopts the Basel Committee recommendations as regards liquidity coverage ratio by the banking sector in Israel.

The liquidity coverage ratio is a Standard intended to improve the short term resilience of the liquidity risk profile of the banking corporations, ensuring it by way of a requirement that banking corporations should maintain an adequate and non-pledged amount of high quality liquid assets (HQLA), which may be converted into cash in a fast and easy manner on private markets, so as to provide response to liquidity requirements in stress situations, which combines a specific shock to the bank and to the banking sector as a whole, and which continues for thirty calendar days.

The Standard states a specific framework for the computation of the liquidity coverage ratio with the aim of creating uniformity on an international level.

The ratio applies as from April 1, 2015, with a minimal requirement for an overall liquidity coverage ratio and a liquidity coverage ratio in foreign currency of 60% rising to 80% on January 1, 2016, and to 100% on January 1, 2017 and thereafter.

The liquidity coverage ratio contains two components:

(a) The value of high quality liquid assets (HQLA) under stress tests.

(b) Total net cash outflows during the next thirty calendar days, computed according to the parameters of the stress test.

The ratio is computed as a proportion of the high quality liquid assets to the total net cash outflow during the next thirty calendar days.

The Bank adhere in all the risk restrictions, regulatory and internal for 2016.

The Bank calculates on a daily basis the LCR for the Bank solo, monitoring the coverage ratio at its subsidiaries and calculates on a monthly basis (in accordance with the transitional directive) the consolidated LCR. When calculating the consolidated LCR, restriction that might occur on transfer of liquidity from the susidiaries, at crisis period, are taken into consideration.The LCR at the banking entity solo is reported as the average of the daily observations, and the consolidated LCR is reported as the average of the three monthly observations. As part of the policy of management of financial risks, the Board of Directors adopted an internal restriction, which is stringent than the regulatory restriction for LCR, both for the banking entity solo and consolidated.
The LCR in simple average terms of three months observations for the last three months ended om December 31, 2016 was 123% consolidated and 120% in the Bank (in terms of simple average of daily observations).

d. Supervision and control of Liquidity risk exposure management

The control concept applied by the Bank is that of identification, quantification and assessment of risk and control of adherance to restrictions currently prescribed by the procedures, both by exposure managers and by independent control and audit functions, with a view of ensuring the ability to face also exceptional demand and supply situations in the financial markets.
Liquidity risk exposure management is being tested and controlled on a current basis by designated committees and forums at the levels of the Board of Directors and Management in the first, second and third lines of defense.

e. Reporting on exposure to liquidity risks

- A daily liquidity report in shekels and in foreign currency is produced.
- Reporting on shekel and foreign currency liquidity risk positions in comparison with the activity frameworks and restrictions determined by the Board of Directors and authorities for their management are reported three times a week at the Current Matters Committee, which is headed by the CEO or by the head of the Finance Division.
- Reporting on positions is collated in the quarterly "risks document," and current brief on the exposure to liquidity risks as necessary.

f. Management of liquidity risk on a Group basis

The banking group of the First International Bank consists of a number of banks having different operating nature and different liquidity requirements. According to the Bank of Israel regulations, each subsidiary is responsible to maintain independence policy of short term liquidity risk management (up to 12 months) and long term, while fulfilling the directives of the regulatory authority.
In order to face this situation, the Group conducts a followup of the liquidity situation both at the Group level and at the individual bank level - each bank according to its needs and in accordance with the structure of its assets and liabilities and nature of its operations.
Each of the subsidiaries adhere to a liquidity coverage ratio of it own. There are no material restriction or limitations on transfering funds within the group over the general restrictions applying to performing transactions of any kind.

Liquidity position and the composition of assets and liabilities

The liquidity assets at the group, which includes cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 43.3 billion on December 31, 2016, similar to the end of 2015. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 29.2 billion, and NIS 14.1 billion were invested in securities, principally Israel government bonds.
The ratio of deposits from the public to credit to the public, net on December 31, 2016 amounted to 136.8% compared with 142.3% on December 31, 2015.
At the end of December 2016, deposits from the public, bonds and subordinated notes totaled NIS 111.6 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.
In the non linked Shekel segment and in the foreign currency segment, the Bank has sources in a contractual duration for a short- medium terms, which the Bank anticipate that they will be stable for a long period of time. The uses in these segments are both for short term and medium- long term.
In general, the currency exposures of the Bank in the foreign currency segement are low (see the chapter on market risk).
In the CPI linked segment, both sources and uses are for medium-long terms. A slight change in the CPI does not have a material effect on the exposures of the Bank.
The CPI exposure of the Group as of December 31, 2016 amounted to NIS 814 million.

For information regarding details of assets and liabilities according to currency and maturity date- see note 31 to the financial statements.

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

	As of December 31	As of December 31
	2016	**2015**
		NIS million
1	**3,308**	3,369
2	**1,856**	3,742
3	**1,423**	1,921

FINANCING RISK

a.General

Financing risk derives from the unexpected rise of financing cost, when financing sources are refinanced or paid and exchanged by new financing sources which are more expensive, or when the Bank has to realize uses as a result of lack in available sources.

The financing risk at the Bank is managed as part of the liquidity risk management. The Bank has diversified financing sources mainly deposit from the public, which the major part comes from retail and small businesses customers. These kind of deposits are considered low liquidity and financing risks, compared with other sources. The deposits are taken from a numerous depositors and without material dependency on a single depositor or group of depositors. Most of the sources are raised from the Israeli public, with major part being from retail customers. The Bank emphsises great importance to raise stable and long term sources.

This risk is monitored by short/long model that restricts the volume of long sources in Israeli currency and foreign currency allthough these are given in a floating interest rate and/or the interest rate implied in them is neutralized by swap transaction that changes fixed interest rate by floating interest rate.

b. Short-long model in floating-rate local currency

During the last years an exposure exists in the floating interest non-linked shekel segment, due to demand for mortgages in this segement. This activity is financed partly from floating-rate short-term sources. The main risk to the Bank is an increase in source-raising margins in the time of funds raisings. A restriction, which is examined from time to time, has been set on the maximum loss resulting from an increase in the cost of raising sources. In addition, a regulatory restriction exist, according to which the ratio between the gloating rate housing loan (bearing interest that might change in a period shorter than five years), to the total housing loan will not exceed one third of the housing loan.

c. Short-long model in the foreign-currency segment

The Bank's activity in foreign-currency ALM is notable for the creation of long-term uses, mainly by the nostro portfolio, financed by short-term sources. The interest rate exposures are usually hedged by swap transaction that change fixed interest rate by floating interest rate, however the financial risk is not hedged but restricted by short-long model.

In this framework a restriction, which is examined from time to time, has been set on the maximum loss resulting from an increase in the cost of raising sources in foreign currency.

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.

OPERATIONAL RISK

a. General

According to the definition of Proper Banking Management directive 350, operational risk is the risk of loss resulting from the impropriety or failure of internal processes, persons or systems or resulting from external events. The definition includes froad and embezzlement risks and legal risk, but does not include strategic risk or reputation risk. (The various aspects of legal risk exposure and management are discussed extensively in a separate section).

b. Policy

The Board of Directors of the Bank has prescribed an overall and comprehensive policy for the management of operational risks, in accordance with Proper Conduct of Banking Business Regulations 310 and 350,setting the risk appetite and outlining the control environment, the corporate frameworks and the managerial functions that will be operated for the purpose of managing and minimizing exposure to operational risks at the Bank and the Group. The policy also prescribes risk identification, assessment, control and monitoring mechanisms, and the reporting systems.

c. Exposure management

1. Detection, mapping, minimization and monitoring of risk

Operational risks are unseperable part of all types of business activities of the Bank, the processes of the organizational units and crosswise processes and supporting systems. A basic component in the risk management plan of the Bank is effective and pro-active management of the operational risks, including frauds, embezzelements and unethical behaviour.

The operational risk mapping and identification review is one of the main methods for controlling and supervising these risks. The review includes the mapping and documentation of the business processes, the processes of organizational units and crosswise processes, identification of the operational risks and controls in these processes, including fraud, embezzelement and ynethical behaviour risks.

In addition, and as part of the monitoring and control infrastructure key risk indicators have been defined at the Bank for the early detection of changes in the risk map.

2. Failure event collation

The Bank collates and documents loss events (events that caused or nearly caused a loss/profit, provision for lawsuit) for the purpose of data base for quarterly and annual analysis of trends and risk centers, for presentation to Management and the Board of Directors for estimating the operational risks in business processes and at the organizational units, and for keeping a history of shortcomings, learning lessons and improving processes.

The Bank also conducts a lesson learning process for significant external events reported in the media.

3. System for measurement, estimation and management of operational risks

The Bank manages the risks map by means of software, supporting the methodology of management of the operational risks. The centeral data base of the software, includes the information of the organizational structure and the mapping and documentation of the processes in the Bank.

d. Business continuity planning

Bank of Israel directives require the banks to take action in order to assure business continuity in an emergency. In accordance with the directives of Proper Conduct of Banking Business Regulation 355 on the subject, the Bank has made the appropriate preparations for disaster recovery and business continuity in the event of emergencies. The Bank makes preparations that are comprised of several layers: formulation of a comprehensive policy document on business continuity, a working framework document detailing suitable technological infrastructures, compilation and assimilation of comprehensive plans of action and a supporting system of procedures, and exercises simulating emergency situations. The Bank has a group emergency situation room and a group emergency assessment forum under the authority of the Head of the Risk Management Division, who collates this activity at the entire Group. The forum is responsible for applying policy and procedures, and for monitoring the Group's preparations for emergencies, and convenes at least once a quarter. Management and the Board of Directors hold quarterly discussions on business continuity and preparations for emergencies. The Bank upgrades its business continuity planning on an ongoing basis. In this respect, revisions are made of all critical activities and resources required in an emergency, and the emergency scenarios and policy document are updated accordingly.

e. Information security

Management and Board of Directors of the Bank have prescribed a detailed policy on the matter of information security policy. The Bank conducts all the required surveys and outlines for compliance with Proper Conduct of Banking Business Regulation 357. The Bank has made all the preparations required in Bank of Israel directives concerning the social media. The Bank has appointed an information security manager who is responsible for the management of information security risks.

Implications of information security risks and cybernetic incidents

Cybernetic attacks are carried out with the aim of causing large-scale damage by harming strategic services. The damage expected from such attacks could adversely affect the credibility, propriety and confidentiality of the Bank's information and the operative readiness of its systems. This damage could harm the business activity of the Bank and have a direct impact on the activity of its customers.

In order to cope with cybernetic attacks, in addition to overall information security activity, the Bank maintains a specialized, comprehensive network for protecting against such attacks. This defense network includes technical devices and processes for reducing the vulnerability of the Bank's infrastructures, on the basis of special attack scenarios defined by the Cyber defence Manager.

During 2016 attack atempts were performed but the Group did not experience cybernetic attacks with a material effect on the functioning of the Group.

In accordance with Proper Conduct of Banking Business regulation 361 concerning management of cyber defense, Management and Board of Directors of each banking entity in the Group defined the strategy of defending cybernetic attacks and the policy of the defence from cybernetic attack for the banks in the gorup.

f. Supervision and control of operational risk management

The Bank maintains a suitable system of mechanisms for the control, management, supervision and audit of the operational risk management process. Operational risk management is examined and reviewed by the Board of Directors, Management and the middle-management grades, as detailed in the risks report at the internet website of the Bank.

For qualitive and quantetive information regarding operation risk provided in accordance with the disclosure reuirements of pillar III of Basel, and additional information regarding risk - see sub-chapter "Additional supervisory disclosure" ine the Cahpter "Financial Information" on the Internet website of the bank.

LEGAL RISK

a. General

Legal risk is included in operational risk as defined in the Proper Conduct of Banking Business Regulations 350 ("Operational risk management") and includes, but is not limited to, "exposure to fines and punitive damages as the result of supervisory activity as well as private settlements." The Bank adopts an expanding approach to this definition and includes under legal risk the risk deriving from failure to observe legal directives, including regulatory directives, the risk of a loss resulting from the inability to legally enforce an agreement, risks deriving from activity without legal backing/legal advice vis-à-vis the customer, suppliers and/or other parties, risks involved in legal proceedings, and other risks that could expose the Bank to lawsuits, as well as fines and sanctions.

b. Risk appetite

The Bank adopts a conservative policy of a low risk appetite with respect to the conclusion of legal agreements and commitments, and carries out its business activity with suitable legal assistance and support, with strict insistence on compliance to all legislative and regulatory directives and the restrictions and obligations derived from them. Without detracting from the aforesaid, the Bank will adopt a policy of zero tolerance in all matters concerning risk resulting from the violations of the provisions of law which constitute a criminal offense or an administrative offense.

c. Policy and exposure management

The Bank operates in accordance with a legal risk management policy, detailed in this respect are legal risk and ways of identifying, mapping and minimizing it.

The Bank's Legal Department monitors developments in legislation, regulation, standardization and in court rulings which could affect the current activity of the Bank, and provides consulatation, back-up and legal support to the Bank and its different units. The Bank endeavors to minimize risks on the basis of these developments and their implications.

The legal department also acts to identify legal risks in advance, including by means of examination of any new product or activity, compiling all of the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.

The periodic review of operational risks includes an examination of the activities of the Legal Department. Risks identified are assessed, measures for mitigating them are stipulated and lessons are learned to prevent any recurrences.

d. Reporting on legal risk exposure

- Exposures to legal risks are collated and reported in the quarterly Risks Document
- On the occurrence of a material event of a legal nature, such as a lawsuit or the materialization of legal risk, an immediate report on the event, the extent of its impact and the manner of its impact on the Bank is submitted to the Legal Risks Manager. Any such material events are reported immediately to the Bank's CEO.

e. Group management of legal risk

The Legal Department operates as a head office unit of the Group for the management of legal risks, and is responsible for defining group legal risk management policy.

Material legal risks at the Group are reported to the Manager of the Legal Department, in both immediate and periodic reports. A Group Legal Risk Management Committee has been established, which convenes regularly to discuss material legal issues and exposures.

OTHER RISKS

RISK MANAGEMENT IN THE FOREIGN-CURRENCY SECURITIES PORTFOLIO-MARKET AND INDEBTEDNESS RISKS

a. The Board of Directors of the Bank have determined in the the financial risk policy document detailed policy and risk appetite with respect to the Bank's activity in the foreign-currency and Shekel securities portfolio, and have also determined investment restrictions and guidelines from the credit aspects and from the aspect of exposure to counter-party risks and to market risks. This policy is examined by the Board of Directors and its committees at least once a year, and in a more dynamic manner on the basis of developments in the financial markets.
b. The Bank invests only in the bonds of companies that have been rated investment grade minimal as of the purchase date, as set in the policy of management of financial risks after examining the quality of the issuer's credit, the market risks inherent in the investment and the bonds' liquidity.
c. Once an investment is made and as part of the management of the risks in the foreign currency and Shekel securities portfolio, the Bank monitors the macroeconomic and sector-specific developments relevant to its investments.
d. As part of the risk management supervision and control mechanisms, the Bank has devised a format for reporting on the nature and the extent of the positions in the securities portfolio managed. Reports are sent to the decision-making entities and to the control entities. The main elements of the Bank’s reporting format are:
   - Immediate reporting on discovery of a deviation from restrictions and procedures.
   - An immediate report on the opening of margins, a change in rating and any other exceptional event in the portfolio, and as necessary.
   - A twice-weekly investment meeting, chaired by the Head of the Finance sub-Division.
   - A weekly report to the Current Matters Committee chaired by the CEO on new purchases, sales and exceptional events.
   - At least one in two months discussion headed by the CEO, on the composition of the portfolio, developments in exposure and trends in the financial markets.
   - A report six times a year to the Board of Directors’ Risk Management Committee.
   - A quarterly report within the framework of the overall risks document.
   - A report from time to time to the ALCO Committee, which is chaired by the CEO and with the participation of the Chief Risk Officer.

   See the section on the composition and development of the Bank Group's assets, liabilities, capital and capital adequacy for details of the securities portfolio.

COMPLIANCE RISK

a. General

- Proper Conduct of Banking Business Directive 308, published by the Supervisor of Banks, requires the banks to observe the consumer regulations applying to the banks' relationships with their customers. On June 3, 2015, Bank of Israel published an amendment to Proper Conduct of Banking Business Directive 308 - "Compliance and the compliance function in a banking corporation", which took effect on January 1, 2016.

  The principal changes are based on the guidelines of the Basel Committee of April 2005 in the matter of compliance and the compliance function at banks, on modifications to requirements of foreign authorities and on modifications to local regulations. Moreover, the Directive extends the duty of compliance to all legislation and to all conduct rules applying to the different banking operations of a bank.
- Compliance risk is the risk of imposition of legal or regulatory sanctions, of a material financial loss or damage to image which a bank may sustain as a result of violation of compliance rules.
- The compliance rules, as defined in the amendment to Directive 308 mentioned above, comprise a set of laws, regulations, regulatory instructions (for this matter also positions taken by the Supervisor of Banks in dealing with public complaints), binding legal precedence, internal procedures and the ethical code applying to the banking activity of a bank.
- The duties applying to the Bank are cross-organization duties relating to a large variety of operations, procedures and products, conducted by the Bank on a daily basis.
- The Bank has adopted an internal enforcement program for the securities laws which is based on a comprehensive mapping of the relevant law orders and the Bank's procedures and processes, and prescribes procedures and guidelines for the continuing application of the program. This is in accordance with the criteria which the Securities Authority issued on the subject.
- The Bank established the Compliance Department (hereinafter - "compliance function" or "the function"), which is subordinate to the Head of the Risk Management Division (CRO). The function is headed by the Chief Compliance Officer, who is also responsible for applying the legislation connected with the prevention of money laundering and financing of terrorism, and for administrative enforcement at the Group. Also, the chief compliance officer was appointed as RO (in charge) of the implementation of the FATCA directive in the Bank.

b. Policy

The Board of Directors prescribed and approved a Group compliance policy. The Bank has revised the compliance policy in accordance with the new Directive, whithin the framework of which, it determined, inter alia, the structure of the compliance function, the various factors involved in the implementation of the policy, allocation of responsibilities for the control in the second line of defense of the various compliance requirements, in accordance with the rules prescribed in the Directive, etc.

c. Risk appetite

The Bank and the Group have adopted a policy of scrupulous insistence on matters relating to compliance risk. With respect to infringement of the provisions of the law and the Bank's procedures relating to the provisions of the law, the Group will monitor the compliance directives applying to it and will ensure that all of the Group's employees act in accordance with them. All of the Group's transactions will be conducted in accordance with the Bank's procedures, the ethical code and all laws and regulations. The Group endeavors to assimilate an organizational culture of honesty and ethical standards as an essential basis for the existence of a compliance culture at all levels of the organization,

d. Exposure management

- The function is responsible for collating control at the Bank over adherence to the compliance rules under its responsibility, in accordance with the compliance policy and the annual work program, and for reporting on deficiencies and gaps to all echelons of authority at the Bank.
- An infrastructures review was conducted in which consumer directives were mapped, and controls for preventing the risk of their violation were defined. The review's findings show that the Bank has an extensive infrastructure that includes a considerable amount of forms, procedures, and control and instruction systems and mechanisms that are aimed at assisting the Bank in adhering to the compliance requirements applying to it. During 2016 a comprehensive infrastructure review has been started, concerning the various compliance matters and includes beyond the directives in regulation 308, also the regulations from the cross borders risks, FATCA, anti money laundering and internal enforcement in securities regulations. The review is expected to end by the end of the first quarter of 2017.
- Working alongside the Chief Compliance Office are:
  - Compliance supervisors at each of the Bank's branches and the head-office.
  - A compliance enforcement coordination committee that includes representatives of the Bank's different units.
  - A forum for monitoring the application of statutory directives, that monitors the implementation of the new compliance directives as well as discusses proposed drafts of directives, Bills, Bill Memorandums, etc.

e. Exposure reporting

- Once in every quarter, the Compliance Officer reports to the Management of the Bank, on his activity during the past quarter. The detailed reporting includes a summary of the function's activity, recommendations, details on violations of compliance directives which were identified in the course of the period reported, recommendations regarding the measures that need to be taken with respect to violations and preventing their recurrence, and the Bank's preparations for applying a new compliance directive, as well as an annual detailed report summarizing his activity in the previous year.
- In addition, immediate reports are defined in the compliance policy prescribed by the Board of Directors.

f. Management of compliance risk on a group basis

The Chief Compliance Officer acts as the Head Office unit of the Group in the matter of management of compliance risks, and it is his responsibility to verify the implementation of the policy of the Group in the matter of compliance by the banking subsidiaries in Israel, providing guidance and assistance to the subsidiary companies in developing systems, the writing of procedures, training of staff and integration of the instructions. Each banking subsidiary has its own compliance officer.

g. Conduct risk management

The Group is requested to implement the values of fairness and transparency in its activity with its customers and to strengthen this values in its daily operations. In general, the group is requested to ensure that the proposal that are given to customers are customed to their needs. Failing to meet the conduct risk expose the group to different risks, among others, compliance risks, legal risk, reputation risk etc. At the end of 2016 the policy regarding proper business conduct (conduct risk) was approved.

MONEY LAUNDERING AND TERROR FINANCING PROHIBITION RISK

a. General

- Money laundering and terrorism financing prohibition risk (hereinafter: "money laundering/AML") is the risk of significant financial sanctions being imposed on the Bank due to failure to adhere to the provisions of the law in the matter of money laundering prevention and prohibition of the financing of terrorism, and the risk of the corporation and its employees being subject to criminal liability. In addition, the commitment of an offence under the provisions of the law in the area of money laundering and terrorism financing prohibition could result in the materialization of reputation risk.
- The banking sector is subject to directives concerning the prevention of money laundering and the financing of terrorism which include inter alia the Money Laundering Prohibition Law, the Financing of Terrorism Prohibition Law, the Money Laundering Prohibition Order, the Financing of Terrorism Prohibition Regulations, Proper Conduct of Banking Business Regulation 411 and various circulars.

b. Policy

The Board of Directors of the Bank approves once a year the Group's money-laundering and terrorism financing prohibition policy document.

c. Risk apetite

- The Bank group applies stringent policy to assure precise application of the law and suitable knowledge of the customers with which the Bank conduct its business, including understanding its business conducted with the Bank or by the Bank, imparative for money laundering prevention and terror finance by the Bank and for the proper management of the Bank.
- The policy in the area of money laundering prevention includes clear definision of prohibitions in relation to activity with entities and countries against which there are restrictions.

d. Exposure management

- Policy and procedures are compiled and updated in accordance with changes in legislation and the provisions of the law, development and conduct of controls to ensure that the Bank is implementing the law and reports the necessary reports, sending reports on unusual transactions to the Money Laundering Prohibition Authority, and examining the application of the Bank's policy at all the auxiliary corporations in the Group and conducting and/or reviewing the existence of instructional sessions to money laundering prohibition officers and all employees, which increase the awerness to the subject.
- In order to apply the law and assiduously assimilate its provisions, the Bank has appointed compliance supervisors who also serve as money laundering prohibition supervisors at the branches responsible for current money laundering prohibition and terrorism financing prohibition activity in accordance with policy and procedures. These supervisors are selected from among the Bank's authorized signatories, and in the area of money-laundering prohibition are professionally subordinate to the Money Laundering Prohibition Officer.
- The Bank inspects data quality by means of control reports that are circulated to the branches together with appropriate guidelines. The Bank also invests considerable resources in developing and upgrading computerized control systems, and allocates personnel to the unit in order to increase the efficiency of the controls for the detection of unusual transactions.
- Due to the special importance of the matter, a decision was taken to conduct a separate survey of the infrastructures necessary for applying legislation relating to money laundering and the finance of terrorism. In 2012 a gap review was conducted and all gaps specified in the review were remedied. As was mentioned in the compliance risk chapter, an updated infrastructure review that was conducted in 2016, is near the end.

- The Legal Department monitors legislative changes and ensures that they are sent to the Money Laundering Prohibition Officer, and provides legal support as requested by this official for the purpose of carrying out his duties with respect to the activity of the unit and the Bank as a whole.
- An advisory committee was established for the purpose of assisting the Money Laundering Prohibition Officer in his function, the main elements of which include: discussion of unusual transactions when doubts exist as to whether their details should to be sent to the Money Laundering Prohibition Authority.

e. Exposure reporting

- Once a quarter, in the quarterly risk document, the Money Laundering Prohibition Officer reports to the Management of the Bank on his activity during the past quarter. The detailed report includes reference to the risk centers which he has identified and methods for dealing with them.
- At least once a year, the Money Laundering Prohibition Officer submits a detailed report to the Board of Directors of the Bank.
- In addition, the policy prescribed by the Board of Directors defines immediate reports to the Board of Directors and to the Bank of Israel.

f. Group management of money laundering and terrorism financing risk

- The Money Laundering Prohibition Officer, the official responsible for fulfilling the requirements imposed on the Bank by the Money Laundering Prohibition Law, operates as the head office unit of the Group in connection with money laundering and terrorism financing prohibition risks. The Money Laundering Prohibition Officer is responsible for ensuring that Group policy is applied in the area of money laundering and terrorism financing prohibition at the subsidiaries in Israel and abroad, as required in Proper Conduct of Banking Business Regulation 411, by guiding and assisting the subsidiaries in the construction of systems, the compilation of procedures, instructional activities and in assimilating regulations.

g. Cross-border risk management

The Bank Group operates in different banking fields. Among the customers served by the Bank Group, are also foreign resident customers. On background of increased efforts made by foreign countries to discover funds held by their residents outside their country of residence, and the trend for international cooperation in the combat against tax evasion, The Bank's transactions with such foreign residents, as stated, may increase exposure to compliance risk stemming from cross-border activities as well as to reputation risk.

A designated policy for this matter had been determined, which was adopted also by the banking subsidiaries in the Group, work procedures have been prescribed, a series of operating measures for the reduction and management of this risk have been taken, high risk accounts as regards cross-border risk have been identified and noted and the Bank continues the action taken to obtain foreign resident customer declarations as to their tax liabilities and waiver of bank confidentiality. The Bank complied with the guidelines of the Supervisor of Banks.

h. Risk and Restrictions due to connection with Iran or enemy

On november 27, 2011 the Securities authority published disclosure instructions concerning risk and restrictions due to connections with Iran or enemy. According to these instructions, a reporting entity should include disclosure of the risks and restrictions that the entity exposed to due to its direct or indirect connections with Iran or with an enemy, including law provisions, and have or might have a material effect on the entity.

Following these instructions, the Bank of Israel published on December 23, 2012, and update to the Public reporting regulations.

In the framework of this update, the banking corporations have to include in the financial statements for 2012 and onwords a disclosure regarding the risk and restrictions due to connection with Iran or with an enemy, all in accordance with the Securities authority instructions.
The Bank's policy does not allow exsistance of connection or activity, either direct or indirect with Iran or with any entity that was defined as "enemy" by the law enforcement.
The Bank's systems were adjusted to comply with this policy according to the lists published in Proper conduct of banking no. 411 dated December 26, 2011.
According to the described above measures taken by the Bank, the Bank estimates that its exposure to these risk factors, if exsist, is minimal.

REPUTATION RISK

a. General

Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources.

b. Risk appetite

The group has low tolerance to reputation risk, that might have an impact on its stability, including threats deriving from the perception of the Bank. Further more, the Bank sees a positive perception as a major asset, therefore it will act to prevent the materialization of the reputation risk that might reach a crisis scenario and will try to minimize the materialization of reputation risks, as much as possible.

c. Policy and exposure management

The Bank has a policy for the management of the risk that includes: identifying and monitoring after the risk factors and compilation of prevention activity, early identification of potential reputation events, continuous monitoring of the risk and its management.
d. Exposure reporting
The Bank has a detailed layout of reporting requirement concerning the reputation risk including immediate reports. The reporting layout defines, inter alia, who is responsible to report, its frequency and its recipients.

STRATEGY RISK

a. General

Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation.

b. Policy and exposure management

The Board of Directors of the Bank outlines the strategy of the Bank and the Group. The Bank has a policy for the management of strategic risk.

c. Risk appetite

The group has low tolerance to strategic risk, due to the criticak impact it might have on the Bank's stability and business acheivements. The Group embrace business strategy characterized by high level of cousious and conservativity.

d. Exposure reporting

The Bank has a detailed layout of reporting requirement concerning the strategy risk along the different lines of defense.

DISCUSSION OF RISK FACTORS

The degree of impact of the risk factors was determined in line with the Bank's methodology in the ICAAP process and in the quarterly risk document. The methodology takes into account the risk level and any development in the Bank's risk profile vis-à-vis the specified risk appetite and the risk management quality.

Each risk factor appearing in the table was examined, alone, and on the assumption of non-dependence between one risk factor and other risk factors appearing in the table.

	Risk	Effect	Risk level
1.	**Market risks**	Market risk is the actual or future existence of a risk to the Group's income and capital as the result of changes in prices, rates and margins in the financial markets in which it operates, and which affect the value of the Group's assets or liabilities: interest rates, exchange rates, inflation, securities prices, commodities prices, volatility in these parameters and changes in other economic indexes. In order to minimize the exposure to market risks, the Bank has a detailed policy for the management of exposure to market risks which specifies inter alia: overall market risk appetite and risk appetite across a single cross-section of risk, principles for activity and restrictions at the level of different instruments and desks, periodic reporting to management and to the Board of Directors on the exposure to risks, definition of the authorities, measurement tools, control and supervision of risk exposure.	Low-Medium
1.1	**Interest risk**	Interest risk is the risk to earnings or to capital stemming from fluctuations in interest rates. Changes in interest rates, affect the earnings of the Bank by changes in net income, and the value of the assets of the Bank, its liabilities and off-balance sheet instruments, due to changes in the present value of future cash flows (or even the cash flows themselves) following changes in interest rates.	Low-Medium
1.2	**Inflation risk**	Inflation risk is the actual or future risk to the Group's income and capital that could materialize as the result of unexpected changes in the consumer price index.	Low
1.3	**Exchange rate risk**	Exchange rate risk is the actual or future risk to the Group's income and capital that could materialize as the result of unexpected changes in exchange rates.	Low
1.4	**Share/Option risk**	Share price risk is a risk to a loss as a result of changes in the shares' price or shares' index. Option risk is the actual or future risk to the Group's income and capital that could materialize as the result of a loss deriving from changes in the parameters affecting the value of options, imbedded options in financial instruments and MBS, activity in option/choice instruments and from the possibility to perform early repayment of credit and deposits.	Low
2.	**Credit risk**	Credit risk is the risk of borrowers or counterparty will not fulfill their obligations to the Bank. In order to minimize the exposure to credit risk, a risk management policy and exposure restrictions with respect to borrowers/sectors in the different segments of activity have been defined at the Group.	Low-Medium
2.1	**Quality of borrowers and collateral**	The actual or future risk of erosion in the value of Group assets, income and equity that could materialize as the result of a decrease in the quality of borrowers against the background of a deterioration in their repayment ability, and/or in the value and quality of the collateral which they provided as security for credit, in such cases as: - The borrower's financial robustness - resilience, liquidity, profitability, repayment ability, level of leverage, and/or harm to them as the result of developments in economic parameters (such as exchange rates and interest rates), and/or the business environment and developments in the sector in which the borrower operates. - Value, quality or composition of the collateral provided by the borrower for securing the credit in his accounts.	Low-Medium

	Risk	Effect	Risk level
2.2	**Sector concentration**	Actual or future risk of impact to the value of Group assets, income and equity resulting from a high volume of credit granted to borrowers in a certain sector and/or investment in instruments sensitive to the sector. Deterioration in the business activity of such a sector, due to changes in supply or demand, changes in raw material prices, geopolitical developments and regulatory developments may impact the repayment ability and/or value of collateral provided by part of the borrowers in that sector, and may therefore adversely affect the value of the Group's assets and profitability. In order to minimize risk exposure, the Bank's Board of Directors has set restrictions on exposure to the different sectors of the economy, part of which are more stringent than those set by the Bank of Israel. Control is maintained over adherence to these restrictions, concurrent with reporting to Management and to the Board of Directors.	Low
2.3	**Borrower and borrower group concentration**	Actual or future risk of impact to the value of the Group's assets, income and capital due to deterioration in the position of a large borrower/large group of borrowers relative to the credit portfolio, which could adversely affect the chance of collecting the credit, and therefore also the value of the Group's assets and profitability. The effect of the risk is a function inter alia of the borrower groups' internal composition, the extent to which the companies comprising them are connected from the business or sector-specific aspect, their diversification, and the extent to which problems at one of them will affect the others. In order to minimize risk exposure, the Bank's Board of Directors has set restrictions on exposure to a borrower/group of borrowers, part of which are more stringent than those set by the Bank of Israel. Control is maintained over adherence to these restrictions, concurrent with reporting to Management and to the Board of Directors.	Low-Medium
3.	**Operational risk**	Operational risk is the actual or future risk to the value of the Group's assets, income and capital, due to the impropriety or failure of internal processes, persons and systems, including implemental systems and technological infrastructure, or due to external events, including cyber risk. The definition includes legal risks, but does not include strategic risk or reputation risk. In order to minimize the exposure to operational risk, the Bank applies an overall operational risk management policy that outlines the control environment, the organizational frameworks and the managerial functions that will be used for the management and minimization of exposure to operational risks. The policy also prescribes measurement, control and monitoring mechanisms and reporting systems. The Bank is constantly improving the control environment and the corporate operational risk management framework, in accordance with the requirements of proper conduct of banking business directives of Bank of Israel relating to operational risk and to the Basel Committee's Sound Practices as adopted by the Supervisor of Banks.	Low-Medium
4.	**Liquidity risk**	Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, including a steep decline in value of assets available to the Bank, unexpected withdrawals, unexpected demand for credit and uncertainty regarding the availability of sources. In order to minimize the exposure to liquidity risk, the Bank applies an overall policy for the management of liquidity risk in local and foreign currency and foreign-currency linked activity as required in accordance with Proper Banking Management Regulations No. 221 and 342 of the Supervisor of Banks. The policy includes restrictions on the coverage ratio (according to Proper Banking Management Regulations No. 221). Restrictions on the liquidity margin and ratio under normal and stress scenarios (according to Proper Banking Management Regulations No. 342), and reference to measurement and control tools and to reporting mechanisms that need to be applied in current liquidity risk management.	Low

	Risk	Effect	Risk level
5.	**Legal risk**	Legal risk is included under operational risk as this is defined in Proper Conduct of Banking Business Regulation 350 ("Operational risk management") and includes, but not only, "exposure to fines, penalties or punitive damages as the result of supervisory activity as well as private settlements". In order to minimize the exposure to legal risk, the Bank applies a legal risk management policy that is submitted for the approval of the Management and the Board of Directors. The policy document describes legal risk, and the methods employed for identifying, mapping and minimizing the risk. For this purpose, the Bank acts to identify in advance all legal risks, including a review of any new product/service or activity, and compilation of all the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.	Low
6.	**Reputation risk**	Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources. Reputation risk is materially impacted by the materialization of adjacent risks such as operational risk, credit risk, compliance risk, and money laundering and terrorism financing risk, the publication of which could lead to the materialization of reputation risk (for example, theft or embezzlement events, money laundering events and large monetary loss).	Low
7.	**Legislative and regulatory risk**	Legislative and regulatory risk is the actual or future existence of a risk to the Group's income and capital that could arise from changes in regulation or legislation which could affect the Group's business activity. The Bank, as a banking corporation, and the companies held by it are subject to numerous regulatory provisions that are reflected in legislation, secondary legislation and the policy of supervisory and enforcement authorities, such as the Supervisor of Banks at the Bank of Israel, the Capital Market and Savings Division at the Ministry of Finance, the Securities Authority, the Antitrust Commission, and statutory bodies in the area of consumer protection. The computerization field is also sensitive to changes in legislation and regulation, in view of the frequent upgrades and modifications that are required in respect of computer systems. Frequent changes and/or innovations in legislation and the authorities' policy occur in these areas. Such changes in legislation and in the policy of the supervisory and enforcement authorities could affect the Group's business activity, and usually require investments and the expenditure of resources in order to adapt activity to these changes. The investments need to be made in systems and in the training of personnel. Due to increased and frequent regulation with respect to everything relating to the banking sector, including in the core subjects of the system and the requested preparations for its implementation, the estimated level of this risk has been raised, in the second quarter of 2016, from Low-Medium to Medium.	Medium

	Risk	Effect	Risk level
8.	**Compliance, money laundering and terrorism financing prohibition risks**	Compliance risk is the risk for a legal or regulatory sanction, a material financial loss or damage to the Bank's image, as a result of failing to comply with the compliance provisions. Compliance risk includes the risk of failure to meet the consumer provisions specified in the Proper Banking Business Conduct Directive 308, the risk of failure to meet the provisions of the Money Laundering and Terrorist Financing Prohibition Law, the risk of failure to comply with the provisions of the Internal Enforcement Plan in securities laws, in accordance with the Efficiency of Enforcement Procedures in the Securities Authority Act and the risks arising from activity vis-à-vis foreign residents. This risk also includes conduct risk, which is a cross organization risk that drowsits normative outline from a long list of legislation and regulation directives and based on basic values such as fairness and transperancy in the manner the Bank operates with different interest holders. Stricter regulations and enforcement by the tax authorities in different countries, designed to locate offshore accounts of residents could impact clients' behavior patterns and expose the Bank to compliance risk, reputation risk and cross-border compliance risks. The degree of impact of compliance, money laundering and terror funding risks affects all areas of operation of the Bank, including administrative enforcement and international regulation in tax matters, including FATCA. In order to minimize the risk, policy and procedures were set for the management of the various risks, in each a risk appetite was defined, and an outline of procedures, controls and supporting IT systems and an outline of requested reports are existing.	Medium
9.	**Competition and strategy risk**	Competition risk is due to the Group's exposure to competition in Israel in all areas of its business activity. The Group, in the normal course of business, faces competitors, including other banking corporations and other financial institutions that provide alternative financial products to those offered by the Group, such as: insurance companies and investment houses. Competition risk reflects the risk of erosion in profitability and capital as the result of competitive pressure to reduce fees and margins. Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation. In view of the orderly strategic risk management process at the Bank, which includes the identification, mapping and measurement of risks, and the adoption of measures for reducing risk, concurrent with the application of conservative policy, the effect of the risk is assessed as low.	Low

Apart from the above-mentioned risks, the Bank's financial results and its performance are directly affected by the state of the Israeli economy. Deterioration in the conditions in the Israeli economy and/or deterioration in geopolitical conditions could adversely affect the Group's income. Most of the activity of the Bank and of a large part of its held companies is carried out in the State of Israel. Accordingly, a recession in the economy, a significant withdrawal of foreign investments that were placed in the economy during recent years, a substantial economic downturn and a decrease in the standard of living in Israel could seriously impair the Bank's results. An economic recession is likely to increase the volume of problematic debts, reduce activity turnover in the capital market, adversely affect the demand for current banking services consumed by households, and lead to a decrease in the volume of credit card activity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

General

The financial statements of the Bank are prepared in accordance with accounting principles and accounting regulations, the main elements of which are detailed in Note 1 to the financial statements.

The financial statements include the results of calculations, assumptions and estimates relating to activities, events and developments that affect the profitability of the Bank. The Bank's Management bases its estimates on subjective assumptions and estimates compiled by employees and external professional entities with proficiency and expertise in the areas in which the estimates are required.

The external professionals and the employees engaged in the supervision, control and preparation of the estimates and assumptions regarding matters that are defined as having a critical effect on the financial results of the Bank do not, to the extent possible, have any involvement and current business relations with the entity or the matter that is the subject of the estimate.

The Management and the Board of Directors of the Bank believe that 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.

The following is a condensed review of the areas in which the Management of the Bank is required to make accounting assessments and estimates regarding matters whose impact on earnings and loss is likely to be critical and material. Changes in assessments and estimates regarding the matters described below, including actual results of an event that may differ from the estimate made in respect of it, could have a material effect on the financial results of the Bank and on the structure of its assets and liabilities (including contingent liabilities).

a. Provision for credit losses

Since January 1, 2011, the Bank has applied the directives for reporting to the public concerning "measurement and disclosure of impaired debts, credit risk and provision for credit losses," which adopt American accounting standards in the matter (ASC 310) and the positions taken by the banking supervision authorities and of the SEC in the USA.

The Bank determined procedures for identifying problematic credit and classifying debts as problematic. According to these procedures, the Bank classify all problematic debts and the off balance sheet items as: under special supervision, infered or impaired. In addition the Bank set up a policy for measurement of the provision for credit losses in order to maintain provision at a suitable level to cover expected credit losses in regard to the credit portfolio.

The provision to cover credit losses regarding the credit portfolio is estimated by one of two options: specific provision or collective provision.

The individual (case-specific) provision, which is relevant for problem debts under the classification of "impaired," is made on the basis of the Management's assessments regarding the losses inherent in the balance-sheet and off-balance-sheet credit portfolio. This provision is estimated by means of the difference between the recorded balance of the debt and the present value of the receipts expected on repayment of the debt, or the fair value of the collateral.

Estimation of the receipts expected on repayment of the debt from the diverse relevant sources of repayment, including the borrower's business activity, the value of the collateral provided by the borrower, private sources for repayment and the realization value of the guarantees provided by the borrower or by third parties, requires the use of discretion and estimates which the Management of the Bank regard as reasonable when assessed, although there is naturally no certainty that the amounts actually received will be the same as the estimates that were determined.

In addition, the Bank examines the debts and writes off from the accounting aspect, debts that conform to the terms of accounting write-off.

The group provision is relevant to all debts not classified as impaired, calculated to reflect impairment in respect of individual unidentified credit losses inherent in large groups of small debts with similar risk characteristics, as well as for debts which were examined specificly and found to be unimpaired.

The provision estimated on a collective basis for balance sheet and off balance sheet credit risk is calculated on the basis of historical loss rates in the different economic segments for the period starting 2011. (Accordingly, the determination of provision in 2016 is based on the rate of accounting write-offs in the period of the last six years), while distinguishing between problematic credit and unproblematic credit. The Bank uses the average historical loss rates in the different economic segments in the range of the said years, and in addition, in order to estimate the appropriate provision rate regarding credit to the public take into account additional data (qualitative adjustments). In this matter, regarding credit to private individuals which is not problematic, excluding credit risk deriving from debtors in regard to banking credit cards without interest charges, it was determined that the rate of qualitative adjustments for quality items relevant to collection prospects will be no less than 0.75% of the stated outstanding balance of credit to private individuals which is not problematic at the reporting date, this in line with the circular letter of the Supervision of banks dated January 19, 2015 for updating the public reporting directives in the matter of "collective provision in regard of private individuals" (banks whos annual loss rate is less then 0.3% in each of the five years ended at the report date, may consider to use adjustments for environmental factors in a rate of no less than 0.5%. A consolidated subsidiary is operating according to a permition received from the Bank of Israel concerning banks with a annual low rate, as aforementioned). In housing loans the minimum provision for credit losses is calculated according to a formula set by the Supervisor of Banks, taking into account the extent of arrears, in a way that the loss rates increase with the rising extent of arrears. Furthermore, with respect to the balance of housing loans which does not carry a provision according to the extent of arrears nor a specific provision, a collective provision for credit losses is included at a rate that is no less than 0.35% of the balance of such loans at date of reporting..

b. Lawsuits and contingent liabilities

Risk assessment and accounting procedures reflecting lawsuits and contingent liabilities are carried out at the best judgment of the lawyer dealing with the matter, based on his proficiency in and knowledge of the law and court rulings, his experience in legal work, acquaintance with banking activity and, in cases of clear uncertainty, review of the factual basis. The process of risk assessment is monitored by the Head of the Litigation Section in the Legal Department. When large amounts are involved, the process is also reviewed by a committee chaired by the Manager of the Bank's Legal Department.

In order to achieve this objective, the Legal Department acts in several areas:

1. Knowledge of the general law.
   The Legal Department diligently updates itself on current legislation and court rulings, a matter that is reflected in the internal procedures of the Department. Special attention is paid to matters that may have implications for the diverse activities of the Bank, including the drawing of conclusions and recommendations for action following relevant events that have occurred at other banks.
2. The processing of claims and complaints against the Bank.
   Lawsuits in various matters are pending against the Bank (including requests for approval of several of them as class actions), including: capital market, bank-customer relations, lack of representation, etc.

The Legal Department deals with all of the claims against the Bank, by itself and via external lawyers who are assisted and supervised by the Legal Department as needed. A risk assessment is carried in respect of every lawsuit in an amount exceeding Dollar 10,000, and in respect of every legal action (without a minimum amount). A committee headed by the Bank's Chief Legal Counsel periodically reviews the assessment of the risk in complaints and claims whose overall amount exceeds NIS 5 million. Estimates of the Bank's exposure to claims and contingent liabilities, in respect of which a provision has to be made, or where disclosure is required with respect to the extent of exposure inherent in them, are made in cooperation with the relevant professional entities at the Bank. The CEO receives in the case of material claim an immediate report, a monthly report on updates and material changes that have occurred in the claims and complaints filed against the Bank when these exceed a certain amount, as well as a quarterly report on revisions and changes as stated in all of the claims and complaints filed against the Bank.

Regarding the majority of claims and contingent liabilities, estimates exist on the extent of the Bank's risk, and provisions are made accordingly. The financial statements present a disclosure of the Bank's level of exposure to claims and material contingent liabilities, the realization estimates of which range between 20% and 70% and in respect of which no provision was made. A disclosure is made to every lawsuit if its amount exceeds 1% the shareholders' equity of the Bank.

Disclosure is also made of material contingencies in respect of class actions or petitions to declare claims as class actions in respect of which the legal advisers are unable to express an opinion regarding the Bank's level of exposure to them.

c. Employee rights

Employees at some companies in the Group, including the Bank, are entitled to certain benefits in the course of their employment, after leaving their employment and on retirement. These benefits include, among other:

- Post retirement and employment defined benefits schemes - Severance compensation, pension, retiree benefits and other.
- Other benefits (for some companies in the Group) - seniority awards and benefits in respect of unutilized sick leave.

Liabilities in respect of such benefits are computed on an actuarial basis, in accordance with accepted accounting principles in the matter of employee rights, which adopts starting with January 1, 2015, the accounting principles regarding employees rights in the USA. Upon the initial application of these rules, the comparative data for periods beginning January 1, 2013, have been restated.

The Bank is assisted by an external actuary in the compilation of the actuarial calculations. The actuarial calculations are based on a number of parameters, including the probability that all the conditions for payment will be fulfilled - life expectancy, retirement age, employees rate of resignation from the Bank before formal retirement age, the expected rate of increase in salary, and the discount rate. These parameters are determined inter alia on the basis of observations conducted by the actuary concerning the rate of increase in salary at the Bank and the rate of employees resigning from the Bank, and decisions by the Management and the Board of Directors of the Bank in connection with the various rights.

The discount rate is determined on the basis of the return on Israeli government bonds, with the addition of a margin that equals the difference between the rate of return to redemption on US corporate bonds rated "AA" and above and the rates of return to redemption on US government bonds.

Following efficiency moves, which the Bank implements, including gradual decline in manpower, as detailed in the note for Employees' rights (see note 23 to the financial statements), the parameters were updated as mentioned above.

The calculation of the actuarial provision for post retirement defined benefits schemes and for the seniority awards is sensitive to changes in each of the values of the previously mentioned parameters.

The following is a sensitivity analysis of the effect of a change in the principal parameters on the calculation of the actuarial provisions:

	December 31, 2016	
	Increase of 1%	Decrease of 1%
		NIS million
Effect of change in Salary on:		
Staff long - service awards	2	(1)
Actuarial liabilities for pension and severance payments	89	(76)
Other post-employment and retirement benefits	8	(6)
Benefit in respect of nonutilized sick leave	4	(3)
Effect of change in discount rate on:		
Staff long - service awards	(1)	2
Actuarial liabilities for pension and severance payments	(74)	88
Other post-employment and retirement benefits	(22)	30
Benefit in respect of nonutilized sick leave	(3)	4
Effect of change in rate of employees leaving on:		
Staff long - service awards	(1)	1
Actuarial liabilities for pension and severance payments	101	(90)
Other post-employment and retirement benefits	-	2
Benefit in respect of nonutilized sick leave	(3)	2

The effect of the change in the principal parameters on the post-retirement and employment defined benefits schemes - severance compensation, pension, benefits to retirees and other, are recognized in other comprehensive profit.
The effect of the change in the principal parameters on benefits - seniority awards and benefits in respect of unutilized sick leave, are recognized in other comprehensive profit and loss.

The Opinion of the actuary is available for review on the MAGNA website of the Securities Authority, and on the MAYA website of the Tel Aviv Stock Exchange.

d. Assessment of the fair value of derivative financial instruments

The Bank conducts large-scale activity in derivative financial instruments, which are presented in the financial statements on the basis of fair value as distinct from value on the basis of the accrual principle.
Since 2012, the Bank has applied FAS 157 principles for the measurement of the fair value of derivative financial instruments.
FAS 157 defines fair value as the price that would have been obtained from the sale of an asset or that would have been paid in order to discharge a liability in a transaction between a voluntary seller and a voluntary buyer at the date of measurement. For the purpose of fair value assessment, the accounting standard requires the maximum possible use of observed data and the minimum possible use of unobserved data. Observed data represent market information data that are obtained from independent sources, while unobserved data reflect the banking corporation's assumptions.
The use of these data types create the following scale of fair value:

- Level 1 data-prices quoted from an active market.
- Level 2 data-prices derived from estimation models in which the significant data are observed in the market or are supported by observed market data.
- Level 3 data- prices derived from estimation models in which one or more of the data are unobserved.

Derivative financial instruments that have a main market were assessed on the basis of market value as set in the main market and in the absence of a main market, on the basis of the market price quoted in the most effective market. Derivative financial instruments that are not traded were estimated on the basis of models which the Bank uses in its current activity and which take into account the risks inherent in the derivative financial instrument (such as market risk and credit risk). Calculations of the fair value of derivative financial instruments in respect of their foreign-currency component are based on data prevailing in the international money markets and in the local market, and in respect of the local currency component, on unlinked interest rates and CPI-linked interest rates, taking into account the market prices, liquidity and tradability in the local market for the type of instrument in question and the period of the transaction. Interest rates under FAS 157 are uniform, whether the value of the instruments constitutes an asset at the Bank or if it constitutes a liability. (There is no spread between the buy/sell interest rates.) The credit risk implied in derivative financial instruments is expressed by the fair value by the inclusion of a risk premium in the calculation of the value.

A risk premium is included in the calculation of all transactions. In transactions whose fair value constitutes an asset, the credit risk premium of the counter-party to the transaction is included; and in transactions whose fair value constitutes a liability, the Bank's risk premium is included.

The credit risk premium of the local banks and foreign banks was accepted from external entities which rely on debt instruments and credit derivatives that are traded on an active market.

As for the rest of the customers, the risk premium was determined on the basis of an internal model for grading the quality of the customers and their credit risk.

The fair value of options is for the most part based on a Black and Scholes model, and is affected by the volatility implied in exchange rates, the interest rate and the indexes relevant to the option which the Bank purchased or wrote. Foreign currency-shekel exchange rate volatility data and foreign currency-foreign currency exchange rate volatility data are determined by an external company that specializes in the revaluation of options on the basis of data derived from the money markets in Israel and abroad. With respect to complex derivative financial instruments that do not have a tradable market, fair value quotations are usually obtained from entities abroad, and their reasonability is examined by the Bank's dealing rooms.

For additional details regarding fair value of derivative financial instruments, see Notes 27(a), 27(b) and 32(b).

e. Fair value of securities

The Bank's activity in securities in the portfolio available for sale and in the portfolio for trading is measured in the balance sheet on the basis of their fair value. The fair value of securities for trading and securities available for sale is determined on the basis of the market price quoted in the principal market. When a security is traded in a number of markets, the assessment is based on the market price quoted in the most effective market. In these cases, the fair value of the Bank's investment in securities is a multiple of the number of units at the same market price quotation. The price quotation employed for determining fair value is not correlated because of the size of the Bank's holding or the size of the position relative to trading volume (holding size factor). If a market price quotation is unavailable, the fair value estimate is based on the best possible information available and the maximum possible use of observed data, taking account of the risks inherent in the financial instrument (such as market risk, credit risk and non-tradability).

Determination of the fair value of the foreign-currency bond nostro portfolio

The fair value is determined in the middle office of the Financial division of the Bank. In its pricing of Eurobonds and MBS bonds, the Bank relies on a quotation from an independent external source that provides quotations to numerous large financial institutions worldwide.

The Eurobonds portfolio

The external quotation supplier provides the Bank with daily data on credit margins with respect to all the securities existing in the portfolio. The middle office carries out a reasonability test of the credit margins, by such means as examining the reasonability of a quotation from the Bloomberg system with respect to transactions that were conducted in an amount of securities approximating to the Bank's total investment in a security, examining the correlation with the margins inherent in relevant credit default swaps (CDS), and examining the reasonability with respect to the same issuer's bonds with redemption dates approximating to the redemption date of the held bond. In cases where no such indications exist, a quotation is requested from an external broker.

The Mortgage-Backed Bond (MBS) portfolio

The external quotation supplier provides the Bank with data on the prices of all the securities existing in the portfolio. Once a month, a reasonability test is run on the external quotation supplier's prices by means of prices taken from other financial systems.

Sensitivity analysis

According to the Bank's calculations, an increase (decrease) of 0.05% in the interest margin deriving from the bond issuers' credit risk, with respect to the Bank's foreign-currency portfolio, which is based on quotations obtained from an external price supplier, will have the effect of reducing (increasing) the bonds' revaluation by NIS 7.8 million.

As regards securities whose fair value is determined on the basis of stock exchange prices, these do not necessarily reflect the price obtained from the sale of securities at large amounts.

For additional details regarding fair value of securities, See Nores 12 and 32(b).

Impairment of a non-temporary nature

The Bank recognizes during the reporting period impairment of a non-temporary nature, at the very least, in respect of a decline in the value of any security for which one or more of the following conditions exist:

- A security that was sold by the publication date of the report for that period.
- A security which the Bank plans to sell within a short period of time close to the report publication date.
- A bond that has been significantly downgraded from its rating at the time when it was purchased by the Bank and its rating at the report publication date. In this respect, a significant rating downgrading will be regarded as a rating downgrade of the security to a level below investment grade.
- A bond which after its purchase was classified as problematic by the Bank.
- A bond on which a payment default occurred after its purchase.
- A security whose fair value at the end of the reporting period as well as close to the publication date of the financial statements was over 40% less than cost (with respect to bonds-amortized cost), and whose fair value was less than cost for a period of over 3 consecutive quarters. This is unless the Bank has concrete objective evidence and a cautious analysis of all the relevant factors, which prove with a high degree of certainty that the decline in value is of a temporary nature.

The examination of whether a decline in value is of a nature other than temporary is also based on the following considerations:

- Deterioration in the issuer's position or in the state of the entire market.
- The Bank's intention and ability to hold the security for the fair value of the security to increase, or until maturity.
- In the case of bonds-the yield-to-maturity.
- In the case of shares-reduction or cancellation of dividend distribution.

In addition, the Bank recognizes a decline in value of a nature other than temporary in respect of beneficiary rights that have been acquired and in respect of beneficiary rights which the Bank continues to hold in the securitization of financial assets, when updated information or other events are indicative of a probable deterioration in the cash flows deriving from the financial instrument.

When a decline in value of a non-temporary nature has occurred, the cost of the security is amortized to its fair value and is used as a new cost basis. The accrued loss attributed to a security classified as available for sale which in the past was charged to a separate item in shareholders' equity under other overall earnings, is transferred to the statement of income when a writedown of a non-temporary nature exists in respect of it. Increases in value in subsequent reporting periods are recognized in a separate item in shareholders' equity under accrued other overall earnings, and are not charged to the statement of income (the new cost basis).

f. Capitalization of software development costs

The capitalization of costs incurred in the development of software for internal use may begin only when the first stage of the project had been completed, where Management having the relevant authority has approved and is committed to finance the project, directly or indirectly, and where the software development project is expected to be completed, the software producing future economic benefits.

Upon development or acquisition of software for internal use, the following costs are capitalized: direct costs of materials and services consumed, payroll cost directly connected with the development or acquisition operations of the software, as well as interest expenses incurred. Other expenses in respect of the development operations and costs incurred in the preliminary stage of the project are recognized in profit and loss as incurred.

Upgrading and improvement cost of software for internal use may be capitalized only if it is expected that the results thereof would lead to higher functionality. Other consecutive costs are recognized as an expense as incurred.

Amortization is the systematic allocation of the depreciable amount of an intangible asset over the useful life of the asset. A depreciable amount is the amount charged to the asset upon the initial recognition thereof, net of its residual value.

The amortization is recognized in profit and loss by the "straight line" method over the useful lives of the intangible assets, including software assets, starting with the date on which the assets are firstly available for use.

An intangible asset stemming from a software project is amortized when the software is ready for use, namely, when the said components have reached the location and position required for them to operate in the manner intended by Management. In this respect, software is ready for use when all material tests had been independently completed upon the actual positioning of the software for use.

In view of the complex accounting applied in the capitalization of software costs process, and in view of the materiality of capitalized software costs, the Supervisor of Banks issued to the First International Bank guidelines regarding the capitalization of software costs, according to which, inter alia, a minimum materiality level for capitalization was determined, of not less than NIS 600 thousand. Any software development project, the total costs thereof that may be capitalized is lower than the said minimum level, shall be recognized as an expense in profit and loss. In addition, the Supervisor of Banks issued additional guidelines in respect of different aspects in the process of the capitalization of software costs by the Bank.

Assumptions regarding the useful lives of capitalized software costs are being reviewed at least at the end of each reporting year, and are modified where required.

A test for impairment of capitalized development costs of software for internal use, shall be performed, inter alia, also where the signs noted in accounting principles accepted by US banks exist:

(a) The software is not expected to provide significant potential services;

(b) A material change occurred in the manner or scope of use of the software or in its expected use;

(c) A material change in the software has been made or will be made in the future;

(d) The development costs of the software or the costs of converting it for internal use, materially exceed the forecasted amounts;

(e) It is no longer expected that the development of the software would be completed and use would be made of it.

If one or more of the signs stated above exist, it is required to test impairment.

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 December 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 fourth quarter ending on December 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.

Tel Aviv, March 15, 2017	Irit Izakson Chairperson of the Board of Directors	Smadar Barber-Zadik CEO

CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the year 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, March 15, 2017

Smadar Barber-Tsadik
Chief Executive Officer

CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the year 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, March 15, 2017

Nachman Nitzan
Executive Vice President,
Chief Accountant

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT ON THE INTERNAL CONTROL OF FINANCIAL REPORTING

The Board of Directors and Management of the First International Bank of Israel Ltd. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of confidence to the Board of Directors and Management with regard to the adequate preparation and presentation of the financial reports, which are published in accordance with generally acceptance accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if we determine that these systems are effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial reports.

The Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control of financial reporting as at December 31, 2016, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). Based on the assessment, the Management believes that as at December 31, 2016, the Bank's internal control of financial reporting is effective.

The effectiveness of the Bank's internal control of financial reporting as at December 31, 2016 was audited by the Bank's external auditors, Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control of financial reporting as at December 31, 2016.

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

Tel-Aviv, March 15, 2017

AUDITED ANNUAL FINANCIAL STATMENTS

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

We have audited the accompanying balance sheets of The First International Bank of Israel Ltd. (hereinafter - "the Bank") as of December 31, 2016 and 2015, and the consolidated balance sheets of the Bank and its subsidiaries as at such dates, and the related statements of income, the statements of comprehensive income, changes in equity, and cash flows - the Bank and consolidated - for each of the three years the last of which ended December 31, 2016.

These financial statements are the responsibility of the Bank's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of consolidated subsidiary whose assets constitute 0.6% and 0.8% of the total consolidated assets as at December 31, 2016 and 2015 respectively, and whose interest income, net constitute 0.4%, 0.5% and 0.5% of the consolidated interest income, net for the years ended December 31, 2016, 2015 and 2014, respectively. The financial statements of the consolidated subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts included in respect of such company is based solely on the said reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973 and certain auditing standards applied in the audit of banking corporations guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by the Management of the Bank, and evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a fair basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank and consolidated at December 31, 2016 and 2015 and the results of their operations, the changes in the equity and the cash flows - for the Bank and consolidated - for each of the three years which ended December 31, 2016 in conformity with Generally Accepted Accounting principles in Israel. Furthermore, in our opinion, the financial statements referred to above have been prepared in accordance with the directives of the Supervisor of Banks.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

March 15, 2017

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

		Consolidated			The Bank		
	Note	2016	2015	2014	2016	(1)2015	(1)2014
Interest Income	2	**2,526**	2,260	2,664	**1,873**	1,521	1,798
Interest Expenses	2	**357**	307	563	**342**	283	486
Interest Income, net	2	**2,169**	1,953	2,101	**1,531**	1,238	1,312
Expenses from credit losses	13,29	**80**	18	89	**45**	11	16
Net Interest Income after expenses from credit losses		**2,089**	1,935	2,012	**1,486**	1,227	1,296
Non Interest Income							
Non Interest Financing income	3	**115**	149	230	**99**	*95	152
Fees	4	**1,300**	1,378	1,375	**954**	839	809
Other income	5	**65**	14	62	**188**	*193	264
Total non Interest income		**1,480**	1,541	1,667	**1,241**	1,127	1,225
Operating and other expenses							
Salaries and related expenses	6	**1,656**	1,629	1,780	**1,227**	1,054	1,176
Maintenance and depreciation of premises and equipment		**409**	428	444	**299**	269	276
Amortizations and impairment of intangible assets	17	**116**	131	139	**82**	86	85
Other expenses	7	**502**	522	549	**427**	416	414
Total operating and other expenses		**2,683**	2,710	2,912	**2,035**	1,825	1,951
Profit before taxes		**886**	766	767	**692**	529	570
Provision for taxes on profit	8	**398**	326	328	**301**	*213	230
Profit after taxes		**488**	440	439	**391**	316	340
The bank's share in profit of equity-basis investees, after taxes	15	**72**	38	35	**130**	*130	115
Net profit:							
Before attribution to noncontrolling interests		**560**	478	474	**521**	446	455
Attributed to noncontrolling interests		**(39)**	(32)	(19)	**-**	-	-
Attributed to shareholders of the Bank		**521**	446	455	**521**	446	455

Consolidated and The Bank	**Note**	**2016**	**2015**	**2014**
Primary profit per share attributed to the shareholders of the Bank	9			NIS
Net profit per share of NIS 0.05 par value		**5.19**	4.45	4.54

* Reclassified. See note 15A.

(1) See note 15E regarding the merger of Ubank and Pagi with and into the Bank.

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

Irit Izakson
Chairperson of the Board of Directors

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 15 March, 2017

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

	Consolidated		
	2016	2015	2014
Net profit before attribution to noncontrolling interests	**560**	478	474
Net profit attributed to noncontrolling interests	**(39)**	(32)	(19)
Net profit attributed to the shareholders of the Bank	**521**	446	455
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale securities to fair value, net	**14**	(75)	(40)
Adjustments from translation of financial statements(1) net after the effect of hedges(2)	**(3)**	-	(1)
Adjustments of liabilities in respect of employee benefits(3)	**(131)**	11	(35)
Other comprehensive loss before taxes	**(120)**	(64)	(76)
Related tax effect	**38**	24	29
Other comprehensive loss before attribution to noncontrolling interests, after taxes	**(82)**	(40)	(47)
Less other comprehensive loss attributed to noncontrolling interests	**(10)**	(2)	(1)
Other comprehensive loss attributed to the shareholders of the Bank, after taxes	**(72)**	(38)	(46)
Comprehensive income before attribution to noncontrolling interests	**478**	438	427
Comprehensive income attributed to noncontrolling interests	**(29)**	(30)	(18)
Comprehensive income attributed to the shareholders of the Bank	**449**	408	409

(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.

BALANCE SHEET AS AT DECEMBER 31

(NIS million)

		Consolidated		The Bank	
	Note	2016	2015	2016	2015(4)
Assets					
Cash and deposits with banks	11	**29,150**	30,727	**23,332**	24,916
Securities	12, 26	**15,776**	16,439	**13,523**	*13,451
Securities which were borrowed		**414**	353	**414**	353
Credit to the public	13, 29	**78,175**	73,379	**61,746**	55,075
Provision for Credit losses		**(847)**	(824)	**(653)**	(612)
Credit to the public, net		**77,328**	72,555	**61,093**	54,463
Credit to the government	14	**654**	669	**7**	-
Investments in investee companies	15	**514**	438	**2,541**	*3,007
Premises and equipment	16	**1,133**	1,229	**1,019**	*1,080
Intangible assets	17	**243**	272	**219**	207
Assets in respect of derivative instruments	27A, 27B	**1,332**	1,636	**1,342**	1,655
Other assets(2)	18	**1,020**	1,158	**784**	*876
Assets held for sale	18A	**343**	-	**45**	-
Total assets		**127,907**	125,476	**104,319**	100,008
Liabilities, temporary equity and Shareholders' Equity					
Deposits from the public	19	**105,817**	103,262	**84,403**	*80,203
Deposits from banks	20	**755**	1,565	**3,576**	3,809
Deposits from the Government		**570**	511	**296**	276
Bonds and subordinated capital notes	21	**5,801**	5,862	**4,019**	3,841
Liabilities in respect of derivative instruments	27A, 27B	**1,356**	1,659	**1,356**	1,654
Other liabilities(1)(3)	22	**4,929**	4,954	**3,018**	*2,826
Liabilities held for sale	18A	**745**	-	**-**	-
Total liabilities		**119,973**	117,813	**96,668**	92,609
Temporary equity - noncontroling interests		**330**	326	**330**	326
Capital attributed to the shareholders of the Bank		**7,321**	7,073	**7,321**	7,073
Noncontrolling interests		**283**	264	**-**	-
Total equity		**7,604**	7,337	**7,321**	7,073
Total liabilities, temporary equity and shareholders' equity		**127,907**	125,476	**104,319**	100,008

* Reclassified. See note 15A.

(1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 71 million and NIS 85 million (consolidated) and NIS 62 million and NIS 71 million (the Bank) as of December 31, 2016 and 2015, respectively.

(2) Of which: other assets measured at fair value in the amount of NIS 238 million consolidated and the Bank (31.12.15 - NIS 317 million consolidated and the Bank).

(3) Of which: other liabilities measured at fair value in the amount of NIS 491 million consolidated and the Bank (31.12.15 - NIS 495 million consolidated and the Bank).

(4) See note 15E regarding the merger of Pagi with and into the Bank.

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

STATEMENT OF CHANGES IN EQUITY

(NIS million)

	Share capital and premium (1)	Accumulated other comprehensive loss	Retained earnings (2)	Total share-holders' equity	Non-controling interests	Total equity
Balance as at January 1, 2014	927	(21)	5,767	6,673	228	6,901
Chanages during 2014						
Net profit for the year	-	-	455	455	19	474
Dividend	-	-	(285)	(285)	-	(285)
Other comprehensive loss, after tax effect	-	(46)	-	(46)	(1)	(47)
Balance as at December 31, 2014	927	(67)	5,937	6,797	246	7,043
Chanages during 2015						
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
Chanages during 2016						
Net profit for the year	**-**	**-**	**521**	**521**	**21**	**542**
Dividend	**-**	**-**	**(200)**	**(200)**	**-**	**(200)**
Other comprehensive loss, after tax effect	**-**	**(72)**	**-**	**(72)**	**(2)**	**(74)**
Temporary equity - noncontroling interest	**-**	**-**	**(1)**	**(1)**	**-**	**(1)**
Balance as at December 31, 2016	**927**	**(177)**	**6,571**	**7,321**	**283**	**7,604**

(1) Including share premium of NIS 313 million (as from 1992 onwards).

(2) Including an amount of NIS 2,391 million which can not be distributed as dividend - see note 33g.

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31

(NIS million)

	Consolidated			The Bank		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Cash flows from (for) operating activity:						
Net profit for the year	**560**	478	474	**521**	446	455
Adjustments necessary to present cash flows from operating activity:						
The Bank's share in retained loss (profit) of investee companies, net	**(72)**	(38)	(19)	**(97)**	(94)	12
Revaluation of subordinate debt notes issued by subsidiaries	**-**	-	-	**-**	3	-
Depreciation of premises and equipment	**93**	89	98	**74**	*67	73
Amortization of intangible assets	**116**	131	139	**82**	86	85
Gain on sale of buildings and equipment	**(24)**	(6)	(13)	**(21)**	-	(13)
Provision for credit losses	**80**	18	89	**45**	11	16
Gain on sale of investments in investee company	**-**	-	(31)	**-**	-	(31)
Loss (earnings) on adjustment in value of held to maturity securities and on sale and adjustment in value of available for sale securities	**128**	139	(346)	**89**	*103	(230)
Realized and non-realized loss (gains) from adjustment to fair value of trading securities	**3**	3	(32)	**2**	(3)	(18)
Deferred taxes, net	**118**	64	(20)	**111**	*66	(2)
Severance and pension plans for defined benefit	**96**	63	45	**68**	34	27
Inflationary erosion of bonds and capital notes	**12**	5	19	**(6)**	(33)	(7)
Effect on cash balances of changes in exchange rates	**91**	218	(254)	**87**	216	(212)
Net change in current assets:						
Deposits in banks	**(1,060)**	98	(59)	**197**	(42)	(363)
Securities held for trading	**9**	272	(185)	**2**	197	(72)
Securities which were borrowed from Treasury	**(61)**	124	513	**(61)**	(34)	530
Credit to the public	**(4,155)**	(3,529)	(1,016)	**(3,190)**	(2,502)	(817)
Credit to government	**15**	(11)	(635)	**(7)**	-	-
Other assets	**53**	(159)	(112)	**32**	*(334)	48
Assets in respect of derivative instruments	**334**	1,391	(1,551)	**343**	1,491	(1,399)
Net change in current liabilities:						
Deposits from the public	**2,931**	8,634	6,569	**449**	*5,252	3,982
Deposits from banks	**(810)**	96	134	**995**	5,125	(35)
Deposits from the government	**246**	(656)	50	**203**	(595)	16
Other liabilities	**(244)**	(184)	(54)	**(144)**	*(77)	(181)
Liabilities in respect of derivative instruments	**(297)**	(1,503)	1,370	**(298)**	(1,573)	1,226
Net cash from (for) operating activity	**(1,838)**	5,737	5,173	**(524)**	7,810	3,090

* Reclassified.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONT'D)

(NIS million)

	Consolidated			The Bank		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Cash flows from investment activity						
Purchase of held to maturity and available for sale securities	**(13,132)**	(28,784)	(18,666)	**(11,899)**	(22,541)	(11,985)
Proceeds from redemption of bonds held to maturity	**80**	153	17	**50**	36	10
Proceeds from sale of available for sale securities	**8,203**	12,166	13,309	**7,078**	*9,470	8,696
Redemption of available for sale securities	**4,551**	11,937	4,104	**4,051**	9,565	2,912
Acquisition of premises and equipment	**(55)**	(114)	(157)	**(46)**	(99)	(143)
Proceeds of sale of premises, equipment and other assets	**38**	18	30	**31**	8	30
Investment in intangible assets	**(94)**	(76)	(67)	**(94)**	(75)	(65)
Proceed from subordinated capital notes issued by subsidiaries	**-**	-	-	**-**	-	68
Proceeds from the sale of investment in a subsidiary no longer consolidated (appendix A)	**-**	-	148	**-**	1	148
Merging a subsidiary	**-**	-	-	**69**	3,169	-
Net cash for investment activity	**(409)**	(4,700)	(1,282)	**(760)**	(466)	(329)
Cash flows generated by (for) financing activity						
Issue of bonds and subordinate debt notes	**834**	1,352	-	**834**	-	-
Redemption of bonds and subordinate debt notes	**(907)**	(398)	(818)	**(650)**	(195)	(690)
Dividend paid to shareholders	**(200)**	(130)	(285)	**(200)**	(130)	(285)
Net cash generated by (for) financing activity	**(273)**	824	(1,103)	**(16)**	(325)	(975)
Increase (decrease) in cash	**(2,520)**	1,861	2,788	**(1,300)**	7,019	1,786
Cash balances at beginning of year	**30,265**	28,615	25,566	**24,081**	17,278	15,280
Effect of changes in exchange rates on cash balances	**(107)**	(211)	261	**(87)**	(216)	212
Cash balances at end of year	**27,638**	30,265	28,615	**22,694**	24,081	17,278
Interest and taxes paid and/or received:						
Interest received	**2,970**	3,071	3,220	**2,194**	2,031	2,030
Interest paid	**736**	734	1,174	**491**	430	757
Dividends received	**19**	39	53	**19**	39	31
Income tax paid	**313**	346	493	**197**	178	239
Income tax received	**172**	48	81	**106**	28	33

* Reclassified.

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

APPENDIX A - PROCEED FROM THE SALE OF INVESTMENT IN A SUBSIDIARY PREVIOSLY CONSOLIDATED

Assets and liabilities of previously consolidated subsidiaries, and cashflows from the sale of investment in previously consolidated subsidiaries for the date of sale

	For the year ended December 31
	2014
Assets	124
Liabilities	(7)
Capital gain from sale of investment in previously consolidated subsidiaries	31
Total proceed from the sale of previously consolidated subsidiaries	148

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

A. General

(1) The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The consolidated financial statements as of December 31, 2016 include those of the Bank and of its subsidiary companies and of an equity basis investee (hereinafter - "the Group"). The 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.

The notes to the financial statements relate to the financial statements of the Bank and to the consolidated financial statements of the Bank and its consolidated subsidiaries, unless the note specifically states that it relates to the Bank alone or to the consolidated statements alone.

The Bank is a direct subsidiary of FIBI Holdings Ltd. (hereinafter - "Fibi Holdings"), which is controlled by Binohon Ltd. Dolphin Energies Ltd. (controlled by Messrs. Barry Lieberman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia) and Instanz No. 2 Ltd. (controlled by Messrs. Michael and Helen Abeles from Australia). All the above controlling shareholders are party to a voting and cooperation agreement.

The financial statements were approved for publication by the Board of Directors on March 15, 2017.

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

(2) **Definitions**

In these financial statements:

International financial reporting standards ("IFRS") - standards and interpretations adopted by the International Financial Accounting Standards Board ("IASB"), which include international financial reporting standards ("IFRS") and international accounting standards ("IAS") as well as interpretations of these standards proclaimed by the Interpretation of International Financial Reporting Standards Committee ("IFRIC"), or interpretations proclaimed by the Permanent Interpretation Committee ("SIC"), respectively.

Accepted accounting principles by US banks - Accounting principles, which US banks traded in the US are required to apply. These principles are being determined by the supervisory authorities in the US, by the US Securities and Exchange Commission, by the US Financial Accounting Standards Board ("FASB") and other US entities, and are applied according to the hierarchy determined by US Accounting Standard FAS 168 (ASC 105-10), the codification of accounting standards by the US FASB and the hierarchy of accepted accounting principles. Furthermore, in accordance with a decision of the Supervisor of Banks, despite the hierarchy determined in FAS 168, it has been clarified that any position made public by the bank supervisory authorities in the US or by teams of the bank supervisory authorities in the US regarding the mode of application of generally accepted accounting principles in the US, is considered an accepted accounting principle by banks in the US.

Consolidated subsidiaries - Companies the financial statements of which have been, directly or indirectly, consolidated with those of the Bank.

Equity basis investees - Companies, excluding consolidated subsidiaries and including partnerships or joint ventures, the investment of the Bank in which is accounted for in the financial statements, directly or indirectly, on equity basis.

Investee companies - Consolidated companies or equity based investees.

Foreign extensions - Subsidiaries of the Bank outside Israel.

Functional currency - The currency prevailing in the principal economic environment in which the Bank operates; generally the currency of the environment in which a corporation generates and expends most of its cash.

Stated currency - The currency in which the financial statements are stated.

Related parties - In terms of Section 80 of the public reporting instructions.

Interested parties - In terms of Section 80 of the public reporting instructions.

CPI or Index - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

Adjusted amount - An amount in nominal historical terms as adjusted on the basis of the CPI for December 2003, in accordance with guidelines prescribed in Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Financial reporting in adjusted terms - Financial reporting in adjusted values on the basis of changes in the general purchasing power of the Israeli currency, in accordance with guidelines prescribed by Opinions of the Institute of Certified Public Accountants in Israel.

Reported amount - An adjusted amount on the transition date (December 31, 2003), together with amounts in nominal historical terms added to it subsequently to the transition date, and less amounts deducted subsequently to that date.

Cost - Cost in reported amount.

Financial reporting in nominal terms - Financial reporting based upon reported amounts.

B. Basis of preparation of the financial statements

(1) Reporting principles

The financial statements of the Bank are prepared in accordance with Israeli accepted accounting principles (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 US generally accepted accounting principles. 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 certain situations, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

(2) Functional currency and stated currency

The New Israeli Shekel (NIS) is the currency representing the principal economic environment in which the Bank operates. The consolidated financial statements are presented in NIS, rounded off to the nearest million, unless otherwise stated. For information regarding the functional currency of a banking extension operating abroad, see Note 1 D (1).

(3) Basis of measurement

The financial statements are prepared on the basis of historical cost, except for the following assets and liabilities:

- Derivative and other financial instruments that are measured according to fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Financial instruments classified as available-for-sale;
- Non-current assets held for sale and a group of assets held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities relating to employee benefits;
- Investments in investee companies stated by the equity method of accounting.

The value of non-monetary assets and of capital items measured on the basis of historical cost has been adjusted to changes in the CPI until December 31, 2003, due to the fact that until that date the economy of Israel had been considered a hyper-inflationary economy. As from January 1, 2004, the Bank presents its financial statements in reported amounts.

(4) 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.

Following the efficiency processes the Bank is taking that include gradual reduction in manpower, as detailed in Note 23 below, the liability regarding the pension and severance pay plan for defined benefit has been updated.

C. 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 by banking corporations and credit card companies in Israel 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 according with US accepted accounting principles in the matter of intangible assets.
3. Regulatory segments of operation and the reporting of segments of operation in accordance with Management's approach.
4. Restructure of problematic debts.

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

1. Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of business combinations, consolidation of financial statements and investment in investee companies.

A circular letter was published on June 10, 2015 regarding the reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of business combinations, consolidation of financial statements and investment in investee companies. According to the letter, it is required to apply the US accepted accounting principles in these matters, as detailed below

- Presentation, measurement and disclosure rules determined by the provisions of Item 805 of the Codification regarding "business combinations".
- The provisions of Item 810 of the Codification regarding "consolidation".
- The provisions of Item 350-20 regarding "intangible assets - goodwill and other assets" with respect to the accounting treatment of impairment of goodwill acquired in a business combination.

- Accounting principles accepted by US banks in the matter of investee companies, including the presentation, measurement and disclosure rules as well as the guidelines regarding impairment determined by the provisions of Item 323 of the Codification regarding "investments - the equity value method and joint ventures".
- The treatment determined inSection 74B(b) of the public reporting instructions regarding noncurrent assets held for sale in accordance with IFRS 5 will not apply to investments in equity basis investees.
- It is pointed out that the transitional instruction that allowed the nonadjustment of the accounting policy in respect of core banking business matters, that had been applied by a nonfinancial equity base investee for the purpose of implementing a uniform accounting policy with that of the Bank, has been abolished. A new Section was added in its place in the transitional instructions for 2015, which allows the Bank, for practical reasons, not to make adjustments in the years 2016 and 2017 to the accounting policy applied by a nonfinancial equity base investee, which prepares its financial statements in accordance with IFRS.

The instructions contained in the letter became effective as from January 1, 2016, and thereafter. Upon initial application, it is required to act in accordance with the transitional instructions applying to these matters in the US standards, with required modifications, including the retroactive restatement of the comparative data where this is required by the US standards' rules regarding these matters. The instructions regarding "push down accounting" shall apply to business combinations made as from January 1, 2016.

The Bank has applied the instructions by way of retroactive application. The implementation of the instructions of the letter had no material effect. Section 1D(2) below has been revised in accordance with the new instructions.

Following is a review of the principal new instructions regarding the implementation of the US standards rules in the matter of the equity value method:

- **Measurement**

  The entity has the possibility of treating investments in investee companies by the fair value method instead of by the equity value method.
- **Reduction in the rate of holdings**

  Upon a reduction in the rate of holdings, regardless of the question as to whether the entity has lost its material influence or not, profit or loss is recognized in an amount equal to the difference between the consideration for the sale and the proportionate amortized cost of the part sold.

  Upon loss of material influence, the remaining rights in the investee are stated according to the book value of the investment immediately prior to the sale.
- **Impairment**

  As a general rule, the amount of impairment equals the excess of the amortized cost of the investment over its fair value. A recognized other than temporary impairment may not be reversed in future periods.
- **Losses**

  According to US standards, as a general rule, the investor has to discontinue the application of the equity value method once the recognized losses of the investee have nullified the value of the investment. In future periods, the equity value method is reinstated only after the unrecognized losses of the investee had been nullified. Nevertheless, the investor has to recognize additional losses where the return of the investee to profitability in the near future is ensured.
- **Uniform accounting policy**

  US standards do not require the investor and the investee company to apply a uniform accounmting policy. Nevertheless, both entities have to apply US GAAP.
- **Conditional consideration**

  To the extent that the conditional consideration does not fall within the definition of a derivative instrument, the conditional consideration may be recognized only when the relevant conditions materialize and the consideration is paid or is payable. This amount is included in the basic cost of the investment, and changes in future measurements shall also be included as part of the basic cost of the investment.

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

- **Potential rights**

  Potential rights may not be taken into account.

- **Non-controlling interest**

  As a general rule, the purchaser should measure non-controlling interest according to its fair value. Non-controlling interests are classified to equity but are presented separately from equity attributed to the parent company. Nevertheless, where non-controlling interests are redeemable in circumstances that are not controlled by the issuer, the SEC rules require to present the non-controlling interests separately from the stated equity. With respect to changes in rates of holdings that are not followed by loss of control, whereas the non-controlling interests are initially measured according to fair value, then goodwill is to be allocated between the parent company and the non-controlling interests.

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

A circular letter was published on October 22, 2015 regarding the reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of intangible assets, and inter alia, the presentation, measurement and disclosure rules determined by the provisions of Item 350 of the Codification regarding "intangible assets - goodwill and other assets". In particular, the letter requires banking corporations to apply the rules detailed in Item 350-40 of the Codification regarding "software for internal use".

Banks are required to apply the instructions contained in the letter as from January 1, 2016, and thereafter. Upon initial application, it is required to act in accordance with the transitional instructions determined in US standards regarding these matters, with required modifications. The above stated includes the restatement of data relating to prior periods, where this is required regarding these matters.

Application of the letter had no material effect. Sections 1D(13) and 1D(15) below have been revised in accordance with the new instructions.

Followpwing is a review of the principal new instructions regarding the provisions of US standards in the matter of intangible assets:

- **Impairment - intangible assets having a defined lifespan**

  An intangible asset is examined upon existence of signs for impairment at a "group of assets" level. A group of assets is the smallest group of assets and liabilities producing a separate cash flow.

  Firstly, an examination is made as to whether the stated value of the group of assets is higher then the noncapitalized amount of cash flows expected to be produced by the group. If so, impairment is recognized in the amount of the difference between the stated valoue of the group of assets and its fair value.

  The amount of impairment is to be allocated pro-rata only to the assets comprising the group of assets, provided that the value of a single asset is not lower than its fair value.

- **Reversal of a loss on impairment**

  As a general rule, losses on impairment of intangible assets may not be reversed.

- **Capitalization of costs of an intagible asset**

  As a general rule, costs of an intangible asset are recognized as an expense as incurred. Nevertheless, specific guidelines are in effect in respect of particular cases, such as cost of development of software for internal use, as described below.

- **Capitalization of cost of development of software for internal use**

  Costs incurred in the development of software for internal use shall be capitalized, if Management is committed to finance the project, and 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 regarding the capitalization of software costs for internal use are, inter alia, based on the US standard SOP 98-1 (included in the framework of ASC 350-40).

3. Regulatory segments of operation and reporting segments of operation in accordance with management's approach

(a) Regulatory segments of operation

A circular letter in the matter of operating segment reporting was published on November 3, 2014, which updates the public reporting instructions in everything related to the reporting requirements applying to regulatory operating segments, and among other things, includes also changes in certain definitions and guidelines according to which banks would have to classify customers to regulatory segments and update their reporting in accordance with uniform definitions proclaimed by the Supervisor of Banks, which are principally based on the classification of customers according to their business turnover.

(b) Segments of operation according to Management's approach

In addition to the uniform reporting according to regulatory segments of operation, the letter states that the disclosure regarding "operating segments according to Management's approach" shall be provided according to accounting principles accepted by US banks in the matter of operating segments (included in ASC 280), where a material difference exists between Management's approach and the reporting of segments according to the guidelines of the Supervisor of Banks.

An operating segment according to Management's approach under ASC 280-10, is a component of a bank engaged in operations that might produce income and bear expenses, which agree with the criteria detailed below:

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

The report regarding segments of operation is in accordance with Management's approach, while disclosing segments and details of reporting items as determined by the bank.

The new rules took effect gradually, as from the financial statements for 2015. Enlargement of the reporting format up to the full format shall be made in the following manner:

- As from the financial report for the first quarter of 2016, full disclosure is provided according to regulatory segments, which include segments such as private banking, households, tiny and small businesses, middle market businesses, large businesses and institutional bodies, with the exception of the separate disclosure regarding the financial management segment. The comparative data should be restated retroactively. In the financial statements for 2016, the comparative data in the note on regulatory segments of operation may be presented in respect of one year only. The presentation of the comparative data may rely on the classification of customers to segments of operation as of January 1, 2016.
- Starting with the report for the first quarter of 2017, it is required to apply the guidelines of the letter in full.

Application of the new instructions had no material effect except for the manner of presentation and disclosure. Notes 28 and 28A have been modified to include the new disclosure, subject to the transitional instructions, as detailed above.

4. Restructure of a problematic debt

On May 22, 2016, the Supervisor of Banks published a circular letter in the matter of the restructure of problematic debts. The letter revises the public reporting instructions following update No. 2011-02 of the Codification, published by the FASB, and in view of the new guidelines of the regulatory authorities in the US.

Additional guidelines are contained in the letter regarding a restructure following a previous restructure of a debt. In particular, it is determined that under certain circumstances, where the restructure of a problematic debt had been applied to a debt, following which, the banking corporation and the debtor entered into an agreement for a further restructure (hereinafter - "a following restructure"), the banking corporation is no longer required to treat the debt as a restructured problematic debt if the following two conditions exist:

a. At date of the following restructure, the debtor is no longer in financial difficulties.

b. In terms of the following restructure, the banking corporation had not granted any waiver to the debtor.

In order to fulfill the said two conditions, it is required, inter alia, that the following restructure agreement would conform with market terms, including (1) a contractual rate of interest not lower than the interest rate on new loans having similar credit risk characteristics, and (2) other terms in the agreement that are not less beneficial to the banking corporation than the terms which the banking corporation would have offered on new loans as stated, having similar credit risk characteristics.

Furthermore, cases have been determined where it is strongly considered that the renewal of an inferior debt constitutes a restructure of a problematic debt. It is also stated that where a debt, which was not specifically considered in the past as impaired, is restructured and it has been decided that it agrees with the definition of a restructured problematic debt, with no partial accounting write-off, it is not generally proper to reduce the assessment for credit losses at date of the restructure, as a result of the change in the method of measurement of the impairment.

The guidelines of the letter took effect on December 31, 2016, with respect to restructures made or renewed as from that date and thereafter. Furthermore, the Bank has applied the instructions regarding everything related to the preservation of the provisions made in respect of restructured debts. The application of the said instructions on the outstanding restructured debts at the Bank had no material effect.

D. Accounting policy applied in the preparation of the financial statements

(1) Foreign Currency and Linkage

Transactions in foreign currency are translated into the relevant functional currencies of the Bank and its extensions according to the exchange rates prevailing on date of the transactions. Monetary assets and liabilities denominated in foreign currency at date of the report are translated into the functional currency according to the exchange rate in effect on that date. Exchange differences in respect of monetary items comprise the difference of the written down cost in the functional currency at the beginning of the year, as adjusted to the effective interest and payments during the year, and the written down cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate in effect on the date on which fair value was determined. Non-monetary items denominated in foreign currency and measured according to historical cost, are translated at the exchange rate in effect at date of the transaction.

Exchange differences arising on translation to the functional currency are recognized in profit and loss, except for the following differences, which are recognized in other comprehensive profit, arising on translation of:

- Capital financial instruments classified as available for sale (except in the case of impairment when the exchange differences recognized in other comprehensive profit are reclassified to profit and loss);
- Financial liabilities hedging investment in foreign operations, in respect of the effective part of the hedge.

Functional currency of extensions operating abroad

Starting with January 1, 2011, the Bank implements IAS 21 "Effect of changes in exchange rates of foreign currency", except for the guidelines of the standard regarding classification of banking extensions operating abroad as a foreign operation the functional currency of which is different from the Israeli Shekel (NIS).

Overseas banking extensions

Until the year 1994, certain overseas banking extensions were classified as an overseas operation the functional currency of which is different from the NIS and exchange differences in respect of the translation had been taken directly to equity as part of the translation reserve. As from 1995, according to guidelines of the Supervisor of Banks, overseas banking extensions are classified as foreign operations the functional currency thereof is identical to the functional currency of the Bank.

In accordance with IAS 21, in order to determine the functional currency, the Bank has to consider, among other things, the following factors:

- The currency that mostly influences the selling price of goods and services (in general, this will be the currency in which the selling price of goods and services is stated and settled), as well as the currency of the country, the competitive powers and regulation of which determine mostly the selling price of goods and services;
- The currency that influences mostly labor, materials and other costs for providing goods and services (in general, this will be the currency in which such costs are stated and settled);
- Additional factors that might provide proof of the functional currency of the entity, such as: the currency in which monetary sources from financing operations are produced and the currency in which receipts from current operations are being held;
- Relations of the extension with the Bank - whether the foreign operation has a certain measure of independence, whether transactions of the extension with the banking corporation comprise a high or low ratio of the foreign operation, whether the cash flows from the foreign operation have a direct effect upon the cash flows of the bank and they are easily available for transfer to the bank and whether the cash flows of the foreign operation are sufficient to finance in the usual manner existing and anticipated liabilities of the entity without the Bank having to provide sources of finance.

Based on a study of these criteria, it has been determined that the functional currency of a certain banking extension is not identical with the NIS. Notwithstanding, in order to change the classification of a foreign banking extension, as an extension the functional currency of which is different from the NIS, the Bank is required to obtain a pre-ruling from the Supervisor of Banks. Until such ruling is obtained, the Bank continued to treat its foreign banking extensions as entities the functional currency thereof is identical to the NIS.

On February 14, 2012, a circular letter was issued with respect to the functional currency of extensions operating abroad, which includes criteria determined by the Supervisor of Banks with respect to the determination of the functional currency of an overseas banking extension. It was especially clarified that in determining the functional currency the Bank is required to examine whether each one of the following criteria exists/does not exist and document the results of the review:

- The principal environment in which the extension produces and expends cash is foreign currency while the NIS operation of the extension is negligible;
- Autonomous attraction of customers by the extension - activity of the extension with customers of the Bank and/or with their related parties and/or with parties referred to the extension by the Bank is insignificant;
- The activity of the extension with the Bank and/or parties related to it is insignificant. Furthermore, there is no significant dependence of the extension on financing resources provided by the Bank and/or its related parties.
- In substance, the activity of the extension is independent and self sustained and it does not constitute an expansion or supplement of the domestic operations of the Group. Furthermore, the extension conducts its operations with a significant extent of autonomy.

Where one of the said criteria does not clearly exist (example: business of the extension transacted with customers of the Bank is significant to the degree that it comprises most of the business of the extension), it indicates that the extension has to be treated as an overseas operation which functional currency is the NIS. In other circumstances, the determination is to be made according to the examination of the overall criteria.

The bank has re-examined the classification of its overseas banking extensions in accordance with the new criteria. In the light of this re-examination, the Bank has reclassified its banking extension FIBI Bank (Swiss) as an overseas operation which functional currency is different than the NIS. The change in classification has been treated prospectively as a change in the functional currency of the extension, so that exchange differences in respect of translation are recognized as from January 1, 2012 in other comprehensive profit and presented under "Adjustments on translation of financial statements".

Foreign operations

Assets and liabilities relating to foreign operations, including goodwill and adjustments to fair value created upon acquisition, are translated to NIS at the exchange rate prevailing at the reporting date. Income and expenses of foreign operations are translated into NIS at the exchange rates prevailing upon the dates of the transactions.

Exchange differences arising on translation are recognized in other comprehensive profit as from January 1, 2012, date of change of the functional currency and are presented in capital under "Adjustments on translation of financial statements".

Hedge of net investment in foreign operations

The Group implements hedge accounting in respect of exchange differences between the functional currency of the foreign operation and the functional currency of the Bank (NIS).

Exchange differences stemming from a forward contract that hedges the net investment in a foreign operation, are taken to other comprehensive income, in respect of the effective part of the hedge, and are presented in capital under "Adjustments on translation of financial statements". The non-effective part is taken to profit and loss. Upon realization of the hedged investment, the appropriate amount accumulated under "Adjustments on translation of financial statements" is transferred to profit and loss, as part of the gain or loss on realization of the investment.

CPI-linked assets and liabilities not measured according to fair value

CPI-linked assets and liabilities are stated according to the linkage terms determined for each item.

Details of representative exchange rates and of the consumer price index including the rates of change therein:

	December 31			Rate of change during		
	2016	2015	2014	**2016**	2015	2014
					%	%
Rate of exchange of the U.S. dollar (in NIS)	**3.845**	3.902	3.889	**(1.5)**	0.3	12.0
Rate of exchange of the Euro (in NIS)	**4.044**	4.247	4.725	**(4.8)**	(10.1)	(1.2)
Rate of exchange of the Pound Sterling (in NIS)	**4.725**	5.784	6.064	**(18.3)**	(4.6)	5.6
Rate of exchange of the SFR (in NIS)	**3.767**	3.925	3.929	**(4.0)**	(0.1)	0.8
Consumer Price Index -						
November (in points)	**98.9**	101.2	102.1	**(0.3)**	(0.9)	(0.1)
December (in points)	**98.9**	101.1	102.1	**(0.2)**	(1.0)	(0.2)

(2) Basis of consolidation

Business combinations

The Group implements the acquisition method for all business combinations. Date of acquisition is the date on which the acquiring entity obtains control over the acquired entity. The Group controls the purchased entity when it has the ability to direct the policy and management of the acquired entity, including by way of ownership or agreement. In examining control, potential rights are not taken into consideration.

The Group recognizes goodwill at acquisition date according to the fair value of the consideration given, including amounts recognized in respect of any rights that do not confer control over the acquired entity as well as the fair value at acquisition date of a capital right in the acquired entity held previously by the purchaser, after deduction of the net amount attributed at acquisition to identifiable acquired assets and to assumed liabilities.

At acquisition date, the Bank recognizes a contingent liability accepted in a business combination, if its fair value is reliably mesurable.

The consideration transferred includes the fair value of assets transferred to the previous owners of the acquired entity, of liabilities assumed towards the previous owners of the acquired entity and of capital rights issued by the group.

Acquisition related costs incurred by the Bank in respect of a business combination, such as: brokerage fees, consulting fees, legal fees, valuation fees and other fees incurred in respect of professional or advisory services, are recognized in the period in which the costs are incurred and the services received. Cost of issue of capital instruments or debt instruments are treated in accordance with the relevant instructions in the public reporting instructions.

Subsidiary companies

Subsidiary companies are entities controlled by the Group. The financial statements of subsidiary companies are included in the consolidated financial statements since the date on which control of these entities was acquired and until the date on which control ceased to exist.

Non-controlling interest

Non-controlling interest comprises the equity capital of a subsidiary, which may not be, directly or indirectly, attributed to the parent company.

Measurement of non-controlling interests at date of a business combination - non-controlling interests are measured at fair value at date of the business combination.

Allocation of the comprehensive income among the shareholders - Profit or loss and any other component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interest. The total profit, loss and other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests, even if this results in a negative balance of the non-controlling interests.

Transactions with non-controlling interests while maintaining control - transactions with non-controlling interests while maintaining control are treated as capital transactions. Any difference between the consideration paid or received and the change in the non-controlling interest is taken directly to the share in equity of the owners of the Bank.

Furthermore, upon changes in the rate of holdings in a subsidiary while maintaining control, the Bank reallocates the cumulative amounts recognized in other comprehensive profit between the owners of the Bank and the non-controlling interest.

A PUT option granted to the non-controlling interest with respect to shares of a consolidated subsidiary is not treated as a separate instrument, but the Bank treats the shares of the consolidated subsidiary held by the non-controlling interests, and with respect to which the non-controlling interests have a PUT option, as redeemable non-controlling rights, and accordingly reflects them as temporary equity excluded from equity capital. The non-controlling rights, which, as stated, are excluded from equity capital, are measured periodically at the higher of the amount of the minority's share in profit or the redemption value of the shares. At each period, the Bank attributes profits to the non-controlling rights in accordance with their share in the earnings of the subsidiary company, to the extent that adjustments are required in order to state the non-controlling rights at the higher of the amount of the minority's share in profits or the redemption value of the shares, as above. These adjustments are reflected in the retained earnings item.

Loss of control in a subsidiary

Upon loss of control, the Bank deletes the assets and liabilities of the subsidiary as well as any non-controlling interest and other capital components attributed to the subsidiary, including amounts recognized in the past in other cumulative comprehensive income, including in respect of a foreign subsidiary. If the Bank remains with any investment in the former subsidiary, then the balance of the investment is measured at fair value at date of loss of control.

The difference between the amount of consideration received and the fair value of the remaining balance in the former subsidiary and the amount of the deleted balances is recognized in profit and loss. As from that date, the remaining investment is treated by the equity value method or as a financial asset, in accordance with the extent of influence over the relevant company remaining with the banking corporation. The amounts relating to the former subsidiary that previously had been recognized in equity by way of other comprehensive income, are reclassified to profit and loss.

Investments in equity based investees

Equity basis investees are entities in which the Group has a material influence over their financial and operating policies, but no actual control. The assumption is that an interest of between 20% and 50% in the investee confers a significant influence.

Investment in equity basis investees is treated by the equity method of accounting, and initially is recognized at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share in the income and expenses, in the profit and loss and in the other comprehensive profit of entities treated by the equity method of accounting, from the date on which the significant influence first existed and until the date on which it ceased to exist.

Transactions eliminated upon consolidation

Intercompany balances within the Group and non-realized income and expenses derived from intercompany transactions are eliminated in the preparation of the consolidated financial statements. Non-realized profits stemming from transactions with equity basis investees are eliminated against the investment therein according to the ratio of interest that the Group has in such investments. Non-realized losses are eliminated in the same manner in which non-realized profits have been eliminated, so long as no evidence of impairment exists.

(3) Basis of Recognition of Income and Expenses

(a) Interest income and expenses are recognized on an accrual basis, except for:

- interest accrued on problematic debts classified as non-performing loans, which is recognized on a cash basis where no doubt exists as to the collection of the remaining stated balance of the impaired debt. In such cases, an amount collected on account of interest to be recognized as interest income is limited to the amount that would have accrued during the reported period on the remaining stated balance of the debt according to the contractual interest rate. Cash basis interest income is classified in profit and loss as interest income in the relevant item. Where doubt exists as to the collection of the remaining stated balance of the debt, all amounts collected are used to reduce the principal amount of the loan. Furthermore, interest on housing loans in arrear is recognized in profit and loss upon actual collection.
- Premature redemption commissions charged in respect of premature repayments made prior to January 1, 2014, and not yet amortized, are recognized over a period of three years or over the remaining period of the loan, the shorter of the two.

  Commissions charged on premature repayments made after January 1, 2014, are immediately recognized as interest inome.

(b) Commission income in respect of services provided (such as: securities and derivative instruments operations, credit cards, ledger fees, the granting of credit, currency conversion and foreign trade activity) are recognized in profit and loss upon accrual of the right thereto. Certain commission income, such as commission in respect of guarantees, and certain commissions regarding the finance of building projects, is recognized proportionally over the period of the transaction.

(c) Securities - see Section D(5) below.

(d) Derivative financial instruments - see Section D.(6) below.

(e) Other income and expenses - recognized on an accrual basis.

(4) Impaired debts, credit risk and provision for credit losses

In accordance with the Directive of the Supervisor of Banks in the matter of the "measurement and disclosure of impaired debts, credit risk and the provision for credit losses", the Bank implements as from January 1, 2011, the US accounting standards in this matter (ASC 310) and the statements of position of the US bank supervisory bodies and the US Securities and Exchange Commission, as adopted in the public reporting directives and in positions and guidelines of the Supervisor of Banks. In addition, as from that date, the Bank implements the guidelines of the Supervisor of Banks in the matter of the treatment of impaired debts. Moreover, Starting on January 1, 2012, the Bank implements the instructions of the Supervisor of Banks in the matter of the update of disclosure of credit quality of debts and the provision for credit losses.

Furthermore, from time to time, the Supervisor of Banks revises the public reporting instructions and the guiding FAQ file regarding the manner of application of the instructions in the matter of impaired debts and the provision for credit losses, this with the view of integrating therein the rules applying to US banks, including guidelines of the Regulatory authorities in the United States. As from 2016, the guidelines relating to the treatment of the restructure of a problematic debt and certain guidelines regarding the manner of examination of the debts have, inter alia, been revised.

Credit to the public and other debt balances

The guideline is implemented with respect to all debt balances, such as: deposits with banks, bonds, securities on loan or acquired within the framework of "buy-back" agreements, credit to the public, credit to government, etc. Credit to the public and other debt balances, in respect of which the public reporting directives do not contain specific principles regarding the measurement of the provision for credit losses (such as: credit to government, deposits with banks, etc.) are reported in the books of the Bank at the stated balance of the debt. The stated balance of the debt is defined as the outstanding balance of the debt, net of accounting write-offs, but before provision for credit loss in respect of such debt. The stated balance of the debt does not include non-recognized accrued interest, or interest which had been recognized in the past but cancelled later. As regards other debt balances, in respect of which specific principles exist regarding measurement and the recognition of provisions for impairment (such as: bonds) the Bank continues to apply the same measurement principles, see Section 1D(8) below.

Identification and classification of troubled and impaired debts

The Bank has determined procedures for the identification of troubled credit and for the classification of debts as impaired. According to these procedures, the Bank classifies all its problematic debts as well as the off-balance sheet credit items under the following classifications: "special supervision", "inferior" or "impaired".

A debt is classified as "under special supervision" when it shows potential weakness, which justifies special attention by the Bank. A debt is classified as inferior when the credit is not adequately secured by the verified present value of the security and/or the repayment ability of the debtor, in a way clearly indicating the possibility that the Bank would sustain a certain loss in respect of such credit, unless the weakness is rectified.

A debt is classified as impaired when, based on information and current events, it is anticipated that the Bank would not be able to collect all the amounts due to it under the contractual terms of the loan agreement. The decision regarding the classification of the debt is based, among other things, on the default situation of the debt, evaluation of the financial position and repayment ability of the borrower, the existence and condition of collateral, the financial position of guarantors, where these exist, and their obligation to support the debt, as well as the ability of the borrower to obtain third party finance.

In any event, a debt is classified as an impaired debt if the principal amount or the interest thereon is in arrear for ninety days or more. For this purpose, the Bank monitors the period of arrears in relation to the contractual repayment terms of the debt. Debts (including bonds and other assets) are considered in arrear when payments on account of principal or interest have not been made on their due dates. In addition, revolving debit accounts or current accounts are reported as debts in arrear for thirty days or more, when these accounts deviate continuously from the approved credit facility for over thirty days or more, or where within the framework of the credit facility, no amounts have been credited to such account covering the amount of the debt within a period of 180 days. Starting with the date of classification of a debt as impaired, it is treated as a debt not accruing interest income ("nonperforming debt").

Moreover, any debt the terms of which have been changed as part of a restructuring of a problematic debt, shall be classified as an impaired debt, unless prior to the restructuring and thereafter, a minimum provision has been recorded in respect of which in accordance with the extent of default, in accordance with the Appendix to Proper Management of Banking Business Directive 314 in the matter of "proper assessment of credit losses and proper measurement of debts".

Reinstatement of an impaired debt as non-impaired

An impaired debt reverts to the classification of a non-impaired debt if one of the following two situations exists:

(1) No principal or interest components of the debt, which are due for payment, remain unpaid, and the Bank expects the payment in full of the remaining principal sum and interest in accordance with the terms of the loan agreement (including amounts written off accounting wise or provided for).

(2) When the debt becomes well collateralized and collection proceeding are in effect.

The said rules for the reversal of an impaired debt classification shall not apply to debts classified as impaired following the restructuring of a problematic debt.

Reinstatement of an impaired debt as impaired and accruing

A debt, which has formally been restructured, so that following the restructuring thereof reasonable assurance exists that the debt would be repaid and would perform in accordance with its new terms, is reinstated as a debt that accrues interest income, on condition that the restructuring and any accounting write off made in respect of the debt are supported by an updated and well documented credit evaluation of the financial position of the borrower and of the repayment forecast according to the new terms. The evaluation is based on the consistent historical repayments of the borrower in cash and cash equivalents during a reasonable period of at least six months, and only after the receipt of payments that significantly reduced the stated balance of the debt, as determined after the restructuring.

Debt arrangement policy and the treatment of a restructured problematic debt

With a view of improving the management of credit and its collection, as well as with a view of preventing failure situations and the seizure of pledged assets, the Bank has adopted and is implementing a policy for arriving at arrangements in respect of problematic debts and for making changes in the terms of debts not identified as troubled. Methods for the changing of terms of debts may include, among other, the deferment of repayment dates, reducing the rate of interest payable or the amount of the periodic repayments, changing the terms of the debt in order to match them to the financing structure of the borrower, consolidation of the borrower's debts, transfer of the debts to other borrowers belonging to a borrower group under joint control, review of the financial covenants applying to the borrower, and more.

The Bank's policy is based upon criteria that enable the Management of the Bank to apply judgment as to whether the repayment of the debt is expected, and which is applied only if the borrower shows proven ability and intention to repay the debt and is expected to comply with the terms of the new arrangement.

A debt that has formally been restructured as a problematic debt, is defined as a debt in respect of which, due to economic or legal grounds related to the financial difficulties of the borrower, the Bank granted a waiver by way of a change in the terms of the debt with a view of alleviating the burden of cash payments by the borrower in the near future (a reduction or deferral of cash payments demanded from the borrower) or by way of accepting other assets in settlement of the debt (in whole or in part).

In order to establish whether a debt arrangement made by the Bank constitutes a restructuring of a problematic debt, the Bank conducts a qualitative examination of all terms of the arrangement and the circumstances in the framework of which it had been made, this with a view of determining whether: (1) the borrower has financial difficulties and (2) as part of the arrangement the Bank has granted a waiver to the borrower.

In order to establish that the borrower has financial difficulties, the Bank looks for signs indicating financial difficulties of the borrower at date of the arrangement, or a reasonable probability that the borrower will encounter financial difficulties if not for the arrangement. Among other things, the Bank examines the existence of one or more of the following circumstances:

- the borrower is at present in default regarding the repayment of any of his debts. Moreover the banking corporation has to assess whether it is expected that the borrower will be in default in the foreseeable future regarding the repayment of any of his debts, unless a change is made. Namely, the banking corporation may reach the conclusion that the debtor is in financial difficulties even though he is not in default at the present time.
- the borrower informed that he is a bankrupt or is under another type of receivership, or that he is under bankruptcy proceedings or under other receivership proceedings.
- material doubt exists as to the ability of the borrower to continue as a going concern.
- securities issued by the borrower had been delisted, are under delisting proceedings, or are under threat of being delisted from trade on the Stock exchange.
- according to assessments and forecasts that include only the present financial capabilities of the borrower, the banking corporation expects that the cash flows specific to the entity of the borrower in the foreseeable future, would not be sufficient to serve any debt of the borrower's debts (principal and interest) in accordance with the contractual terms of the existing agreement.
- was it not for the existing change, the borrower would not be able to obtain finance from sources other than the existing lenders at an effective rate of interest equal to the market interest rate applying to a similar debt of a non-troubled borrower.

The Bank concludes that within the framework of the arrangement the borrower had been granted a waiver, even if the arrangement specified a rise in the contractual interest rate, if one or more of the following situations exist:

- as a result of the restructuring, the Bank does not anticipate to collect all amounts of the debt (including accrued interest according to the contractual terms);
- the updated fair value of the collateral in the case of a secured debt does not cover the contractual balance of the debt and indicates the inability to collect the full amount of the debt;
- the borrower does not have the possibility of raising funds at accepted market rates in respect of a debt having terms and characteristics such as those of the debt subject to the arrangement.
- where the Bank does not perform an additional underwriting procedure, as stated, upon the renewal of an inferior debt, or where there is no change in the pricing of the debt or that the pricing had not been modified so as to match the risk prior to the renewal, or where the borrower does not provide additional means in order to compensate the increase in the risk stemming from the financial difficulties of the borrower, it is strongly considered that the renewal constitutes a restructure of problematic debt.

The Bank does not classify a debt as a restructured problematic debt, if within the framework of the arrangement, the borrower had been granted a payment deferral that is not material in relation to the frequency of the payments, in the contractual repayment period and during the anticipated average maturity of the original debt. In this respect, where several arrangements had been made involving changes in the terms of the debt, the Bank takes into account the cumulative effect of prior arrangements in order to establish whether the payments deferral is not material.

Treatment of restructured debts and following restructuring

Restructured debts, the terms of which had been changed in the restructuring of an impaired debt, including debts, which prior to their restructuring were assessed on a collective basis, are classified as impaired debts, which will be assessed on a specific basis for the purpose of the provision for credit losses. As a general rule, a restructured problematic debt shall continue to be measured and classified as an impaired debt until fully repaid. Nevertheless, under certain circumstances, when a debt had been restructured as a problematic debt and at a later date, the banking corporation and the borrower entered into an additional agreement for the restructure of the debt, the banking corporation is no longer required to treat the debt as a restructured problematic debt, if the following two conditions exist:

(a) The borrower no longer has financial difficulties at date of the following restructure;

(b) In accordance with the terms of the following restructure, the banking corporation had not granted the borrower a waiver (including a waiver regarding the principal amount on a cumulative basis since the original date of the loan).

A debt as above, which had undergone a followign restructure and the classification thereof as an impaired debt has been removed, is assessed on a collective basis for the purpose of quantifying of the provision for credit losses and the stated balance of the debt will not change upon the following restructure (except if cash has been received or paid).

If in following periods the said debt is specifically examined and found inpaired or if it is restructured as a problematic debt, then the bank reclassifies it as an impaired debt and treats it as a restructure of a problematic debt.

Provision for credit losses

The Bank has determined procedures for the classification of credit and for the measuring of the provision for credit losses in order to maintain a provision at a proper level to cover anticipated credit losses in relation to the Bank's credit portfolio. In addition, the Bank has determined procedures required for the maintenance of a provision at a proper level to cover anticipated credit losses related to off-balance sheet credit instruments as a separate liability account (such as: commitments to grant credit, non-utilized credit facilities and guarantees).

The provision covering anticipated credit losses in relation to the credit portfolio is assessed according to one of the two ways: "specific provision" and "collective provision". The said assessment of the debts for the purpose of determining the provision and the treatment of the debts is applied consistently to all debts, in accordance with their quantitative minimum and the credit management policy of the Bank, and no changes are made in the assessment classification of the debt as "specific" or "on a collective basis" during the life of the debt, unless a restructure of a problematic debt has been in respect of the debt, as stated above.

Specific provision for credit losses

For the purpose of the specific examination, the Bank elected to identify debts, the total contractual balances of which exceed NIS 1 million. A specific provision for loan losses shall be recognized in respect of any debt examined on a specific basis and classified as impaired. Moreover, any debt the terms of which have been changed as a result of a restructuring of a problematic debt, shall be classified as an impaired debt, unless if prior to the restructuring and thereafter, a minimum provision for loan losses had been created in respect of which by the extent of default period method, in accordance with the Annex to Proper Management of Banking Business Directive 314 regarding proper assessment of credit risk and the proper measurement of debts.

The specific provision for loan losses is assessed based upon the estimated future cash flows discounted by the original effective interest rate of the debt. Where the loan is collateralized or where the Bank expects a foreclosure of an asset, the specific provision is assessed based on the fair value of the collateral pledged as security for that loan, taking into consideration conservative and consistent coefficients, which among other things reflect the volatility in the fair value of the collateral, the period until actual realization of the collateral and the costs involved in its sale.

In this respect, the Bank defines a collateral conditioned debt as a debt the repayment of which is expected to depend exclusively upon the collateral pledged in favor of the Bank, or where the Bank is expected to be repaid from the proceeds of an asset owned by the borrower even if it is not specifically pledged in favor of the Bank, all this when the borrower has no other available and reliable material sources for the repayment of the debt.

Provision for credit losses on a collective basis

Housing loans

The minimum provision in respect of housing loans is computed based on a formula determined by the Supervisor of Banks, taking into consideration the length of the default period, so that the rate of the provision increases in accordance with the length of the period of default. On the date of the initial implementation of the new directive, an amendment of the Appendix to Proper Management of Banking business Directive No. 314 "Proper assessment of credit risk and proper measurement of debts" entered into effect. This amendment extends the application of computing the provision based on the extent of the default period to all housing loans, with the exclusion of loans that are not repayable in periodic installments and loans which finance operations of a business nature.

In addition, the Bank implements the provisions of Proper Management of Banking Business Directive No. 329 in the mater of "Limitations on the granting of housing loans".

The Bank has formed a policy designed to ensure that it complies with the new requirements and that as from June 30, 2013, the balance of the group provision for credit losses arising on housing loans shall not fall below a rate of 0.35% of the total outstanding balance of these loans at the reporting date.

Non-housing credit

The collective provision for credit losses - this provision is assessed in order to reflect provisions for impairment in respect of credit losses not specifically identified, inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found to be not impaired. The provision for credit losses in respect of debts assessed on a group basis is computed in accordance with the rules determined in FAS 5 (ASC 450), "accounting for contingencies" and in accordance with instructions of the Supervisor of Banks, based on historical loss rates in various economic sectors, divided between troubled and non-troubled credit within a range of years during the period beginning onJanuary 1, 2011 and ending at the date of the report.

In addition to the computation of the range of the historical loss rates in the various economic sectors, as stated above, for the purpose of determining of the proper rate of provision, the Bank takes into consideration relevant environmental factors, including trends in the volume of credit in each sector and sector conditions, macro-economic data, a general assessment of the quality of credit granted to the sector, changes in volume and trend of balances in arrears and impaired balances, as well as the effect of changes in the concentration of credit.

In accordance with instructions of the Supervisor of Banks, the Bank has formed a method for the measurement of the collective provision, which takes into consideration both past loss rates as well as adjustments in respect of the relevant environmental factors. As regards credit to private individuals, the rate of adjustment in respect of environmental factors shall not be lower than 0.75% of the non-troubled balance of credit at each reporting date in relation to the average loss rates within the range of years. Excluded from the above is non-interest bearing credit stemming from transactions by bank credit card holders. It was further determined, that banks which have annual loss rate of less then 0.3% in each of the five years ending at the reporting date, may consider to adjust in respect of environmental factors in a rate of no less then 0.5%. A consolidated subsidiary is acting in accordance of an approvement received from the Bank of Israel in respect of the permited guidelines to banks with low loss as mentioned.

As from January 1, 2011, the Bank is no longer required to maintain general, supplemental and special provisions for doubtful debts, however, it continues to compute the supplemental provision and verifies that in no event the amount of the collective provision at each reporting date shall not fall below the amounts of the supplemental and general provisions that would have been included as of that date.

Off-balance sheet credit

The required provision in respect of off-balance sheet credit instruments is assessed in accordance with the rules determined in FAS 5 (ASC 450). The provision assessed on a group basis in respect of off-balance sheet credit instruments is based on the rates of the provision determined for the balance sheet credit (as explained above) taking into account the anticipated rate of realization into credit of the off-balance sheet credit risk. The rate of realization into credit is computed by the Bank based on conversion into credit coefficients as detailed in Proper Banking Management Directive No. 203, measurement and capital adequacy - credit risk - the standard approach.

In addition, the Bank examines the overall propriety of the provision for credit losses. The said evaluation is based on the judgment of Management, which takes into consideration the risks inherent in the credit portfolio and the methods of valuation applied by the Bank for assessment of the provision.

Accounting write-off

The Bank writes-off accounting wise any debt or part thereof assessed on specific basis, which is not considered collectible and of a low value so that its remaining as an asset is not justified, or a debt in respect of which the Bank is conducting long-term collection efforts (defined in most cases as a period exceeding two years). Regarding debts the collection of which depends on collateral, the Bank immediately performs an accounting write-off against the balance of the provision for credit losses, of that part of the stated balance of the debt exceeding the fair value of the collateral.

Regarding debts assessed on a group basis, write-off principles have been determined based on their period of default (in most cases over 150 consecutive default days) and on other problem parameters. In respect of housing loans, where the minimal provision is based on the extent of the default period, the Bank writes-off accounting wise balances of debts remaining after the realization of the collateral where no other sources for the repayment of the debt are available, or in cases of difficulty in the realization of the collateral, or in cases where a collateral covering all or a part of the debt exists but has not been realized during a period of five years for humane reasons.

It should be clarified that accounting write-offs do not involve legal waiver and they reduce the reported debt balance for accounting purposes only, creating a new cost basis for the debt in the books of the Bank.

Notwithstanding the above, concerning debts assessed on a collective basis and classified as impaired due to the restructure of a problematic debt, the need for an immediate write-off is being examined. In any event, such debts are being written-off accounting wise no later than the date on which the debt has become a debt in arrears of sixty days or over, in relation to the terms of the restructure.

Income recognition

At date of classification of the debt as impaired, the Bank defines the debt as nonperforming and ceases to accrue interest income in respect thereof, except as stated below regarding certain restructured debts. Furthermore, at date of classification of the debt as impaired, the Bank cancels all interest income accrued and not yet collected, which had been recognized in profit and loss. The debt continues to be classified as nonperforming so long as its classification as impaired has not been removed. A debt which has formally been restructured as a problematic debt and following such restructuring reasonable assurance exists that the debt will be repaid and will perform according to its new terms, is treated as a performing impaired debt. See section D(3) above for details regarding the recognition of income on a cash basis in respect of debts classified as impaired.

The Bank does not cease to accrue interest income on debts that are assessed and provided for on a group basis, which are in arrear for ninety days or over. Such debts are subject to assessment methods for the provision for credit losses which ensure that the profit of the Bank is not inclined upwards. Charges in respect of arrears regarding such debts are recognized as income when the right to such charges is established on condition that collection thereof is reasonably assured.

Disclosure requirements

The Bank implements the disclosure requirements regarding credit quality of debts and provision for credit losses as determined in the updated accounting standard ASU 2010-20. These require the Bank to provide a wider disclosure of outstanding debts, movement in the balance of provision for credit losses, indication as to the credit quality, any material purchase or sale of debt portfolios during the reported period.

Furthermore, as from the year 2015, and in accordance with the instructions of the Supervisor of Banks regarding the change in the format of the financial statements, the Bank presents condensed principal information regarding credit risk, credit to the public and the provision for credit losses (see Note 13) and additional information regarding credit risk, as stated (see Note 29).

(5) Securities

- The bank's investments in securities are classified, into three portfolios, as follows:
  - Held to Maturity Bonds - bonds, which the Bank has the intention and ability to hold until their redemption date, excluding bonds which may be prematurely redeemed or settled in another way so that the Bank might not cover substantially all of its recorded investment therein. Held to maturity bonds are stated at cost together with exchange or linkage increments and interest accrued, as well as the unamortized amount of discount or premium and less a loss on impairment considered to be of a nature other than temporary.
  - Trading Securities - securities purchased and held for sale in the near future, excluding shares in respect of which fair value is not readily available. Trading securities are stated at their fair value on the reporting date. Gains or losses on adjustment to fair value are reflected in the statement of income.
  - Available-for-Sale Securities - securities not classified as bonds held to maturity or as trading securities. Shares in respect of which fair value is readily available and bonds are stated at their fair value on the reporting date. Shares for which fair value is not readily available are measured in the balance sheet at cost. Unrealized gains or losses from adjustment to fair value are not reflected in profit and loss but are stated net of an appropriate tax provision, in a separate item of shareholders' equity, as part of other cumulative comprehensive profits.
- Dividend income, accrued interest, exchange and linkage increments, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of a nature other than temporary are reflected in profit and loss.
- The bank's investments in private equity funds are stated at cost less losses on impairment of a nature other than temporary. Gain on investments in venture capital funds is recognized in profit and loss upon realization of the investment.
- The cost of realized securities is based on the "first in first out" method.
- See Section D.(7) hereunder regarding the computation of fair value.
- See Section D.(8) hereunder regarding the treatment of impairment of a nature other than temporary.

(6) Derivative Financial Instruments including hedge accounting

The Bank holds derivative financial instruments as a hedge against currency and interest rate, as well as derivatives not for hedging purposes, including embedded derivatives removed from the host contract.

Hedge accounting

At date of creation of the hedge, the Bank formally documents the hedge relation between the hedge instrument and the hedged instrument, including the purpose of risk management and the strategy of the Bank for executing the hedge as well as the manner in which the Bank is to evaluate the effectiveness of the hedge relations. The Bank evaluates the effectiveness of the hedge relations both at the beginning of the hedge and on an ongoing basis in accordance with its risk management policy.

Hedge of fair value

Where a derivative is used as an instrument for hedging exposure to changes in the fair value of an asset or liability, or an identified part thereof that may be attributable to a certain risk, changes in the fair value are reflected in profit and loss. The hedged item is also stated at fair value, in relation to the hedged risks, and the changes in fair value are reflected in profit and loss.

Where the hedge instrument no longer agrees with the criteria for hedge accounting, or when it expires, sold, cancelled or realized, or when the Bank cancels the designation of fair value hedge, then the treatment according to hedge accounting ceases.

Economic hedge

Hedge accounting is not applied in the case of derivative instruments used as part of the asset and liability management layout of the Bank (ALM). Changes in fair value of such instruments are reflected in profit and loss as they occur.

Hedge of net investment in foreign operations

See Section D(1) above.

Derivatives not used for hedge

Changes in the fair value of derivatives not used for hedge are immediately reflected in profit and loss.

Embedded derivatives that were separated and not used for hedge

Embedded derivatives are separated from the host contract and treated separately, if: (a) there is no clear and close connection between the economic characteristics and the risks of the host contract and of the embedded derivative instrument, including credit risk stemming from certain embedded credit derivatives; (b) a different instrument having the same terms of the embedded derivative instrument would have been defined as derivative; and (c) the hybrid instrument is not measured at fair value through profit and loss. A separated embedded derivative is stated in the balance sheet together with the host contract, any changes in the fair value of such separated embedded derivatives are immediately reflected in profit and loss.

According to US Accounting Standard FAS 155 (ASC 815-15) "Accounting treatment of certain hybrid financial instruments", in certain cases (such as cases where the Bank is unable to separate the embedded derivative from the host contract), the Bank elects not to separate the embedded derivative and to measure the hybrid financial instrument as a whole at fair value, while reporting changes in fair value in profit and loss as they occur. The said election is made upon acquisition of the hybrid instrument or upon a remeasurement event occurring, such as a business combination or material changes taking place in the debt instrument. Election of fair value, as stated, is irrevocable.

(7) Fair value determination of financial instruments

Beginning with January 1, 2011, the Group applies the rules determined in FAS 157 (ASC 820-10) which defines fair value and determines a consistent framework for the measurement of fair value in respect of assets and liabilities as well as a fair value grading and detailed application guidelines. Moreover, beginning with January 1, 2012, the Bank implements the instructions of the Supervisor of Banks in the matter of fair value measurement, which combines in the public reporting directives the rules determined by accounting standard ASU 2011-04 in the matter of measurement of fair value (ASC 820): amendments to obtain fair value measurement and uniform disclosure requirements in US GAAP and in IFRS.

Fair value is defined as the amount/price which would be received from the sale of an asset or paid in settlement of a liability in a regular transaction between willing parties at date of measurement. Among other things, for the purpose of assessing fair value, the Standard requires that, as far as possible, maximum use should be made of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation. FAS 157 details the hierarchy of measurement techniques, based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets and liabilities, to which the Bank has access at measurement date.
- Level 2 inputs: observable data, directly or indirectly, for the asset or liability, which are not quoted prices included in Level 1.
- Level 3 inputs: unobservable inputs for the asset or liability.

Such hierarchy requires the use of observable inputs, where this information is available. Where possible, the Bank, when making its assessments, considers observable and relevant market inputs. The volume and frequency of the transactions, the size of the bid/ask spread and the extent of the adjustment required when comparing similar transactions, are all factors being considered when determining the liquidity of the markets and the relevancy of the observable prices in these markets.

The basic assumption of "in use" for the measurement of fair value is not applied with respect to financial instruments. Furthermore, the measurement of fair value of financial instruments is made without taking into consideration the blockage factor, both with respect to financial instruments valued according to Level 1 data and with respect to financial instruments valued according to Levels 2 and 3 data, excluding situations where a premium or discount would have been taken into account in measuring fair value by participants in the market, in the absence of Level 1 data.

Securities

The fair value of trading securities and of available-for-sale securities is determined on the basis of quoted market prices on the principal market. Where several markets on which the security is traded exist, the assessment is made according to the quoted price on the most useful market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by the quoted market price. The quoted price used for the determination of fair value is not adjusted for the size of the holdings by the Bank or for the size of the position relatively to the volume of trading (the blockage factor). Where no quoted market price is available, the assessment of fair value is based on the best available information, while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk, non-trading and such like).

Derivative financial instruments

Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted on the most useful market. Nonmarketable derivative financial instruments are assessed on the basis of models that take into account the risk inherent in the derivative instrument (market risk, credit risk, etc.). For further details, see below for assessment methodologies of credit risk and non-performance risk.

Additional non-derivative financial instruments

No "market price" is available for most of the financial instruments in this category (such as: credit granted to the public, credit to the government, deposits from the public, deposits with banks, subordinate debt notes and nonmarketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the level of risk inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after the netting of the effect of accounting write-offs and provisions for credit losses in respect of the debts. Furthermore, in certain cases, for the purpose of measuring fair value of nonmarketable financial liabilities, the Bank applies the guidelines of ASU 2009-05, "Measurement of liabilities at fair value". In particular, the Bank assesses their fair value using quoted prices of the liabilities (or of similar liabilities) traded as assets.

Evaluation of credit risk and of nonperformance risk

FAS 157 requires a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation but is not limited to that risk only. For a more extensive discussion as regards the principal methods and assumptions used for assessment of fair value of the financial instruments, see Note 32A "Balances and fair value assessments of financial instruments".

(8) Impairment of financial instruments

Securities

As of each reporting date, the Bank examines whether impairment of a nature other than temporary has occurred with respect to the value of available-for-sale securities and of securities held to redemption.

During a reporting period, the Bank recognizes impairment of a nature other than temporary, at least regarding any security to which one or more of the following conditions apply:

- A security that had been sold prior to date of publication of the report for the relevant period;
- A security, which proximate to the date of publication of the report for the relevant period, the Bank intends to sell within a short period of time;
- A bond, the rating in respect of which was significantly lowered from its level at date of purchase by the Bank to its rating level at date of publication of the report for the relevant period. For this purpose, a material downgrade will be considered if the security's grade was lowered below investment grade;
- A bond, which subsequent to its purchase has been classified by the Bank as "troubled";
- A bond, in respect of which a default in payment occurred subsequent to its purchase;
- A security, the fair value of which at the end of the reporting period and at a date proximate to the publication of the financial report was lower at the rate of over 40% than its cost (in case of a bond - its written-down cost), and the period in which the fair value of the security was lower that its cost exceeds three consecutive quarters. This, unless the Bank has objective and solid evidence as well as a careful analysis of all relevant factors, which indicate at a high level of assurance, that the decrease in value is of a temporary nature.

Furthermore, the examination as to whether the impairment is of a nature other than temporary is based on the following considerations:

- Deterioration in the condition of the issuer or in market condition as a whole;
- The intention and ability of the Bank to hold the security for a long enough period allowing the recovery of fair value of the security or until maturity;
- In the case of bonds - the rate of return to maturity;
- In the case of shares - a reduction or cancellation of the distribution of dividends.

When impairment of a nature other than temporary occurs, the cost of the security is written-down to its fair value, which serves as a new cost basis. The cumulative loss pertaining to a security classified as available-for-sale, which in the past was reflected in a separate item of shareholders' equity within the framework of other comprehensive profit, is recorded in profit and loss when in respect of which impairment of a nature other than temporary is recognized. Increases in value in subsequent periods are recognized as a separate item of shareholders' equity within the framework of other cumulative comprehensive profit and are not reflected in profit and loss (new cost basis).

Credit to the public and outstanding debt

See Section D(4) above.

(9) Offsetting of financial assets and liabilities

The Bank implements the rules determined in the letter of the Supervisor of Banks dated December 12, 2012, which updates the public reporting instructions of the Supervisor of Banks in the matter of offsetting assets and liabilities. The amendments detailed in this letter are designed to modify Section 15a of the public reporting instructions to accepted accounting principles in the US. In accordance with the instructions, the Bank sets-off assets and liabilities deriving from the same counterparty, stating their net balance in the balance sheet, if the following cumulative conditions exist:

- In respect of such liabilities, a legally enforceable right of setoff of liabilities against assets exists;
- Intention exists to settle the liabilities and realize the assets either on a net basis or concurrently.
- Both the Bank and the counterparty owe one another determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and states in the balance sheet the net amount if all the above cumulative conditions exist and on condition that an agreement exists between the three parties which clearly establishes the right of the Bank for set-off of the said liabilities.

Furthermore, the Bank offsets deposits, the repayment of which to the depositor is conditional upon the extent of collection of the loans granted out of such deposits, and where the Bank has no risk of loss from such loans.

The Bank does not offset assets in respect of derivative instruments against liabilities in respect of derivative instruments unless all the above cumulative conditions exist. Notwithstanding, the instructions state that in certain cases a bank is entitled to offset fair value amounts recognized in respect of derivative instruments and fair value amounts recognized in respect of the right to demand the refund of a cash collateral (debtors) or the commitment to refund a cash collateral (creditors) deriving from derivative instruments created with the same counterparty in accordance with a master netting arrangement.

Notwithstanding the above, according to the instructions, a bank may not offset balance sheet amounts unless it had obtained the prior approval of the Supervisor of Banks. In view of the above, the Bank does not offset these balance sheet amounts.

(10) Transfers and service of financial assets and the settlement of liabilities

The Bank applies the measurement and disclosure rules determined in US Accounting Standard FAS 140 (ASC 860-10), "Transfer and service of financial assets and settlement of liabilities" as amended by FAS 166. "Transfer and service of financial assets" (ASC 860-10) regarding the treatment of transfers of financial assets and settlement of liabilities.

According to the said rules, the transfer of a financial asset shall be treated accounting wise as a sale, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset (or if the transferee is an entity, the only purpose of which is to engage in securitization or in asset backed financing activity, and which is prevented from pledging or exchanging the transferred financial asset, any third party holding beneficiary rights) may pledge or exchange the asset (or the beneficiary rights) received by him, and no conditions exist which also restrict the transferee (or a third party who holds the beneficiary rights) from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor, or subsidiary companies included in its financial statements, or its agents, do not retain effective control over the financial assets or over the beneficiary rights relating to such transferred assets.

Beginning with January 1, 2012, the Bank implements the updates accounting standard ASU 2011-03 in the matter of the reexamination of effective control in repurchase agreements, comprising an update of the rules determined in FAS 166 (ASC 860). According to this update, evaluation of the existence of effective control focuses on the contractual rights and the contractual liabilities of the transferor, and therefore, the following are not taken into account: (1) criterion requiring that the transferor shall have the right to purchase the transferred securities also in the case of default of the transferee; and (2) guidelines regarding the demand for collateral in respect of the said criterion. In financial asset transfer transactions the Bank determines that the transferor retains effective control over the transferred assets (and therefore the transfer of assets is to be treated as a secured debt) if all the following conditions exist:

- The assets to be repurchased or redeemed are identical or identical in substance to the transferred assets;
- It is agreed to repurchase or redeem the assets before their maturity date at a determined or determinable price; and
- The agreement is entered into simultaneously with the transfer.

In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights. Participating rights have to meet the following criteria: the right has to represent proportionate rights in relation to the total financial asset; all cash flows receivable from the asset are distributed among the participating rights proportionally to their interest in the asset; the rights are not subordinated to other rights in the asset; no right of return of the asset to the transferor or to other participating right holders exists (except for in cases of misrepresentation or violation of commitments, ongoing contractual obligations for the service of the financial asset as a whole and the management of the transfer agreement, and contractual obligations to share in the setoff of any benefits received by any holder of participating rights); the transferor and also the holder of participating rights have no right to pledge or exchange the financial asset in entirety, unless all the holders of the participating rights agree to pledge or exchange the financial asset in its entirety.

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are deleted from the balance sheet of the Bank. Where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a collateralized debt, namely, the transferred asset continues to be stated in the balance sheet of the Bank and the proceeds of sale are recognized as a liability of the Bank.

The Bank applies specific instructions determined in the public reporting instructions for the treatment of securities lending or borrowing transactions, in which the lending is made against the general credit quality and the general collateral of the borrower, where the borrower does not transfer to the lender as collateral liquid instruments that specifically relate to the securities lending transaction, and which the lender is permitted to sell or pledge them.

The lending or borrowing as above, are treated as credit granted or deposit received measured at the fair value of the related securities. Income on an accrual basis in respect of such securities is recognized interest income from credit and changes in fair value (over and above the changes in the accrual basis) are recognized as part of non-interest financing income, when the securities in question are included in the trading portfolio, or as part of other comprehensive profit, when they are considered as available-for-sale securities.

The Bank deletes a liability only if that liability had been settled, namely, one of the following conditions exist: (a) the Bank has paid the lender and is released from his commitment with respect to the liability, or (b) the Bank has been legally released, either by legal proceedings or with the consent of the lender, from being the principal debtor in respect of the liability.

(11) Fixed assets (buildings and equipment)

Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the purchase of the asset. The cost of self constructed assets includes the cost of materials and direct labor, as well as any other costs that may be directly attributable to bringing the asset to the place and condition required for it to operate in the manner planned by Management.

Cost of acquired software, which forms part of the operation of related equipment, is recognized as part of the cost of the said equipment.

Where significant parts of fixed assets (including the cost of significant periodic examinations) have different life span, they are treated as separate items (significant components) of fixed assets.

Gain or loss on disposal of a fixed asset are determined by comparing the consideration received on disposal to the stated value of the asset and are recognized, net, in the item “Other income” in the statement of profit and loss.

Subsequent costs

The cost of replacing a part of a fixed asset item is recognized as part of the stated value of such item if it is expected that the group will enjoy the future economic benefit from this item and that its cost can be reliably measured. The stated value of the replaced part is deducted from the books. Current maintenance costs are recognized in profit and loss as incurred.

Depreciation

Depreciation is a methodical allocation of the depreciable amount of the asset over its useful life. The depreciable amount is the cost of the asset or another amount substituting cost, net of the residual value of the asset. Depreciation is charged to profit and loss by the straight-line method over the estimated useful life of each part of the fixed asset items, as this method reflects in the best manner, the anticipated consumption format of the future economic benefits inherent in the asset. Assets on lease are depreciated over the shorter of the lease period or the useful lives of the assets. Land owned by the Bank is not depreciated.

An asset is being depreciated when it is available for use, namely, when it reached the place and condition required for it to operate in the manner planned by Management.

Assessment of the useful lives of assets for the reported and comparative periods is as follows:

- Buildings and lands - 25-50 years
- Furniture and equipment - 7-17 years
- Motor vehicles - 5 years
- Leasehold improvements - 7-18 years
- Information technology equipment - 3-8 years

The assessments regarding the depreciation method, the useful lives and the residual value of assets are re-examined at least at the end of each financial year, and are modified, where required.

(12) Leasing

All lease transactions are treated as operating leases, the leased assets not being reflected in the balance sheet of the Group.

Lease fees paid in advance to the Israel Lands Administration in respect of leased land classified as operating leases, are stated in the balance sheet as prepaid expensed and are recognized in profit and loss over the lease period. The lease period and the amounts of amortization take into consideration the option for extension of the lease period if at date of entering the lease transaction it was reasonably certain that the option will be exercised.

Payments with respect to operating leases,except for conditional lease payments, are recognized in profit and loss by the "straight-line" method over the period of the lease. Lease incentives received are recognized as an integral part of all lease expenses by the "straight-line" method over the period of the lease.

(13) Intangible assets

Software costs

Software purchased by the Group is measured at cost, which generally includes the cost of the transaction, less accumulated amortization and losses on impairment.

The capitalization of costs related to software development for internal use begins if and only if: the preliminary stage of the project had been completed; and Management having the appropriate authority has approved and has committed to finance, directly or indirectly, the project for the development of software and it is expected that the development would be completed and that the software would produce future economic benefits.

Upon developing or obtaining software for internal use, the following costs are capitalized: direct cost of materials and services consumed, the cost of wages of employees directly connected to the software development operations or to obtaining the software and incurred interest costs. Other costs in respect to the development operations and costs incurred during the preliminary stage of the project are recognized in profit and loss as incurred.

Subsequent costs

The cost of upgrading and improvement of software for internal use are capitalized only if it is expected that the incurred costs would lead to additional funtionality. Other subsequent costs are recognized as an expense as incurred.

Amortization and impairment

Amortization is a systematic allocation of the depreciable amount of an intangible asset over its useful life. A depreciable amount is the amount charged to the asset upon initial recognition, net of its residual value. The amortization is charged to profit and loss by the "straight-line" method over the estimated useful lives of intangible assets, including software assets, beginning with the date on which the assets were available for use.

Intangible assets resulting from software projects are amortized when the software is available for use, namely when the said components have reached the location and situation required for them to be able to operate in the manner intended by Management. In this respect, software is available for use when all material examinations thereof have been completed, irrespectively of the actual positioning of the software for actual use.

Impairment in respect of such intangible assets is recognized and measured upon the occurance of events or changes in circunstances, which indicate that the stated value of the asset might not be recovered.

In view of the accounting complexity of the capitalization of software costs process, and in view of the materiality of the capitalized amounts of software costs, the Supervisor of Banks has issued guidelines to the Bank in the matter of the capitalization of software costs, according to which, for materiality purposes, a minimum capitalization amount should be defined of not less than NIS 600 thousand. Any software development project, the total cost thereof which might be capitalized is lower than the defined materiality minimum amount, would be recognized as an expense in profit and loss. In addition, the Supervisor of Bank has issued further guidelines with respect to various aspects of the software development costs capitalization process at the Bank.

Assessment of the useful lives of intangible assets for the reported and comparative periods is as follows:

Customer relations - 10 years

Software cost - 5 years

The assessments regarding the useful lives of intangible assets having a defined lifespan are re-examined at least at the end of each financial year, and are modified, where required.

(14) Investment property

Investment property is property (land, buildings, part thereof or both) owned (by the Bank as freehold or as financial leasehold) for the purpose of generating rental income or for producing a capital gain, or both, but not for the purpose of:

(1) Use for production or for the supply of goods and services or for administrative purposes; or

(2) Sale in the ordinary course of business.

Investment property is initially recognized at cost together with transaction costs. In consecutive periods the investment property is measured at cost of acquisition less accumulated depreciation and losses on impairment.

(15) Impairment of non-financial assets

For the purpose of examining impairment, assets that cannot be individually assessed are grouped together as the smallest group of assets producing cash as a result of continued use, and which are practically independent of other assets or groups ("cash producing unit").

Assets of the Bank Head-Office do not produce separate cash flows and serve more than one cash producing unit. A part of Head-Office assets are allocated to cash producing units on a reasonable and consistent basis and are examined for impairment as part of the impairment examination conducted in respect of the cash producing assets to which they are allocated.

Other Head-Office assets, which cannot be reasonably and consistently allocated to cash producing units, are allocated to a group of cash producing units when indications of impairment of an asset belonging to the Head-Office of the Bank exist or when indications exist for impairment of the group of cash producing units. In such a case, a recoverable amount is determined for the group of cash producing units being served by Head-Office.

The stated value of the nonfinancial assets of the Group, excluding deferred tax assets and including investement treated by the equity method of accounting, is being examined at each reporting date, in order to determine whether indications for impairment exist. Where such indications exist, the Group assesses the recoverable value of the asset.

The recoverable value of an asset or of a cash producing unit is the higher of their use value or fair value, after deducting sale expenses. In determining the use value, the Group discounts the forecasted future cash flows at a pre-tax discount rate that reflects the market assessments of the time-value of the money and the specific risks relating to the asset, in respect of which, the cash flows expected to be derived from the asset have not been adjusted.

Impairment losses are recognized when the stated value of the asset or of a cash producing unit to which the asset belongs exceeds the recoverable amount and are charged to profit and loss.

Loss on impairment is allocated between the shareholders of the Bank and the non-controlling interest on the same basis according to which the profit or loss is allocated.

As regards assets that are not goodwill, in respect of which losses on impairment were recognized in prior periods, a review is made at each reporting date in order to determine whether there are indications that such lossess had been reduced or no longer exist. A loss on impairment is reversed if changes have occurred in assessments used to determine the amount of recoverable value, and only to the extent that the stated value of the asset after reversal of the loss on impairment does not exceed the stated value net of depreciation or amortization that would have been determined had not a loss on impairment been recognized.

Impairment of in-house computer software development costs

Examination of possible impairment of in-house computer software development costs is, inter alia, performed also upon existence of indications noted by accounting principles accepted at US banks exist, SOP 98-1: Accounting for costs of computer software development or obtained for internal use (ASC350-40):

(a) It is not anticipated that the software will provide significant potential services;
(b) A significant change has occurred in the manner or scope of use of the software or in its anticipated use;
(c) A material change in the software was performed or would be performed in the future;
(d) The development costs or the cost of conversion of the software intended for internal use, significantly exceed anticipated costs;
(e) It is no longer expected that development of the software would be completed and that the software would be used.

Investments in equity based investees

Investment in an equity based investee is assessed for impairment at each period on the basis of the fair value of the investment. Where the Group is unable to measure fair value, impairment is examined upon a change in circumstances or an event which may have a material negative influence on the fair value of the investment.

The examination of impairment is performed with respect to the value of the investment as a whole.

A loss on impairment is recognized when the stated value of the investment, after the application of the equity basis method of accounting, exceeds its fair value, provided such loss is not of a temporary nature. In deciding the nature of the loss, the period during which the stated value of the investment exceeds its fair value is taken into consideration, as well as the financial condition of the investee. Impairment, of a nature other than temporary, is firstly allocated to goodwill comprising a part of the investment, until it is fully nullified. The remaining amount is then allocated to the non-current assets of the investee on a pro-rata basis, and thereafter to the remaining assets.

A loss on impairment of a nature other then temporary recognized in the past, may not br reversed in following periods.

(16) Non-current assets and realization groups held for sale or distribution

Non-current assets (or realization groups comprising assets and liabilities), recovery of the value of which is mostly expected by way of sale or distribution rather than by continuing use (excluding assets seized in respect of impaired debts), are classified as assets held for sale, if it is highly expected that the value of which would be recovered by means of a sale transaction and not through continued use. This applies also where the Bank is committed to a sale plan involving the loss of control over a subsidiary, irrespective of whether subsequently to the sale, the Bank remains with non-controlling interest in the former subsidiary.

Immediately prior to their classification as held for sale or distribution, the said assets (or components of the realization group) are measured in accordance with the accounting policy of the Group. Thereafter, the assets (or components of the realization group) are measured at the lower of their stated value or fair value, net of sale costs.

Any loss on impairment of a group of assets intended for disposal, is firstly allocated to goodwill and then, on a pro-rata basis, to the remaining assets and liabilities, except that no loss is allocated to assets to which the measurement rules of the standard apply, such as: financial assets and deferred tax assets, which continue to be measured in accordance with the accounting policy of the Group. A loss on impairment recognized upon the initial classification of an asset as held for sale, as well as following gains or losses arising on remeasurement, are charged to profit and loss. Gains are recognized up to the cumulative amount of the loss on impairment recorded in the past.

In following periods, depriciable assets classified as held for sale are not being depreciated on a periodic basis and investments in equity based investees classified as held for sale are no longer treated by the equity method of accounting.

(17) Employee rights

Post-retirement benefits - pension, severance compensation and other benefits (hereinafter - "pension") - defined benefits plans

Pension benefits comprise a part of the compensation payable to an employee in return for his services. In a defined benefit pension plan, the Bank is committed to provide, in addition to current wages, severance compensation upon retirement or termination of employment. On a general level, the amount of benefit payable is dependent on certain future events included in the benefit formula of the plan, which often includes the number of years of service of the employee and the compensation earned by him in the years immediately prior to his retirement or termination.

The net cost of pension for a period is the amount recognized in the financial statements of the Bank as the cost of the pension plan for a given period. The component of the net cost of pension for the period are the cost of service, the cost of interest, the actual return on assets of the plan, profit or loss, amortization of cost or credit in respect of prior service, and the amortization of an asset or liability in respect of the transition existing at date of initial implementation, in accordance with the public reporting instructions. The term "net pension cost for the period" is used instead of "net pension expense for the period", due to the fact that a part of the recognized cost for the period might be capitalized together with additional costs as part of an asset, for example: software for internal use.

In this respect, profit or loss is the amount of (1) the difference between the actual return on assets of the plan and the forecasted return on the assets of the plan, and of (2) the deduction of the net profit or loss recognized in other cumulative comprehensive earnings.

Pension benefits are generally attributed to periods of service of an employee, based on the benefit formula of the plan, to the extent that the formula states such attribution or that attribution is inferred therefrom.

The Bank computes the forecasted long-term return on the assets of the plan using historical rates of return over a long period of time relating to a portfolio having a similar composition of assets. For this purpose, the Bank uses available market data as regards each of the significant categories of assets in the portfolio, and averages them in accordance with the composition of the plan's assets.

The commitment in respect of the forecasted benefit, reflects the present actuarial value of all benefits attributed to the service of the employee provided prior to balance sheet date. The measurement of this commitment is based on appropriate actuarial assumptions at date of the balance sheet of the Bank (for example: replacement, mortality, discounting rates atc.) as well as population census data as of that date.

In the event that the commitment in respect of the forecasted benefit exceeds the fair value of the plan's assets, the Bank recognizes in the balance sheet a liability equal to the amount of the unfunded commitment in respect of the forecasted benefit. Where the fair value of the assets of the plan exceed the commitment in respect of the forecasted benefit, the Bank recognizes in the balance sheet an asset in an amount equal to the overfunded amount in respect of the forecasted benefit.

The Bank collects together the positions of all overfunded plans and recognizes this amount as an asset in the balance sheet. Similarly, the Bank collects together the positions of all under-funded plans and recognizes this amount as a liability in the balance sheet.

The Bank reviews its assumptions on a quarterly basis and revises such assumptions accordingly.

A change in the value of a commitment in respect of a forecasted benefit or in the value of assets of a plan, stemming from actual experience , which is different from the forecast, or which stems from a change in the actuarial assumptions, constitutes "profit or loss" (hereinafter - "actuarial profit or loss"). Actuarial profits or losses are not recognized as part of the net cost of pension for the period when incurred, but are recognized in other comprehensive earnings. In following periods, such profits or losses are later recognized in profit and loss as a component of the net cost of pension for the period according to the "straight line" method over the remaining average period of service of the employees expected to enjoy the benefits under the plan.

The discounting rate regarding the benefits to employees is computed on the basis of the return on Israeli government bonds with the addition of the average spread on corporate bonds rated AA (international) and above, at reporting date. For practical considerations, the spread is determined according to the difference between the rates of return to maturity, according to maturity periods, on US corporate bonds rated AA and above, and the rates of return to maturity, for the same maturity periods, on US government bonds, everything at date of reporting.

The Bank follows the guidelines of the Supervisor of Banks regarding internal control over the financial reporting process in the matter of employee rights, including the matter of examining a "commitment in substance" to grant its employees benefits in respect of enlarged severance compensation.

Post-retirement benefits - defined deposit plan

A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, and defines the manner of deposits made to the account of the employee instead of determining the amount of benefits to be paid to the employee. In the post-retirement defined deposit plan, the benefits that the participant in the plan would receive are dependent only on the amount deposited into the account of the participant in the plan, on the return accumulated of the assets of such deposits, and on the forfeiture of benefits of other participants that might be allocated to the account of that participant.

Where it is required that the defined deposits of a plan to the account of a person shall be made for periods in which this person provides services, the net cost of pension or the net cost of other post-retirement benefit for the period, shall be the required deposit for that period.

The commitment of the Bank for the payment of severance compensation in accordance with Section 14 of the Severance Compensation Act, is treated as a defined deposit plan.

Other post-retirement benefits - holidays gifts

The Bank recognizes the non-discounted amount of the current benefit at the date of granting the service. In addition, the Bank accumulates the liability during the relevant period, which is determined in accordance with the rules applying to other post-retirement benefits.

Paid leave of absence

The Bank accumulates a liability in respect of compensation of employees during future periods of leave of absence, if all the following conditions exist: (a) the commitment of the Bank regarding the right of employees to receive compensation in respect of future periods of leave of absence is attributed to services already provided by the employees; (b) the commitment relates to vesting or accumulaetd rights; (c) payment of the compensation is expected; (d) the amount may be reasonably estimated.

Vacation - the Bank accumulates the liability over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are not taken into account. All components of the cost of the benefit for the period are immediately recognized in profit and loss.

Sick leave - no liability is being accumulated in respect of paid sick leave.

Award payable at termination of employment in respect of unutilized sick leave

The Bank accumulate this liability as leave of absence entitled to compensation over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss. In determining the discounting rate of interest and the manner of allocation to periods of cost of the service, the Bank applies the rules applying to defined benefits pension plans, with the required modifications.

Other long-term benefits to active employees - seniority awards

The Bank accumulates the liability over the period entitling to the benefit. For the purpose of computing the liability in respect of such benefit, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss.

(18) Contingent Liabilities

The financial statements include appropriate provisions for claims, in accordance with assessments of Management based on opinions of its legal advisors. The disclosure format is in accordance with directives of the Supervisor of Banks, which classify claims submitted against the Bank into three groups:

1. Probable - prospects of risk materializing are of over 70%. A provision is included in the financial statements in respect of a claim classified under this group.
2. Reasonably possible - prospects of risk materializing are between 20% and 70%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.
3. Remote - prospects of risk materializing are below 20%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.

A claim, in respect of which the Supervisor of Banks determined that the Bank is required to refund amounts, is classified as "probable" and a provision therefore is included in the financial statements in the amount required to be refunded.

In rare cases, where Management, based on opinion of its legal advisors, decides that it is not possible to assess the prospects of a risk exposure materializing with respect to an ordinary law suit and to a suit approved as a class action suit, the Bank does not include a provision in this respect.

Note 25 regarding contingent liabilities and special commitments includes a quantitative disclosure regarding all exposures, the probability of their materializing is not remote and in respect of which a provision is not included. Furthermore, disclosure is provided in respect of any claim the amount of which exceeds 1% of the equity of the Bank.

Disclosure is also provided in respect of claims, the results of which cannot be estimated at this stage, and which amount exceed 0.5% of the equity of the Bank.

(19) Income Tax Expense

The income tax expense includes current and deferred taxes. Current and deferred taxes are reflected in profit and loss, unless the tax relates to a business combination or charged directly to shareholders' equity if deriving from items directly recognized in equity.

Current taxes

The current tax is the amount of taxes anticipated to be paid (or received) on taxable income for the reported year, being computed according to tax rates in effect according to the law enacted or practically enacted at balance sheet date, and which includes changes in tax payments relating to prior years.

The provisions for taxes on the income of the Bank and of its consolidated subsidiaries, which are considered "financial institutions", for value added tax purposes include profit tax levied on income according to the VAT law. Value added tax levied on payroll of financial institutions is included in the item "Salaries and related expenses".

Deferred taxes

The Bank recognizes deferred taxes with respect to temporary differences between the stated value of assets and liabilities for financial reporting and their value for tax purposes. Deferred taxes, however, are not recognized with respect to the following temporary differences:

- The initial recognition of assets and liabilities in a transaction which is not a business combination and which does not affect the accounting profit and the profit for tax purposes,
- Differences arising on investment in subsidiaries and in equity basis investees, if the Group remains in control at date of reversal of the difference, and also if it is not anticipated that these would be reversed in the foreseeable future, whether by way of realizing the investment or by way of distribution of dividends by the investee.

The measurement of deferred taxes reflects the tax implications that will stem from the manner in which the Group anticipates, at the end of the reporting period, to recover or settle the stated value of assets and liabilities.

Deferred taxes are measured according to tax rates expected to apply to the temporary differences when these are realized, based on the laws enacted or practically enacted at balance sheet date.

A deferred tax asset is recognized in the books in respect of carry forward losses and in respect of deductible tax benefits and temporary differences where it is more likely than not that the Bank will have taxable income in the future against which these could be utilized. Deferred tax assets are being reviewed at each reporting date, and where it is not expected that the related tax benefits would be realized, the said tax assets are written off. In determining whether a deferred tax asset should be recognized, the Group takes into consideration all available evidence - both positive evidence supporting recognition of a deferred tax asset and the negative evidence denying such recognition.

Where it is not anticipated that the Group will have sufficient taxable income, the net deferred tax assets shall not exceed the amount of taxable temporary differences.

Offsetting deferred tax assets and liabilities

The Bank offsets deferred tax assets against deferred tax liabilities where a legal enforceable right exists for the setoff of current tax assets and liabilities which are attributed to the same taxable income assessed by the same tax authority in respect of the same taxable company, or in different companies in the Group that intend to settle tax assets and liabilities on a net basis or where the tax assets and liabilities are simultaneously settled.

Additional taxes in respect of the distribution of dividends

The Group may be liable to additional taxes in case of dividend distribution by investee companies. Such additional tax liability is not included in the financial statements in view of the policy of investee companies not to distribute dividends involving additional taxes to the receiving company, in the foreseeable future. In cases where an investee company is anticipated to distribute a dividend creating an additional tax liability to the receiving company, the Group records a provision for taxes in the amount of the additional tax which the Group may be liable for in respect of the dividend distribution.

Uncertain tax positions

The bank recognizes the effect of tax positions only if it is more likely than not that the positions would be approved by the tax authorities or the Court. Recognized tax positions are measured according to the maximum amount having realization prospects of over 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances have led to changes in judgment.

(20) Earnings per share

The Group presents basic per share data in respect of its ordinary share capital. The amount of basic per share earnings or loss, attributed to the ordinary shareholders of the Bank is computed by dividing the amount of earnings or loss by the weighted average number of ordinary shares outstanding during the reported period.

(21) Segment Reporting

(a) Regulatory segments of operation

A regulatory business segment is a component in the banking corporation that engages in certain operations or combines customers in specific classifications, defined by the Supervisor of Banks. The format of reporting on the regulatory segments of operation of the Bank was set in the Public Reporting Directives of the Supervisor of Banks.

A regulatory business segment is generally defined based on the classification of customers. Private customers are classified according to their volume of financial assets to the household segment or to the private banking segment. Customers, other than private individuals, are mostly classified according to the volume of their operations to business segments (differentiating between tiny and small businesses, middle market and corporate businessess), institutional bodies and the financial management segment. In addition, the Bank is required to implement the reporting requirements regarding business segments according to Management's approach, where the business segments according to this approach differ significantly from the regulatory business segments.

(b) Segments of operation according to Mamagement's approach

In addition to the uniform reporting in accordance with regulatory segments of operation, the letter requires the reporting on segments of operation according to Management's approach in accordance with accounting principles accepted by US banks in the matter of business segments (included in ASC 280) (see note 28A to the report)

A business segment defined in accordance with Management's approach is a component of a banking corporation engaged in operations that may produce income and incur expenditure; the results of its operations are being reviewed on a regular basis by Management and the Board of Directors in order to evaluate its performance and make decisions as to the allocation of resources to it; and in respect of which separate financial data is available.

The classification of business segments at the Bank is based on the characterization of customer segments. Such segments include also banking products.

The new reporting format for regulatory segmens of operation has initially been applied as from the report for 2015, this subject to relief and transitional instructions determined by the Supervisor of Banks. For details, see Note 1C (3) above. According to the instructions, as stated, the new disclosure format, including the comparative data were initially included as from the report for 2016.

(22) Transactions with controlling parties

The bank implements US accepted accounting principles for the accounting treatment of transactions between a banking corporation and its controlling party and between companies under the control of the banking corporation. In cases where the said principles contain no reference to the manner of treatment, the Bank applies the principles determined in Standard 23 of the Israeli Accounting Standards Institute regarding the accounting treatment of transactions between an entity and its controlling party.

Assets and liabilities, being the subject of a transaction with a controlling party, are measured at fair value at date of the transaction. Due to the fact that the transaction in question is made at a capital level, the Group reflects in equity the difference between the fair value and the proceeds of the transaction.

Accepting liability or waiver

The Bank deletes the liability from the balance sheet at its fair value at date of settlement. The difference between the stated value of the liability and its fair value at date of settlement is reflected as a profit or loss. Upon accepting a liability, the difference between the fair value of the liability at date of settlement and the determined proceeds is reflected in equity. In case of a waiver, the fair value of the liability waived is reflected in equity.

Indemnification

The amount of the indemnification is reflected in equity.

Loans including deposits

At date of initial recognition, a loan granted to a controlling party or a deposit received from a controlling party, are presented in the financial statement of the Bank according to their fair value as an asset or liability, as the case may be. The difference between the amount of the loan granted or deposit received and their fair value at date of initial recognition is reflected in equity.

In reporting periods subsequent to the initial recognition, the said loan or deposit are stated in the financial statements of the Bank at their written down value, using the effective interest method, except in cases where according to the public reporting instructions they are stated at fair value.

(23) Instruction regarding the format of the statement of profit and loss of a banking corporation and adoption of accounting principles accepted by US banks regarding the measurement of interest income

As from January 1, 2014, the Bank implements the guidelines prescribed in the letter of the Supervisor of Banks regarding the adoption of accounting principles accepted by US banks in the matter of the measurement of interest income (ASC 310-20), which, among other things, determines rules for the treatment of commissions regarding the setting-up of credit, commitment to grant credit, changes in loan terms and premature repayment commission.

Credit setting-up commission

Commission charged on the setting-up of credit are not recognized immediately as income in the statement of profit and loss but are deferred and recognized over the period of the loan as an adjustment of the return. Income from such commissions is recognized by the effective interest method, and is reported as part of interest income.

Credit allocation commission

These commissions are treated in accordance with the probability of the commitment to grant the loan being realized. Where the probability is remote, the commission is recognized by the straight-line method over the life of the commitment. Otherwise, the Bank defers the recognition of income from such commissions until date of realization of the commitment or until its expiry date, whichever is earlier. Where the commitment is realized, commissions are recognized by way of adjustment of the return over the life of the loan, as stated above. Where the commitment has expired without being realized, the commission is recognized at date of expiry and is reported as part of commossion income.

Premature repayment commission

Premature repayment commissions charged in respect of premature repayments made prior to January 1, 2014, and not yet amortized, are recognized over a period of three years or over the remaining period of the loan, the shorter of the two.

Commissions charged on premature repayments made after January 1, 2014, are immediately recognized as interest inome.

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 update to accounting principles in the matter of "income from agreements with customers". The letter updates 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 in the matter of 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, consistently with the revised US standard ASU 2015-14, which postponed the date for the initial implementation.

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. In addition, it has been clarified in Bank of Israel instructions, that as a general rule, the provisions of the new standard shall not apply to the accounting treatment of interest income and expenses and to non-interest financing income.

Whereas the provisions of the new standard do not apply to income produced by financial instruments, such as loans and securities treated in accordance with other rules, the Bank does not expect a material effect on the results of operation relating to financial instruments, such as gains or losses on securities and on interest income or expenses.

The Bank intends to apply the provisions of the new standard as from the first quarter of 2018. Preparations made by the Bank in respect of the application of the said provisions, include, inter alia, the mapping of income subject to the new standard and the review of agreements with customers. While the Bank has not yet identified a material change in the timing of income recognition, the review of the possible effects is still in process and the Bank continues to examine the possible implications of the implementation of the new provisions, including as regards the manner of presentation of certain expenses (as an expense or a reduction of income).

(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 in accordance with US accepted accounting principles in the matter of taxes on income. According to the letter, it is required to implement the accounting principles accepted by US banks in the matter of taxes on income, inter alia, the presentation, measurement and disclosure rules in accordance with Chapter 740 of the Codification regarding "foreign currency issues - taxes on income".

The letter requires implementing 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. A banking corporation is not required to present in the financial statements for 2017, a disclosure regarding non-recognized tax benefits in accordance with Sections 740-10-50-15-d and 740-10-50-15A.

A circular letter was published on October 13, 2016, in the matter of the reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles. The letter includes, inter alia, certain clarifications in the matter of the reporting of taxes on income in accordance with US principles.

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

- The transitional instructions have been revised so that temporary differences in respect of prior periods will continue to be treated in accordance with the instructions which were in effect until December 31, 2016;
- It is clarified that interest income and expenses in respect of taxes on income as well as penalties payable to the Tax Authorities shall be classified to the item "taxes on income";
- It is clarified that an Act is considered enacted only upon its publication in the Official Gazette;
- The disclosure requirements in the public reporting instructions and the disclosure format regarding "provision for taxes on income", have been modified to the requirements in the new instructions;
- The requirement contained in the public reporting instructions for a note presenting information for tax purposes on the basis of nominal historical data, in accordance with Addendum C1 and C2, has been removed on grounds that it does not add information to users of financial reports.

The new instructions are to be applied as from January 1, 2017 and thereafter. The comparative data should be reclassified in order to agree with the presentation format according to the new instructions.

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

- **Investment in domestic subsidiaries (temporary differences after 2017)**

  Deferred tax liabilities should be recognized unless (in the following cases do not include temporary differences):

  The tax laws permit the tax exempt recovery of the investment (for example: by way of liquidation or statutory merger exempt from tax) at no significant cost, and the parent company expects to recover the investment in this manner (ability and intent).
- **Investment in foreign subsidiaries**

  Deferred tax liabilities should be recognized, except where indefinite reversal criteria apply:
  - the investor has control at date of reversal; and
  - retained earnings are re-invested with no time limit, or they may be distributed under a tax exemption.

A deferred tax asset may be recognized only if it is apparent that the temporary difference would be reversed in the foreseeable future (in practice - usually within one year). In other words, a deferred tax asset may not be recognized unless it is apparent that the temporary difference would be reversed in the foreseeable future. Upon recognition of a deferred tax asset, it should be determined whether a future taxable income exists, against which the temporary difference will be deducted, and whether a valuation allowance should be recorded.

- **Domestic or foreign investments treated by the equity method of accounting**

  In general, an entity shall recognize a deferred tax asset or liability in respect of temporary differences arising on an investment treated by the equity method of accounting.
- **Changes in deferred taxes stemming from items originally recognized outside profit and loss**

  Current taxes and deferred taxes in respect of items recognized outside profit and loss in the current period shall be recognized outside profit and loss. Specific instructions apply to the allocation of the tax expense to the different components of the report (intra-period allocation).

  As a general rule, following changes in the valuation allowance stemming from a change in assessment of the possible realization of the deferred tax asset or from a change in the tax rate, are recognized in profit and loss in the current period, even if the allowance was initially recognized in equity.
- **Uncertain tax positions**

  A tax benefit shall be recognized where it is more likely than not that it would be utilized. The amount of the benefit so recognized is the highest amount that is expected to be received (over 50%). The exposure risk is not included in computing the benefit. Specific instructions exist with respect to various aspects of recognition, measurement and disclosure of uncertain tax positions.

- **Non-financial assets and liabilities measured by a functional currency which differs from the functional currency according to which their tax base is determined**
  Deferred tax assets or liabilities in respect of temporary differences related to non-financial assets and liabilities, should not be recognized if their tax base is determined in a currency other than the functional currency of the entity, and the differences arise on changes in exchange rate or in respect of linkage for tax purposes.
- **Tax asset in respect of temporary differences deductible tax wise**
  A deferred tax asset is recognized in the full amount and concurrently a separate valuation allowance is recognized for the same amount included in the asset, which, more likely than not, will not be realized.
- **Changes in tax rates**
  Current tax assets and liabilities are generally measured using enacted tax rates. Deferred tax assets and liabilities are generally measured according to the tax rates expected to apply in the recovery period. Following changes in deferred taxes stemming from changes in the tax rates are generally recognized in profit and loss in the current period, even if the deferred taxes were initially recognized in equity. It is clarified that in accordance with international standards practice, current tax assets and liabilities are generally measured using enacted tax rates or tax rates the enactment of which has practically been completed.

The Bank estimates that the implementation of the letter would increase other cumulative comprehensive earnings by an amount of NIS 6 million and decrease retained earnings by NIS 6 million, in respect of the data as of January 1, 2017.

(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

On March 21, 2016, the Supervisor of Banks issued a letter in the matter of reporting by banking corporations and credit card companies in accordance with US accepted accounting principles. The letter revises the public reporting instructions and adopts the US accepted reporting standards regarding the following matters:

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

The instructions contained in the letter take effect as from January 1, 2017 and thereafter. Upon the initial application, it is required to act in accordance with the transitional instructions stated with respect to these matters in the US standards, with required modifications, including the retroactive restatement of the comparative data, where required by the rules of the US standards applying to these matters. It is emphasized that, in 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 shall continue to treat them as required by the public reporting instructions prior to the adoption of this item.

Furthermore, the international accounting standard No. 29 in the matter of "financial reporting in hyper-inflationary countries", as adopted in the public reporting instructions, shall not be applied as from the effective date of the letter. It is clarified that there is no change in the date on which the adjustment of financial statements of banks to the effect of inflation had been discontinued, and that these financial statements are to be prepared on the basis of reported amounts, unless otherwise stated in accordance with the public reporting instructions.

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

- **Determination of the functional currency**

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

  The rules of the US standards provide a "framework" and various "considerations" that should be taken into account, though with no unequivocal criteria; the integration of the entity into the economic environment should be considered as well as its ability to exist as a separate entity; judgment should be applied upon determining the functional currency; no preference is to be given to particular indicators over other indicators.

- **Foreign currency transactions**

  Profits or losses from foreign currency transactions are reported in profit and loss as profits or losses from exchange differences, with the exception of:

  - Exchange differnces in respect of items comprising a part of the net investment;
  - The effective part of profit or loss in respect of an instrument hedging a net investment in a foreign operation or hedging cash flow;

- Profit and loss items in respect of available-for-sale debt instruments that are included as part of the other cumulative comprehensive earnings.

- **Adjustments to the reporting currency**

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

  - Assets and liabilities are translated using the closing exchange rate at date of the finasncial report;
  - Income and expenses, profits and losses are translated using the exchange rate at date of the transaction, or using an average exchange rate being proximate to the exchange rate during the period;
  - Equity items, except for retained earnings, are translated using the historical exchange rates at dates of the transactions;
  - Reatained earnings are translated using a historical exchange rate in accordance with the relevant reporting periods.

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

- **Foreign operations**

  The exchange difference capital reserve is computed in accordance with the consolidation in stages method only. Furthermore, where the financial statements of the foreign operation are prepared as of a date which is different from that of the reporting entity and material changes in the exchange rate occur in the period to the end of the reporting period of the reporting entity, no adjustments should be made, but disclosure thereof should be included in the financial statements.

- **Disposal/realization of the foreign operation**

  The US standard differentiates between transactions within a foreign entity and transactions relating the investment in the foreign entity.

  - Realization of subsidiaries or of a group of assets held within the foreign entity:

    Exchange differences are recognized in profit and loss only where the event of disposal leads to the complete (or practically complete) liquidation of the foreign entity.

  - Transactions and events leading to the loss of control in the foreign entity:

    All exchange differences that had been created in respect of the foreign entity are recogniozed in profit and loss upon the loss of control in the foreign entity. Upon the realization of a part of an equity based investee constituting a foreign equity, a proportionate part of the exchange differences is to be recognized in profit and loss (regardless of whether significant influence or joint control remains or not).

- **A reduction in rate of holdings, which is not followed by loss of control**

  Upon a reduction in the rate of holdings without loss of control, the proportionate part of the cumulative amount of exchange differences attributed to that foreign operation is to be reclassified to profit and loss.

  Following is a review of the principal new instructions regarding the application of the US standards in the matters of accounting policy, changes in accounting assessments and errors:

  - **Comparative data**

    Material errors made in prior reporting periods must be corrected. In terms of the rules of the US standard, no practical relief is available whereby the comparative data may not be corrected in cases where the correction is not practicable.

  Following is a review of the principal new instructions regarding the application of the US standards in the matter of events subsequent to balance sheet date;

  - **Share based distribution of dividend, splitting of shares and consolidation of shares**

    Entities subject to the SEC rules must adjust the financial statements in respect of the share based distribution of dividend, the splitting of shares and the consolidation of shares occurring subsequently to the date of the financial statements and prior to their publication.

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

(4) Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles

On October 13, 2016, the Supervisor of Banks issued a letter in the matter of reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles. The letter includes, inter alia, certain clarifications regarding the reporting of taxes on income in accordance with US accounting principles. Moreover, the letter revises the public reporting instructions and adopts US accepted accounting standards regarding the following: non-current assets held for sale and discontinued operations, fixed assets and properties for investment, earnings per share, cash flows statement, interim period reporting and additional matters.

The letter revises the public reporting instructions and adopts US accepted accounting standards regarding the following issues:

- Discontinued operations in accordance with item 205-20 of the Codification regarding "discontinued operations";
- Fixed assts in accordance with item 360 of the Codification regarding "fixed assets";
- Per share earnings in accordance with item 260 of the Codification regarding "per share earnings";
- Cash flows statement in accordance with item 230-10 of the Codification regarding "cash flows statement";
- Interim period reporting in accordance with item 270 of the Codification in the matter of "interim period reporting";
- Capitalization of interest costs in accordance with item 835-20 of the Codification regarding "capitalization of interest" (in this respect, it should be clarified that in accordance with the public reporting instructions, a banking corporation may not capitalize interest costs without firstly determining clear policy, procedures and controls regarding the criteria for the recognition of assets as qualified assets and regarding the interest costs to be capitalized);
- Measurement and disclosure of guarantees in accordance with item 460 of the Codification regarding "guarantees".

The instructions determined in accordance with the letter will take effect as from January 1, 2018. Upon their initial application, a banking corporation is required to act in accordance with the transitional instructions determined regarding these matters by the US standards, subject to the required modifications, including a retroactive restatement of the comparative data, where this is required by the rules of the US standards applying to these matters.

The Bank has not yet begun to study the effect of the letter upon its financial statements.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

Composition:

		Consolidated			The Bank		
		For the year ended December 31			For the year ended December 31		
		2016	**2015**	**2014**	**2016**	**2015**	**2014**
A.	**Interest income (expenses)** (1)						
	From credit to the public	**2,362**	2,120	2,394	**1,732**	1,413	1,619
	From credit to the Government	**-**	(3)	3	**-**	-	-
	From deposits with banks	**10**	9	17	**7**	5	11
	From deposits with Bank of Israel and from cash	**22**	28	106	**17**	19	64
	From securities which were borrowed	**1**	1	6	**1**	1	4
	From bonds(2)	**126**	99	136	**108**	72	87
	From Investees companies	**-**	-	-	**4**	9	12
	From other assests	**5**	6	2	**4**	2	1
	Total interest income	**2,526**	2,260	2,664	**1,873**	1,521	1,798
B.	**Interest expenses**(1)						
	On deposits from the public	**182**	132	322	**189**	146	278
	On deposits from the Government	**5**	6	7	**5**	6	6
	On deposits from banks	**3**	1	1	**14**	8	10
	On bonds and subordinated capital notes	**163**	168	222	**131**	123	182
	On other liabilities	**4**	-	11	**3**	-	10
	Total interest expenses	**357**	307	563	**342**	283	486
	Total interest income, net	**2,169**	1,953	2,101	**1,531**	1,238	1,312
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**						
	Interest expenses(3)	**(26)**	(25)	(13)	**(28)**	(23)	(16)
D.	**Details of interest income from bonds on cumulative basis**						
	Held to maturity	**30**	20	21	**25**	17	15
	Available for sale	**91**	74	104	**78**	51	64
	Held for trading	**5**	5	11	**5**	4	8
	Total included in interest income	**126**	99	136	**108**	72	87

(1) Including effective component in hedging relations.

(2) Including Interest income on mortgage-backed securities (MBS) in the amount of NIS 4 million (consolidated and the Bank) (2015 - NIS 5 million, consolidated and the Bank, 2014 - NIS 9 million, consolidated and the Bank).

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

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2016	2015	2014	2016	2015	2014
A. Non-interest financing income (expenses) in respect of non-trading activities						
1. From activity in derivative instruments						
Non-effective part of hedging ratios (see C below)(1)	**(1)**	(1)	(2)	**(1)**	(1)	(2)
Net income (expenses) in respect of ALM derivative instruments(2)	**(203)**	(46)	865	**(200)**	(70)	613
Total from activity in derivative instruments	**(204)**	(47)	863	**(201)**	(71)	611
2. From investments in bonds						
Profits from sale of bonds available for sale(5)	**46**	87	164	**38**	48	78
Losses from sale of bonds available for sale(5)	(3)**(6)**	-	(1)	(3)**(3)**	-	(1)
Total from investment in bonds	**40**	87	163	**35**	48	77
3. Net exchange differences	**242**	76	(897)	**229**	91	(628)
4. Gains (losses) from investment in shares						
Gains from sale of shares available for sale(5)	**14**	20	30	**14**	20	30
Losses from sale of shares available for sale(5)	(4)**(4)**	(6)(44)	(3)	(4)**(4)**	(6)(44)	(3)
Dividend from shares available for sale	**19**	46	35	**19**	*39	35
Total from investment in shares	**29**	22	62	**29**	15	62
Total non-interest financing income in respect of non-trading activities	**107**	138	191	**92**	83	122

* Reclassified.
(1) Excluding the effective component of hedging ratios.
(2) Derivative instruments constituting part of the asset and liability management network of the Bank, which are not designated for hedging ratios.
(3) Including a provision for other-than-temporary impairment in the amount of NIS 4 million and NIS 2 million, consolidated and the Bank, respectively.
(4) Including a provision for other-than-temporary impairment in the amount of NIS 3 million, consolidated and the Bank.
(5) Reclassified from other comprehensive income.
(6) Including loss in the amount of NIS 37 million in respect of verdict received about a lawsuit.

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

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
B. Net income in respect of non-interest financing activity for trading[3]						
Net income in respect of other derivative instruments	**11**	14	7	**9**	9	12
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[1]	**1**	(3)	34	**2**	2	20
Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading[2]	**(4)**	-	(2)	**(4)**	1	(2)
Total non-interst financing income from trading activities[4]	**8**	11	39	**7**	12	30
Total non-interest financing income	**115**	149	230	**99**	95	152
Details on non-interest financing income in respect of trading activities, by risk exposure						
Interest rate exposure	**3**	(1)	28	**2**	2	20
Foreign currency exposure	**1**	1	1	**1**	-	1
Exposure to shares	**4**	11	10	**4**	10	9
Total	**8**	11	39	**7**	12	30
C. Non-effective part of hedging ratios - foreign operation[5]						
Non-effectiveness of hedges	**-**	-	-	**-**	-	-
Loss component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**(1)**	(1)	(2)	**(1)**	(1)	(2)
Total	**(1)**	(1)	(2)	**(1)**	(1)	(2)

(1) No gains in respect of trading bonds on hand at balance sheet date (2014 - NIS 7 million and NIS 8 million consolidated and the Bank, respectivly).
(2) No gains/losses 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 expense.

NOTE 4 - FEES

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Account management	**250**	*263	*279	**174**	136	144
Credit cards	**107**	105	104	**67**	54	53
Securities and certain derivative instruments activity	**422**	*459	*455	**342**	*321	302
Financial products distribution commissions(1)	**73**	81	81	**47**	46	45
Management, operation and trust to institutional entities(2)	**90**	*102	*103	**32**	*32	33
Credit handling	**15**	*21	*22	**12**	13	14
Conversion differences	**140**	141	130	**121**	93	82
Foreign-trade activity	**57**	56	57	**47**	45	44
Commissions from financing activities	**91**	*90	*82	**79**	72	65
Other fees	**55**	*60	*62	**33**	27	27
Total Fees	**1,300**	1,378	1,375	**954**	839	809

* Reclassified.
(1) Mutual and provident funds distribution fees.
(2) Operation of Provident and mutual funds and long-term savings managers.

NOTE 5 - OTHER INCOME

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Capital gains from the sale of building and equipment	**24**	6	13	**21**	-	13
Capital gain from the sale of consolidated subsidiary	**-**	-	31	**-**	-	31
Other	(1)**41**	8	18	(1)**167**	*193	220
Total other income	**65**	14	62	**188**	193	264

* Reclassified.
(1) Including income in the amount of NIS 32 million in respect of the sale of Visa Europe shares.

NOTE 6 - SALARIES AND RELATED EXPENSES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2016	***2015**	***2014**	**2016**	**2015**	**2014**
Salaries	**1,077**	1,096	1,178	**812**	726	780
Other related expenses including study funds, vacation and sick days	**113**	126	122	**83**	83	82
Long-term benefits	**(21)**	(58)	35	**(27)**	(59)	27
National insurance and VAT on salaries	**304**	324	326	**229**	220	214
Pension expenses including severance pay and allowances (see note 23):						
Defined benefit	**96**	63	44	**68**	34	26
Defined deposit	**76**	69	68	**54**	46	44
Other post-employment benefits and non-pension post retirement benefits	**11**	9	7	**8**	4	3
Total salaries and related expenses	**1,656**	1,629	1,780	**1,227**	1,054	1,176
Of which salaries and related expenses abroad	**26**	22	24	**-**	-	-
Of which loss from reduction of dismissal and structural changes	**57**	27	8	**41**	14	5

* Reclassified.

NOTE 7 - OTHER EXPENSES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Marketing and advertising	**50**	51	51	**29**	22	20
Communications	**79**	88	79	**63**	59	50
Computer	**109**	111	125	**102**	100	109
Office	**14**	15	16	**10**	9	9
Insurance	**5**	6	6	**2**	2	2
Legal, audit and consultancy	**57**	58	61	**30**	32	33
Directors' fees and fees for participation in meetings	**9**	12	11	**5**	5	5
Professional instruction and training	**5**	5	6	**3**	3	3
Commissions	**106**	108	113	**132**	130	124
Other	**68**	68	81	**51**	54	59
Total other expenses	**502**	522	549	**427**	416	414

NOTE 8 - PROVISION FOR TAXES ON PROFIT

(NIS million)

A. Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Current taxes in respect of the current year	**310**	279	351	**216**	164	233
Current taxes in respect of prior years	**(21)**	(12)	(3)	**(17)**	(12)	(1)
Total current taxes	**289**	267	348	**199**	152	232
Addition (deduction):						
Deferred taxes in respect of the current year	**103**	58	(21)	**96**	61	(2)
Deferred taxes in respect of prior years	**6**	1	1	**6**	-	-
Total deferred taxes**	**109**	59	(20)	**102**	61	(2)
Provision for taxes on income*	**398**	326	328	**301**	213	230
* Including provisions for taxes (tax saving) of foreign consolidated subsidiary	**-**	1	(3)	**-**	-	-
** **Deferred taxes**						
Creation and reversal of temporary differences	**86**	56	(20)	**83**	59	(2)
Change in the tax rate	**34**	3	-	**26**	2	-
Deferred taxes reclassified from equity to profit and loss	**(11)**	-	-	**(7)**	-	-
Total deferred taxes	**109**	59	(20)	**102**	61	(2)

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

(NIS million)

B. Reconciliation of provision for taxes to the theoretical tax expense

The following is a reconciliation between the theoretical tax which would have been payable had the operating earnings been chargeable to tax at the statutory rate prevailing on banks in Israel and the adjusted tax provision on ordinary operating earnings as reported in the statement of income:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Prevailing tax rate	**35.9%**	37.6%	37.7%	**35.9%**	37.6%	37.7%
Tax at the prevailing tax rate	**318**	288	290	**248**	199	215
Tax (saving) in respect of:						
Non deductable expenses	**14**	16	16	**12**	11	12
Amortization of excess of cost	**12**	16	19	**-**	-	-
Tax-exempt income	**-**	-	(5)	**-**	-	(5)
Recognition of deferred taxes in respect of temporary differences from prior years, in respect of which no deferred taxes had been recognized in the past.	**21**	-	-	**21**	-	-
Elimination of taxes computed in respect of the Bank's share in earnings of investee companies.	**-**	-	-	**(8)**	-	-
Adjustment of statutorical tax rate to the tax rate applicable on income of consolidated companies	**(3)**	(4)	(7)	**(3)**	(5)	(6)
Additional amounts to be paid in respect of impaired debts	**15**	13	13	**15**	13	10
Adjustment of depreciation and amortization	**4**	4	5	**4**	4	5
Taxes in respect of prior years	**(15)**	(11)	(2)	**(11)**	(12)	(1)
Changes in deferred tax balances due to changes in tax rates	**34**	3	-	**26**	2	-
Other differences	**(2)**	1	(1)	**(3)**	1	-
Provision for taxes on income	**398**	326	328	**301**	213	230

C. Tax assessments and additional matters relating to the provision for taxes

(1) The Bank has agreed tax assessments for the tax years up to and including the year 2010.

Agreed tax assessments, excluding one issue which remained in dispute, had been issued to the Bank for the tax years 2011 to 2013. If the parties will not reach an agreement, the Bank will consider tolodge an appeal.In Management's opinion, adequate provisions in respect thereof are included in the financial statements.

(2) The investee companies have final tax assessments up to and including the tax year 2011.

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

D. Details of deferred tax assets and liabilities

(1) Composition:

Consolidated	Deferred Tax Assets at December 31				Deferred Tax Liabilities at December 31			
	2016	2015	2016	2015	2016	2015	2016	2015
	Balance in NIS million		Tax rate in %		Balance in NIS million		Tax rate in %	
Deferred taxes in respect of:								
Excess liabilities in respect of employee benefits over assets of the scheme	**138**	105	**34.2**	37.2	**-**	-	**-**	-
Vacation pay and other benefits	**108**	182	**35.0**	37.2	**-**	-	**-**	-
Provision for credit losses	**250**	258	**34.2**	37.2	**-**	-	**-**	-
Securities	**-**	4	**34.2**	37.2	**-**	-	**-**	-
Adjustment of depreciable non-monetary assets	**1**	2	**34.2**	37.2	**56**	49	**34.2**	37.2
Undistributed earnings of equity-basis investees	**-**	-	**-**	-	**36**	14	**11.2**	10.7
Other time differences	**6**	11	**34.2**	31.2	**1**	-	**34.2**	-
Total	**503**	562			**93**	63		

The Bank	Deferred Tax Assets at December 31				Deferred Tax Liabilities at December 31			
	2016	2015	2016	2015	2016	2015	2016	2015
	Balance in NIS million		Tax rate in %		Balance in NIS million		Tax rate in %	
Deferred taxes in respect of:								
Excess liabilities in respect of employee benefits over assets of the scheme	**108**	84	**34.2**	37.2	**-**	-	**-**	-
Vacation pay and other benefits	**80**	141	**35.0**	37.2	**-**	-	**-**	-
Provision for credit losses	**184**	179	**34.2**	37.2	**-**	-	**-**	-
Securities	**-**	2	**34.2**	37.2	**-**	-	**-**	-
Adjustment of depreciable non-monetary assets	**-**	-	**-**	-	**56**	49	**34.2**	37.7
Undistributed earnings of equity-basis investees	**-**	-	**-**	-	**36**	14	**11.2**	10.7
Other time differences	**3**	8	**34.2**	30.0	**1**	-	**34.2**	-
Total	**375**	414			**93**	63		

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

(NIS million)

(2) Change in deferred tax assets and liabilities

	For the year ended December 31 2016							
Consolidated	Provision for credit losses	securities	Investments in affiliates	Adjustment of depreciable non-monetary assets	Vacation pay and other benefits	Excess liabilities in respect of employee benefits over assets of the scheme	Other	Total
Balance of asset (liability)								
Deferred tax as at January 1, 2016	258	4	(14)	(47)	182	105	11	499
Changes allocated to profit and loss	11	(1)	(24)	(11)	(64)	(3)	(4)	(96)
Changes allocated to comprehensive profit	-	(3)	-	-	2	50	-	49
Effect of change in tax rate	(19)	-	2	3	(12)	(14)	(2)	(42)
Deferred tax as at December 31, 2016	250	-	(36)	(55)	108	138	5	410
Deferred tax asset	250	-	-	1	108	138	6	503
Balances available for setoff of deferred tax asset as of December 31, 2016								(55)
								448
Deferred tax liability	-	-	36	56	-	-	1	93
Balances available for setoff of deferred tax liability as of December 31, 2016								(55)
								38

	For the year ended December 31 2016							
The Bank	Provision for credit losses	securities	Investments in affiliates	Adjustment of depreciable non-monetary assets	Vacation pay and other benefits	Excess liabilities in respect of employee benefits over assets of the scheme	Other	Total
Balance of asset (liability)								
Deferred tax as at January 1, 2016	179	2	(14)	(49)	141	84	8	351
Merger of a subsidiary company	13	2	-	-	10	8	-	33
Changes allocated to profit and loss	6	(1)	(24)	(10)	(62)	2	(4)	(93)
Changes allocated to comprehensive profit	-	(3)	-	-	-	25	-	22
Effect of change in tax rate	(14)	-	2	3	(9)	(11)	(2)	(31)
Deferred tax as at December 31, 2016	184	-	(36)	(56)	80	108	2	282
Deferred tax asset	184	-	-	-	80	108	3	375
Balances available for setoff of deferred tax asset as of December 31, 2016								(55)
								320
Deferred tax liability	-	-	36	56	-	-	1	93
Balances available for setoff of deferred tax liability as of December 31, 2016								(55)
								38

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

For the year ended December 31 2015

Consolidated	Provision for credit losses	securities	Investments in affiliates	Adjustment of depreciable non-monetary assets	Vacation pay and other benefits	Excess liabilities in respect of employee benefits over assets of the scheme	Other	Total
Balance of asset (liability)								
Deferred tax as at January 1, 2015	281	3	(9)	(30)	226	94	2	567
Changes allocated to profit and loss	(21)	1	(5)	(17)	(43)	15	9	(61)
Changes allocated to comprehensive profit	-	-	-	-	-	(4)	-	(4)
Effect of change in tax rate	(2)	-	-	-	(1)	-	-	(3)
Deferred tax as at December 31, 2015	258	4	(14)	(47)	182	105	11	499
Deferred tax asset	258	4	-	2	182	105	11	562
Balances available for setoff of deferred tax asset as of December 31, 2015								(28)
								534
Deferred tax liability	-	-	14	49	-	-	-	63
Balances available for setoff of deferred tax liability as of December 31, 2015								(28)
								35

For the year ended December 31 2015

The Bank	Provision for credit losses	securities	Investments in affiliates	Adjustment of depreciable non-monetary assets	Vacation pay and other benefits	Excess liabilities in respect of employee benefits over assets of the scheme	Other	Total
Balance of asset (liability)								
Deferred tax as at January 1, 2015	193	-	(9)	(33)	178	79	(2)	406
Merger of a subsidiary company	6	2	-	(1)	2	2	2	13
Changes allocated to profit and loss	(19)	-	(5)	(15)	(38)	5	8	(64)
Changes allocated to comprehensive profit	-	-	-	-	-	(2)	-	(2)
Effect of change in tax rate	(1)	-	-	-	(1)	-	-	(2)
Deferred tax as at December 31, 2015	179	2	(14)	(49)	141	84	8	351
Deferred tax asset	179	2	-	-	141	84	8	414
Balances available for setoff of deferred tax asset as of December 31, 2015								(28)
								386
Deferred tax liability	-	-	14	49	-	-	-	63
Balances available for setoff of deferred tax liability as of December 31, 2015								(28)
								35

E. See Note 10B regarding taxes on income recognized outside profit and loss.

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

F. Changes in tax legislation

1. Corporation tax

Following are the relevant corporation tax rates for the years 2014-2016:

2014 - 26.5%
2015 - 26.5%
2016 - 25%

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%.

In addition, on December 22, 2016, the Knesset passed the Economic Efficiency Law (amendment legislation to achieve the budget targets for 2017-2018), 2016 and on December 29, 2016 it was published in the Reshumot (the official records of the state of Israel). In this framework the reduction of the corporate tax rate was approved from a level of 25% to 23% in two steps. The first step to 24%, starting with January 1, 2017 and the second step to 23% from January 1, 2018 and onwards.

As a result of the reducing of the tax rate in two steps to 23%, the balance of the deffered taxes on December 31, 2016 was calculated according to the new tax rate as were set on the Economic Efficiency Law (amendment legislation to achieve the budget targets for 2017-2018), 2016, in accoedance with the tax rate that will prevale on time of reversal.

2. Updating of the Value Added Tax rate and of the profit tax and payroll tax rates

On October 12, 2015, the Knesset passed the Value Added Tax Order (The tax rate applying to not-for-profit organizations and to financial institutions) (Amendment), 2015, which reduced the profit tax and payroll tax rates applying to financial institutions from 18% to 17%, with effect as from October 1, 2015. As a result of the said change, the statutory tax rate applying to financial institutions was reduced from 37.71% to 37.58% in 2015. In addition' as a result of reducing the corporate tax rate to 25% in 2016, 24% in 2017 and 23% from January 2018 and onwards, the statutorical tax rate declined to 35.9% in 2016, 35% in 2017 and 34.2% in 2018 and onwards.

The effect of the change in tax rate on the financial statements as of December 31, 2016 was recognized as a reduction of NIS 42 million in the balance of deffered tax assets, as to NIS 34 million in deffered tax expenses and as to NIS 8 million in other comprehensive loss.

NOTE 9 - EARNINGS PER SHARE

The number of par value of shares used to calculate the primary earnings per share:

	Number of shares for the years 2016, 2015 and 2014
Shares of NIS 0.05 par value	**100,330,040**

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

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

	Other comprehensive income (loss) before attribution to noncontrolling interests					
	Adjustment in respect of reporting available for sale securities in fair value	Translation adjustments(1) net after the effect of hedges(2)	Adjustments in respect of employee benefits	Total	Other comprehensive income (loss) attributed to noncontrolling interests	Other comprehensive income (loss) attributed to the Bank's shareholders
Balance as of January 1, 2014	50	(1)	(69)	(20)	1	(21)
Net changes during 2014	(25)	-	(22)	(47)	(1)	(46)
Balance as of December 31, 2014	25	(1)	(91)	(67)	-	(67)
Net changes during 2015	(47)	-	7	(40)	(2)	(38)
Balance as of December 31, 2015	(22)	(1)	(84)	(107)	(2)	(105)
Net changes during 2016	**9**	**(1)**	**(90)**	**(82)**	**(10)**	**(72)**
Balance as of December 31, 2016	**(13)**	**(2)**	**(174)**	**(189)**	**(12)**	**(177)**

(1) Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.
(2) Net gains (losses) in respect of hedging net investment in foreign currency.

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)

(NIS million)

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

	For the year ended December 31, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	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 noncontrolling interests									
Adjustments in respect of available for sale securities presentation according to fair value									
Unrealized net gains (losses) from adjustments to fair value	**34**	**(12)**	**22**	(21)	8	(13)	181	(68)	113
Gains (losses) in respect of available for sale securities reclassified to income statement(1)	**(20)**	**7**	**(13)**	(54)	20	(34)	(221)	83	(138)
Net changes during the period	**14**	**(5)**	**9**	(75)	28	(47)	(40)	15	(25)
Translation adjustments*									
Adjustments from translation of financial statements	**(10)**	**5**	**(5)**	-	-	-	2	-	2
Hedges**	**7**	**(3)**	**4**	-	-	-	(3)	1	(2)
Net changes during the period	**(3)**	**2**	**(1)**	-	-	-	(1)	1	-
Employee benefits:									
Net actuarial loss for the period	**(163)**	**53**	**(110)**	-	-	-	(34)	12	(22)
Net (gains) losses reclassified to the statement of profit and loss(2)	**32**	**(12)**	**20**	11	(4)	7	(1)	1	-
Net change during the period	**(131)**	**41**	**(90)**	11	(4)	7	(35)	13	(22)
Changes in the components of cumulative other comprehensive income (loss) attributed to noncontrolling interests									
Total changes during the period	**(15)**	**5**	**(10)**	(3)	1	(2)	(2)	1	(1)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total changes during the period	**(105)**	**33**	**(72)**	(61)	23	(38)	(74)	28	(46)

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

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

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

(2) The amount before tax is reported in the statement of expenses in the item of employee benefits, see note 23.

NOTE 11 - CASH AND DEPOSITS WITH BANKS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
Cash and deposits with Central banks	**27,226**	27,116	**21,491**	21,604
Deposits with commercial banks	**1,924**	3,611	**1,841**	3,312
Total (1)	**29,150**	30,727	**23,332**	24,916
(1) Includes cash and deposits with banks, the initial period of which does not exceed three months	**27,638**	30,265	**22,694**	24,081

NOTE 12 - SECURITIES

(NIS million)

A. Composition:

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

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	**7,434**	**7,437**	**20**	**23**	**7,434**
Of foreign governments	**2,918**	**2,924**	**-**	**6**	**2,918**
Of financial institutions in Israel	**259**	**260**	**-**	**1**	**259**
Of foreign financial institutions	(7)**1,406**	**1,409**	**-**	**3**	**1,406**
Mortgage backed (MBS) securities (6)	**409**	**415**	**1**	**7**	**409**
Of others in Israel	**718**	**719**	**6**	**7**	**718**
Of foreign others	**23**	**23**	**-**	**-**	**23**
Total debentures and bonds available for sale	**13,167**	**13,187**	**27**	**47**	**13,167**
Shares -	(4)(5)**175**	**175**	**4**	**4**	**175**
Total securities available for sale	**13,342**	**13,362**	(2)**31**	(2)**51**	**13,342**

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

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

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

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value", except for securities amounting to NIS 4 million, which include an embedded derivative measured according to fair value while reflecting changes in fair value in profit and loss (December 31, 2015 - NIS 19 million).

(3) Recorded in the Statement of Income.

(4) Including investments in private equity funds in the amount of NIS 111 million and perpetual capital notes of NIS 4 million (December 31, 2015 - investments in private equity funds in the amount of NIS 115 million and perpetual capital notes of NIS 19 million).

(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 123 million (December 31, 2015 - NIS 128 million).

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

(7) Including securities owend by more than one government in the amount of NIS 978 million.

NOTE 12 - SECURITIES (CON'T)
(NIS million)

A. Composition:

					Consolidated
					December 31, 2015
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	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 institutions 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

NOTE 12 - SECURITIES (CON'T)

(NIS million)

A. Composition:

					The Bank
					December 31, 2016
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	**963**	**963**	**11**	**3**	**971**
Of financial institutions in Israel	**61**	**61**	**9**	**-**	**70**
Of others in Israel	**226**	**226**	**15**	**-**	**241**
Total debentures held to maturity	**1,250**	**1,250**	**35**	**3**	**1,282**

			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	**5,592**	**5,600**	**10**	**18**	**5,592**
Of foreign governments	**2,915**	**2,920**	**-**	**5**	**2,915**
Of financial institutions in Israel	**104**	**105**	**-**	**1**	**104**
Of foreign financial institutions	(7)**1,406**	**1,409**	**-**	**3**	**1,406**
Mortgage backed (MBS) securities(6)	**409**	**415**	**1**	**7**	**409**
Of others in Israel	**687**	**687**	**5**	**5**	**687**
Of foreign others	**23**	**23**	**-**	**-**	**23**
Total debentures and bonds available for sale	**11,136**	**11,159**	**16**	**39**	**11,136**
Shares -	(4)(5)**171**	**171**	**4**	**4**	**171**
Total securities available for sale	**11,307**	**11,330**	(2)**20**	(2)**43**	**11,307**

C. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Debentures and bonds -					
Of Israeli government	**946**	**945**	**1**	**-**	**946**
Of financial institutions in Israel	**-**	**-**	**-**	**-**	**-**
Of foreign financial institutions	**4**	**4**	**-**	**-**	**4**
Of others in Israel	**2**	**2**	**-**	**-**	**2**
Of foreign others	**11**	**12**	**-**	**1**	**11**
Total trading debentures and bonds	**963**	**963**	**1**	**1**	**963**
Shares -	**3**	**3**	**-**	**-**	**3**
Total trading securities	**966**	**966**	(3)**1**	(3)**1**	**966**
Total securities	**13,523**	**13,546**	**56**	**47**	**13,555**

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(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) At December 31, 2015 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 7 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 110 million (December 31, 2015 - investments in private equity funds in the amount of NIS 115 million, perpetual capital notes of NIS 7 million).

(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 122 million (December 31, 2015 - NIS 124 million).

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

(7) Including securities owend by more than one government in the amount of NIS 978 million.

NOTE 12 - SECURITIES (CON'T)
(NIS million)

A. Composition:

					The Bank
					December 31, 2015
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	420	420	13	-	433
Of financial institutions in Israel	63	63	11	-	74
Of others in Israel	201	201	15	1	215
Total debentures held to maturity	684	684	39	1	722

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	*4,670	*4,683	4	17	*4,670
Of foreign governments	3,240	3,249	-	9	3,240
Of financial institutions in Israel	183	183	1	1	183
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	881	882	9	10	881
Of foreign others	360	361	-	1	360
Total debentures and bonds available for sale	11,553	11,594	16	57	11,553
Shares -	*(4)(5)242	*232	14	4	*242
Total securities available for sale	11,795	11,826	(2)30	(2)61	11,795

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 institutions in Israel	66	67	-	1	66
Of foreign financial institutions	71	71	-	-	71
Of others in Israel	39	39	-	-	39
Of foreign others	19	19	-	-	19
Total trading debentures and bonds	969	967	3	1	969
Shares -	3	3	-	-	3
Total trading securities	972	970	(3)3	(3)1	972
Total securities	13,451	13,480	72	63	13,489

	Consolidated		The Bank	
	As of December 31,		As of December 31,	
D. Data regarding impaired bonds	2016	2015	2016	2015
The recorded debt balance of:				
Impaired bonds accruing interest income	**5**	7	**2**	3
Impaired bonds not accruing interest income	**-**	-	**-**	-
Total recorded debt balances	**5**	7	**2**	3

* Reclassified.

NOTE 12 - SECURITIES (CONT'D)

(NIS million)

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

Consolidated								As of December 31, 2016
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses 0-20%	Unrealized losses 20%-40%	Total	Fair Value	Unrealized losses 0-20%	Unrealized losses 20%-40%	Total
								(NIS million)
Held to maturity bonds of Israel government[1]	**403**	**3**	**-**	**3**	**-**	**-**	**-**	**-**
Securities available for sale								
Debentures and Bonds								
Of Israeli government	**3,586**	**19**	**-**	**19**	**1,536**	**4**	**-**	**4**
Of foreign governments	**2,627**	**5**	**-**	**5**	**78**	**1**	**-**	**1**
Of Israeli financial institutions	**-**	**-**	**-**	**-**	**143**	**1**	**-**	**1**
Of foreign financial institutions	**836**	**1**	**-**	**1**	**277**	**2**	**-**	**2**
Mortgage backed (MBS) securities	**371**	**7**	**-**	**7**	**-**	**-**	**-**	**-**
Of others in Israel	**-**	**-**	**-**	**-**	**429**	**7**	**-**	**7**
Of foreign others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Shares	**-**	**-**	**-**	**-**	**30**	**2**	**2**	**4**
Total securities available for sale	**7,420**	**32**	**-**	**32**	**2,493**	**17**	**2**	**19**

Consolidated								As of December 31, 2015
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses 0-20%	Unrealized losses 20%-40%	Total	Fair Value	Unrealized losses 0-20%	Unrealized losses 20%-40%	Total
								(NIS million)
Held to maturity bonds of other in Israel[1]	90	1	-	1	-	-	-	-
Securities available for sale								
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 406 million (December 31, 2015 - NIS 91 mllion).

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES
(NIS million)

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

Consolidated						December 31, 2016
	Credit to the public				Banks and	
	Commercial	Housing	Other private	Total	Governements	Total
Recorded balance:						
Debts examined on an individual basis	**33,911**	**-**	**408**	**34,319**	**2,578**	**36,897**
Debts examined on an collective basis	**4,586**	**21,741**	**17,529**	**43,856**	**-**	**43,856**
Of which: according to the extent of arrears	**247**	**21,741**	**-**	**21,988**	**-**	**21,988**
Total	**38,497**	**21,741**	**17,937**	**78,175**	**2,578**	**80,753**
Of which:						
Debts restructuring	**126**	**-**	**71**	**197**	**-**	**197**
Other impaired debts	**360**	**8**	**12**	**380**	**-**	**380**
Total impaired debts	**486**	**8**	**83**	**577**	**-**	**577**
Debts in arrears of 90 days or more	**30**	**164**	**41**	**235**	**-**	**235**
Other problematic debts	**782**	**2**	**195**	**979**	**-**	**979**
Total problematic debts	**1,298**	**174**	**319**	**1,791**	**-**	**1,791**
Provision for credit losses:						
In respect of debts examined on an individual basis	**446**	**-**	**28**	**474**	**-**	**474**
In respect of debts examined on an collective basis	**55**	**115**	**203**	**373**	**-**	**373**
Of which: according to the extent of arrears	**1**	**115**	**-**	**116**	**-**	**116**
Total	**501**	**115**	**231**	**847**	**-**	**847**
Of which: in respect of impaired debts	**178**	**-**	**22**	**200**	**-**	**200**

Consolidated						December 31, 2015
	Credit to the public				Banks and	
	Commercial	Housing	Other private	Total	Governements	Total
Recorded balance:						
Debts examined on an individual basis	32,066	-	426	32,492	4,280	36,772
Debts examined on an collective basis	4,382	20,032	16,473	40,887	-	40,887
Of which: according to the extent of arrears	397	20,032	-	20,429	-	20,429
Total	36,448	20,032	16,899	73,379	4,280	77,659
Of which:						
Debts restructuring	160	-	69	229	-	229
Other impaired debts	519	10	6	535	-	535
Total impaired debts	679	10	75	764	-	764
Debts in arrears of 90 days or more	21	182	31	234	-	234
Other problematic debts	579	2	173	754	-	754
Total problematic debts	1,279	194	279	1,752	-	1,752
Provision for credit losses:						
In respect of debts examined on an individual basis	449	-	15	464	-	464
In respect of debts examined on an 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 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

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

The Bank						December 31, 2016
			Credit to the public		Banks and	
	Commercial	Housing	Other private	Total	Governements	Total
Recorded balance:						
Debts examined on an individual basis	**30,703**	**-**	**261**	**30,964**	**1,848**	**32,812**
Debts examined on an collective basis	**2,774**	**21,491**	**6,517**	**30,782**	**-**	**30,782**
Of which: according to the extent of arrears	**247**	**21,491**	**-**	**21,738**	**-**	**21,738**
Total	**33,477**	**21,491**	**6,778**	**61,746**	**1,848**	**63,594**
Of which:						
Debts restructuring	**88**	**-**	**37**	**125**	**-**	**125**
Other impaired debts	**310**	**8**	**6**	**324**	**-**	**324**
Total impaired debts	**398**	**8**	**43**	**449**	**-**	**449**
Debts in arrears of 90 days or more	**12**	**164**	**29**	**205**	**-**	**205**
Other problematic debts	**662**	**-**	**103**	**765**	**-**	**765**
Total problematic debts	**1,072**	**172**	**175**	**1,419**	**-**	**1,419**
Provision for credit losses:						
In respect of debts examined on an individual basis	**381**	**-**	**19**	**400**	**-**	**400**
In respect of debts examined on an collective basis	**26**	**113**	**114**	**253**	**-**	**253**
Of which: according to the extent of arrears	**1**	**113**	**-**	**114**	**-**	**114**
Total	**407**	**113**	**133**	**653**	**-**	**653**
Of which: in respect of impaired debts	**141**	**-**	**14**	**155**	**-**	**155**

The Bank						December 31, 2015
			Credit to the public		Banks and	
	Commercial	Housing	Other private	Total	Governements	Total
Recorded balance:						
Debts examined on an individual basis	27,662	-	272	27,934	3,312	31,246
Debts examined on an collective basis	2,257	19,823	5,061	27,141	-	27,141
Of which: according to the extent of arrears	397	19,823	-	20,220	-	20,220
Total	29,919	19,823	5,333	55,075	3,312	58,387
Of which:						
Debts restructuring	110	-	31	141	-	141
Other impaired debts	453	10	2	465	-	465
Total impaired debts	563	10	33	606	-	606
Debts in arrears of 90 days or more	13	182	21	216	-	216
Other problematic debts	449	-	79	528	-	528
Total problematic debts	1,025	192	133	1,350	-	1,350
Provision for credit losses:						
In respect of debts examined on an individual basis	374	-	8	382	-	382
In respect of debts examined on an collective basis	21	117	92	230	-	230
Of which: according to the extent of arrears	1	117	-	118	-	118
Total	395	117	100	612	-	612
Of which: in respect of impaired debts	162	-	3	165	-	165

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

2. Change in provision for credit losses

Consolidated				**Credit to the public**	**Banks and**	
	Commercial	**Housing**	**Other private**	**Total**	**Governements**	**Total**
Change in provision for credit losses - debts						
Provision for credit losses at December 31, 2013	542	151	134	827	-	827
Expenses (income) in respect of credit losses	(16)	(4)	105	85	-	85
- Accounting write-offs	(112)	(15)	(104)	(231)	-	(231)
- Collection of debts written off in accounting in previous years	120	-	75	195	-	195
Net accounting write-offs	8	(15)	(29)	(36)	-	(36)
Provision for credit losses at December 31, 2014	534	132	210	876	-	876
Expenses in respect of credit losses	12	3	38	53	-	53
- Accounting write-offs	(207)	(16)	(122)	(345)	-	(345)
- Collection of debts written off in accounting in previous years	159	-	81	240	-	240
Net accounting write-offs	(48)	(16)	(41)	(105)	-	(105)
Provision for credit losses at December 31, 2015	498	119	207	824	-	824
Expenses in respect of credit losses	**44**	**2**	**48**	**94**	**-**	**94**
- Accounting write-offs	**(165)**	**(6)**	**(110)**	**(281)**	**-**	**(281)**
- Collection of debts written off in accounting in previous years	**128**	**-**	**86**	**214**	**-**	**214**
Net accounting write-offs	**(37)**	**(6)**	**(24)**	**(67)**	**-**	**(67)**
Other - classified to assets held for sale	**(4)**	**-**	**-**	**(4)**	**-**	**(4)**
Provision for credit losses at December 31, 2016	**501**	**115**	**231**	**847**	**-**	**847**

Consolidated				**Credit to the public**	**Banks and**	
	Commercial	**Housing**	**Other private**	**Total**	**Governements**	**Total**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at December 31, 2013	106	-	10	116	-	116
Increase in provision	-	-	4	4	-	4
Provision at December 31, 2014	106	-	14	120	-	120
Increase (decrease) in provision	(36)	-	1	(35)	-	(35)
Provision at December 31, 2015	70	-	15	85	-	85
Decrease in provision	**(13)**	**-**	**(1)**	**(14)**	**-**	**(14)**
Provision at December 31, 2016	**57**	**-**	**14**	**71**	**-**	**71**

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)
(NIS million)

2. Change in provision for credit losses

The Bank	Credit to the public				Banks and Governements	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - debts						
Provision for credit losses at December 31, 2013	424	150	52	626	-	626
Expenses (income) in respect of credit losses	(30)	(3)	61	28	-	28
- Accounting write-offs	(70)	(15)	(49)	(134)	-	(134)
- Collection of debts written off in accounting in previous years	71	-	28	99	-	99
Net accounting write-offs	1	(15)	(21)	(35)	-	(35)
Provision for credit losses at December 31, 2014	395	132	92	619	-	619
Expenses (income) in respect of credit losses	(3)	1	34	32	-	32
- Accounting write-offs	(129)	(17)	(52)	(198)	-	(198)
- Collection of debts written off in accounting in previous years	121	-	25	146	-	146
Net accounting write-offs	(8)	(17)	(27)	(52)	-	(52)
Merging a subsidiary	11	1	1	13	-	13
Provision for credit losses at December 31, 2015	395	117	100	612	-	612
Expenses in respect of credit losses	**21**	**1**	**36**	**58**	**-**	**58**
- Accounting write-offs	**(108)**	**(5)**	**(69)**	**(182)**	**-**	**(182)**
- Collection of debts written off in accounting in previous years	**79**	**-**	**49**	**128**	**-**	**128**
Net accounting write-offs	**(29)**	**(5)**	**(20)**	**(54)**	**-**	**(54)**
Merging a subsidiary	**20**	**-**	**17**	**37**	**-**	**37**
Provision for credit losses at December 31, 2016	**407**	**113**	**133**	**653**	**-**	**653**

The Bank	Credit to the public				Banks and Governements	Total
	Commercial	Housing	Other private	Total		
Changes in provision in respect of off-balance sheet credit instruments						
Provision at December 31, 2013	97	-	5	102	-	102
Increase (decrease) in provision	(15)	-	3	(12)	-	(12)
Provision at December 31, 2014	82	-	8	90	-	90
Increase (decrease) in provision	(22)	-	1	(21)	-	(21)
Merging a subsidiary	2	-	-	2	-	2
Provision at December 31, 2015	62	-	9	71	-	71
Decrease in provision	**(12)**	**-**	**(1)**	**(13)**	**-**	**(13)**
Merging a subsidiary	**3**	**-**	**1**	**4**	**-**	**4**
Provision at December 31, 2016	**53**	**-**	**9**	**62**	**-**	**62**

NOTE 14 - CREDIT TO THE GOVERNMENT
(NIS million)

Composition:	Consolidated		The Bank	
	December 31,		December 31,	
	2016	2015	2016	2015
Other credit	**654**	669	**7**	-
Total credit to the Government	**654**	669	**7**	-

NOTE 15 - INVESTEE COMPANIES
(NIS million)

A. Composition:

	Consolidated		The Bank					
	December 31, 2016	December 31, 2015	December 31, 2016			December 31, 2015		
	Equity basis investee	Equity basis investee	Equity basis investee	Consolidated subsidiaries	Total	Equity basis investee	Consolidated subsidiaries	Total
Investments in shares on equity basis	**514**	438	**514**	**1,816**	**2,330**	438	*2,221	2,659
Other investments:								
Capital notes and subordinated capital notes	**-**	-	**-**	**211**	**211**	-	348	348
Total investments in investee companies	**514**	438	**514**	**2,027**	**2,541**	438	2,569	3,007
Earnings accumulated since acquisition, net	**273**	201	**273**	**1,084**	**1,357**	201	*1,058	1,259
Items accrued in equity capital since purchase date:								
Adjustments in respect of presenting available-for-sale securities	**-**	-	**-**	**(1)**	**(1)**	-	(3)	(3)
Employee benefits	**(6)**	(1)	**(6)**	**(36)**	**(42)**	(1)	(2)	(3)
Adjustments from translation of financial	**-**	-	**-**	**(18)**	**(18)**	-	(8)	(8)

* Starting with the financial statements for the year 2016, UBank Investments and Holdings Ltd. is included in the standalone financial statements of the Bank. The comparative data has been reclassified.

B. The Bank's share in profits of equity-basis investees:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2016	2015	2014	2016	2015	2014
						NIS millions
The Bank's share in operating profits of equity-basis investees	**81**	43	40	**152**	*135	120
Provision for taxes	**-**	-	(5)	**-**	-	(5)
Provision for deferred taxes	**(9)**	(5)	-	**(22)**	(5)	-
The Bank's share in operating profits of equity-basis investees, after tax	**72**	38	35	**130**	130	115

* Reclassified.

NOTE 15 - INVESTEE COMPANIES (CONT'D)

C. Details regarding major investee subsidiaries:

Name of investee	Major activity	Bank's share in equity		Bank's voting right		Carrying value of the investment on equity basis(3)	
		December 31		December 31		December 31	
		2016	2015	2016	2015	2016	2015
		%	%	%	%		NIS million
Israeli consolidated subsidiaries:							
UBank trust company Ltd.	Trust services	**100.0**	100.0	**100.0**	100.0	**21**	22
Bank Otsar Hahayal Ltd.	Commercial Bank	**78.0**	78.0	**78.0**	78.0	**1,209**	1,193
Bank Poaley Agudat Israel Ltd.	Commercial Bank	**-**	100.0	**-**	100.0	**-**	(5)396
Bank Massad Ltd.	Commercial Bank	**51.0**	51.0	**51.0**	51.0	**306**	294
Foreign consolidated subsidiaries:							
F.I.B.I. Bank (Switzerland) Ltd. (registered in Switzerland)	Commercial Bank	**100.0**	100.0	**100.0**	100.0	(6)**211**	242
Equity basis investees:							
Israel Credit Cards Ltd.	Credit Cards	**28.2**	28.2	**21.0**	21.0	**514**	438

(1) The above list does not include wholly owned and controlled consolidated companies that are asset companies or that supply services to the Bank, whose assets and operating results are included in the financial statements of the Bank.
(2) The shares of all the companies in the above list are not listed for trading on the stock exchange.
(3) Including balance of excess cost relating to customers relation.
(4) Including amortization of goodwill relating to customers relation: Bank Otsar Hahayal Ltd. - NIS 23 million (2015 - NIS 34 million), Bank Massad Ltd. - NIS 9 million (2015 - NIS 9 million), Bank Poaley Agudat Israel Ltd. - 2015 - NIS 1 million).
(5) See the content of Section "F" below regarding the merger of UBank and PAGI Bank.
(6) See mentioned in Note 18A hereinafter regarding the agreement for the sale of the operations of FIBI Bank (Switzerland).

Other capital investments		Bank's equity earnings		Dividend recorded		Other items accumulated in shareholders' equity	
December 31							
2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
	NIS million		NIS million		NIS million		NIS million
-	-	**19**	25	**20**	35	**-**	-
-	-	[4]**42**	[4]17	**-**	-	**(31)**	(6)
-	-	**-**	[4]38	**-**	-	**-**	(1)
5	5	[4]**13**	[4]10	**-**	-	**(1)**	-
-	-	**(21)**	(1)	**-**	-	**(10)**	-
-	-	**81**	43	**-**	-	**(5)**	(1)

NOTE 15 - INVESTEE COMPANIES (CONT'D)

D. Condenced information regarding equity basis investees, without adjustment to the group's share:

1. Following the condenced financial information

	Bank's share in equity	Total assets	Total liabilities	Capital attributed to the company's shareholders
	%	NIS millions		
Israel Credit Cards Ltd.				
31 December 2016	**28.2**	**12,416**	**10,912**	**1,504**
31 December 2015	28.2	10,991	9,766	1,225

2. Following the condenced operating results information

	Bank's share in equity	Net profit for the year	Profit attributed to the company's shareholders	Profit attributed to noncontrolling interest
	%	NIS millions		
Israel Credit Cards Ltd.				
31 December 2016	**28.2**	**292**	**292**	**-**
31 December 2015	28.2	165	149	16
31 December 2014	28.2	143	139	4

NOTE 15 - INVESTEE COMPANIES (CONT'D)

E. Merger with Ubank and with Poalei Agudat Israel Bank

On September 30, 2015 the merger of UBank Ltd. (hereinafter - "UBANK"), a wholly owned subsidiary of the Bank,was consumeted, and on December 31, 2015 the merger of Poalei Agudat Israel Bank Ltd. (hereinafter - "PAGI"), also a wholly owned subsidiary of the Bank, was consumeted. UBank and PAGI merged with and into the Bank (in accordance with the provisions of Chapter I of Part Eight of the Companies Act, 1999, and in accordance with Chapter II of Part Two of the Income Tax Ordinance, 1961) in a manner in which the assets and liabilities of each of them, as in existence on date of the merger, passed to the Bank at no consideration, and both UBank and PAGI were eliminated without liquidation and struck off the Register of Companies.

For details of the merger and tax benefits, see Note 15(f) to the financial statements for the year 2015.

Following are condensed pro-forma statements reflecting the financial position as of December 31, 2015, and the results of operation for the period of two years ended December 31, 2015, of the Bank and UBank and Pagi (in NIS millions):

Condensed pro-forma balance sheet:

	On December 31, 2015		
	As reported in these statements	**Including Pagi's data**	**Proforma data**
Assets			
Cash and deposits with banks	24,916	69	24,985
Securities	13,451	269	13,720
Securities which were borrowed	353	-	353
Credit to the public	55,075	2,514	57,589
Provision for Credit losses	(612)	(36)	(648)
Credit to the public, net	54,463	2,478	56,941
Investments in investee companies	3,007	(529)	2,478
Premises and equipment	1,080	21	1,101
Intangible assets	207	-	207
Assets in respect of derivative instruments	1,655	-	1,655
Other assets	876	36	912
Total assets	100,008	2,344	102,352
Liabilities and Shareholders' Equity			
Deposits from the public	80,203	3,350	83,553
Deposits from banks	3,809	(1,228)	2,581
Deposits from the Government	276	3	279
Bonds and subordinated capital notes	3,841	-	3,841
Liabilities in respect of derivative instruments	1,654	-	1,654
Other liabilities	2,826	219	3,045
Total liabilities	92,609	2,344	94,953
Temporary equity - noncontroling interests	326	-	326
Total equity attributed to the shareholders of the Bank	7,073	-	7,073
Total liabilities and shareholders' equity	100,008	2,344	102,352

NOTE 15 - INVESTEE COMPANIES (CONT'D)

Condensed proforma profit and loss statements

	For the year ended December 31, 2015				For the year ended December 31, 2014			
	As reported in these statements	Including Ubank's data	Including Pagi's data	Proforma data	As reported in these statements	Including Ubank's data	Including Pagi's data	Proforma data
Interest Income	1,521	39	128	1,688	1,798	78	135	2,011
Interest Expenses (income)	283	2	(5)	280	486	10	(1)	495
Interest Income, net	1,238	37	133	1,408	1,312	68	136	1,516
Expenses (income) from credit losses	11	-	-	11	16	(2)	6	20
Net Interest Income after expenses from credit losses	1,227	37	133	1,397	1,296	70	130	1,496
Non Interest Income								
Non Interest Financing income	95	24	4	123	152	39	4	195
Fees	839	70	88	997	809	90	88	987
Other income	193	(24)	(34)	135	264	(32)	(35)	197
Total non Interest income	1,127	70	58	1,255	1,225	97	57	1,379
Operating and other expenses								
Salaries and related expenses	1,054	63	92	1,209	1,176	74	99	1,349
Maintenance and depreciation of premises and equipment	269	15	30	314	276	25	29	330
Amortizations and impairment of intangible assets	86	-	-	86	85	1	-	86
Other expenses	416	27	4	447	414	38	8	460
Total operating and other expenses	1,825	105	126	2,056	1,951	138	136	2,225
Profit before taxes	529	2	65	596	570	29	51	650
Provision for taxes on profit	213	2	26	241	230	12	23	265
Profit after taxes	316	-	39	355	340	17	28	385
The bank's share in profit of equity-basis investees, after taxes	130	-	(39)	91	115	(17)	(28)	70
Attributed to shareholders of the Bank	446	-	-	446	455	-	-	455

F. Within the framework of arrangements made in 2006 by the Bank with Chever Regular Servicemen and Pensioners Ltd. (hereinafter - "Chever"), which is an additional shareholder in Otzar Hachayal, the Bank has certain commitments towards Chever, among which is a put option, according to which, at Chever's request, the Bank is obliged to purchase from Chever its holdings in Otzar Hachayal, in whole or in part, at a price derived from the price of the transaction in which the Bank had acquired control over Otzar Hachayal in 2006 (with certain adjustments).

In August 2011 and in February 2014, the Bank and Chever entered into agreements for the extension of the option, and today the option is valid until February 17, 2018, and is exercisable by Chever in annual installments of 2% of the issued and paid share capital of Otzar Hachayal in a total of up to 8% during the option period, of which, Chever has exercised until now 2% (hereinafter - "the exercised holdings"), and this in addition to Chever's right to exercise at the end of the option period all of its holdings or a part thereof. Upon completion of the acquisition by the Bank of the exercised holdings, the Bank owns 78% of the equity and voting in Otzar Hachayal and Chever is entitled to recommend one director less, so that the Bank holds 73% of the right to appoint directors in Otzar Hachayal. In addition, Chever has the right to participate proportionally in a future sale of Otzar Hachayal shares by the Bank.

NOTE 15 - INVESTEE COMPANIES (CONT'D)

G. On August 29, 2013, an agreement was signed between the Swiss government and the Justice Department in the USA regulating American citizens' tax payments via the banking system in Switzerland. Pursuant to the agreement, all the Swiss banks that are not under criminal investigation by the American authorities were supposed to inform the regulator in Switzerland and thereafter the Justice Department in the USA, by December 31, 2013, of their decision to join or not to join the agreement. FIBI Bank (Switzerland) had engaged Swiss and American legal advisors specializing in this area and after an examination conducted with their help, FIBI Bank (Switzerland) decided up to December 31, 2013, not to join the agreement in a track for a bank that is not declaring that it did not committed a violation (the second category). On October 30, 2014 it decided not to join the agreement on a track for a bank that is declaring that it did not committed a violation (the third category). The current business environment is subject to legal and regulatory risks and it is hard to estimate their impact on the financial situation and profitability of FIBI (Switzerland).

According to the present circumstances, in the opinion of FIBI Bank (Switzerland) and its advisors, there is no need to include a provision in the audited financial statements in respect of the above matter.

H. On November 2, 2015, VISA Inc. (Hereinafter – "VISA Inc.") and VISA Europe Ltd. (hereinafter – "VISA Europe") announced the entry into an agreement, by which VISA Inc. will acquire VISA Europe (hereinafter- "the transaction") from the principal members holdings its shares.

On June 21, 2016, after consumation of obtaining regulatory approvals, the proceed of the transaction was received, including immediate proceed in cash of Euro 71 million. A future proceed of Euro 6 million is expected in the terms set out in the agreement. In addition, ICC received prefferal shares blocked for a period of 4 to 12 years, convertible to Visa Inc. shares, which value at the date of the transaction is estimated at Euro 26 million (naive value). It is clarified that the convertible ratio of the preffered shares may decrease in the future, in specific conditions.

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

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

ICC acknowledged an income of NIS 263 million in the second quarter regarding the transaction.

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

NOTE 16 - PREMISES AND EQUIPMENT

(NIS million)

A. Composition:

	Consolidated			The Bank		
	Bank premises (1)	Furniture, equipment and vehicles	total	Bank premises (1)	Furniture, equipment and vehicles	total
Cost of assets						
Balance as at December 31, 2014	1,866	852	2,718	1,398	575	1,973
Additions	78	36	114	65	34	99
Disposals	(90)	(180)	(270)	(71)	*(177)	(248)
Merging a subsidiary	-	-	-	*29	*77	106
Balance as at December 31, 2015	1,854	708	2,562	1,421	509	1,930
Additions	**33**	**22**	**55**	**27**	**19**	**46**
Disposals	**(133)**	**(11)**	**(144)**	**(33)**	**(11)**	**(44)**
Merging a subsidiary	**-**	**-**	**-**	**36**	**9**	**45**
Classified to assets held for sale	**(120)**	**-**	**(120)**	**(120)**	**-**	**(120)**
Balance as at December 31, 2016	**1,634**	**719**	**2,353**	**1,331**	**526**	**1,857**
Accumulated depreciation (2)						
Balance as at December 31, 2014	759	737	1,496	452	479	931
Depreciation	56	33	89	38	29	67
Disposals	(74)	(178)	(252)	(63)	*(177)	(240)
Merging a subsidiary	-	-	-	*17	*75	92
Balance as at December 31, 2015	741	592	1,333	444	406	850
Depreciation	**60**	**33**	**93**	**45**	**29**	**74**
Disposals	**(120)**	**(11)**	**(131)**	**(24)**	**(11)**	**(35)**
Merging a subsidiary	**-**	**-**	**-**	**19**	**5**	**24**
Classified to assets held for sale	**(75)**	**-**	**(75)**	**(75)**	**-**	**(75)**
Balance as at December 31, 2016	**606**	**614**	**1,220**	**409**	**429**	**838**
Amortized balance as at December 31, 2016	**1,028**	**105**	**1,133**	**922**	**97**	**1,019**
Amortized balance as at December 31, 2015	1,113	116	1,229	977	103	1,080
Amortized balance as at December 31, 2014	1,107	115	1,222	946	96	1,042
Weighted average depreciation rate in % as at 31.12.16	**4.5%**	**15.6%**		**3.9%**	**16.4%**	
Weighted average depreciation rate in % as at 31.12.15	4.3%	15.3%		3.5%	16.8%	

* Reclassified.

(1) Including fixtures and improvements in the rental.

(2) Depreciation accrued including losses accrued from impairment.

B. The Bank and its subsidiaries own rental or leasehold rights in different properties in a total amount of NIS 439 million (December 31, 2015 – NIS 488 million). Of this amount are rental or leasehold rights for periods not exceeding 49 years from balance sheet date in the amount of NIS 366 million (December 31, 2015 – NIS 364 million). The Bank and its subsidiaries own rights to property by way of capitalized leaseholds in the amount of NIS 373 million (December 31, 2015 – NIS 408 million).

C. Land rights totaling NIS 399 million (31.12.15 - NIS 394 million) have yet to be recorded in the name of the Bank or its investee companies at Land Registry Offices.

D. The balance-sheet balance of premises and equipment not in use by the Bank or the Group and which were classified as real estate for investment amounted to NIS 12 million (31.12.15 - NIS 14 million).

E. The group has in use assets that were fully depreciated. The cost of these assets as of December 31, 2016 amounted to NIS 695 million (31.12.15 - NIS 734 million).

NOTE 17 - INTANGIBLE ASSETS
(NIS million)

	Consolidated			The Bank
	Customers relations	Software	Total	Software
Cost				
On December 31, 2014	533	1,207	1,740	1,192
Addition	-	76	76	75
Disposals	-	(466)	(466)	(466)
Merging a subsidiary	-	-	-	8
On December 31, 2015	533	817	1,350	809
Addition	**-**	**94**	**94**	**94**
Disposals	**-**	**(15)**	**(15)**	**(15)**
On December 31, 2016	**533**	**896**	**1,429**	**888**
Amortization and Losses from impairment				
On December 31, 2014	416	989	1,405	975
Amortization for the year	53	86	139	86
Disposals	-	(466)	(466)	(466)
Merging a subsidiary	-	-	-	7
On December 31, 2015	469	609	1,078	602
Amortization for the year	**40**	**83**	**123**	**82**
Disposals	**-**	**(15)**	**(15)**	**(15)**
On December 31, 2016	**509**	**677**	**1,186**	**669**
Book value				
On December 31, 2014	117	218	335	217
On December 31, 2015	64	208	272	207
On December 31, 2016	**24**	**219**	**243**	**219**

NOTE 18 - OTHER ASSETS
(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
Deferred taxes, net (see Note 8)	**448**	534	**320**	386
Income tax advances, net of provisions and other institutions	**54**	156	**16**	58
Net clearing relating to securities transactions	**92**	38	**92**	38
Assets relating to Maof market activity	**238**	317	**238**	317
Other receivables and debit balances	**188**	113	**118**	*77
Total other assets	**1,020**	1,158	**784**	876

* Reclassified.

NOTE 18A - ASSETS AND LIABILITIES HELD FOR SALE

(NIS million)

Composition:

As of December 31, 2016 assets in the amount of NIS 343 million were included in assets held for sale and liabilities in the amount of NIS 745 million were included in liabilities held for sale, as detailed below:

	NIS million
Assets classified as held for sale	
Credit to the public, net of provision for credit losses(1)	**298**
Premises and equipment(2)	**45**
Total	**343**

	NIS million
Liabilities classified as held for sale	
Deposits from the public(1)	**745**
Total	**745**

(1) On December 19, 2016, FIBI Bank (Switzerland) Ltd., a subsidiary of the Bank (hereinafter – "the Extension"), signed an agreement for the sale of all its operations to a third party (hereinafter – "the Agreement"). The consideration amount is estimated at approximately CHF 7 million, before taxes and expenses, and would derive from the value of customer assets of the Extension transferred to the buyer, with certain adjustments in accordance with the value of customer assets to be reviewed at the end of one year from date of transfer to the buyer.

The Agreement provides for different indemnities undertaken by the Extension towards the buyer, which are limited in amount and for different periods not exceeding 24 months from date of transfer of the customer assets to the buyer. The Bank shall guarantee the obligations of the Extension within the framework of the Agreement and shall replace it as regards its commitments in accordance with the Agreement, with respect to all terms of the Agreement as they apply to the Extension, and this in special circumstances as detailed in the Agreement, which may occur only after the surrender of the banking license of the Extension.

Consummation of the sale is conditional upon obtaining the regulatory approvals and upon the relevant proceedings in Switzerland. Upon consummation of the transaction, the Extension would act in order to discontinue its banking activity.

(2) An agreement was signed on February 15, 2017, for the sale of the leasehold rights of the Bank (by means of its property company) in office space in an office building in Tel Aviv, in consideration for an amount of NIS 84 million. The Buyer has made an advance payment on account of the consideration amount. Possession of the property would be transferred upon payment of the balance of the consideration amount, the contractual date for the payment of which is not later than March 31, 2017, and upon presentation of the approvals required by the Agreement.

The gain expected from the sale of the said rights amounts to NIS 28 million, after the tax effect.

NOTE 19 - DEPOSITS FROM THE PUBLIC
(NIS million)

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

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
In Israel				
Demand				
- Non bearing interest	**43,051**	36,754	**31,152**	(1)25,387
- Bearing interest	**5,273**	6,161	**5,074**	5,852
Total demand	**48,324**	42,915	**36,226**	31,239
Fixed-term*	**57,493**	59,463	**48,177**	48,964
Total deposits in Israel**	**105,817**	102,378	**84,403**	80,203
Outside Israel				
Demand				
- Non bearing interest	**-**	884	**-**	-
Total deposits outside Israel	**-**	884	**-**	-
Total deposits from the public	**105,817**	103,262	**84,403**	80,203
* Of which: non-bearing interest deposits	**1,986**	1,566	**1,986**	1,562
** Of which:				
Deposits of private individuals	**54,034**	50,253	**34,565**	30,773
Deposits of institutional entities	**19,448**	(1)22,448	**19,379**	(1)22,223
Deposits of corporates and others	**32,335**	(1)29,677	**30,459**	(1)27,207

B. Deposits of the public by size (consolidated)

	December 31	
Maximum amount of deposit	**2016**	**2015**
Up to 1	**40,864**	37,450
From 1 to 10	**26,400**	25,120
From 10 to 100	**15,627**	14,624
From 100 to 500	**5,802**	4,732
Over 500	**17,124**	21,336
Total	**105,817**	103,262

(1) Reclassified.

NOTE 20 - DEPOSITS FROM BANKS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2016	**2015**	**2016**	**2015**
In Israel				
Commercial Banks:				
Demand deposits	**205**	665	**985**	2,617
Fixed-term deposits	**450**	807	**2,500**	1,107
Acceptances	**91**	85	**91**	85
Outside Israel				
Commercial Banks:				
Demand deposits	**9**	8	**-**	-
Total deposits from banks	**755**	1,565	**3,576**	3,809

NOTE 21 - BONDS AND SUBORDINATED CAPITAL NOTES

(NIS million)

A. Composition:

	Duration (1)	Internal rate of return (1)	Consolidated		The Bank	
			December 31		December 31	
	Years	%	**2016**	**2015**	**2016**	**2015**
Bonds and subordinated capital notes in -						
- Non-linked Israeli currency	**2.97**	**2.07**	**716**	780	**-**	-
- Israeli currency linked to the CPI (2)	(3)**2.45**	**2.70**	**5,085**	5,082	**4,019**	3,841
Total bonds and non-convertible subordinated capital notes			**5,801**	5,862	**4,019**	3,841
Including: subordinated capital notes			**4,310**	4,300	**534**	681

(1) Internal rate of return: The rate of interest which discounts the future flow of payments to the outstanding amount in the balance sheet.
Duration: The average period of payments weighted by the flow of payments discounted by the internal rate of return.
The data as to the internal rate of return and the duration to maturity are as at December 31, 2016, and related to the consolidated statements.

(2) Includes non-marketable subordinate capital notes in the amount of NIS 260 million, issued by the Bank by private placement to institutional investors on May 25, 2009. These capital notes have the mechanism of absorbing losses on a current basis, in accordance with directives of the Supervisor of banks. According to this mechanism, interest payments would not be made if at the relevant due date for the payment of interest suspending reasons exist, as defined in the capital notes. The suspended interest payments would, among other things be paid, if the suspending reasons are removed and the Bank has declared the distribution of dividend. It has been determined in this respect, that the Bank shall not pay a dividend so long as the suspended interest payments have not been paid in full.

(3) The average maturity at date of change in the interest rate is based on a calculation of the effective average maturity, as computed for the purpose of exposure to change in interest rates. With respect to CPI linked subordinate debt notes – 4.2 years.

(4) For additional information regarding the raising of regulatory capital by way of issue of debt notes that include a loss absorption mechanism, see Note 24B (5) c.

NOTE 22 - OTHER LIABILITIES

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2016	**2015**	**2016**	**2015**
Deferred tax liabilities, net (see Note 8)	**38**	35	**38**	35
Provision for current taxes, net of advance tax payments	**126**	26	**124**	*16
Excess of provision for severance pay over amounts funded (see note 23)	**416**	285	**337**	249
Income received in advance	**46**	49	**40**	36
Creditors in respect of credit cards activity	**3,150**	3,116	**1,484**	1,297
Liabilities relating to Maof market activity	**238**	317	**238**	317
Salaries and related costs (see also Note 23)	**361**	543	**249**	398
Short selling of securities	**253**	178	**253**	178
Other creditors and Credit balances	**301**	405	**255**	*300
Total other liabilities	**4,929**	4,954	**3,018**	2,826

* Reclassified.

NOTE 23 - EMPLOYEES BENEFITS

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

Employees of consolidated subsidiaries are entitled to a special seniority award ("jubilee award") after having completed a defined period of employment at the Group. 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.
See item G concerning the conversion of "jubilee awards".

3. Benefit in respect of nonutilized sick leave

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

4. Other post-employment benefits

Employees of consolidated subsidiary are entitled to an award in respect of unutilized sick leave. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.
During 2016 a consolidated company did an early repaiment of the award in respect of unutilized sick leave, as was claculated and accrued as of December 31, 2015. As from this date the employees of that consolidated company are not entitled for additional accumulation in respect of this benefit.
In addition, certain senior officers are entitled upom their retirement for a non-competition award.

5. Other post-retirement benefits

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

6. Vacation pay

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

B. See note 33H regarding employment agreement of the CEO and the chairman of the board.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

C. Efficiency

The Supervisor of Banks published a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multiannual program for the increase in efficiency.

A banking corporation that complies with the provisions of the letter shall be entitled to a relief, whereby, for the purpose of calculating the capital adequacy, the effect of the cost of this program may be spread by the "straight line " method over five years.

Following the efficiency measures adopted by the Bank in the past two years, the Board of Directors of the Bank approved on November 17, 2016, a revision of the strategic plan of the Bank from the aspect of efficiency measures. These efficiency measures include, inter alia, the continuation of expanding operations by digital means; the reduction in the number of branches and improvements in work processes at the branches and at head office. As a result of these efficiency measures, a reduction is expected in the floor area used by the Bank as well as a gradual reduction in the workforce position of the Bank's group of an average of approximately 130 employees per year (of which, approximately 45 employees opting for voluntary early retirement, which would continue on the basis of specific offers and the particular circumstances). A total reduction of approximately 650 employees until the end of 2020.

The Bank has received from the Supervisor of Banks an approval in principle for the spreading of the cost of these measures over five years by the "straight line" method, for the purpose of computing the capital adequacy.

The cost of benefits to employees within the framework of the efficiency measures implemented in the years 2016 and until 2020, is estimated at NIS 207 million, before the tax effect, of which, an amount of NIS 25 million is in respect of the gradual discontinuation of operations, which was recognized as an expense in profit and loss in the second quarter of the year (the cost is based on actuarial assumptions, inter alia with respect to the cost of retirement of employees). The impact of the efficiency measures on the ratio of equity to risk components is estimated at a reduction of 0.19%, which, as stated, would be recognized in installments over five years.

D. Composition of benefits:

		Consolidated		**The Bank**
		December 31,		**December 31,**
	2016	**2015**	**2016**	**2015**
		(NIS million)		(NIS million)
Pension and severance pay				
Amount of liability	**1,166**	1,079	**902**	829
Fair value of assets of the scheme	**(750)**	(794)	**(565)**	(580)
Excess liabilities over assets of the scheme	**416**	285	**337**	249
Excess liabilities of the scheme included in the item "other liabilities"	**416**	285	**337**	249
Long-service awards - amount of liability	**18**	196	**-**	167
Benefit regarding unused sick leave - amount of liability	**32**	34	**32**	32
Other post-employment benefits	**10**	22	**9**	6
Other post retirement benefits	**141**	121	**91**	76
Vacation pay	**72**	76	**59**	60
Other	**88**	94	**58**	57
Total				
Excess liabilities regarding employee benefits over assets of the scheme included in the item "other liabilities"	**777**	828	**586**	647

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

E. Defined benefits severance pay and pension schemes

(1) Liabilities and financing situation

		Consolidated		The Bank	
			For the year ended December 31,		For the year ended December 31,
		2016	**2015**	**2016**	**2015**
			(NIS million)		(NIS million)
A.	**Change in liability regarding anticipated benefits**				
	Liability regarding anticipated benefit at beginning of period	**1,079**	1,116	**829**	816
	Merging a subsidiary	**-**	-	**40**	59
	Cost of servive	**24**	25	**13**	11
	Cost of interest	**38**	41	**31**	30
	Actuarial (profit) loss	****125**	(13)	****56**	(7)
	Benefits paid	**(133)**	(111)	**(95)**	(88)
	Other, including loss from reduction or dismissal and structural changes	**33**	21	**28**	8
	Liability regarding anticipated benefit at end of period	**1,166**	1,079	**902**	829
	Liability regarding cumulative benefit at end of period	**1,055**	980	**798**	741
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	**580**	577
	Merging a subsidiary	**-**	-	**24**	45
	Actual return on assets of the scheme	**17**	9	**12**	8
	Deposits in the scheme by the Bank	**17**	16	**9**	6
	Benefits paid	**(78)**	(70)	**(60)**	(56)
	Fair value of assets of the scheme at end of period	**750**	794	**565**	580
	Financing situation - net liability recognized at end of period*	**416**	285	**337**	249

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

** Of which an actuarial loss of NIS 172 million (the Bank – NIS 104 million) in respect of the efficiency measures for the years from 2016 to 2020, and actuarial gains of NIS 69 million (the Bank and consolidated) in respect of the following years.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

		Consolidated		The Bank	
		December 31,		December 31,	
		2016	2015	2016	2015
			(NIS million)		(NIS million)
C.	**Amounts recognized in the consolidated balance sheet**				
	Amounts recognized in the item "other liabilities"	**416**	285	**337**	249
	Net liability recognized at end of period	**416**	285	**337**	249
D.	**Amounts recognized in other cumulative comprehensive loss, before the tax effect**				
	Actuarial loss, net	**200**	83	**135**	72
	Liability net, in respect of transition*	**28**	41	**28**	41
	Closing balance in other cumulative comprehensive profit	**228**	124	**163**	113
E.	**Schemes in which the liability regarding cumulative benefits exceeds the assets of the scheme**				
	Liability regarding anticipated benefit	**1,106**	1,024	**902**	829
	Liability regarding cumulative benefit	**998**	927	**798**	741
	Fair value of assets of the scheme	**693**	740	**565**	580
F.	**Schemes in which the liability regarding anticipated benefit exceeds the assets of the scheme**				
	Liability regarding anticipated benefit	**1,166**	1,079	**902**	829
	Fair value of assets of the scheme	**750**	794	**565**	580

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

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

(2) Expense for the period

		Consolidated			The Bank		
		December 31,			December 31,		
		2016	2015	2014	2016	2015	2014
				(NIS million)			(NIS million)
A.	**Cost components of net benefit recognized in profit and loss**						
	Cost of service	**24**	25	24	**13**	11	10
	Cost of interest	**38**	41	47	**31**	30	35
	Anticipated return on assets of the scheme	**(28)**	(31)	*(34)	**(21)**	(22)	*(23)
	Amortization of non-recognized amounts:						
	Net actuarial loss	**8**	3	-	**7**	3	-
	Other, including loss from reduction or dismissal and structural changes	**57**	27	8	**41**	14	5
	Capitalized cost of software	**(3)**	(2)	(1)	**(3)**	(2)	(1)
	Total cost of benefits, net	**96**	63	44	**68**	34	26
B.	**Changes in assets of the scheme and in liability for benefits recognized in other comprehensive loss (profit), before the tax effect**						
	Net actuarial loss (profit) for the period	**136**	9	30	**65**	7	23
	Amortization of actuarial profit	**(8)**	(3)	-	**(7)**	(3)	-
	Dismissal	**(24)**	(6)	-	**(13)**	(6)	-
	Total recognized in other comprehensive profit	**104**	-	30	**45**	(2)	23
	Total net cost of benefit	**96**	63	44	**68**	34	26
	Total net cost of benefit for the period recognized in other comprehensive profit	**200**	63	74	**113**	32	49

* For practical reasons, the Bank has elected to use at 2014 actual rates of return in determining the forecasted rates of return for these periods. See also Note 1D(17).

		Consolidated	The Bank
			(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 (income) in 2017, before the tax effect**		
	Net actuarial loss	**29**	**20**
	Total amount expected to be amortized from other cumulative comprehensive profit	**29**	**20**

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

(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

	Consolidated		The Bank	
	December 31,		December 31,	
	2016	2015	2016	2015
		percent		percent
1. Principal guidelines used to determine the liability for benefits				
Discounting rate	**1.7**	1.9	**1.7**	1.9
Forecasted rate of rise in the CPI	**2.0**	2.0	**2.0**	2.0
Retirement rate	**2.4**	2.1	**2.3**	2.0
Rate of increase in real-term compensation	**1.5**	1.6	**1.7**	1.7

	Consolidated			The Bank		
	For the year ended December 31,			For the year ended December 31,		
	2016	2015	2014	2016	2015	2014
			percent			percent
2. Principal guidelines used to measure the net cost of benefits for the period						
Discounting rate	**1.5-1.9**	1.1-2.1	2.6	**1.5-1.9**	1.1-2.1	2.6
Anticipated long-term return on assts of the scheme*	**3.6-3.9**	3.8-4.0	4.2	**3.6-3.9**	3.8-4.0	4.3
Rate of increase in real-term compensation	**1.5**	1.6	1.6-1.9	**1.7**	1.7	1.7-2.0

* For practical reasons, the Bank has elected to use actual rates of return in determining the forecasted rates of return for the year 2014.

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

	Consolidated				The Bank			
	One percentage point growth		One percentage point decline		One percentage point growth		One percentage point decline	
	December 31,		December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015	2016	2015
		(NIS million)		(NIS million)		(NIS million)		(NIS million)
Discounting rate	**(74)**	(80)	**88**	96	**(64)**	(68)	**75**	78
Retirement rate	**101**	110	**(90)**	(117)	**88**	96	**(76)**	(101)
Rate of increase in compensation	**89**	96	**(76)**	(82)	**74**	79	**(65)**	(69)

(4) Assets of the scheme

A. Composition of the fair value of the assets of the scheme

Consolidated	December 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(NIS million)				(NIS million)
Cash and deposits with banks	**39**	**8**	**-**	**47**	29	10	-	39
Shares	**231**	**-**	**-**	**231**	238	-	-	238
Bonds:								
Government bonds	**259**	**3**	**-**	**262**	302	3	-	305
Corporate bonds	**146**	**23**	**-**	**169**	149	35	-	184
Total	**405**	**26**	**-**	**431**	451	38	-	489
Other	**10**	**25**	**6**	**41**	10	14	4	28
Total	**685**	**59**	**6**	**750**	728	62	4	794

The Bank	December 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(NIS million)				(NIS million)
Cash and deposits with banks	**35**	**8**	**-**	**43**	23	9	-	32
Shares	**180**	**-**	**-**	**180**	182	-	-	182
Bonds:								
Government bonds	**200**	**-**	**-**	**200**	221	-	-	221
Corporate bonds	**127**	**15**	**-**	**142**	123	22	-	145
Total	**327**	**15**	**-**	**342**	344	22	-	366
Other	**-**	**-**	**-**	**-**	-	-	-	-
Total	**542**	**23**	**-**	**565**	549	31	-	580

B. Fair value of the assets of the scheme according to classes of assets and allotment target for 2017

	Consolidated			The Bank		
	Allotment	% of scheme's assets		Allotment	% of scheme's assets	
	target	December 31,		target	December 31,	
	2017	2016	2015	2017	2016	2015
			percent			percent
Cach and deposits with banks	**5.6**	**6.3**	4.9	**7.6**	**7.6**	5.4
Shares	**30.4**	**30.8**	*30.0	**31.9**	**31.9**	31.4
Bonds:						
Government bonds	**36.6**	**34.9**	38.4	**35.4**	**35.4**	38.1
Corporate bonds	**22.9**	**22.5**	23.2	**25.1**	**25.1**	25.1
Total	**59.5**	**57.4**	61.6	**60.5**	**60.5**	63.2
Other	**4.5**	**5.5**	*3.5	**-**	**-**	-
Total	**100.0**	**100.0**	100.0	**100.0**	**100.0**	100.0

* Reclassified.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

C. Cash flows

(1) Deposits

	Consolidated			The Bank		
		Actual deposits			Actual deposits	
	Forecast	For the year ended December 31,		Forecast	For the year ended December 31,	
	*2017	2016	2015	*2017	2016	2015
			(NIS million)			(NIS million)
Deposits	**14**	**17**	16	**6**	**9**	6

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

(2) Benefits expected to be paid by the Bank in the future**

Year	Consolidated	The Bank
		(NIS million)
2017	120	88
2018	110	83
2019	108	82
2020	93	70
2021	52	43
2022-2026	247	196
2027 and thereafter	538	402
Total	1,268	964

** Non-discounted values. Not including future service cost.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

F. Special Collective Labor Agreement

On January 2015, Bank Leumi and the Organization of Bank Leumi Employees have signed a special collective labor agreement (hereinafter - "the collective agreement") for a period of four years until December 31, 2018.

The Bank and PAGI have collective labor agreements that specify a linkage of employment conditions for clerks and managers, to the agreements signed between the Management of Bank Leumi and the Organization of Bank Leumi Employees.

Hereunder are the main changes made to the collective agreement in relation to the previous collective agreement:

- The mechanism for the updating of the annual wage at an average rate of 5% for all employees has been changed, and is now as follows:
  - In the year 2015 - 4%
  - In the year 2016 - 4%
  - In the year 2017 - 3.5%
  - In the year 2018 - 3.5%
- Payment to all employees of a onetime award in an amount equal to one monthly salary.
- Early application of the update of the minimum wage determined by a Government decision, in a manner that the updating of the minimum wage to NIS 5,000 shall be made immediately and in one amount (and not gradually as specified in the Government decision) to all employees earning a minimum wage.
- Additional provisions have been added regarding reductions in the amounts of long-service awards (both as regards awards and vacation days), the updating of the rate of employer provisions for provident fund, encouragement for employees who do not utilize sick leave and updating of the maximum period service regarding entitlement to seniority additions.

The application of the collective agreement in 2015 amounted to a one-time decrease in payroll and related expenses of NIS 72 million, before the tax effect.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

G. Conversion of employee rights to jubilee awards

Bank Leumi informed on March 20, 2016, that the conversion of the rights of its employees to jubilee awards into shares of Bank Leumi had been completed.

Whereas the terms of entitlement of employees of the Bank to jubilee awards are linked to those of Bank Leumi employees, the Board of Directors of the Bank decided to approve the conversion of rights to jubilee awards of all employees of the Bank, who are entitled under power of the collective agreements and arrangements to jubilee awards and jubilee vacation, accumulated to their credit, as well as of certain additional employees of MATAF to whom jubilee awards are payable, in a similar manner to the conversion of these rights performed by Bank Leumi.

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

A labor agreement was signed on June 30, 2016, with the representative committee of clerks of the Bank, according to which the rights to jubilee awards of employees being represented by the representative committee of clerks of the Bank, would also be converted into a cash payment (and not into shares of the Bank or to blocked share units), in accordance with the terms of the conversion of the jubilee awards as agreed in respect of the other relevant Bank employees.

Upon conversion to a cash payment of the rights to jubilee award of all the relevant employees of the Bank, the rights of the employees to jubilee awards would be abolished (both in respect of past work and in respect of future work).

In view of that stated above, no allotment of blocked share units was made in accordance with a Statement in lieu of Prospectus published on June 14, 2016, for the purpose of converting the rights to jubilee awards of employees represented by the clerks representative committee into blocked share units of the Bank (likewise, the Bank does not take action in this respect for the buyback of the Bank's share as stated in the Statement in lieu of Prospectus).

NOTE 24A - SHAREHOLDERS' EQUITY (CONT'D)

(NIS million)

A. Share capital - Composition:

	Authorized	Issued and paid up
	December 31	December 31
	2016 and 2015	2016 and 2015
Ordinary shares of NIS 0.05 each	18	5

All the ordinary shares are registered shares.

The ordinary shares of NIS 0.05 are traded on the Tel-Aviv Stock Exchange.

Each share entitles the holder to one vote at the general shareholders meeting. Each share entitles it's holder to participate in the distribution of profits and to participate in the distribution of the Bank's net assets in the event of liquidation, pro-rata to its par value.

B. Dividends

1. Dividend distribution

The Board of Directors of the Bank resolved on January 14, 2014, on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 100 million. The determining date for the payment of the dividend was January 22, 2014, and the payment date was February 3, 2014.

The Board of Directors of the Bank resolved on March 25, 2014, on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 130 million. The determining date for the payment of the dividend was April 3, 2014, and the payment date was April 16, 2014.

The Board of Directors of the Bank resolved on November 18, 2014, on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 55 million. The determining date for the payment of the dividend was November 27, 2014, and the payment date was December 9, 2014.

The Board of Directors of the Bank resolved on June 9, 2015, on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 60 million. The determining date for the payment of the dividend was June 18, 2015, and the payment date was June 30, 2015.

On November 18, 2015, the Board of Directors resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 70 million. The determining date for the payment of the dividend was November 26, 2015, and the payment date was December 6, 2015.

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

Subsequent to balance sheet date, on March 15, 2017, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 70 million. The determining date for the payment of the dividend is March 23, 2017, and the payment date is April 2, 2017. The amount of the dividend is prior to any tax, including the tax that the Bank has to withhold under the law.

	For the year ended December 31,		
	2016	2015	2014
Dividend declared and paid by the Bank	**200**	130	285

2. For details regarding the policy and restrictions on dividend distribution see note 33.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS

A. Capital Adequacy

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

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

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

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

(1) Capital adequacy objectives

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 objectives 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 3 instructions in Israel, The Supervisor of Banks published on March 28, 2013, a guiding letter in the matter of Basel 3 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.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

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

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

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

		December 31,
	2016	**2015**
a. Consolidated		
1. Capital for calculation of capital ratio		
Tier 1 capital, after supervisory adjustments and deductions	**7,684**	7,349
Tier 2 capital after deductions	**2,819**	2,580
Total overall capital	**10,503**	9,929
b. Weighted balances of risk assets		
Credit risk	(3)**69,262**	67,766
Market risk	**748**	995
Operational risk	**6,168**	6,141
Total weighted balances of risk assets	**76,178**	74,902
		percent
c. Ratio of capital to risk assets		
Ratio of tier 1 capital to risk assets	**10.09%**	9.81%
Total ratio of capital to risk assets	**13.79%**	13.26%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.25%**	(1)9.10%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.75%**	(1)12.60%

		percent
B. Significant Subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of equity capital tier 1 to risk assets	**10.63%**	9.83%
Total ratio of capital to risk assets	**13.39%**	13.25%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.02%**	(6)9.01%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.52%**	(6)12.51%
Bank Massad Ltd.		
Ratio of equity capital tier 1 to risk assets	**13.17%**	13.76%
Total ratio of capital to risk assets	**14.31%**	15.01%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.00%**	9.00%
Minimal ratio of capital required by the Supervisor of Banks	**12.50%**	12.50%

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

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

	December 31,	
	2016	**2015**
A. Equity capital tier 1		
Capital attributed to shareholders	**7,321**	7,073
Differences between capital attributed to shareholders and equity capital tier 1		
Noncontrolling interests	(2)**458**	(2)467
Application of the transitional instructions in respect of the adoption of accepted accounting principles in the matter of employee rights	**29**	60
Total equity capital tier 1 before regulatory adjustments and deductions	**7,808**	7,600
Regulatory adjustments and deductions:		
Intangible assets	**(114)**	(154)
Commitment to invest in shares	(2)**(128)**	(2)(94)
Regulatory adjustments and other deductions- equity capital tier 1	**(5)**	(3)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures- equity capital tier 1	**(247)**	(251)
Total adjustments in respect of efficiency measures - equity capital tier 1	**123**	-
Total equity capital tier 1 after regulatory adjustments and deductions	**7,684**	7,349
B. Tier 2 capital		
Tier 2 capital: instruments before deductions	**2,105**	1,878
Tier 2 capital: provisions before deductions	**714**	703
Total tier 2 capital before deductions	**2,819**	2,581
Deductions:		
Total deductions- tier 2 capital	**-**	1
Total tier 2 capital	**2,819**	2,580

	December 31,	
	2016	**2015**
(4) Effect of transitional instructions on equity capital tier 1		
Ratio of capital to risk assets		
Ratio of equity capital tier 1 to risk assets before implementation of transitional instructions in directive 299 and effect of adjustments in respect of efficiency measures	**9.67%**	9.44%
Effect of transitional instructions	**0.23%**	0.37%
Ratio of equity capital tier 1 to risk assets before effect of adjustments in respect of efficiency measures	**9.90%**	9.81%
Effect of adjustments in respect of efficiency measures	**0.19%**	-
Ratio of tier 1 equity capital to risk assets	**10.09%**	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. Accordingly minimal ratio equity capital tier 1 and minimal ratio capital to risk assets that will be required by the Supervisor of Banks as of January 1, 2017 for the reported data are 9.28% and 12.78% respectively, and according to the reported data at Otsar Hachayal- 9.02% and 12.52%, respectively. See Section E below for additional requirements regarding capital adequacy.

(2) As for the amount of NIS 110 million, with coordination of the Supervisor of Banks, the Bank implemented the transition instructions of Basel regarding the PUT option granted to noncontrolling interests (31.12.15 - NIS 154 million).

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

* The data in this Note are presented in accordance with Proper Conduct of Banking Business Directives No. 202 regarding "measurement and capital adequacy" and in accordance with the transitional instructions stated in Proper Conduct of Banking Business Directives No. 299. In addition, the said data include adjustments in respect of efficiency measures, as stated in the letter of the Supervisor of Banks dated January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel" (hereinafter - "adjustments in respect of efficiency measures"), which are being reduced gradually until December 31, 2020 (for a description of efficiency measures adopted by the Group, see Note 23C.).
For further details about the effect of transitional instructions and adjustments in respect of efficiency measures. See section 4 below.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

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

(5a.) Capital components subject to fluctuations

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

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

Following is an analysis of the impact of such changes on the Tier I equity capital of the Bank as of December 31, 2016:

	Effect of a change of NIS 100 million in Tier I equity capital	Effect of a change of NIS 1 billion in total risk assets
		percent
The Bank (consolidated data)	**0.13%**	**0.13%**
Otsar Hahayal Bank	**0.85%**	**0.90%**
Massad Bank	**2.32%**	**3.03%**

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

The Supervisor of Banks published on October 22, 2015, a final letter in the matter of "Capital requirements in respect of exposure to central counterparties" (hereinafter - "the letter"). The letter amends Proper Conduct of Banking Business Directives 203 and 204, in order to match them to the Basel Committee recommendations in everything relating to the capital requirements with respect to exposure of banking corporations to central counterparties. The letter details the new guidelines applying to exposure to central counterparties arising from OTC derivatives, marketable derivative transactions and transactions financing securities. The guidelines differentiate between an unqualified central counterparty and a qualified central counterparty; where in respect of the latter, lower capital requirements have been established. On December 28, 2016 a letter from the Bank of Israel was received approving to continue to compute the amount of exposure in respect of the activity of customers in the MAOF exchange according to the scenarios method as was in directive 203 prior to its amendment. The guidelines regularize, inter-alia, the following exposures:

- The exposures of banking corporation which is a member of a clearing house to central counterparty. As a general rule, these exposures should be weighted at risk rate of 2% (in contrast to 0% before the amendment). However, in the directive there is a minimum fromula that might lead to multiplication of the trading exposure to risk weight of 20%.
- Exposures of a bankung corporation to customer who is active in the stock exchange. As mentioned above, with respect to customers active on the MAOF exchange, the comutation of the exposure will be according to scenario method, this until the supervision in Israel will adopt the new method of calculation (the SA-CCR method) adopted by the Basel committee.
- Exposure of customer corporation active by a clearing house member.
- Transfers of a banking corporation which is a clearing house member, to the risk fund.
- Collateral deposited by banking corporation with a clearing house member or with a centeral counterparty.
- Exposures to unqualified central counterparty will be weighted according to the relevant risk weight of the counterparty while transfers to the risk fund will be weighted in 1,250%.

The contents of the amendment directive apply as from January 1, 2017, while until June 30, 2017, it is possible to consider the Tel Aviv Stock Exchange as a qualified central counterparty.

The Bank is updating the mode of computing the capital ratios and the leverage ratios in accordance with the updated Directive, as above. In the Bank estimate the effect of implementation of the directive is at balance sheet date is a decrease of 0.08% in the ratio of tier 1 capital and a decrease of 0.11% in the overall capital ratio of the Bank.

(NIS million)

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

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

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

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

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

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

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%.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

	December 31, 2016	December 31, 2015
		NIS million
A. Consolidated		
Tier 1 capital*	**7,684**	7,349
Total exposures	**139,207**	135,221
		percent
Leverage ratio	**5.52%**	5.43%
B. Significant Subsidiaries		
Bank Otsar Hahayal Ltd.		
Leverage ratio	**5.56%**	5.73%
Bank Massad Ltd.		
Leverage ratio	**7.39%**	7.59%
Minimal Leverage ratio ratio required by the Supervisor of banks	**5.00%**	5.00%

* For the effect of transitional instruction and the effect of adjustments in respect of efficiency measures, see paragraph 3 above.

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

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

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.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

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

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

A banking corporation, the liquidity coverage of which drops below the minimal requirement, is required to immediately report such deviation to the Supervisor of Banks.

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

The Board of Directors of the Bank has decided that the targeted ratio of the Bank and of the Group in 2016, would be 10% higher than the minimal requirement.

During the year 2016 the Bank and the Group hold the liquidity coverage ratio as required.

	For the three months ended December 31	
	2016	**2015**
		percent
A. Consolidated*		
Liquidity coverage ratio	**123%**	104%
B. The bank**		
Liquidity coverage ratio	**120%**	98%
Significant Subsidiaries**		
Bank Otsar Hahayal Ltd.		
Liquidity coverage ratio	**352%**	376%
Bank Massad Ltd.		
Liquidity coverage ratio	**270%**	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 25 - COMMITMENTS AND CONTINGENT LIABILITIES
(NIS million)

A. Off-balance sheet commitment in respect of activity based on the collection of loans(1) at the end of the year

	Consolidated and The Bank	
	December 31	
	2016	2015
Balance of loans granted out of deposits repayable to the extent of collection of the loans (2)		
Non-linked Israeli currency	**38**	48
CPI linked Israeli currency	**478**	583
Foreign currency	**-**	5
Total	**516**	636

(1) Loans granted out of deposits repayable to the depositor to the extent of collection of the loans, earning a margin or a collection commission (instead of a margin).

(2) Standing loans and Government deposits made in respect thereof, in the amount of NIS 52 million, consolidated and in the Bank (December 31, 2015 - NIS 77 million consolidated and in the Bank), were not included in the above table.

Flows of collection commission and interest margins in respect of activity based on the collection of loans(1)

	Consolidated and The Bank						
	December 31						December 31
	2016						2015
	Up to one year	One to three years	Three to five years	Five to ten years	Ten to twenty years	Total	Total
Contractual future flows	**4**	**8**	**6**	**7**	**1**	**26**	33
Expected future flows, net of management's estimate of premature repayments	**4**	**7**	**5**	**4**	**-**	**20**	21
Discounted future flows, net of management's estimate of premature repayments (2)	**4**	**7**	**5**	**4**	**-**	**20**	21

(1) The balance of deposits repayable according to collection in the non-linked shekel segment does not exceed 10% of all deposits repayable according to collection, therefore the data is given in respect of all operations.

(2) The capitalization is based on a discount rate of 0.3% (2015 - 0.3%).

Information as to the granting of housing loans during the year

	December 31	
	2016	2015
Loans granted out of deposits repayable to the extent of collection of the loans	**1**	1
Standing loans	**1**	3

B. Other contingent liabilities and special commitments

		Consolidated		The Bank	
		December 31		December 31	
		2016	2015	2016	2015
1.	Improvements to premises and acquisition of new premises, equipment and software	**11**	14	**10**	11
	Commitments to invest in private investment funds	**58**	49	**58**	49

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

(NIS million)

2. 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:

	Consolidated		The Bank	
	December 31		December 31	
	2016	**2015**	**2016**	**2015**
First year	**73**	81	**48**	45
Second year	**63**	77	**42**	42
Third year	**61**	68	**40**	36
Fourth year	**59**	65	**40**	33
Fifth year	**54**	61	**37**	31
Sixth year and thereafter	**325**	362	**228**	179
Total	**635**	714	**435**	366

C. 1. On June 29, 2004, the General Meeting of Shareholders of the Bank (following approval of the Audit Committee and the Board of Directors) approved a resolution to grant exemption from responsibility for the violation of the duty of care towards the Bank, as well as the granting of an advance commitment for indemnification of acting directors and other officers and those who will serve the Bank from time to time (including controlling shareholders in the Bank, hereinafter: “Officers”). The said General Meeting also authorized the Board of Directors of the Bank to grant an exemption and commitment for indemnification also for former Officers of the Bank, to whom the Bank had undertaken that they would be entitled to indemnification arrangements as would be in effect from time to time with respect to Officers of the Bank. The Board of Directors of the Bank also approved the grant of an exemption and commitment for indemnification, as stated, for persons representing the Bank as Directors in other companies. All these commitments have been approved in accordance with the Companies Act, subject to the limitations therein, and subject to the provisions of the letter of commitment and indemnification.

The commitment and indemnification will apply to acts directly or indirectly connected to one or more of the events detailed in the Annex to the letter of commitment and indemnification.

The amount of the commitment and indemnification according to this resolution, to all Officers of the Bank and of its subsidiaries together, in respect of one set of events out of the events detailed in the Annex to the letter of commitment, is not to exceed 25% of the equity capital of the Bank, per the latest financial statements issued immediately prior to the actual granting of the indemnification.

In accordance with the said resolutions, letters of exemption and commitment to indemnify, as stated above, have been issued to Officers of the Bank. Also commitments for indemnifications were given according to the above-mentioned principles to the persons detailed as follows:

- directors who had served on the board of directors of the provident funds management company controlled by the bank, and to directors who had served in the provident funds that were controlled by the Bank prior to the sale of their activity. On December 2014 the said company was eliminated following voluntary liquidation.
- directors acting on behalf of the Bank in the consolidated company FIBI Bank (UK) plc. The holdings in FIBI Bank (UK) were sold to third party on June 2014.
- directors acting on behalf of the Bank in the consolidated company FIBI Bank (Switzerland) Ltd.
- directors who had acted on behalf of the Bank in International Underwriting in the period when this company had been engaged in the underwriting business. It should be noted that on December 2010 the company was classified as non-active underwriter, and was eliminated by voluntary liquidation on December 2015.

The amount of the indemnification is according to the Bank's policy in the matter.

On November 29, 2011, after having obtained the approvals of the Audit Committee and of the Board of Directors of the Bank, the general meeting of shareholders expanded the indebtedness and/or expenses in respect of which the Bank would be entitled to grant indemnification and this in accordance with the Companies Act (Amendment No. 3), 2005, Improving Efficiency of Enforcement by the Securities Authority Act (Legislation amendments), 2010, Increasing Enforcement in the Capital Market Act (Legislation amendments), 2011 and the Companies Act (Amendment No. 16), 2011, as well as in respect of any additional administrative proceedings, which in accordance with the law, indemnification may be paid in respect of payments made or expenses incurred in respect thereof, and to grant amended liability indemnification in accordance therewith to Directors and Officers acting at that time and which will act from time to time at the Bank and at investees of the Bank, including Directors who are controlling shareholders (Mr. Tzadik Bino and Mr. Gil Bino) and including former Officers (in accordance with a resolution of the general meeting of shareholders passed on June 29, 2004) and including other Officers of the Bank who are not Directors.

On October 30, 2014, the General Meeting of Shareholders, following the approvals of the Audit Committee and the Compensation Committee of the Board of Directors, resolved to reapprove the granting of letters of indemnification to Directors having a controlling interest and/or their relatives and/or persons whom the controlling shareholders might have a personal interest in granting them letters of indemnification, in accordance with the same terms and same form of the indemnification letters granted to Directors in 2011, as detailed above, for a period of three additional years, beginning on November 29, 2014 (the date of expiration of the period of three years since the date of approval by the General Meeting of Shareholders for the granting of letters of indemnification to Directors, including Directors who are controlling shareholders).

On November 29, 2016 the Board of Directors of the Bank approved, after obtaining the approval of the Audit Committee and the Compensation Committee, to grant letter of exemption and indemnification also to who will act from time to time as the CEO of MATAF computerization and financial operations Ltd., a wholly owned subsidiary of the Bank. The letter of exemption and idemnufucation are in accordance to the principals, the volume and the policy approved at the Bank, as mentioned above, to officers at the Bank.

The compensation policy was approved at the general meeting on February 23, 2017, in which it was determined that an exemption to office holders will not be valid in respect of an act or omission of the office holder regarding a decision or transaction in which a controlling shareholder or any office holder has a personal interest in it. This restriction is not to be applied to office holders which were initially appointed prior to the approval of this compensation policy in the general meeting (February 23, 2017) and which are entitled to exemption in accordance with decisions approved in the past at the Bank.

2. At the end of 1990 and beginning of 1991, the Bank issued letters of indemnity to certain directors of some of its investees. According to the letters of indemnity, the Bank has undertaken to indemnify each director in respect of any sum which he may be charged to pay, according to a final verdict of a court in Israel as a result of a claim submitted against him in respect of any acts of commission or omission committed by him in good faith in the exercise of his own duties as director, as well as for expenses incurred by him in the defense against such claim. As from the end of 2011, Directors who had received letters of indemnification of this type, no longer act in the Bank's Group.

3. a. According to a resolution of the board of directors of UBank Ltd. (hereinafter - "UBank") dated March 15, 2005, taken in accordance with the Articles of UBank, the directors and officers of UBank (as defined in the Companies Act, 1999, including the internal auditor, the chief accounting officer and the secretary of UBank) have been exempted by UBank from responsibility regarding the violation of the duty of care towards UBank as from December 22, 2004, as well as the waiver of any claim by UBank against them in respect of the above. The said exemption and waiver do not apply to cases where according to the Companies Act; UBank may not exempt the officer from responsibility.

   Furthermore, that same meeting of the board of directors resolved that UBank would indemnify the said directors and officers in respect of a liability or expenditure imposed upon them as a result of actions taken by them in terms of their duties as officeholders at UBank, everything in accordance with the terms detailed in the commitment to indemnify officeholders.

   The total amount of the indemnification to be paid by UBank (in addition to and over the amounts to be received under insurance policies, whether payable to UBank or payable to the officer) to all officers of UBank and its subsidiaries on a cumulative basis, in accordance with the said letter of indemnification and/or letters of indemnification that will be issued in accordance therewith, in respect of one of the events details therein, shall not exceed 25% of the shareholders' equity of UBank on a consolidated basis according to the latest financial statements (annual or quarterly) published prior to the actual payment in respect of the indemnification.

   The exemption and the undertaking for indemnification were approved by a special general meeting of shareholders of UBank held on May 18, 2005, to the extent that such approval is required.

   b. On December 21, 2004, the parent company of the previous controlling shareholder of UBank, Investec Bank (UK) Limited undertook to indemnify UBank in respect of any payment that it will bear in respect of the directors and other Officers therein, or on their behalf, in accordance with the provisions of the letter of exemption and commitment, concerning actions effected prior to the date of transfer of control in UBank to the Bank. The amount of this commitment is limited to the maximum indemnification amount per the letter of exemption and indemnification, as stated in section a. above.

   c. In accordance with the resolution of the board of directors of UBank dated March 15, 2005, by which the directors and officers of UBank (see A. above), received an exemption from responsibility for violation of the duty of care towards UBank, the Audit Committee of UBank approved in October 2006 the granting of indemnification to directors in UBank Finance (2005) Ltd. (hereinafter - "the company") appointed by UBank and who are not officers of UBank. The letter of indemnification has been given in the version and format of the indemnification letters granted to officers of UBank, as adapted to the characteristics of the company.

   d. In February 2012, following approvals of the Audit Committee and the Board of Directors of UBank (and following amendment of the incorporation bylaws of UBank, as required) the general meeting of shareholders of UBank approved the granting of indemnification in an amended version, extending the obligations and/or the expenses to which the indemnification applies, this in accordance with the Improving Enforcement by the Securities Authority Act (Legislation amendments), 2010, and the Companies Act (Amendment No. 3), 2005 (hereinafter - the "amended indemnification letter"), in respect of Directors, excluding Directors having a controlling interest, who are holding office at date of approval by the General Meeting and Directors who shall hold office from time to time in UBank and in investee companies of UBank.

   It should be noted, that according to the said approval, all indemnification commitments that had been granted by UBank also to former officers, in accordance with a resolution of the General Meeting of Shareholders of June 29, 2004, have also been amended.

   In addition, and in accordance with the decision of the Board of Directors of UBank (following the approval of the Audit Committee and amendment of the bylaws) an amended indemnification letter was also approved in respect of other Officers of UBank who are not Directors.

   e. As part of the merger of Ubank into the Bank all Ubank's liabilities and rights detailed in this section were transferred to the Bank.

4. Otsar Hahayal and Massad are committed to indemnify officers as defined in the Company Law, 1999. The amount of the indemnification provided by them in terms of this commitment to all its officers as a group, in respect of one or more of the events covered by this commitment, shall not exceed 33% of the equity of Otsar Hahayal and Massad according to their latest financial statements published shortly prior to the date of the actual indemnification.

5. In April 2010, the General Meeting of Shareholders of PAGI approve the granting of exemption to Directors and Officers of PAGI (as defined in the Companies Act, 1999, including the Internal Auditor and Secretary of the bank), from responsibility for violation of the duty of care towards PAGI and waiver of any claim of PAGI against them with respect to the above. The said exemption and waiver do not apply to cases where, according to the Companies Act, PAGI may not exempt an Officer from responsibility. Furthermore, it has been approved to grant the said Officers an indemnity commitment with respect to a liability or expense imposed upon them as a result of actions taken in the course of their duties at PAGI as above, and everything as detailed in the commitment for indemnity of Officers.

   The total amount of indemnity payable by PAGI (in addition to and over and above amounts receivable under the insurance policy, whether payable to PAGI or to the Officer) to all Officers thereof in accordance with the above letter of commitment and/or letters of indemnity to be issued under this decision, in respect of one series of events of the events mentioned therein, shall not exceed 25% of the shareholders' equity of PAGI according to the most recent financial statements (annual or quarterly) published prior to the date of actual payment of the indemnity amount.

   In November 2012, following approvals of the Audit Committee and the Board of Directors of PAGI (and following amendment of the incorporation bylaws of PAGI, as required) the general meeting of shareholders of PAGI approved the granting of indemnification in an amended version, extending the obligations and/or the expenses to which the indemnification applies, this in accordance with the Companies Act (Amendment No. 3), 2005, the Improving Enforcement by the Securities Authority Act (Legislation amendments), 2010, and the Increased Enforcement in the Capital Market Act (Legislation amendments), 2011, (hereinafter - the "amended indemnification letter"), in respect of Directors holding office at date of approval by the General Meeting and Directors who shall hold office from time to time in PAGI.

   It should be noted, that according to the said approval, all indemnification commitments granted by PAGI also to former officers, in accordance with a resolution of the general meeting of shareholders of April 2010, have also been amended.

   In addition, and in accordance with the decision of the Board of Directors of PAGI (following the approval of the Audit Committee and amendment of the bylaws) an amended indemnification letter was also approved in respect of other Officers of PAGI who are not Directors.

   As part of the merger of PAGI into the Bank all PAGI's liabilities and rights detailed in this section were transferred to the Bank.

D. The Clearing House of the Tel-Aviv Stock Exchange (hereinafter - “the Clearing House”) established a risk fund with the purpose of securing the obligations of Clearing House members in respect to the activities of each member. The amount of the Fund is being updated on March 1, in every year, being equal to the total average daily clearing turnover in the calendar year that ended prior to the updating date, and in any event shall not be less than NIS 150 million. The share of the Bank amounted to NIS 68 million (December 31, 2015 - NIS 88 million).

According to a resolution of the Board of the Stock Exchange and the by-laws of the Clearing House the Bank is required to deposit only liquid assets as collateral (bonds of the State of Israel or cash) as required by the by-laws, and in addition to sign a pledge agreement to secure their obligations towards the Stock Exchange Clearing House regarding their operation as members of the clearing house.

In accordance with the said decisions, the Clearing House opened accounts in its name with the Clearing House for the Bank, in which the Bank deposited securities as collateral in favor of the Clearing House.

In addition, the Clearing House opened with another bank accounts in its name for the Bank, in which it may deposit funds as collateral, and also the Clearing House will deposit cash payable to the Bank, as income on its securities deposited and pledged as aforesaid.

In order to improve the level of risk management of the clearing house in the framework of the process of approving the clearing house as a qualified central counterparty (QCCP), the clearing house opened a monetary account with the Bank of Israel, in which it is possible to deposit the monetary collateral that the clearing house members place in its favor, whether to secure the operations of the clearing house members or their liabilities to the risk funds. At this stage, the clearing house is entitled to decide in which of the monetary account- the one that is in another bank or the one with the Bank of Israel- the monetary collateral will be deposited.

As collateral for the due performance of the Bank's obligations towards the Clearing House as stated above, with no limitation on their total amount, the Bank registered on April 17, 2005, a first degree fixed pledge and an assignment by way of a pledge, in favor of the Clearing House, with respect to the account of the Clearing House at the Clearing House and the account of the Clearing House with another bank. In addition on January 2017, the Bank registered a first degree fixed pledge and an assignment by way of a pledge, in favor of the Clearing House, with respect to the account of the Clearing House with the Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services as a member of the Clearing House with respect to operations pertaining to assets cleared by the Clearing House, including with respect to collateral required for RTGS system operations also for Massad and Otzar Hachayal, which are Stock Exchange members who are not Clearing House members. Accordingly, the Bank's obligations as a Clearing House member towards the Clearing House, include also obligations in respect of the operations of Massad and Otzar Hachayal and their customers. In respect of such obligations of the Bank towards the Clearing House, the Bank has received from Massad and Otzar Hachayal, as the case may be, guarantees, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the Clearing House in respect of their or their customers' operations. As to the pledge to the Clearing House see Note 26C above.

E. Maof Clearing House formed a risk fund, the amount of which will be determined from time to time by the Board of Directors of the Clearing House. The initial amount determined for the risk fund is NIS 290 million linked to the consumer price index. Each member's share in the risk fund, including the Bank, is determined by the volume of his activity in the Clearing House on behalf of its clients (and on its own behalf, if applicable).

The demand for collateral from the Bank in respect of the risk fund amounts to NIS 71 million as of December 31, 2016 (compared to NIS 167 as of December 31, 2015).

Each of the member banks of the Maof Clearing House is committed towards the Clearing House for the payment of any monetary charge resulting from transactions on behalf of its customers. The amount at the balance sheet date relating to the Banks' and a consolidated subsidiaries' customer transactions in respect of Maof options is included in the balance sheet in the item “assets in respect of derivative instruments” and in the item “liabilities in respect of derivative instruments” in equal amounts based on the fair value. The balance of the liability of the Bank to the Maof clearing house, over and above the amount stated in the balance sheet, based on the stock exchange models, is of NIS 252 million (December 31, 2015 - NIS 353 million).

The Bank registered in favor of the Maof Clearing House a fixed pledge and an assignment by way of a pledge unlimited in amount on the rights in an account of Maof securities managed in the name of the Maof Clearing House at the Stock Exchange Clearing House (hereinafter - “the main account”) as well as on rights in an account managed in the name of the Maof Clearing House at another bank (hereinafter - “the monetary account”). In addition, the Bank registered in favor of the Maof Clearing House a floating pledge and an assignment by way of a pledge unlimited in amount on all securities deposited and/or to be deposited to the credit of the Bank and its consolidated subsidiaries at the Stock Exchange Clearing House, including securities deposited and/or to be deposited to the credit of the main account and to the credit of an additional account managed at the Stock Exchange Clearing House, and on the income and any other right derived there from. A further floating pledge was registered also on all rights attaching to the monetary account. As aforesaid in section D above the MAOF clearing house also opened an account with the Bank of Israel, in which it is also possible to deposit the monetary collateral, which its members are placing in its favor. On January 2017 the Bank registered a first degree fixed pledge and an assignment by way of a pledge in favor of the MAOF clearing house on all its rights in the account of the MAOF clearing house with the Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services at the MAOF Clearing House also with respect to operations pertaining to Massad and Otzar Hachayal, which are Stock Exchange members who are not MAOF Clearing House members. Accordingly, the Bank's obligations as a MAOF Clearing House member towards the Clearing House, include also obligations in respect of the operations of Massad and Otzar Hachayal and their customers. In respect of of such obligations of the Bank towards the MAOF Clearing House, the Bank has received from Massad and Otzar Hachayal, as the case may be, guarantees, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the MAOF Clearing House in respect of their or their customers' operations.

As to the pledge in favor of the Maof Clearing House - see Note 26A above.

F. CLS Bank International is an inter-bank clearing house owned by the large banks in the world and is engaged in the transfer of payments resulting from currency exchange transactions, and the manner of its operation avoids the delivery risk inherent in such transactions.

The CLS Clearing House elected the Bank as the third bank to serve as a provider of shekel liquidity, in addition to Bank Leumi and Bank Hapoalim. The maximum amount of liability of the Bank in this respect amounts to NIS 1 billion, this after receiving a commitment by Bank of Israel for a parallel credit facility in this amount secured by a floating pledge on the Bank’s rights to receive amounts and monetary charges in Israeli currency due and /or will be due from the Bank’s customers comprising Israeli corporations.

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

Following are details of actions filed against the Bank, where the amount claimed therein is material, or that by their nature have characteristics similar to those of additional actions the cumulative amount of which is material:

(1) A claim and a motion to approve the claim as a class action suit were filed on October 3, 2011, against the Bank, arguing as follows:

- The Bank does not report to the Debt Execution Office amounts received by it within seven days of the receipt, as required by Law, but at a later date.
- Sometimes the Bank does not report receipts at all.
- When the Bank retroactively reports receipts, the credit recorded in the debt execution file is made based on the regular arrears interest rate and not in accordance with the arrears interest rate charged by the Bank, on the basis of which the debt execution file is charged.

The claim brief does not specify the amount of the personal claim or the amount of the class action suit.

(2) On July 4, 2012, the Bank received a claim in the amount of NIS 74 million. The Appellants allege that the Bank had enticed them to invest in foreign currency options without disclosing the risks involved in such investment. The Appellants further argue that the consulting services provided to them were neglectful and were given by persons unauthorized to provide such services, and who also did not disclose the conflict of interests existing between the Bank and the customer.

(3) - In September, 2013, the Bank was served with a claim together with a motion for approval of the claim as a class action suit in an amount of not less than NIS 10.5 billion (hereinafter - "the claim and motion"). The claim and motion were served against the Bank, additional banks as well as against the General Manager of each of these

banks, though at a later stage, a motion was filed to cross out the claims against the latter defendants. The amount of the claim relates to all the banks together. The Plaintiffs claim that the said banks do not provide proper disclosure and even mislead their customers with respect to the costs involved in currency conversion services provided by them, upon selling foreign currency to the customer at a rate higher than the buying rate. The difference between the buying rate and the selling rate to the customer (named in the claim as - "mark-up commission") constitutes, as alleged by the Plaintiffs, a "brokerage commission" charged with no disclosure of it in any of the pricelists published by the banks. The Plaintiffs further claim that the Banks act in unison in this respect in order to hide the mark-up commission and that a binding agreement exists among them. In January 2014, the Court approved the motion of the Appellant for withdrawal from the claim against the general managers.

- In March 2014, a motion for the approval of a claim as a class action suit, at approximately NIS 2 billion, was filed against a consolidated subsidiary and against four additional banks, the cause of action being identical to that alleged against the Bank in an action filed in September 2013, as stated above.

(4) On March 1, 2015, the Bank received notice of a motion for approval of a class action suit. The Appellants argue that according to Section 2(b) of the Banking Rules (Customer service) (Commissions), 2008, which became effective only on August 1, 2013, "a commission which a bank is entitled to charge in respect of a service included in the full pricelist, shall be computed so that it does not exceed the amount or commission rate charged for the same service to a corporation that is not considered a small business". The Appellants allege that the Bank acts in violation of this clear instruction, and with regards to many services, the commission charged to private individuals and to small businesses in accordance with the full pricelist, is higher than that charged to large businesses according to the business pricelist. The motion does not include quantification of the amount of the class action.

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

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

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

The claim relates to whoever owned participation units in whatever mutual fund being managed by one or more of the defendant fund managers in the period ended on December 27, 2011, or during a part thereof, and which had been charged with brokerage commissions and/or charged, directly or indirectly, with payments for operating services. The amount of the claim is assessed at NIS 220 million in nominal terms, of which, the share of the consolidated subsidiary amounts to NIS 54 million.

(6) On January 7, 2016, The Bank received notice of a lawsuit 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.

(7) 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.

(8) 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.

(9) On June 26, 2016, the Bank received notice of a motion for approval of an action as a class action, that had been filed against the Bank, Otzar Hachayal Bank Ltd., Mizrahi-Tfachot Bank Ltd. and Yahav Bank for State Employees Ltd. (hereinafter together – "the banks"), in a total amount of NIS 167 million. According to the Plaintiffs, it would seem that the share of the Bank and of its consolidated subsidiary in the said amount is NIS 82 million. The Plaintiffs argue that the banks caused the class both monetary and nonmonetary damage due to discriminating against handicapped persons, in that they advertise, offer and grant exemption from commission fees (and other benefits) to employed persons who open accounts and deposit therein a monthly salary of at least a certain amount, but at the same time, these banks do not offer and grant the same benefits to handicapped persons who are able to deposit a monthly allowance of the same amount or even higher.

The additional exposure of the Bank and of the subsidiary companies as of December 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 73 million.

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

(2) On December 18, 2016, the Bank received notice of a motion for approval of a class action filed against the Bank and four additional Banks. The subject matter of the action relates to commission fees charged by the Banks in respect of the transfer of foreign currency to or from an account. As argued by the Appellant, the pricelist issued by Bank of Israel (hereinafter – “the pricelist”) states that with respect to transfers, as above, banks are entitled to quote a minimum fee or a percentage fee, the higher of the two, up to a maximum amount to be determined in advance (hereinafter – “the fee range”), whatever would be the amount of the transfer, while in practice, as alleged by the Appellant, all the defendant banks quote a graded fee range depending of the amount being transferred. In doing so, the Appellant argues, the banks violate a series of statutes, Proper Conduct of Banking Business directives, duties imposed on them, etc. The Appellant further claims that the banks are in unison regarding the manner in which they disregard the instructions of the pricelist, restricting competition among them with respect to the costs involved in the transfer of foreign currency.

The group which the appellant wishes to represent is “individuals or legal entities who made use of bank services for the transfer and/or other handling of foreign currency, as well as the general public in Israel directly or indirectly affected by these violations”.

The amount of the claim against all the defendant banks is estimated by the Appellant at a minimum amount of NIS 500 million.

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

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 violation of 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 August 9, 2016, the parties filed with the Court a motion for approval of a compromise agreement, according to which ICC would bear a total cost of NIS 200 thousand. On February 22, 2017 the court approved the compromise agreement.

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

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

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

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

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

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

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 1,483 million.
3. Pending against ICC are motions for approval of lawsuits as class action suits as well as other lawsuits, as detailed below. ICC notes in its financial statements that in the opinion of Management of ICC, based on Counsel's opinion, it is not possible at this stage to assess its prospects, and therefore no provision has been included in respect thereof.

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

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

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

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

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

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

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

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

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

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

ICC responded to the amended motion for approval on December 22, 2016.

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

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

The parties had reached a procedural arrangement declared effective by the Court on January 18, 2017, according to which, the Appellant would submit an amended motion for approval of a derivative action within sixty days from date of the procedural arrangement. The Respondents would respond to the amended motion within ninety days from date of delivery of the amended motion to the Respondents, and the response of the Appellant would be submitted within sixty days from date of delivery to him of the response by the Respondents. On background of the signing of a conditional arrangement in lieu of criminal proceedings made between ICC and the Economic Department of the State Prosecutor Office, the ad-hoc committees formed by Discount Bank and ICC resumed their discussions with respect to the letters of request under Section194 of the Companies Act and to the motion for approval of a derivative action, this in order to assess the implications that the arrangement might have on the motion for approval of a derivative action.

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

4. ICC reported in its financial statements as of December 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.

      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.

      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.

      An arrangement in lieu of criminal proceedings:

      A conditional arrangement was signed on November 3, 2016, in accordance with Item A(1) of Chapter "D" of the Criminal Procedure Ordinance (Combined version) 1982, between the Economic Department of the State

Prosecution and ICC. This agreement leads to the closing down by an arrangement of the investigation file in lieu of criminal proceedings, subject to the following:

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

As part of the arrangement, ICC has undertaken to act in accordance with binding internal procedures in writing, for one year from date of signing the arrangement, including as regards supervision and control mechanisms that would ensure prevention of the repetition of the offences to which ICC admitted. ICC declared in the arrangement that the procedures and organizational changes detailed in the arrangement had in fact been adopted by it even before the signing of the arrangement.

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

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

In view of the signing of the arrangement, ICC provided in its financial statements for an expense of NIS 85 million.

J. Since July 2006, the Accountant General announces the appointment of certain entities, including the Bank, as principal market makers for Government bonds, in accordance with Section 6(a) to the State Loans Law, 1979, this as part of the reform initiated by the Ministry of Finance regarding the process of issuance of Government bonds and the operations in the secondary capital market for bonds, in order to encourage entry of additional players into the market, the increase in liquidity and transparency in trading and for reducing the cost of raising funds by the Government. The Bank began operations as a market maker on September 4, 2006.

As part of the market making activity, the Treasury has granted to the Bank a Government bond borrowing facility up to an amount of NIS 1 billion, this in order to cover short sale of bonds transactions as part of the market making activity. Against borrowings in this framework, the Bank deposits funds with the treasury in the amount of bond borrowings, which serve as a collateral for such borrowings. See also Note 26H.

K. The practice of the Bank is to grant from time to time and under accepted circumstances in banking business, letters of indemnity limited and unlimited in amounts and in period, and all in the ordinary course of business of the Bank. Among other things, letters of indemnity are granted within the framework of the clearing house provisions regarding lost checks, to receivers and liquidators, to various providers of services, or as part of a contractual liability and to credit card companies. Furthermore, the Bank and International Issuances grant from time to time indemnity to trustees for capital notes issued by them, subject to the terms of the relevant trust documents.

L. For details of indemnification that will be granted (when certain condition will prevail) by the Bank, in the framework of an agreement signed by FIBI Bank (Swiss) Ltd., a subsidiary of the Bank, for the sale of its operations, see note 18A.

NOTE 26 - LIENS

A. To secure liabilities to the Maof Clearing House for its customers and for itself as said in Note 25.E, the Bank has pledged securities in favor of the Maof Clearing House.

Set out below is the balance of the collateral which the Bank provided to the Maof Clearing House (in NIS million):

	On December 31, 2016		Average balance for 2016		Highest balance for 2016	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	**53**	**176**	**69**	**193**	**91**	**210**
Cash deposited as collateral	**18**	**-**	**23**	**-**	**30**	**-**

	*On December 31, 2015		*Average balance for 2015		*Highest balance for 2015	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	125	255	127	349	148	448
Cash deposited as collateral	42	-	42	-	49	-

* Restated.

B. The Bank is a member of the Euroclear settlement system, which is a clearing house for securities that are traded in international markets. For the purpose of activity via this settlement system and as surety for a credit line in the amount of USD 40 million (or in a higher amount agreed/ to be agreed from time to time with the Bank in exceptional cases, not to exceed NIS 200 million) which the settlement system operator provided to the Bank, the Bank created a pledge at an unlimited amount of cash and securities for securing the activity framework.

C. To secure the obligation of the Bank to the Stock Exchange Clearing House as said in Note 25D, the Bank has pledged securities in favor of the Stock Exchange Clearing House.

Set out below is the balance of the collateral which the Bank provided to the Stock Exchange Clearing House (in NIS million):

	December 31		Average balance		Highest balance	
	2016	***2015**	**2016**	***2015**	**2016**	***2015**
Securities	**51**	66	**56**	56	**63**	66
Cash deposited as collateral	**17**	22	**19**	19	**21**	22

* Restated.

D. (1) As collateral for credit from Bank of Israel, the Bank and consolidated subsidiaries, have created bonds according to which they pledged under a fixed first degree pledge unlimited in amount, all assets and rights deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities accounts managed in the name of Bank of Israel at the Clearing House of the Tel Aviv stock Exchange Ltd. as well as at the Euroclear Clearing House, including all monies and all securities deposited or registered in the said accounts. Securities deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities account held at the Euroclear Clearing House are also pledge under a floating pledge.

(2) Set out below are data on the bonds that were pledged to the Bank of Israel (in NIS million):

	On December 31		Average balance		Highest balance	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Securities	**120**	120	**120**	120	**120**	120

* The credit facility secured by this pledge was not in use in the years 2015 and 2016.

** See Note 11 regarding cash balances and deposits with Bank of Israel.

NOTE 26 - LIENS (CONT'D)

(3) See Note 25.F regarding a floating pledge in favor of Bank of Israel on rights to receive monetary sums and charges in Israeli currency due and/or will be due from customers comprising Israeli corporations as part of the Bank's operations as a supplier of CLS Clearing House services.

E. The Bank form contractual associations with foreign banks and foreign brokers in CSA (Credit Support Annex) annexes to ISDA agreements that are intended to minimize the mutual credit risks arising between banks in derivatives trading. Under the annexes, a periodic measurement is made of the value of the stock of derivatives transactions that were conducted between the parties, and if the net exposure of one of the parties exceeds a pre-defined threshold, then that party receives from the other party monetary deposits to cover a part of the exposure.
As of December 31, 2016, the Bank has transferred deposits in favor of Israeli and foreign banks in the amount of NIS 117 million (December 31, 2015 - NIS 192 million). At December 31, 2016 the Bank has recieved deposits from Israeli and foreign banks in the amount of NIS 114 million (December 31, 2015 - NIS 41 million).

F. For the purpose of providing services to customers of the Bank and for the "Nostro" operations of the Bank in everything relating to certain operations in foreign securities, including global future contracts, options, lending of securities and short sales, the bank has engagements with foreign banks and/or foreign brokers (hereinafter - "the foreign brokers") for the purpose of obtaining global custody services, clearing and brokerage services, margin activity services and other global services. According to agreements with the foreign brokers, certain securities and cash of the Bank (Nostro) deposited with any of the foreign brokers, serve as collateral (by way of pledge, lien or transfer of ownership) in favor of the foreign broker securing the obligations of the Bank and/or covering the credit exposure of the foreign broker with respect to the operations of customers of the Bank and/or the Bank's Nostro operations. Furthermore, each of the foreign brokers has the right of lien and setoff with respect to cash balances standing to the credit of the Bank with the broker, including cash deposits made with the foreign broker as collateral with respect to the fulfillment of the Bank's obligations and/or the said credit exposure. Various arrangements have been made by the Bank with each of the foreign brokers regarding the value of the collateral and/or the amounts of cash on deposit with the foreign broker. As of December 31, 2016, the value of Nostro securities deposited by the Bank as collateral with all the foreign brokers amounted to US Dollar 46 million (December 31, 2015 - US Dollar 50 million), and the cash balances standing to the credit of the Bank with all the foreign brokers (including cash deposits, as stated) amounted to a total of US Dollar 193 million (December 31, 2015 - US Dollar 339 million).

G. Set out below are details of the securities that were pledged to lenders as stated in A,C, F where the lenders are not entitled to sell or pledge them (in NIS million):

	December 31,	
	2016	***2015**
Securities held to maturity	**160**	214
Securities available for sale	**297**	427
Total	**457**	641

* Restated.

H. Set out below are the sources of the securities that were received and which the Bank is entitled to sell (in NIS million):

	December 31,	
	2016	**2015**
Securites received in securities lending transactions in return for cash	**414**	353
Securities received under non-collateralized securities lending transaction	**200**	-
Total	**614**	353

NOTE 27A - DERIVATIVE INSTRUMENTS AND HEDGE OPERATIONS

A. General

1. The bank is exposed to market risks, including linkage base risks and interest risks. The linkage base risk is an existing or future risk to the income or capital of the Group, which might arise as a result of changes in the Consumer Price Index ("CPI") or in currency exchange rates, due to the existing difference between the value of assets and the value of liabilities. The interest risk is a risk to earnings or to the capital stemming from changes in interest rates. The changes in interest rates affect the profit of the Bank through a change in net income, and also affect the value of the Bank's assets, liabilities and off-balance sheet instruments, because the present value of future cash flows (or even the cash flows themselves) changes when a change in interest rates occurs. As part of the overall strategy of the Bank for the management of the level of exposure to linkage base and interest risks, the Bank makes use of derivative instruments such as: foreign currency and CPI forward transactions, foreign currency options and transactions for the swap of fixed interest by variable interest. The Bank has qualified derivative instruments intended for the hedging of fair value and of the net investment in foreign operations.
2. Liquidity risk in derivative financial instruments derives from the uncertainty of the possibility to close the exposure in derivatives quickly in cash or by creating reverse exposure.This risk mainly exist in instrument with low tradability or when the tradability of the underlying assets is low.
3. Where a derivative instrument is not intended for qualified hedge, the instrument is stated at fair value and changes in its fair value are recognized in profit and loss on a current basis.
4. The Bank enters into contracts, which in themselves are not considered derivative instruments but which contain embedded derivatives. In respect of each such contract, the Bank assesses whether the economic nature of the embedded instrument is clearly and closely related to those of the host contract, and determines whether a separate instrument of the same nature and terms as the embedded instrument, would have been considered by definition a derivative instrument. Where it is determined that the embedded instrument is of an economic nature which is not clearly and closely related to the economic nature of the host contract, and also that a separate instrument of the same nature and terms would have been qualified as a derivative instrument, the embedded instrument is separated from the host contract and is being treated as a derivative instrument in itself. A separated embedded derivative is stated in the balance sheet together with the host contract. When the host contract is being measured according to fair value and changes in its fair value are currently recognized in profit and loss, or when the Bank is unable to reliably identify and measure an embedded derivative for separation purposes from the host contract, then the contract as a whole is stated in the balance sheet according to fair value.
5. The Bank documents in writing all hedge relations between the hedging instruments and the hedged items, as well as the aim and strategy of the risk management through the creation of the different hedge relations. Documentation includes the specific identification of the asset designated as a hedged item, noting the manner in which the hedging instrument is expected to hedge against risks applying to the hedged item. The Bank assesses the effectiveness of hedge relations both at the beginning of the hedge transaction at on a continuous basis, in accordance with its risk management policy.

NOTE 27A - DERIVATIVE INSTRUMENTS AND HEDGE OPERATIONS (CONT'D)

6. The Bank discontinues hedge accounting from now onwards when:
   (a) it is determined that the derivative is no longer effective setting-off changes in fair value or in cash flows of the hedged item;
   (b) the derivative expires, sold, cancelled or realized;
   (c) Management withdraws the designation of the derivative instrument as a hedge instrument.

   When hedge accounting is discontinued upon the determination that the derivative is no longer qualified a an effective fair value hedge instrument, the derivative continues to be stated in the balance sheet according to its fair value, but the hedged asset or liability will no longer be adjusted in accordance with changes in the fair value.

Fair value hedge

The Bank designates certain derivatives as fair value hedge. Changes in fair value of derivatives that hedge against exposure to changes in fair value of an asset are recognized in profit and loss on a current basis, as well as the changes in the fair value of the hedged asset, which can be attributed to the risk being hedged against.

For data regarding lack of effectiveness related to fair value hedge, the profit (loss) component in respect of derivative instruments, used for the purpose of assessing the effectiveness of hedge transactions, see Note 3 - "Non-interest financing income" in Section "C" - "the non-effective part of hedge relations".

Hedge of net investment in foreign operations

See Note 1.D(1).

NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

A. Volume of activity on a consolidated basis -

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

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

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

NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

		December 31, 2015					
		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 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

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

(1) Except for credit derivatives.
(2) Derivatives constituting part of the bank's assest and liabilities management, that have not been designated for hedging relationships.
(3) Of which gross negative fair value in respect of embedded derivative instruments of NIS 16 million.

NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

	December 31, 2015					
	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	-	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:	-	-	-	-	1	1
Gross possitive fair value	-	-	-	-	-	-
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 assest and liabilities management, that have not been designated for hedging relationships.

(3) Of which gross negative fair value of liabilities in respect of embedded derivative instruments of NIS 10 million.

NOTE 27B - 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 on a consolidated basis

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

(1) Of which negative gross value of embedded derivative instruments is NIS 16 million (31.12.15 - 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.

C. Maturity dates (stated value amounts): year-end balance on consolidated basis

	December 31, 2016				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	**183**	**81**	**300**	**-**	**564**
- Other	**4,423**	**1,282**	**6,976**	**5,219**	**17,900**
Foreign currency contracts	**46,626**	**20,289**	**442**	**55**	**67,412**
Contracts of shares	**59,659**	**2,022**	**1,233**	**-**	**62,914**
Commodities and other contracts	**25**	**43**	**38**	**-**	**106**
Total	**110,916**	**23,717**	**8,989**	**5,274**	**148,896**

						December 31, 2015
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
	210	393	141	-	892	1,636
	-	(311)	-	-	-	(311)
	-	(19)	-	-	-	(19)
	210	63	141	-	892	1,306
	-	429	-	-	579	1,008
	-	(217)	-	-	(1)	(218)
	-	212	-	-	578	790
	210	275	141	-	1,470	2,096
	212	552	396	-	509	1,669
	-	(311)	-	-	-	(311)
	-	(125)	-	-	-	(125)
	212	116	396	-	509	1,233

					December 31, 2015
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
	50	234	494	-	778
	4,170	2,599	7,481	4,246	18,496
	59,633	18,742	955	184	79,514
	99,799	4,052	1,012	-	104,863
	169	121	39	-	329
	163,821	25,748	9,981	4,430	203,980

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS

A. Definitions

- **Private individuals** - individuals including those conducting a joint account, who at the reporting date have no indebtedness to the bank, or where their indebtedness has been classified to the "Private individuals - housing and other loans" segment.
- **Private banking segment** - private individuals the balance of their financial asset portfolio, on a consolidated basis, held with the bank (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- **Households** - private individuals, excluding customers included in the private banking segment.
- **Business** - a customer not included in the "private individual" definition and who is not an instructional body or a banking corporation.
- **Business turnover** - annual sales turnover or volume of annual income.
- **Minute business** - a business the annual turnover of which is less than NIS 10 million.
- **Small business** - a business the annual turnover of which is higher than or equal to NIS 10 million and is lower than NIS 50 million.
- **Middle-market business** - a business the annual turnover of which is higher than or equal to NIS 50 million and is lower than NIS 250 million.
- **Large business** - a business the annual turnover of which is higher than or equal to NIS 250 million.
- **Istitutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers funds.

Where the income turnover of business customer does not represents its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment.

According to the transition directive set in the FAQ file of the Bank of Israel, it was determined that business customer, which is indebtness to the bank is up to NIS 300 thousands (including credit facilities etc.) and the bank does not have information regarding its activity turnover, will be classified to the relevant supervisory segment of activity according to the total assets in the balance sheet of the business, and in the event that this information is also unavailable, the bank is entitled to classify the customer according to its total financial assets at the bank (including financial deposits, securities portfolio and other financial assets), where instead of total balance sheet assets the classification will be according to total financial assets after multiplying them by 10.

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

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information

	For the year ended December 31, 2016							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Mangement	Total activity in Israel
								(NIS million)
Interest income from external	**1,205**	**1**	**614**	**141**	**380**	**17**	**159**	**2,517**
Interest expense from external	**139**	**22**	**61**	**21**	**54**	**29**	**31**	**357**
Net interest income								
- From external	**1,066**	**(21)**	**553**	**120**	**326**	**(12)**	**128**	**2,160**
- Inter - segment	**(151)**	**41**	**(15)**	**6**	**(27)**	**47**	**99**	**-**
Total net interest income	**915**	**20**	**538**	**126**	**299**	**35**	**227**	**2,160**
Non interest income	**573**	**55**	**323**	**59**	**132**	**165**	**152**	**1,459**
Total income	**1,488**	**75**	**861**	**185**	**431**	**200**	**379**	**3,619**
Expenses (income) in respect of credit losses	**49**	**-**	**24**	**1**	**(2)**	**8**	**-**	**80**
Operating and other expenses	**1,419**	**55**	**610**	**99**	**196**	**192**	**61**	**2,632**
Operating profit (loss) before taxes	**20**	**20**	**227**	**85**	**237**	**-**	**318**	**907**
Provision for taxes (tax saving) on operating profit (loss)	**4**	**9**	**101**	**38**	**107**	**-**	**139**	**398**
Operating profit (loss) after taxes	**16**	**11**	**126**	**47**	**130**	**-**	**179**	**509**
Bank's share in operating profit of investee company after tax effect	**-**	**-**	**-**	**-**	**-**	**-**	**72**	**72**
Net profit(loss):								
Before attribution to noncontrolling interests	**16**	**11**	**126**	**47**	**130**	**-**	**251**	**581**
Attributed to noncontrolling interests	**(19)**	**(1)**	**(7)**	**(2)**	**(2)**	**-**	**(8)**	**(39)**
Net profit (loss) attributed to shareholders of the Bank	**(3)**	**10**	**119**	**45**	**128**	**-**	**243**	**542**
Average balance of assets(1)	**38,499**	**49**	**14,861**	**4,024**	**18,213**	**640**	**50,676**	**126,962**
of which: Investee Company(1)	**-**	**-**	**-**	**-**	**-**	**-**	**493**	**493**
of which: Average balance of credit to the public(1)	**38,499**	**49**	**14,861**	**4,024**	**18,213**	**640**	**-**	**76,286**
Balance of credit to the public	**39,878**	**47**	**15,068**	**4,178**	**18,320**	**684**	**-**	**78,175**
Balance of impaired debts	**91**	**-**	**190**	**96**	**200**	**-**	**-**	**577**
Balance in arrears over 90 days	**205**	**-**	**29**	**1**	**-**	**-**	**-**	**235**
Average balance of liabilities(1)	**44,464**	**7,598**	**15,751**	**5,372**	**11,349**	**21,623**	**12,497**	**118,654**
of which: Average balance of deposits from the public(1)	**44,464**	**7,598**	**15,751**	**5,372**	**11,349**	**21,623**	**-**	**106,157**
Balance of deposits from the public	**45,433**	**8,601**	**15,868**	**6,029**	**10,438**	**19,448**	**-**	**105,817**
Average balance of risk assets(1)(2)	**27,308**	**146**	**15,214**	**5,206**	**18,405**	**846**	**8,417**	**75,542**
Balance of risk assets(2)	**27,535**	**149**	**15,224**	**5,227**	**18,773**	**833**	**7,859**	**75,600**
Average balance of assets under management(1)(3)	**34,920**	**13,577**	**11,544**	**3,447**	**23,191**	**154,606**	**-**	**241,285**
Segmentation of net interest income:								
- Earnings from credit - granting activity	**831**	**1**	**524**	**122**	**308**	**14**	**-**	**1,800**
- Earnings from deposits - taking activity	**110**	**20**	**30**	**10**	**13**	**22**	**-**	**205**
- Other	**(26)**	**(1)**	**(16)**	**(6)**	**(22)**	**(1)**	**227**	**155**
Total net interest income	**915**	**20**	**538**	**126**	**299**	**35**	**227**	**2,160**

(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 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information (CON'T)

	For the year ended December 31, 2016	
	Activity abroad	
	Private Individuals	Total
		(NIS million)
Interest income from external	9	2,526
Interest expense from external	-	357
Net interest income		
- From external	9	2,169
- Inter - segment	-	-
Total net interest income	9	2,169
Non interest income	21	1,480
Total income	30	3,649
Expenses in respect of credit losses	-	80
Operating and other expenses	51	2,683
Operating profit before taxes	(21)	886
Provision for taxes on operating profit	-	398
Operating profit after taxes	(21)	488
Bank's share in operating profit of investee companies after tax effect	-	72
Net profit		
Before attribution to noncontrolling interests	(21)	560
Attributed to noncontrolling interests	-	(39)
Net profit attributed to shareholders of the Bank	(21)	521
Average balance of assets(1)	350	127,312
of which: Investee Company(1)	-	493
of which: Average balance of credit to the public(1)	350	76,636
Balance of credit to the public	-	78,175
Balance of impaired debts	-	577
Balance in arrears over 90 days	-	235
Average balance of liabilities(1)	768	119,422
of which: Average balance of deposits from the public(1)	768	106,925
Balance of deposits from the public	-	105,817
Average balance of risk assets(1)(2)	578	76,120
Balance of risk assets(2)	578	76,178
Average balance of assets under management(1)(3)	-	241,285
Segmentation of net interest income:		
- Earnings from credit - granting activity	-	1,800
- Earnings from deposits - taking activity	9	214
- Other	-	155
Total net interest income	9	2,169

(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 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

Private individuals - household and private banking - activity in Israel

	For the year ended December 31, 2016							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
Interest income from externals	466	44	695	1,205	-	1	1	1,206
Interest expenses for externals	27	29	83	139	-	22	22	161
Net interest income								
- From externals	439	15	612	1,066	-	(21)	(21)	1,045
- Inter-segmental	(262)	(2)	113	(151)	-	41	41	(110)
Total net interest income	177	13	725	915	-	20	20	935
Non-interest income	15	90	468	573	-	55	55	628
Total income	192	103	1,193	1,488	-	75	75	1,563
Expenses (income) from credit losses	2	-	47	49	-	-	-	49
Operating and other expenses	110	65	1,244	1,419	-	55	55	1,474
Profit before taxes	80	38	(98)	20	-	20	20	40
Provision for taxes on profit	26	12	(34)	4	-	9	9	13
Net profit:								
Before attribution to non-controlling interests	54	26	(64)	16	-	11	11	27
Attributed to non-controlling interests	(4)	(2)	(13)	(19)	-	(1)	(1)	(20)
Net profit (loss) attributed to shareholders of the Bank	50	24	(77)	(3)	-	10	10	7
Average balance of assets(*)	20,721	2,950	14,828	38,499	28	21	49	38,548
Balance of credit to the public at the end of the reported period	21,741	2,933	15,204	39,878	29	18	47	39,925
Balance of impaired debts	8	-	83	91	-	-	-	91
Balance of debts in arrears of more than 90 days	164	-	41	205	-	-	-	205
Average balance of liabilities(*)	-	-	44,464	44,464	-	7,598	7,598	52,062
Balance of deposits from the public at the end of the reported period	-	-	45,433	45,433	-	8,601	8,601	54,034
Average balance of risk-adjusted assets	12,729	2,899	11,680	27,308	19	127	146	27,454
Balance of risk-adjusted assets at the end of the reported period	12,813	3,071	11,651	27,535	19	130	149	27,684
Average balance of assets under management	-	-	34,920	34,920	-	13,577	13,577	48,497
Segmentation of net interest income:								
- Spread from credit granting activity	192	13	626	831	-	1	1	832
- Spread from deposit taking activity	-	-	110	110	-	20	20	130
- Other	(15)	-	(11)	(26)	-	(1)	(1)	(27)
Total net interest income	177	13	725	915	-	20	20	935

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

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

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

	For the year ended December 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	176	438	614	23	118	141	56	324	380	1,135
Interest expenses for externals	(35)	96	61	(2)	23	21	16	38	54	136
Net interest income										
- From externals	211	342	553	25	95	120	40	286	326	999
- Inter-segmental	(73)	58	(15)	(5)	11	6	29	(56)	(27)	(36)
Total net interest income	138	400	538	20	106	126	69	230	299	963
Non-interest income	39	284	323	13	46	59	32	100	132	514
of which: income from credit cards	-	15	15	-	2	2	-	-	-	17
Total income	177	684	861	33	152	185	101	330	431	1,477
Expenses (income) from credit losses	(25)	49	24	1	-	1	4	(6)	(2)	23
Operating and other expenses	90	520	610	14	85	99	36	160	196	905
Profit before taxes	112	115	227	18	67	85	61	176	237	549
Provision for taxes on profit	50	51	101	8	30	38	28	79	107	246
Net profit:										
Before attribution to non-controlling interests	62	64	126	10	37	47	33	97	130	303
Attributed to non-controlling interests	(2)	(5)	(7)	1	(3)	(2)	-	(2)	(2)	(11)
Net profit attributed to shareholders of the Bank	60	59	119	11	34	45	33	95	128	292
Average balance of assets(*)	4,466	10,395	14,861	649	3,375	4,024	2,700	15,513	18,213	37,098
Balance of credit to the public at the end of the reported period	4,655	10,413	15,068	690	3,488	4,178	2,722	15,598	18,320	37,566
Balance of impaired debts	68	122	190	6	90	96	22	178	200	486
Balance of debts in arrears of more than 90 days	4	25	29	-	1	1	-	-	-	30
Average balance of liabilities(*)	2,318	13,433	15,751	798	4,574	5,372	745	10,604	11,349	32,472
Balance of deposits from the public at the end of the reported period	2,493	13,375	15,868	971	5,058	6,029	966	9,472	10,438	32,335
Average balance of risk-adjusted assets	5,993	9,221	15,214	1,485	3,721	5,206	5,160	13,245	18,405	38,825
Balance of risk-adjusted assets at the end of the reported period	5,968	9,256	15,224	1,325	3,902	5,227	5,413	13,360	18,773	39,224
Average balance of assets under management	1,239	10,305	11,544	203	3,244	3,447	1,086	22,105	23,191	38,182
Segmentation of net interest income:										
- Spread from credit granting activity	140	384	524	20	102	122	74	234	308	954
- Spread from deposit taking activity	3	27	30	1	9	10	1	12	13	53
- Other	(5)	(11)	(16)	(1)	(5)	(6)	(6)	(16)	(22)	(44)
Total net interest income	138	400	538	20	106	126	69	230	299	963

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

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information (CON'T)

	For the year ended December 31, 2015*							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Mangement	Total activity in Israel
								(NIS million)
Interest income from external	1,007	2	588	140	343	22	147	2,249
Interest expense from external	118	14	56	18	47	30	22	305
Net interest income								
- From external	889	(12)	532	122	296	(8)	125	1,944
- Inter - segment	(131)	26	(13)	1	(13)	50	80	-
Total net interest income	758	14	519	123	283	42	205	1,944
Non interest income	626	52	335	63	126	184	128	1,514
Total income	1,384	66	854	186	409	226	333	3,458
Expenses (Income) in respect of credit losses	38	-	(26)	4	2	-	-	18
Operating and other expenses	1,441	54	616	99	191	178	95	2,674
Operating profit (loss) before taxes	(95)	12	264	83	216	48	238	766
Provision for taxes (tax saving) on operating profit	(42)	5	111	37	94	21	100	326
Operating profit (loss) after taxes	(53)	7	153	46	122	27	138	440
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	38	38
Net profit (loss):								
Before attribution to noncontrolling interests	(53)	7	153	46	122	27	176	478
Attributed to noncontrolling interests	(6)	-	(11)	(2)	(3)	-	(10)	(32)
Net profit (loss) attributed to shareholders of the Bank	(59)	7	142	44	119	27	166	446
Average balance of assets(1)	35,562	48	14,281	3,960	16,047	860	50,944	121,702
of which: Investee Company(1)	-	-	-	-	-	-	423	423
of which: Average balance of credit to the public(1)	35,562	48	14,281	3,960	16,047	860	-	70,758
Balance of credit to the public	37,178	53	14,164	4,001	16,814	816	-	73,026
Balance of impaired debts	83	-	234	125	320	2	-	764
Balance in arrears over 90 days	207	6	19	1	1	-	-	234
Average balance of liabilities(1)	40,471	6,272	14,191	5,168	10,191	23,279	14,228	113,800
of which: Average balance of deposits from the public(1)	40,471	6,272	14,191	5,168	10,191	23,279	-	99,572
Balance of deposits from the public	41,792	7,090	15,047	5,241	10,760	22,448	-	102,378
Average balance of risk assets(1)(2)	26,283	136	15,122	5,047	17,066	988	9,550	74,192
Balance of risk assets(2)	27,282	132	14,975	4,881	16,868	892	9,201	74,231
Average balance of assets under management(1)(3)	40,117	12,900	12,545	3,620	23,145	162,528	-	254,855
Segmentation of net interest income:								
- Earnings from credit - granting activity	685	-	510	121	292	18	-	1,626
- Earnings from deposits - taking activity	99	14	26	8	11	25	-	183
- Other	(26)	-	(17)	(6)	(20)	(1)	205	135
Total net interest income	758	14	519	123	283	42	205	1,944

* Reclassified

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

(2) Risk assets - as computed for the purpose of capital adequacy.

(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information (CON'T)

	For the year ended December 31, 2015*	
	Activity abroad	
	Private Individuals	Total
		(NIS million)
Interest income from external	11	2,260
Interest expense from external	2	307
Net interest income		
- From external	9	1,953
- Inter - segment	-	-
Total net interest income	9	1,953
Non interest income	27	1,541
Total income	36	3,494
Expenses in respect of credit losses	-	18
Operating and other expenses	36	2,710
Operating profit before taxes	-	766
Provision for taxes on operating profit	-	326
Operating profit after taxes	-	440
Bank's share in operating profit of investee companies after tax effect	-	38
Net profit		
Before attribution to noncontrolling interests	-	478
Attributed to noncontrolling interests	-	(32)
Net profit attributed to shareholders of the Bank	-	446
Average balance of assets(1)	377	122,079
of which: Investee Company(1)	-	423
of which: Average balance of credit to the public(1)	377	71,135
Balance of credit to the public	353	73,379
Balance of impaired debts	-	764
Balance in arrears over 90 days	-	234
Average balance of liabilities(1)	1,037	114,837
of which: Average balance of deposits from the public(1)	1,037	100,609
Balance of deposits from the public	884	103,262
Average balance of risk assets(1)(2)	671	74,863
Balance of risk assets(2)	671	74,902
Average balance of assets under management(1)(3)	-	254,855
Segmentation of net interest income:		
- Earnings from credit - granting activity	-	1,626
- Earnings from deposits - taking activity	9	192
- Other	-	135
Total net interest income	9	1,953

* Reclassified

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

Private individuals - household and private banking - activity in Israel

	For the year ended December 31, 2015							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
Interest income from externals	363	41	603	1,007	-	2	2	1,009
Interest expenses for externals	25	25	68	118	-	14	14	132
Net interest income								
- From externals	338	16	535	889	-	(12)	(12)	877
- Inter-segmental	(194)	(3)	66	(131)	-	26	26	(105)
Total net interest income	144	13	601	758	-	14	14	772
Non-interest income	17	89	520	626	-	52	52	678
Total income	161	102	1,121	1,384	-	66	66	1,450
Expenses (income) from credit losses	3	-	35	38	-	-	-	38
Operating and other expenses	116	63	1,262	1,441	-	54	54	1,495
Profit before taxes	42	39	(176)	(95)	-	12	12	(83)
Provision for taxes on profit	18	18	(78)	(42)	-	5	5	(37)
Net profit:								
Before attribution to non-controlling interests	24	21	(98)	(53)	-	7	7	(46)
Attributed to non-controlling interests	(1)	(2)	(3)	(6)	-	-	-	(6)
Net profit (loss) attributed to shareholders of the Bank	23	19	(101)	(59)	-	7	7	(52)
Average balance of assets(*)	19,004	2,898	13,660	35,562	27	21	48	35,610
Balance of credit to the public at the end of the reported period	20,032	3,000	14,146	37,178	27	26	53	37,231
Balance of impaired debts	10	-	73	83	-	-	-	83
Balance of debts in arrears of more than 90 days	182	-	25	207	-	6	6	213
Average balance of liabilities(*)	-	-	40,471	40,471	-	6,272	6,272	46,743
Balance of deposits from the public at the end of the reported period	-	-	41,792	41,792	-	7,090	7,090	48,882
Average balance of risk-adjusted assets	11,691	2,959	11,633	26,283	24	112	136	26,419
Balance of risk-adjusted assets at the end of the reported period	12,227	3,077	11,978	27,282	24	108	132	27,414
Average balance of assets under management	-	-	40,117	40,117	-	12,900	12,900	53,017
Segmentation of net interest income:								
- Spread from credit granting activity	159	13	513	685	-	-	-	685
- Spread from deposit taking activity	-	-	99	99	-	14	14	113
- Other	(15)	-	(11)	(26)	-	-	-	(26)
Total net interest income	144	13	601	758	-	14	14	772

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

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

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

	For the year ended December 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	171	417	588	24	116	140	47	296	343	1,071
Interest expenses for externals	(37)	93	56	(3)	21	18	9	38	47	121
Net interest income										
- From externals	208	324	532	27	95	122	38	258	296	950
- Inter-segmental	(74)	61	(13)	(6)	7	1	18	(31)	(13)	(25)
Total net interest income	134	385	519	21	102	123	56	227	283	925
Non-interest income	45	290	335	17	46	63	29	97	126	524
of which: income from credit cards	-	14	14	-	2	2	-	-	-	16
Total income	179	675	854	38	148	186	85	324	409	1,449
Expenses (income) from credit losses	(8)	(18)	(26)	(5)	9	4	(28)	30	2	(20)
Operating and other expenses	88	528	616	13	86	99	28	163	191	906
Profit before taxes	99	165	264	30	53	83	85	131	216	563
Provision for taxes on profit	42	69	111	13	24	37	37	57	94	242
Net profit:										
Before attribution to non-controlling interests	57	96	153	17	29	46	48	74	122	321
Attributed to non-controlling interests	(1)	(10)	(11)	-	(2)	(2)	-	(3)	(3)	(16)
Net profit attributed to shareholders of the Bank	56	86	142	17	27	44	48	71	119	305
Average balance of assets(*)	4,416	9,865	14,281	703	3,257	3,960	2,226	13,821	16,047	34,288
Balance of credit to the public at the end of the reported period	4,341	9,823	14,164	681	3,320	4,001	2,442	14,372	16,814	34,979
Balance of impaired debts	96	138	234	-	125	125	25	295	320	679
Balance of debts in arrears of more than 90 days	2	17	19	-	1	1	-	1	1	21
Average balance of liabilities(*)	2,064	12,127	14,191	765	4,403	5,168	553	9,638	10,191	29,550
Balance of deposits from the public at the end of the reported period	2,152	12,895	15,047	730	4,511	5,241	658	10,102	10,760	31,048
Average balance of risk-adjusted assets	6,363	8,759	15,122	1,681	3,366	5,047	4,676	12,390	17,066	37,235
Balance of risk-adjusted assets at the end of the reported period	6,075	8,900	14,975	1,667	3,214	4,881	4,705	12,163	16,868	36,724
Average balance of assets under management	1,056	11,489	12,545	249	3,371	3,620	1,073	22,072	23,145	39,310
Segmentation of net interest income:										
- Spread from credit granting activity	135	375	510	21	100	121	60	232	292	923
- Spread from deposit taking activity	4	22	26	1	7	8	1	10	11	45
- Other	(5)	(12)	(17)	(1)	(5)	(6)	(5)	(15)	(20)	(43)
Total net interest income	134	385	519	21	102	123	56	227	283	925

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

C. Geographical region information

(NIS million)

	Income(2)			Net earnings			Total assets	
	Year ended December 31			Year ended December 31			at December 31	
	2016	2015	2014	**2016**	2015	2014	**2016**	2015
Israel	**3,619**	3,458	3,726	**542**	447	458	**126,906**	124,314
Western Europe	**30**	36	42	**(21)**	(1)	(3)	**1,001**	1,162
Consolidated total	**3,649**	3,494	3,768	**521**	446	455	**127,907**	125,476

(1) The distribution to geographical regions is based on the location of the assets.

(2) Net interest income and non-interest income.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

A. General

1. Instructions of the Supervisor of Banks state that a banking corporation, the operating segments of which per Management's approach, materially differ from the regulatory segments of activity, shall, in addition, provide disclosure regarding operating segments according to Management's approach ("administrative operating segments"), in accordance with accounting principles accepted by US banks in the matter of segments of operation (ASC 280-10).
2. The distribution to segments of operation in accordance with Management's approach is made according to criteria detailed in item 3 below. This distribution is used by the chief operational decision maker at the Bank for the purpose of determining the work plan, taking decisions and analyzing the business results of the Group. Management of the Bank and the Board of Directors are considered as the chief operational decision maker at the Bank.
3. The Bank has identified the following administrative operating segments:
   - **Banking Division - housing loans** - the segment is responsible for providing housing credit services to customers in this segment.
   - **Banking Division - other** - the segment includes all activities of private banking customers, households, small businesses and commercial customers of the Banking Division branches. In addition the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - corporate customers** - The corporate department of the Division coordinates all activities of large and international corporate customers, having a credit facility of NIS 40 million and over, or an income turnover of NIS 200 million and over, as well as the activity of borrower in complex credit areas, such as: communication, diamonds, closed construction projects and such like.
   - **Corporate Division - commercial customers** - The commercial department handles customers having a credit facility of between NIS 5 million and up to NIS 40 million, and an income turnover of between NIS 25 million and up to NIS 200 million and the customers of the branches which are not under authority of the branches' managers. In addition the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - other** - Bank customers in the business branches subordinated to the corporate division up to the authority of the branches' managers.
   - **Customer Assets Division** - The Division is responsible for the Bank's activity with all customers in operations involving the capital market, foreign currency and deposits.
   - **Financial Management** - The segment includes the results of operations concerning the asset and liability management of the Bank, including management of market and liquidity risk management in general, the results of management of the "nostro" securities portfolio of the Bank, including activity with other banks and with Bank of Israel. The segment includes also the Bank's share in the earnings of Israel Credit Cards Ltd.
   - **Subsidiary companies** - The segment includes the results of operation of its subsidiaries, including the banking subsidiaries Otzar Hachayal Bank, Massad Bank and FIBI Bank (Swiss).

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

- **Adjustments:**

  A part of the results of operations with customers of the Bank is recorded in more than one operating segment, as detailed below:

  - The results of operation in the capital market product, which includes securities activity of customers, the distribution of pension products and deposits from the public, as well as the foreign currency product, are included both in the Customer Assets Division segment and in the Banking Division-other segment or in any one of the Corporate Division segments.
  - The results of operation of certain commercial customers under the responsibility of the Corporate Division are included both in the Corporate Division-commercial customers segment and in the Banking Division-other segment.
  - The results of operation of certain small business customers under the responsibility of the Banking Division are included both in the Banking Division-other segment and in the Corporate Division-small business segment.
- The results of operation of certain commercial customers under the responsibility of the Customer Assets Division are included both in the Customer Assets Division segment and in the Banking Division-other segment or in any one of the Corporate Division segments.

The duplicity in the recording of the results of operation as described above is eliminated in the adjustments column.

The adjustments column includes also the elimination of inter-company balances.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)
(NIS million)

	For the year ended December 31, 2016									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	177	686	376	195	26	190	190	638	(309)	2,169
Non interest income	15	628	229	78	31	628	139	339	(608)	1,480
Total income	192	1,314	605	274	57	818	329	977	(917)	3,649
Expenses (income) in respect of credit losses	1	56	(24)	20	2	12	-	35	(22)	80
Operating and other expenses	110	1,285	300	157	47	725	47	753	(741)	2,683
Operating profit (loss) before taxes	81	(27)	329	97	8	81	282	189	(154)	886
Provision for taxes (tax saving) on operating profit	35	(11)	142	42	3	35	122	84	(54)	398
Operating profit (loss) after taxes	46	(16)	187	55	5	46	160	105	(100)	488
Bank's share in operating profit of investee company	-	-	-	-	-	-	72	-	-	72
Net profit (loss):										
Before attribution to noncontrolling interests	46	(16)	187	55	5	46	232	105	(100)	560
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(39)	-	(39)
Attributed to shareholders of the Bank	46	(16)	187	55	5	46	232	66	(100)	521
Average balance of assets	20,518	14,845	21,766	6,321	496	5,484	43,110	24,295	(9,523)	127,312
Balance of net credit to the public at the end of the reported period	21,378	15,456	21,269	6,851	502	5,449	-	16,235	(9,812)	77,328
Balance of deposits from the public at the end of the reported period	-	51,652	21,951	5,193	2,381	82,604	-	22,989	(80,953)	105,817

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	For the year ended December 31, 2015									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	145	620	379	175	26	176	163	545	(276)	1,953
Non interest income	17	658	244	78	33	674	105	365	(633)	1,541
Total income	162	1,278	623	253	59	850	268	910	(909)	3,494
Expenses (income) in respect of credit losses	1	57	(47)	11	(2)	5	-	7	(14)	18
Operating and other expenses	116	1,301	295	155	49	779	68	734	(787)	2,710
Operating profit (loss) before taxes	45	(80)	375	87	12	66	200	169	(108)	766
Provision for taxes (tax saving) on operating profit	19	(33)	156	36	5	27	83	67	(34)	326
Operating profit (loss) after taxes	26	(47)	219	51	7	39	117	102	(74)	440
Bank's share in operating profit of investee company	-	-	-	-	-	-	38	-	-	38
Net profit (loss):										
Before attribution to noncontrolling interests	26	(47)	219	51	7	39	155	102	(74)	478
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(32)	-	(32)
Attributed to shareholders of the Bank	26	(47)	219	51	7	39	155	70	(74)	446
Average balance of assets	18,809	13,549	20,119	5,605	545	4,720	45,562	21,468	(8,298)	122,079
Balance of net credit to the public at the end of the reported period	19,706	14,013	20,593	5,814	552	5,414	-	15,268	(8,805)	72,555
Balance of deposits from the public at the end of the reported period	-	48,306	25,367	4,292	2,372	81,583	-	20,483	(79,141)	103,262

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	For the year ended December 31, 2014									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	127	657	437	167	29	250	187	583	(336)	2,101
Non interest income	20	677	229	76	39	675	187	368	(604)	1,667
Total income	147	1,334	666	243	68	925	374	951	(940)	3,768
Expenses (income) in respect of credit losses	(3)	71	(42)	(13)	(1)	(4)	-	69	12	89
Operating and other expenses	139	1,346	341	166	49	788	89	758	(764)	2,912
Operating profit (loss) before taxes	11	(83)	367	90	20	141	285	124	(188)	767
Provision for taxes (tax saving) on operating profit	4	(34)	148	36	8	57	116	47	(54)	328
Operating profit (loss) after taxes	7	(49)	219	54	12	84	169	77	(134)	439
Bank's share in operating profit of investee company	-	-	-	-	-	-	35	-	-	35
Net profit (loss):										
Before attribution to noncontrolling interests	7	(49)	219	54	12	84	204	77	(134)	474
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(19)	-	(19)
Attributed to shareholders of the Bank	7	(49)	219	54	12	84	204	58	(134)	455
Average balance of assets	17,153	12,741	21,585	5,049	668	5,222	34,352	22,899	(8,391)	111,278
Balance of net credit to the public at the end of the reported period	17,876	13,172	20,688	5,478	553	4,942	-	14,565	(8,343)	68,931
Balance of deposits from the public at the end of the reported period	-	44,183	23,323	4,276	2,787	76,619	-	17,440	(73,473)	95,155

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS millions)

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

Provision for credit loses

1. Change in provision for credit losses

Consolidated	For the year ended December 31, 2016					
	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 year	**498**	**119**	**207**	**824**	**-**	**824**
Expenses in respect of credit losses	**44**	**2**	**48**	**94**	**-**	**94**
- Accounting write-offs	**(165)**	**(6)**	**(110)**	**(281)**	**-**	**(281)**
- Collection of debts written off in accounting in previous years	**128**	**-**	**86**	**214**	**-**	**214**
Net accounting write-offs	**(37)**	**(6)**	**(24)**	**(67)**	**-**	**(67)**
Other - classified to assets held for sale	**(4)**	**-**	**-**	**(4)**	**-**	**(4)**
Provision for credit losses at end of year	**501**	**115**	**231**	**847**	**-**	**847**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	**70**	**-**	**15**	**85**	**-**	**85**
Decrease in the provision	**(13)**	**-**	**(1)**	**(14)**	**-**	**(14)**
Provision in respect of off-balance sheet credit instruments at end of year	**57**	**-**	**14**	**71**	**-**	**71**
Total provision for credit losses - debts and off-balance sheet credit instruments	**558**	**115**	**245**	**918**	**-**	**918**

Consolidated	For the year ended December 31, 2015					
	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 year	534	132	210	876	-	876
Expenses in respect of credit losses	12	3	38	53	-	53
- Accounting write-offs	(207)	(16)	(122)	(345)	-	(345)
- Collection of debts written off in accounting in previous years	159	-	81	240	-	240
Net accounting write-offs	(48)	(16)	(41)	(105)	-	(105)
Provision for credit losses at end of year	498	119	207	824	-	824
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	106	-	14	120	-	120
Increase (decrease) in the provision	(36)	-	1	(35)	-	(35)
Provision in respect of off-balance sheet credit instruments at end of year	70	-	15	85	-	85
Total provision for credit losses - debts and off-balance sheet credit instruments	568	119	222	909	-	909

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

Consolidated	For the year ended December 31, 2014					
	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 year	542	151	134	827	-	827
Expenses (income) in respect of credit losses	(16)	(4)	105	85	-	85
- Accounting write-offs	(112)	(15)	(104)	(231)	-	(231)
- Collection of debts written off in accounting in previous years	120	-	75	195	-	195
Net accounting write-offs	8	(15)	(29)	(36)	-	(36)
Provision for credit losses at end of year	534	132	210	876	-	876
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	106	-	10	116	-	116
Increase in the provision	-	-	4	4	-	4
Provision in respect of off-balance sheet credit instruments at end of year	106	-	14	120	-	120
Total provision for credit losses - debts and off-balance sheet credit instruments	640	132	224	996	-	996

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

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

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

Consolidated	For the year ended December 31, 2016					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governements	Total
Recorded balance of debts(1)						
Examined on an individual basis	**33,911**	**-**	**408**	**34,319**	**2,578**	**36,897**
Examined on a collective basis	**4,586**	**21,741**	**17,529**	**43,856**	**-**	**43,856**
Of which: provision for which was calculated according to the extent of arrears	**247**	**21,741**	**-**	**21,988**	**-**	**21,988**
Total debts	**38,497**	**21,741**	**17,937**	**78,175**	**2,578**	**80,753**
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	**446**	**-**	**28**	**474**	**-**	**474**
Examined on a collective basis	**55**	**115**	**203**	**373**	**-**	**373**
Of which: provision for which was calculated according to the extent of arrears	**1**	(2)**115**	**-**	**116**	**-**	**116**
Total provision for credit losses	**501**	**115**	**231**	**847**	**-**	**847**

Consolidated	For the year ended December 31, 2015					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governements	Total
Recorded balance of debts(1)						
Examined on an individual basis	32,066	-	426	32,492	4,280	36,772
Examined on a collective basis	4,382	20,032	16,473	40,887	-	40,887
Of which: provision for which was calculated according to the extent of arrears	397	20,032	-	20,429	-	20,429
Total debts	36,448	20,032	16,899	73,379	4,280	77,659
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	449	-	15	464	-	464
Examined on a collective basis	49	119	192	360	-	360
Of which: provision for which was calculated according to the extent of arrears	1	(2)119	-	120	-	120
Total provision for credit losses	498	119	207	824	-	824

(1) Credit to the public, credit to governemtns, 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 NIS 78 million (31.12.15 - NIS 74 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 2,058 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.2015 - NIS 2,256 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

Provision for credit loses (Cont.)

1. Change in provision for credit losses (Cont.)

The Bank	For the year ended December 31, 2016					
	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 year	**395**	**117**	**100**	**612**	**-**	**612**
Expenses in respect of credit losses	**21**	**1**	**36**	**58**	**-**	**58**
- Accounting write-offs	**(108)**	**(5)**	**(69)**	**(182)**	**-**	**(182)**
- Collection of debts written off in accounting in previous years	**79**	**-**	**49**	**128**	**-**	**128**
Net accounting write-offs	**(29)**	**(5)**	**(20)**	**(54)**	**-**	**(54)**
Merging a subsidiary	**20**	**-**	**17**	**37**	**-**	**37**
Provision for credit losses at end of year	**407**	**113**	**133**	**653**	**-**	**653**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	**62**	**-**	**9**	**71**	**-**	**71**
Decrease in the provision	**(12)**	**-**	**(1)**	**(13)**	**-**	**(13)**
Merging a subsidiary	**3**	**-**	**1**	**4**	**-**	**4**
Provision in respect of off-balance sheet credit instruments at end of year	**53**	**-**	**9**	**62**	**-**	**62**
Total provision for credit losses - debts and off-balance sheet credit instruments	**460**	**113**	**142**	**715**	**-**	**715**

The Bank	For the year ended December 31, 2015					
	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 year	395	132	92	619	-	619
Expenses (income) in respect of credit losses	(3)	1	34	32	-	32
- Accounting write-offs	(129)	(17)	(52)	(198)	-	(198)
- Collection of debts written off in accounting in previous years	121	-	25	146	-	146
Net accounting write-offs	(8)	(17)	(27)	(52)	-	(52)
Merging a subsidiary	11	1	1	13	-	13
Provision for credit losses at end of year	395	117	100	612	-	612
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	82	-	8	90	-	90
Increase (decrease) in the provision	(22)	-	1	(21)	-	(21)
Merging a subsidiary	2	-	-	2	-	2
Provision in respect of off-balance sheet credit instruments at end of year	62	-	9	71	-	71
Total provision for credit losses - debts and off-balance sheet credit instruments	457	117	109	683	-	683

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

Provision for credit loses (Cont.)

1. Change in provision for credit losses (Cont.)

The Bank	For the year ended December 31, 2014					
	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 year	424	150	52	626	-	626
Expenses (income) in respect of credit losses	(30)	(3)	61	28	-	28
- Accounting write-offs	(70)	(15)	(49)	(134)	-	(134)
- Collection of debts written off in accounting in previous years	71	-	28	99	-	99
Net accounting write-offs	1	(15)	(21)	(35)	-	(35)
Provision for credit losses at end of year	395	132	92	619	-	619
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	97	-	5	102	-	102
Increase (decrease) in the provision	(15)	-	3	(12)	-	(12)
Provision in respect of off-balance sheet credit instruments at end of year	82	-	8	90	-	90
Total provision for credit losses - debts and off-balance sheet credit instruments	477	132	100	709	-	709

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

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

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

The Bank	For the year ended December 31, 2016					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governements	Total
Recorded balance of debts(1)						
Examined on an individual basis	**30,703**	**-**	**261**	**30,964**	**1,848**	**32,812**
Examined on a collective basis	**2,774**	**21,491**	**6,517**	**30,782**	**-**	**30,782**
Of which: provision for which was calculated according to the extent of arrears	**247**	**21,491**	**-**	**21,738**	**-**	**21,738**
Total debts	**33,477**	**21,491**	**6,778**	**61,746**	**1,848**	**63,594**
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	**381**	**-**	**19**	**400**	**-**	**400**
Examined on a collective basis	**26**	**113**	**114**	**253**	**-**	**253**
Of which: provision for which was calculated according to the extent of arrears	**1**	(2)**113**	**-**	**114**	**-**	**114**
Total provision for credit losses	**407**	**113**	**133**	**653**	**-**	**653**

The Bank	For the year ended December 31, 2015					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governements	Total
Recorded balance of debts(1)						
Examined on an individual basis	27,662	-	272	27,934	3,312	31,246
Examined on a collective basis	2,257	19,823	5,061	27,141	-	27,141
Of which: provision for which was calculated according to the extent of arrears	397	19,823	-	20,220	-	20,220
Total debts	29,919	19,823	5,333	55,075	3,312	58,387
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	374	-	8	382	-	382
Examined on a collective basis	21	117	92	230	-	230
Of which: provision for which was calculated according to the extent of arrears	1	(2)117	-	118	-	118
Total provision for credit losses	395	117	100	612	-	612

(1) Credit to the public, credit to governemtns, 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 NIS 76 million (31.12.15 - NIS 72 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 1,843 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.2015 - NIS 1,948 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts(1)

1. Credit quality and arrears (Cont.)

Consolidated	December 31, 2016					
		Problematic(2)			Unimpaired debts - additional information	
Borrower activity in Israel	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Public - commercial						
Construction and real estate - construction	**3,337**	**36**	**66**	**3,439**	**4**	**6**
Construction and real estate - real estate activities	**4,775**	**12**	**30**	**4,817**	**1**	**6**
Financial services	**6,980**	**239**	**2**	**7,221**	**-**	**1**
Commercial - other	**21,638**	**525**	**380**	**22,543**	**25**	**61**
Total commercial	**36,730**	**812**	**478**	**38,020**	**30**	**74**
Private individuals - housing loans	**21,567**	(6)**166**	**8**	**21,741**	**164**	**236**
Private individuals - others	**17,618**	**236**	**83**	**17,937**	**41**	**53**
Total public - activity in Israel	**75,915**	**1,214**	**569**	**77,698**	**235**	**363**
Banks in Israel	**481**	**-**	**-**	**481**	**-**	**-**
Israeli government	**654**	**-**	**-**	**654**	**-**	**-**
Total activity in Israel	**77,050**	**1,214**	**569**	**78,833**	**235**	**363**
Borrower activity abroad						
Public - commercial						
Construction and real estate	**51**	**-**	**-**	**51**	**-**	**-**
Other commercial	**418**	**-**	**8**	**426**	**-**	**-**
Total commercial	**469**	**-**	**8**	**477**	**-**	**-**
Private individuals	**-**	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**469**	**-**	**8**	**477**	**-**	**-**
Banks abroad	**1,443**	**-**	**-**	**1,443**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**1,912**	**-**	**8**	**1,920**	**-**	**-**
Total public	**76,384**	**1,214**	**577**	**78,175**	**235**	**363**
Total banks	**1,924**	**-**	**-**	**1,924**	**-**	**-**
Total governments	**654**	**-**	**-**	**654**	**-**	**-**
Total	**78,962**	**1,214**	**577**	**80,753**	**235**	**363**

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Credit risk that is impaired, substandard, or under special suprevision, 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 problematic debt restructuning, see Note 29.B.2.c. below.
(4) Classified as unimpaired problematic debts, accruing interest income.
(5) Accuring interest income Debts in arrears of 30 to 89 days, in the amount of NIS 127 million (31.12.15 - NIS 97 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of NIS 6 million (31.12.15 - NIS 7 million) with provision based on the extent of arrers, 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 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts[1] (Cont.)

1. Credit quality and arrears (Cont.)

Consolidated	December 31, 2015					
		Problematic[2]			Unimpaired debts - additional information	
Borrower activity in Israel	Non-problematic	Unimpaired	Impaired [3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
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

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

(NIS millions)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts

Consolidated					December 31, 2016
A Impaired debts and the individual provision	Balance(2) of impaired debts for which an individual provision exists(3)	Balance of Individual provision(3)	Balance(2) of impaired debts for which no individual provision exists(3)	Total Balance(2) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	38	28	28	66	829
Construction and real estate - real estate activities	14	3	16	30	522
Financial services	2	-	-	2	669
Commercial - other	328	147	52	380	1,973
Total commercial	382	178	96	478	3,993
Private individuals - housing loans	-	-	8	8	8
Private individuals - others	67	22	16	83	162
Total public - activity in Israel	449	200	120	569	4,163
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	449	200	120	569	4,163
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	8	8	77
Total commercial	-	-	8	8	77
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	77
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	77
Total public	449	200	128	577	4,240
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	449	200	128	577	4,240
Of which:					
Measured at the present value of cash flows	449	200	63	512	
Debts in problematic debt restructuring	123	27	74	197	

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

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts[1] (Cont'd)

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

Consolidated					December 31, 2015
A Impaired debts and the individual provision	Balance[2] of impaired debts for which an individual provision exists[3]	Balance of 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	-	-	-	-	-
Governments 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 problematic debt restructuring	26	15	203	229	

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts(1) (Cont'd)

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

Consolidated	For the year ended December 31,								
	2016			2015			2014		
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	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	**61**	**-**	**-**	66	-	-	176	2	2
Construction and real estate - real estate activities	**36**	**-**	**-**	42	-	-	25	-	-
Financial services	**11**	**-**	**-**	16	-	-	10	-	-
Commercial - other	**474**	**4**	**3**	543	6	6	448	6	5
Total commercial	**582**	**4**	**3**	667	6	6	659	8	7
Private individuals - housing loans	**13**	**-**	**-**	17	-	-	16	-	-
Private individuals - others	**77**	**2**	**1**	108	3	2	108	2	2
Total public - activity in Israel	**672**	**6**	**4**	792	9	8	783	10	9
Banks in Israel	**-**	**-**	**-**	-	-	-	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-	-	-	-
Total activity in Israel	**672**	**6**	**4**	792	9	8	783	10	9
Borrower activity abroad									
Public - commercial									
Construction and real estate	**7**	**-**	**-**	21	-	-	29	-	-
Other commercial	**8**	**-**	**-**	2	-	-	10	-	-
Total commercial	**15**	**-**	**-**	23	-	-	39	-	-
Private individuals	**-**	**-**	**-**	-	-	-	-	-	-
Total public - activity abroad	**15**	**-**	**-**	23	-	-	39	-	-
Banks abroad	**-**	**-**	**-**	-	-	-	-	-	-
Governments abroad	**-**	**-**	**-**	-	-	-	-	-	-
Total activity abroad	**15**	**-**	**-**	23	-	-	39	-	-
Total public	**687**	**6**	**4**	815	9	8	822	10	9
Total banks	**-**	**-**	**-**	-	-	-	-	-	-
Total governments	**-**	**-**	**-**	-	-	-	-	-	-
Total	**687**	(4)**6**	**4**	815	(4)9	8	822	(4)10	9

(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 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 73 miliion was recorded in the year ended December 31, 2016 (2015 - NIS 72 million, 2014 - NIS 90 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts(1) (Cont'd)

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

Consolidated	December 31, 2016				
	Recorded debt balance				
C. Problematic debt restructuring(4)	Not accruing interest income	accuring(2) in arrears of 90 days or more	accuring(2) in arrears of 30 to 89 days	Accruing(2), not in arrears	Total(3)
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**14**	**-**	**-**	**1**	**15**
Construction and real estate - real estate activities	**8**	**-**	**-**	**1**	**9**
Financial services	**1**	**-**	**-**	**-**	**1**
Commercial - other	**74**	**-**	**-**	**19**	**93**
Total commercial	**97**	**-**	**-**	**21**	**118**
Private individuals - housing loans	**-**	**-**	**-**	**-**	**-**
Private individuals - others	**56**	**-**	**-**	**15**	**71**
Total public - activity in Israel	**153**	**-**	**-**	**36**	**189**
Banks in Israel	**-**	**-**	**-**	**-**	**-**
Israeli government	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**153**	**-**	**-**	**36**	**189**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**-**	**-**	**-**	**-**	**-**
Other commercial	**8**	**-**	**-**	**-**	**8**
Total commercial	**8**	**-**	**-**	**-**	**8**
Private individuals	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**8**	**-**	**-**	**-**	**8**
Banks abroad	**-**	**-**	**-**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**8**	**-**	**-**	**-**	**8**
Total public	**161**	**-**	**-**	**36**	**197**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**161**	**-**	**-**	**36**	**197**

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accuring interest income.
(3) Included in impaired debts.
(4) For details regarding initial implementation of an update of instructions of the Supervisor of Banks in the matter of the restructure of problematic debt, see Note 1.C(4).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts[1] (Cont'd)

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

Consolidated					December 31, 2015
	Recorded debt balance				
C. Problematic debt restructuring	Not accruing interest income	accuring[2] in arrears of 90 days or more	accuring[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) Accuring interest income.
(3) Included in impaired debts.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts(1) (Cont'd)

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

Consolidated	Restructuring made								
	For the year ended December 31,								
	2016			2015			2014		
C. Problematic debt restructuring(2)	Number of contracts	Debt balance before restructuring	Debt balance after restructuring	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	**25**	**6**	**6**	41	8	6	31	6	5
Construction and real estate - real estate activities	**1**	**1**	**1**	5	1	1	2	1	1
Financial services	**5**	**2**	**2**	6	3	3	2	-	-
Commercial - other	**241**	**71**	**70**	300	64	59	299	145	127
Total commercial	**272**	**80**	**79**	352	76	69	334	152	133
Private individuals - housing loans	**-**	**-**	**-**	-	-	-	-	-	-
Private individuals - others	**1,055**	**50**	**47**	1,227	53	50	1,100	48	47
Total public - activity in Israel	**1,327**	**130**	**126**	1,579	129	119	1,434	200	180
Banks in Israel	**-**	**-**	**-**	-	-	-	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-	-	-	-
Total activity in Israel	**1,327**	**130**	**126**	1,579	129	119	1,434	200	180
Borrower activity abroad									
Public - commercial									
Construction and real estate	**-**	**-**	**-**	-	-	-	-	-	-
Other commercial	**-**	**-**	**-**	-	-	-	1	10	10
Total commercial	**-**	**-**	**-**	-	-	-	1	10	10
Private individuals	**-**	**-**	**-**	-	-	-	-	-	-
Total public - activity abroad	**-**	**-**	**-**	-	-	-	1	10	10
Banks abroad	**-**	**-**	**-**	-	-	-	-	-	-
Governments abroad	**-**	**-**	**-**	-	-	-	-	-	-
Total activity abroad	**-**	**-**	**-**	-	-	-	1	10	10
Total public	**1,327**	**130**	**126**	1,579	129	119	1,435	210	190
Total banks	**-**	**-**	**-**	-	-	-	-	-	-
Total governments	**-**	**-**	**-**	-	-	-	-	-	-
Total	**1,327**	**130**	**126**	1,579	129	119	1,435	210	190

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

(2) For details regarding initial implementation of an update of instructions of the Supervisor of Banks in the matter of the restructure of problematic debt, see Note 1.C(4).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts(1) (Cont'd)

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

Consolidated	Restructuring failed (2)					
	For the year ended December 31,					
	2016		*2015		*2014	
C. Problematic debt restructuring(4)	Number of contracts	Balance of debt recorded	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	**13**	**-**	17	6	23	3
Construction and real estate - real estate activities	**3**	**1**	2	-	2	-
Financial services	**-**	**-**	2	1	4	-
Commercial - other	**174**	**15**	172	10	133	30
Total commercial	**190**	**16**	193	17	162	33
Private individuals - housing loans	**-**	**-**	-	-	-	-
Private individuals - others	**525**	**7**	503	7	430	10
Total public - activity in Israel	**715**	**23**	696	24	592	43
Banks in Israel	**-**	**-**	-	-	-	-
Israeli government	**-**	**-**	-	-	-	-
Total activity in Israel	**715**	**23**	696	24	592	43
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	-	-	-	-
Other commercial	**-**	**-**	2	9	-	-
Total commercial	**-**	**-**	2	9	-	-
Private individuals	**-**	**-**	-	-	-	-
Total public - activity abroad	**-**	**-**	2	9	-	-
Banks abroad	**-**	**-**	-	-		
Governments abroad	**-**	**-**	-	-	-	-
Total activity abroad	**-**	**-**	2	9	-	-
Total public	**715**	**23**	698	33	592	43
Total banks	**-**	**-**	-	-	-	-
Total governments	**-**	**-**	-	-	-	-
Total	**715**	**23**	698	33	592	43

* Reclassified.

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

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debts during the 12 months that preceded the date in which they became debts in arrears.

(3) Starting with the reports for 2015 the Bank applied the amendment of the FAQ regarding impaired debts, credit risk and provision for credit losses, that require among other things that the debts valuated on group basis that were restructured and the restructuring failed, will be written off no longer than 60 days. The Bank implemented the directive from this day forward.

(4) For details regarding initial implementation of an update of instructions of the Supervisor of Banks in the matter of the restructure of problematic debt, see Note 1.C(4).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (Cont'd)

3. Additional information regarding housing loans

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

	December 31, 2016			
	Balance of housing loans			
	Total	Of which: bullet and balloon	OF which: floating interst rate	Total Off-balance sheet credit risk
First lien financing rate				
LTV - Up to 60%	**15,381**	**391**	**9,445**	**827**
LTV - Over 60%	**6,319**	**100**	**4,179**	**313**
Secondary lien or no lien	**41**	**-**	**24**	**12**
Total	**21,741**	**491**	**13,648**	**1,152**

	December 31, 2015			
	Balance of housing loans			
	Total	Of which: bullet and balloon	OF which: floating interst rate	Total Off-balance sheet credit risk
First lien financing rate				
LTV - Up to 60%	14,017	435	8,792	1,076
LTV - 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

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

(NIS millions)

C. Classification of Credit and Credit Risk of Off-Balance Sheet Items by Size of Borrowers

Consolidated		2016			2015		
Size of credit per borrower		Number of borrowers (5)	Credit(2)(3)	Off-balance sheet credit risk (2)(4)	Number of borrowers (5)	Credit(2)(3)	Off-balance sheet credit risk (2)(4)
NIS thousands				NIS million			NIS million
	Up to 10	**190,503**	**273**	**661**	176,382	281	606
From 10	to 20	**74,390**	**432**	**810**	72,247	446	700
From 20	to 40	**93,635**	**1,202**	**1,741**	93,678	1,245	1,577
From 40	to 80	**97,408**	**3,036**	**2,817**	98,762	3,100	2,638
From 80	to 150	**72,216**	**5,440**	**2,720**	71,388	5,252	2,617
From 150	to 300	**46,717**	**7,604**	**2,292**	45,017	7,223	2,183
From 300	to 600	**25,942**	**9,599**	**1,546**	24,733	9,013	1,554
From 600	to 1,200	**16,101**	**11,512**	**1,701**	14,593	10,063	1,991
From 1,200	to 2,000	**3,287**	**4,030**	**878**	3,085	3,700	943
From 2,000	to 4,000	**1,674**	**3,574**	**1,036**	1,605	3,372	1,126
From 4,000	to 8,000	**850**	**3,356**	**1,325**	806	3,170	1,302
From 8,000	to 20,000	**627**	**5,381**	**2,252**	610	5,188	2,331
From 20,000	to 40,000	**250**	**4,172**	**2,604**	250	4,231	2,632
From 40,000	to 200,000	**232**	**12,086**	**7,057**	219	11,144	6,518
From 200,000	to 400,000	**26**	**4,561**	**1,974**	29	5,016	2,323
From 400,000	to 800,000	**5**	**1,960**	**582**	5	2,051	359
From 800,000	to 1,200,000	**1**	**800**	**6**	1	999	3
From1,200,000	to 1,600,000	**-**	**-**	**-**	1	(6)1,238	(6)316
Over 1,600,000		**1**	(6)**1,625**	(6)**279**	-	-	-
Total		**623,865**	**80,643**	**32,281**	603,411	76,732	31,719

(1) Specific consolidation was done in the five highest ranges. The total credit per borrower was calculated based on the sum of the credit and off-balance sheet credit risk items in the Bank and its subsidiaries.

(2) Credit and off-balance sheet credit risk are presented before the effect of the provision for credit losses, and before the effect of deductible collateral for the purposes of the indebtedness of a borrower.

(3) Credit to the public, investments in corporate bonds, other assets in respect of derivative instruments against the public, at a total of NIS 78,175 million, NIS 1,516 million and NIS 952 million, respectively (31.12.2015 - NIS 73,379 million, NIS 2,173 million and NIS 1,180 million, respectively).

(4) Credit risk relating to off-balance sheet financial instruments as calculated for the purpose of the limitation on indebtedness of a borrower.

(5) The number of borrowers according to the total credit and off-balance sheet credit risk.

(6) The total of credit and off-balance sheet credit risk, less collateral eligible for deduction for the purpose of limitation on indebtedness of a single borrower, amounts to NIS 718 million (31.12.2015 - NIS 681 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

D. Off-balance sheet financial instruments

	Consolidated				The Bank			
	Balance of contracts(1)		Balance of provision for credit losses		Balance of contracts(1)		Balance of provision for credit losses	
	December 31				December 31			
	2016	2015	2016	2015	2016	2015	2016	2015
Transactions the balance of which represents credit risk:								
Documentary credit	**119**	130	**1**	-	**110**	123	**1**	-
Guarantees securing credit	**1,022**	972	**10**	11	**655**	721	**8**	8
Guarantees to home purchasers (including commitments to provide guarantees)	**2,859**	2,614	**11**	14	**2,728**	1,985	**9**	11
Guarantees and letters of indemnity to subsidiaries to secure credit granted by them	**-**	-	**-**	-	**80**	156	**-**	-
Guarantees and other liabilities	**3,833**	3,529	**17**	22	**3,544**	3,166	**16**	21
Unutilized credit lines for derivatives instruments	**2,857**	*2,629	**-**	-	**2,855**	*2,627	**-**	-
Unutilized revolving credit and other on-call credit facilities	**10,806**	11,560	**17**	21	**8,047**	8,409	**15**	18
Irrevocable commitments to grant credit, not yet executed	**4,658**	3,595	**4**	4	**3,254**	2,164	**3**	3
Unutilized credit lines for credit card facilities	**6,361**	6,509	**4**	5	**3,148**	2,898	**3**	3
Facilities for the lending of securities	**190**	110	**-**	-	**190**	110	**-**	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses (see Note 25.3(D,E)).	**139**	254	**-**	-	**139**	254	**-**	-
Commitments to issue guarantees	**1,978**	1,513	**7**	8	**1,802**	1,397	**7**	7
Transactions the stated amount of which does not represents credit risk:								
Guarantees (including guarantees to the courts for claims which may arise upon the occurrence of certain events) and letters of indemnity(2)	**107**	104	**-**	-	**107**	104	**-**	-

* Restated. As from December 31, 2016, non-utilized FOREX and IRS facility balances are multiplied by their potential future exposure coefficient, in accordance with Proper Conduct of Banking Business Directive No. 203. The comparative data has been restated

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.
(2) In addition, the Bank provided the courts with letters of self undertaking unlimited in amounts, given in connection with legal proceedings, in order to secure compensation for the damage to the defendants in the event that the action against them is dismissed or the legal proceedings terminated because of any other reason.

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES

(NIS million)

Consolidated							December 31, 2016
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	27,245	80	1,108	401	316	-	29,150
Securities	6,966	1,667	6,112	775	78	178	15,776
Securities which were borrowed	414	-	-	-	-	-	414
Credit to the public, net(3)	62,356	10,142	3,069	980	332	449	77,328
Credit to the government	36	618	-	-	-	-	654
Investee companies	-	-	-	-	-	514	514
Premises and equipment	-	-	-	-	-	1,133	1,133
Intangible assets and goodwill	-	-	-	-	-	243	243
Assets in respect of derivative instruments	266	50	339	29	22	626	1,332
Other assets	610	37	104	2	10	257	1,020
Assets held for sale	17	-	104	48	129	45	343
Total assets	97,910	12,594	10,836	2,235	887	3,445	127,907
Liabilities							
Deposits from the public	77,324	6,125	16,230	4,454	1,222	462	105,817
Deposits from banks	467	-	242	30	16	-	755
Deposits from the Government	266	172	67	64	1	-	570
Bonds and subordinated capital notes	716	5,085	-	-	-	-	5,801
Liabilities in respect of derivative instruments	345	39	290	50	22	610	1,356
Other liabilities	4,449	120	56	6	24	274	4,929
Liabilities held for sale	50	-	469	171	55	-	745
Total liabilities	83,617	11,541	17,354	4,775	1,340	1,346	119,973
Difference	14,293	1,053	(6,518)	(2,540)	(453)	2,099	7,934
Hedging financial instruments							
Derivative instruments (not including options)	234	-	-	-	(234)	-	-
Non-hedging derivatives:							
Derivative instruments (not including options)	(9,841)	(239)	6,564	2,805	711	-	-
Options in the money, net (in terms of underlying asset)	337	-	(72)	(277)	12	-	-
Options out of the money, net (in terms of underlying asset)	(80)	-	147	(58)	(9)	-	-
Total	4,943	814	121	(70)	27	2,099	7,934
Options in the money, net (present value of stated amount)	333	-	(62)	(293)	22	-	-
Options out of the money, net (present value of stated amount)	(454)	-	650	(173)	(23)	-	-

(1) Including linked to foreign currency.

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

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

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

Consolidated							December 31, 2015
	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 companies		-	-	-	-	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	-	-

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

The bank							December 31, 2016
	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	**21,581**	**316**	**969**	**287**	**179**	**-**	**23,332**
Securities	**5,648**	**1,138**	**5,881**	**616**	**66**	**174**	**13,523**
Securities which were borrowed	**414**	**-**	**-**	**-**	**-**	**-**	**414**
Credit to the public, net(3)	**46,933**	**9,674**	**2,849**	**880**	**308**	**449**	**61,093**
Credit to the government	**7**	**-**	**-**	**-**	**-**	**-**	**7**
Investee companies	**-**	**206**	**-**	**-**	**-**	**2,335**	**2,541**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**1,019**	**1,019**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**219**	**219**
Assets in respect of derivative instruments	**269**	**50**	**341**	**41**	**16**	**625**	**1,342**
Other assets	**446**	**1**	**103**	**2**	**-**	**232**	**784**
Assets held for sale	**-**	**-**	**-**	**-**	**-**	**45**	**45**
Total assets	**75,298**	**11,385**	**10,143**	**1,826**	**569**	**5,098**	**104,319**
Liabilities							
Deposits from the public	**58,490**	**5,462**	**14,868**	**3,985**	**1,136**	**462**	**84,403**
Deposits from banks	**2,003**	**528**	**670**	**319**	**56**	**-**	**3,576**
Deposits from the Government	**69**	**172**	**55**	**-**	**-**	**-**	**296**
Bonds and subordinated capital notes	**-**	**4,019**	**-**	**-**	**-**	**-**	**4,019**
Liabilities in respect of derivative instruments	**344**	**39**	**298**	**51**	**12**	**612**	**1,356**
Other liabilities	**2,593**	**108**	**43**	**5**	**-**	**269**	**3,018**
Total liabilities	**63,499**	**10,328**	**15,934**	**4,360**	**1,204**	**1,343**	**96,668**
Difference	**11,799**	**1,057**	**(5,791)**	**(2,534)**	**(635)**	**3,755**	**7,651**
Hedging derivatives							
Derivative instruments (not including options)	**234**	**-**	**-**	**-**	**(234)**	**-**	**-**
Non-hedging derivatives:							
Derivative instruments (not including options)	**(9,011)**	**(269)**	**5,784**	**2,805**	**691**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**337**	**-**	**(72)**	**(277)**	**12**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**(80)**	**-**	**147**	**(58)**	**(9)**	**-**	**-**
Total	**3,279**	**788**	**68**	**(64)**	**(175)**	**3,755**	**7,651**
Options in the money, net (present value of stated amount)	**333**	**-**	**(62)**	**(293)**	**22**	**-**	**-**
Options out of the money, net (present value of stated amount)	**(454)**	**-**	**650**	**(173)**	**(23)**	**-**	**-**

* Reclassified.

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

(NIS million)

The bank							*December 31, 2015
	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	22,314	349	1,728	386	139	-	24,916
Securities	4,966	1,073	6,763	302	102	245	13,451
Securities which were borrowed	353	-	-	-	-	-	353
Credit to the public, net(3)	39,061	10,081	3,489	1,031	170	631	54,463
Investee companies	-	343	-	-	-	2,664	3,007
Premises and equipment	-	-	-	-	-	1,080	1,080
Intangible assets and goodwill	-	-	-	-	-	207	207
Assets in respect of derivative instruments	283	53	348	88	22	861	1,655
Other assets	552	5	16	-	-	303	876
Total assets	67,529	11,904	12,344	1,807	433	5,991	100,008
Liabilities							
Deposits from the public	50,862	6,215	18,261	2,963	1,262	640	80,203
Deposits from banks	2,307	574	590	285	53	-	3,809
Deposits from the Government	128	89	59	-	-	-	276
Bonds and subordinated capital notes	-	3,841	-	-	-	-	3,841
Liabilities in respect of derivative instruments	298	61	345	86	12	852	1,654
Other liabilities	2,281	151	52	5	1	336	2,826
Total liabilities	55,876	10,931	19,307	3,339	1,328	1,828	92,609
Difference	11,653	973	(6,963)	(1,532)	(895)	4,163	7,399
Hedging derivatives							
Derivative instruments (not including options)	394	-	-	-	(394)	-	-
Non-hedging derivatives:							
Derivative instruments (not including options)	(8,739)	(604)	6,675	1,738	930	-	-
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	3,130	369	99	(4)	(358)	4,163	7,399
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	-	-

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1) - CONSOLIDATED

	Future expected cash flows				
	December 31, 2016				
	On demand and up to one month(5)	One to three months(5)	Three months to one year(5)	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	**41,915**	**8,262**	**12,957**	**10,124**	**8,944**
Liabilities	**67,742**	**4,917**	**12,225**	**2,987**	**3,496**
Difference	**(25,827)**	**3,345**	**732**	**7,137**	**5,448**
Derivative instruments (except options)	**(6,911)**	**(1,416)**	**(1,430)**	**(111)**	**(21)**
Options (in terms of underlying assets)	**30**	**184**	**65**	**-**	**-**
Difference after effect of derivative instruments	**(32,708)**	**2,113**	**(633)**	**7,026**	**5,427**
Foreign currency					
Assets	**3,474**	**2,080**	**3,649**	**1,534**	**1,040**
Liabilities	**19,337**	**2,015**	**2,241**	**271**	**69**
Difference	**(15,863)**	**65**	**1,408**	**1,263**	**971**
Of which: Difference in U.S. dollar	**(11,246)**	**(209)**	**1,438**	**1,074**	**823**
Of which: Difference in respect of foreign operations	**(199)**	**108**	**27**	**17**	**15**
Derivative instruments (except options)	**6,911**	**1,416**	**1,430**	**111**	**21**
Options (in terms of underlying assets)	**(30)**	**(184)**	**(65)**	**-**	**-**
Difference after effect of derivative instruments	**(8,982)**	**1,297**	**2,773**	**1,374**	**992**
Total					
Assets*	**45,389**	**10,342**	**16,606**	**11,658**	**9,984**
Liabilities**	**87,079**	**6,932**	**14,466**	**3,258**	**3,565**
Difference	**(41,690)**	**3,410**	**2,140**	**8,400**	**6,419**
* Of which: Credit to the public	**15,834**	**8,538**	**10,879**	**9,087**	**7,256**
** Of which: Deposits from the public	**83,008**	**5,915**	**12,357**	**2,067**	**869**

	*December 31, 2015				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets	46,087	10,285	14,550	13,367	8,077
Liabilities	86,586	7,449	11,889	3,093	1,901
Difference	(40,499)	2,836	2,661	10,274	6,176

* Reclassified.

(1) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.

(2) Including overdue amounts of NIS 637 million (31.12.15 - NIS 333 million).

(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.

(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this Note in respect of a financial item, to its stated balance.

(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 5,119 million (31.12.2015 - NIS 4,988 million). Credit in excess of credit facility in the amount NIS 567 million, classified without maturity date (31.12.2015 - NIS 259 million).

	Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Balance-sheet balance [3]		Contractual return rate[4]
							Without maturity date[2][5]	Total	
								NIS million	Percent
	6,677	**4,816**	**13,928**	**9,324**	**2,136**	**119,083**	**587**	**110,607**	**2.63**
	1,894	**1,083**	**1,792**	**155**	**115**	**96,406**	**81**	**95,143**	**1.90**
	4,783	**3,733**	**12,136**	**9,169**	**2,021**	**22,677**	**506**	**15,464**	
	(20)	**-**	**-**	**-**	**-**	**(9,909)**	**-**	**(9,846)**	
	-	**-**	**-**	**-**	**-**	**279**	**-**	**257**	
	4,763	**3,733**	**12,136**	**9,169**	**2,021**	**13,047**	**506**	**5,875**	
	596	**339**	**2,075**	**31**	**5**	**14,823**	**70**	**13,855**	**2.67**
	56	**43**	**152**	**7**	**-**	**24,191**	**-**	**23,484**	**1.46**
	540	**296**	**1,923**	**24**	**5**	**(9,368)**	**70**	**(9,629)**	
	340	**249**	**1,294**	**15**	**1**	**(6,221)**	**60**	**(6,601)**	
	16	**-**	**-**	**-**	**4**	**(12)**	**-**	**205**	
	20	**-**	**-**	**-**	**-**	**9,909**	**-**	**9,846**	
	-	**-**	**-**	**-**	**-**	**(279)**	**-**	**(257)**	
	560	**296**	**1,923**	**24**	**5**	**262**	**70**	**(40)**	
	7,273	**5,155**	**16,003**	**9,355**	**2,141**	**133,906**	**657**	**124,462**	**2.63**
	1,950	**1,126**	**1,944**	**162**	**115**	**120,597**	**81**	**118,627**	**1.88**
	5,323	**4,029**	**14,059**	**9,193**	**2,026**	**13,309**	**576**	**5,835**	
	5,513	**4,146**	**12,341**	**8,951**	**1,989**	**84,534**	**552**	**76,879**	**2.81**
	823	**264**	**263**	**26**	**-**	**105,592**	**-**	**105,355**	**0.93**

	Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Without maturity date[2]	Total	Contractual return rate[4]
								NIS million	Percent
	7,490	5,803	13,760	8,514	1,837	129,770	795	121,456	2.53
	3,277	1,668	1,483	263	386	117,995	98	115,979	2.01
	4,213	4,135	12,277	8,251	1,451	11,775	697	5,477	

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1) - THE BANK (CONT'D)

	Future expected cash flows				
	December 31, 2016(5)				
	On demand and up to one month(5)	One to three months(5)	Three months to one year(5)	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	**34,982**	**5,846**	**9,609**	**7,113**	**6,188**
Liabilities	**49,028**	**3,900**	**10,864**	**3,019**	**3,615**
Difference	**(14,046)**	**1,946**	**(1,255)**	**4,094**	**2,573**
Derivative instruments (except options)	**(6,911)**	**(616)**	**(1,431)**	**(111)**	**(21)**
Options (in terms of underlying assets)	**30**	**184**	**65**	**-**	**-**
Difference after effect of derivative instruments	**(20,927)**	**1,514**	**(2,621)**	**3,983**	**2,552**
Foreign currency					
Assets	**2,774**	**1,637**	**3,498**	**1,507**	**962**
Liabilities	**17,145**	**1,950**	**2,104**	**258**	**74**
Difference	**(14,371)**	**(313)**	**1,394**	**1,249**	**888**
Of which: Difference in U.S. dollar	**(10,175)**	**(391)**	**1,414**	**1,069**	**751**
Derivative instruments (except options)	**6,911**	**616**	**1,431**	**111**	**21**
Options (in terms of underlying assets)	**(30)**	**(184)**	**(65)**	**-**	**-**
Difference after effect of derivative instruments	**(7,490)**	**119**	**2,760**	**1,360**	**909**
Total					
Assets*	**37,756**	**7,483**	**13,107**	**8,620**	**7,150**
Liabilities**	**66,173**	**5,850**	**12,968**	**3,277**	**3,689**
Difference	**(28,417)**	**1,633**	**139**	**5,343**	**3,461**
* Of which: Credit to the public	**13,796**	**5,908**	**7,759**	**6,526**	**5,273**
** Of which: Deposits from the public	**63,208**	**5,157**	**10,779**	**1,743**	**1,272**

	Future expected cash flows				
	*December 31, 2015				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets	37,731	7,043	10,413	10,163	5,747
Liabilities	65,095	6,458	9,876	2,708	1,657
Difference	(27,364)	585	537	7,455	4,090

* Reclassified.

(1) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.

(2) Including overdue amounts of NIS 586 million (31.12.15 - NIS 253 million).

(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.

(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this Note in respect of a financial item, to its stated balance.

(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 3,742 million (31.12.2015 - NIS 3,314 million). Credit in excess of credit facility in the amount NIS 524 million, classified without maturity date (31.12.2015 - NIS 157 million).

Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Balance-sheet balance (3) Without maturity date(2)(5)	Total	Contractual return rate(4)
							NIS million	Percent
4,300	**3,689**	**11,494**	**8,793**	**2,133**	**94,147**	**435**	**86,834**	**2.63**
1,769	**1,053**	**1,611**	**107**	**110**	**75,076**	**81**	**73,856**	**2.03**
2,531	**2,636**	**9,883**	**8,686**	**2,023**	**19,071**	**354**	**12,978**	
(20)	**-**	**-**	**-**	**-**	**(9,110)**	**-**	**(9,046)**	
-	**-**	**-**	**-**	**-**	**279**	**-**	**257**	
2,511	**2,636**	**9,883**	**8,686**	**2,023**	**10,240**	**354**	**4,189**	
551	**309**	**1,875**	**31**	**1**	**13,145**	**69**	**12,387**	**2.68**
66	**59**	**143**	**7**	**-**	**21,806**	**-**	**21,469**	**1.58**
485	**250**	**1,732**	**24**	**1**	**(8,661)**	**69**	**(9,082)**	
328	**214**	**1,184**	**15**	**1**	**(5,590)**	**59**	**(5,873)**	
20	**-**	**-**	**-**	**-**	**9,110**	**-**	**9,046**	
-	**-**	**-**	**-**	**-**	**(279)**	**-**	**(257)**	
505	**250**	**1,732**	**24**	**1**	**170**	**69**	**(293)**	
4,851	**3,998**	**13,369**	**8,824**	**2,134**	**107,292**	**504**	**99,221**	**2.64**
1,835	**1,112**	**1,754**	**114**	**110**	**96,882**	**81**	**95,325**	**2.00**
3,016	**2,886**	**11,615**	**8,710**	**2,024**	**10,410**	**423**	**3,896**	
4,069	**3,150**	**10,243**	**8,428**	**1,986**	**67,138**	**502**	**60,644**	**2.75**
1,191	**675**	**178**	**12**	**-**	**84,215**	**-**	**83,941**	**1.27**

Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Balance-sheet balance (3) Without maturity date(2)	Total	Contractual return rate(4)
							NIS million	Percent
5,310	3,746	11,085	7,988	1,821	101,047	526	94,017	2.49
3,012	1,609	1,456	194	378	92,443	79	90,781	2.14
2,298	2,137	9,629	7,794	1,443	8,604	447	3,236	

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

	Consolidated				
	December 31, 2016				
	Stated in the Balance Sheet	Fair value(1)			
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	**29,150**	**582**	**28,480**	**84**	**29,146**
Securities(2)	**15,776**	**8,421**	**7,274**	**123**	**15,818**
Securities which were borrowed	**414**	**-**	**414**	**-**	**414**
Credit to the public, net	**77,328**	**2,845**	**1,030**	**73,038**	**76,913**
Credit to the government	**654**	**-**	**36**	**608**	**644**
Assets in respect of derivative instruments	**1,332**	**698**	**386**	**248**	**1,332**
Other financial assets	**484**	**238**	**-**	**246**	**484**
Assets held for sale	**298**	**-**	**-**	**298**	**298**
Total financial assets	(3)**125,436**	**12,784**	**37,620**	**74,645**	**125,049**
Financial liabilities					
Deposits from the public	**105,817**	**1,984**	**87,690**	**16,248**	**105,922**
Deposits from Banks	**755**	**-**	**729**	**28**	**757**
Deposits from the Government	**570**	**173**	**323**	**90**	**586**
Bonds and non-convertible subordinated capital notes	**5,801**	**5,165**	**-**	**848**	**6,013**
Liabilities in respect of derivative instruments	**1,356**	**698**	**616**	**42**	**1,356**
Other financing liabilities	**3,906**	**491**	**1,030**	**2,383**	**3,904**
Liabilities held for sale	**745**	**-**	**-**	**745**	**745**
Total financial liabilities	(3)**118,950**	**8,511**	**90,388**	**20,384**	**119,283**
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	**33**	**-**	**-**	**33**	**33**
In addition, the liability in respect of employee rights, gross - pension and sverance pay(4)	**1,166**	**-**	**-**	**1,166**	**1,166**

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significatnt 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 12, "Securities".

(3) Of which: assets of NIS 18,609 million and liabilities of NIS 4,020 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32.B-32.D.

(4) The liability in shown gross, without taking into account the plan assets managed against it.

	Consolidated				
	December 31, 2015				
	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	*69,084	72,861
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	70,336	123,167
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

* Reclassified.

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significatnt 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 12, "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 32.B-32.D.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

A. Fair value of financial instruments.

The Note includes information regarding the fair value of financial instruments. There is no quotable “market value” for most of the financial instruments of the Bank since they are not traded in an active market. Therefore, the fair value is derived by accepted pricing models, such as discounting future cash flows at interest rates reflecting the credit risk inherent in the financial instrument.

Determination of fair value, estimated by discounting future cash flows and determining the relative interest rates is subjective. Furthermore, the fair value estimations for most of the financial instruments does not necessarily indicate the realizable value on the reporting date. The estimated fair value was calculated according to interest rates prevailing on balance sheet date and does not consider interest rate fluctuations. Given other interest rate assumptions fair value estimates may differ materially. This is mainly the case where financial instruments have fixed interest rates or do not bear interest.

In addition, in determining fair value, commissions to be received or paid as a result of the said transactions and tax effects, in respect of the gap between the fair value and the balances at the balance sheet, were not taken into consideration.

Furthermore, the difference between the balance sheet and the fair value amounts may not be realized as the Bank may hold the instruments until maturity. As a result of all of these it is necessary to emphasize that the data included in this note does not reflect the net worth of the Bank as a going concern. Also, as a result of the wide range of possible estimation techniques and methods, care should be taken when comparing fair value of different banks.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

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 seperated into homogenus 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, or issuing similar capital notes (if a quoted price on an active market is not available) 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 or on traders' quotations regarding a similar liability traded as an asset on an active market.

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 32B - ITEMS MEASURED AT FAIR VALUE

(NIS million)

A. Items measured at fair value on a recurrent basis

	December 31, 2016				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	5,504	1,930	-	-	7,434
Government bonds - Foreign governments	-	2,918	-	-	2,918
Bonds of financial institutions in Israel	259	-	-	-	259
Bonds of foreign financial institutions	-	1,406	-	-	1,406
Mortgage backed securities (MBS)	-	409	-	-	409
Bonds of others in Israel	524	194	-	-	718
Bonds of foreign others	-	23	-	-	23
Shares of others	48	4	-	-	52
Total available for sale securities	6,335	6,884	-	-	13,219
Trading Securities:					
Government bonds - Israeli government	946	-	-	-	946
Bonds of financial institutions in Israel	4	-	-	-	4
Bonds of foreign financial institutions	-	4	-	-	4
Bonds of others in Israel	7	-	-	-	7
Bonds of foreign others	-	11	-	-	11
Shares of others	3	-	-	-	3
Total trading securities	960	15	-	-	975
Credit in respect of security borrowing	2,845	-	-	-	2,845
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	23	-	23
Interest rate contract: other	15	213	10	-	238
Foreign currency contracts	73	157	215	-	445
Shares contracts	609	16	-	-	625
Commodities and other contracts	1	-	-	-	1
Total assets in respect of derivative instruments	698	386	248	-	1,332
Assets in respect of MAOF activity	238	-	-	-	238
Total assets	11,076	7,285	248	-	18,609
Liabilities					
Deposits in respect of borrowing between customers	1,984	-	-	-	1,984
Deposits from the Government	173	-	-	-	173
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	3	-	3
Interest rate contract: other	15	264	-	-	279
Foreign currency contracts	73	352	39	-	464
Shares contracts	609	16	-	-	625
Commodities and other contracts	1	-	-	-	1
Total liabilities in respect of derivative instruments	698	632	42	-	1,372
Other liabilities					
Liabilities in respect of activity in the maof market	238	-	-	-	238
Short selling of securities	253	-	-	-	253
Total other liabilites	491	-	-	-	491
Total liabilities	3,346	632	42	-	4,020

NOTE 32B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

A. Items measured at fair value on a recurrent basis

	December 31, 2015				
	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 securities (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 liabilites	495	-	-	-	495
Total liabilities	3,197	643	68	-	3,908

NOTE 32B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

B. Items measured at fair value on a nonrecurrent basis

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

					December 31, 2015
	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 32C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

	For the year ended 31, December 2016							
	Fair value as at December 31, 2015	**Profits (losses) realized and unrealized Included in the profit and loss statement (1)**	**Purchases**	**Payments**	**Transfers to level 3, gross**	**Transfer from level 3, gross**	**Fair value as at December 31, 2016**	**Unrealized profits (losses) in respect of instruments held as at December 31, 2016**
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**27**	**4**	**-**	**(8)**	**-**	**-**	**23**	**3**
Interest rate contract: other	**10**	**5**	**-**	**(5)**	**-**	**-**	**10**	**5**
Commodity and other contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign currency contracts	**241**	**2,017**	**62**	**(2,105)**	**-**	**-**	**215**	**95**
Total assets	**278**	**2,026**	**62**	**(2,118)**	**-**	**-**	**248**	**103**
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**8**	**-**	**-**	**(5)**	**-**	**-**	**3**	**-**
Foreign currency contracts	**60**	**(6)**	**-**	**(27)**	**-**	**-**	**39**	**(6)**
Total liabilities	**68**	**(6)**	**-**	**(32)**	**-**	**-**	**42**	**(6)**

	For the year ended 31, December 2015							
	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)

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

NOTE 32D -QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			as of December 31, 2016		
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	**23**	**0.12**	**(0.04)-0.31**
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	**10**	**1.90**	**1.30-5.01**
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	**52**	**(0.58)**	**(0.98)-0.59**
		2. Counter-party credit risk	**163**	**1.48**	**1.05-5.01**
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	**3**	**(0.35)**	**(0.79)-(0.40)**
Foreign currency contracts	Discounted cash flow	CPI-linked interest	**39**	**(0.50)**	**(0.75)-(0.17)**
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		**66**		

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

NOTE 32D -QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3 (CONT'D)

Qualitative information regarding items measured at fair value at level 3:

- Interest linked to the CPI - A change in the forecasted inflation rate would affect the fair value of CPI linked transactions, such that a rise (decline) in the inflationary forecast would lead to an increase (decrease) in fair value in accordance with the CPI linkage position of the Bank.
- Credit risk of a counterparty - A change in the credit risk of a counterparty to a transaction, such that in as much as the credit risk of a counterparty to a transaction would be higher/lower, the value of the transaction would also be higher/lower.

NOTE 33 - RELATED AND INTERESTED PARTIES

(NIS million)

A. Balances

	December 31, 2016			
	Interest parties(1)			
	Shareholders			
	Controlling shareholders(2)		Others(3)	
	Balance at balance sheet date	Highest balance during the year (5)	Balance at balance sheet date	Highest balance during the year (5)
Cash and deposits with banks	**-**	**-**	**-**	**-**
Securities(9)	**-**	**-**	**-**	**-**
Credit to the public	**-**	**-**	**-**	**-**
Equity basis investees(9)	**-**	**-**	**-**	**-**
Other assets	**-**	**-**	**-**	**-**
Deposits from Banks	**-**	**-**	**-**	**-**
Deposits from the public	**5**	**5**	**-**	**-**
Other liabilities	**-**	**-**	**-**	**-**
Shares (included in shareholders' equity) (10)	**3,539**	**3,583**	**-**	**-**
Credit risk in off- balance sheet financial instrument (9)(11)	**-**	**-**	**-**	**-**

	December 31, 2015			
	Interest parties			
	Shareholders			
	Controlling shareholders		Others(12)	
	Balance at balance sheet date	Highest balance during the year (5)	Balance at balance sheet date	Highest balance during the year (5)
Cash and deposits with banks	-	-	-	64
Securities	-	-	-	-
Credit to the public	-	-	-	-
Equity basis investees	-	-	-	-
Other assets	-	-	16	19
Deposits from Banks	-	-	1	10
Deposits from the public	2	3	-	1
Other liabilities	-	-	3	6
Shares (included in shareholders' equity) (10)	3,419	3,419	656	656
Credit risk in off- balance sheet financial instrument (11)	-	-	23	23

1. The disclosure format in the Note was updated in 2015 in accordance with the circular letter regarding "Disclosure of interested parties and related parties". The comparative data for the year 2014 has not been restated.
2. Note: For notes to the table see page 291.

Interest parties[1]						Related parties held by the Bank[1]			
Office-holders [4]		Others [6]		Whoever was an interested party at the time of the transaction		Equity basis investees [7]		others [8]	
Balance at balance sheet date	Highest balance during the year [5]	Balance at balance sheet date	Highest balance during the year [5]	Balance at balance sheet date	Highest balance during the year [5]	Balance at balance sheet date	Highest balance during the year [5]	Balance at balance sheet date	Highest balance during the year [5]
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**
15	**15**	**-**	**-**	**71**	**86**	**800**	**800**	**2**	**2**
-	**-**	**-**	**-**	**-**	**-**	**514**	**514**	**-**	**-**
-	**-**	**-**	**-**	**6**	**9**	**-**	**1**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
11	**18**	**85**	**86**	**-**	**-**	**3**	**4**	**92**	**125**
31	**31**	**-**	**-**	**-**	**-**	**2**	**3**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3	**4**	**4**	**4**	**-**	**-**	**6**	**6**	**3**	**6**

Interest parties						Related parties held by the Bank			
Key management personnel [13]		Others [14]		Whoever was an interested party at the time of the transaction		Equity basis investees		others [15]	
Balance at balance sheet date	Highest balance during the year [5]	Balance at balance sheet date	Highest balance during the year [5]	Balance at balance sheet date	Highest balance during the year [5]	Balance at balance sheet date	Highest balance during the year [5]	Balance at balance sheet date	Highest balance during the year [5]
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1	3	-	-
9	10	4	5	40	88	200	600	49	72
-	-	-	-	-	-	438	438	-	-
-	-	4	4	-	-	-	1	-	-
-	-	-	-	-	-	-	-	-	-
13	27	30	103	-	-	2	3	1	3
30	30	-	-	-	-	2	2	-	-
-	-	-	-	-	-	-	-	-	-
3	6	9	15	-	-	6	11	-	-

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

(NIS million)

B. Condensed results of transactions with related and interested parties

	Interest parties (1)					
	Shareholders					
	Controling shareholders(2)		Others(3)		Office-holders (4)	
	For the year ended Decmeber 31		For the year ended Decmeber 31		For the year ended Decmeber 31	
Statement of income items	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Net interest income*	**-**	-	**-**	-	**-**	-
Non-interest income	**-**	-	**-**	-	**-**	-
Operating and other expenses**	**-**	-	**-**	-	**35**	33
Total	**-**	-	**-**	-	**(35)**	(33)

	Interest parties (1)		
			Shareholders
	Controling shareholders	**Others(3)**	**Key management personnel(2)**
Statement of income items	**For the year ended Decmeber 31, 2014**		
Net interest income*	-	3	-
Non-interest income	-	1	-
Operating and other expenses**	-	-	36
Total	-	4	(36)

* Details are provided in D below.
** Details are provided in C below.

1. The disclosure format in the Note was updated in 2015 in accordance with the circular letter regarding "Disclosure of interested parties and related parties". The comparative data of 2014 has not been restated.
2. Note: For notes to the table see page 291.

	Interest parties		Related parties held by the Bank [1]			
	Others [6]		Equity basis investees [7]		Others [8]	
	For the year ended Decmeber 31		For the year ended Decmeber 31		For the year ended Decmeber 31	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	-	-	**3**	3	**-**	-
	-	-	**-**	-	**-**	-
	10	11	**1**	2	**-**	-
	(10)	(11)	**2**	1	**-**	-

	Interest parties	Related parties held by the Bank	
	Others[14]	Equity basis investees	Others[15]
	-	3	-
	-	7	-
	12	-	-
	(12)	10	-

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

(NIS million)

C. Benefits to interested parties (by the Bank and its invetees)

	Salaries to interested parties (by the Bank and its investees)*			
	For the year ended Decmeber 31, 2016		For the year ended Decmeber 31, 2015	
	Office-holders(4)		Office-holders(4)	
	Total benefits	Number of Recipients	Total benefits	Number of Recipients
An interested party employed by the Bank	****30**	**17**	**28	17
Directors not employed by the Bank	**5**	**12**	5	13

	Salaries to interested parties (by the Bank and its investees)*	
	For the year ended Decmeber 31, 2014	
	Key management personnel(13)	
	Total benefits	Number of Recipients
An interested party employed by the Bank	**31	18
Directors not employed by the Bank	5	11

* Not including VAT on salary.

** Of which: employee benefits for short term- NIS 26 million (2015 - NIS 26 million, 2014 - NIS 28 million), other benefits after termination of employment - NIS 4 million (2015 - NIS 2 million, 2014 - NIS 3 million).

D. Net interest income in respect of transactions with interested and related parties*

	Consolidated		**of which: investee companies**	
	For the year ended Decmeber 31		**For the year ended Decmeber 31**	
	2016	**2015**	**2016**	**2015**
In respect of assets				
From credit to the public	**3**	3	**3**	3
Total net interest income	**3**	3	**3**	3

	For the year ended Decmeber 31, 2014	
	Consolidated	**of which: investee companies**
In respect of assets		
From credit to the public	2	2
From deposits with banks	3	-
From bonds	1	1
Total net interest income	6	3

* For information regarding the terms of transactions and outstanding balances with related and interested parties, see Note 33E, below.

1. The disclosure format in the Note was updated in 2015 in accordance with the circular letter regarding "Disclosure of interested parties and related parties". The comparative data for the year 2014 has not been restated.
2. Note: For notes to the table see page 291.

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

(NIS million)

The disclosure format in the Note has been updated in accordance with the circular letter in the matter of disclosure regarding interested parties and related parties dated June 10, 2015.

Notes:

(1) Interested party, related party, related person - within the definition in Section 80(d) of the public reporting instructions.

(2) Controlling shareholders and their kin - in accordance with Section 80(d)(1) of the public reporting instructions.

(3) Other shareholders - including whoever holds 5% or more of the means of control of a banking corporation, and whoever is entitled to appoint one or more directors to the board of directors of a banking corporation or its general manager - in accordance with Section 80(d)(2) of the public reporting instructions.

(4) Officers - in accordance with Section 80(d)(3) of the public reporting instructions.

(5) On the basis of the outstanding balance at month-end.

(6) Of which: total assets at balance sheet date in the amount of NIS 79 million (2015- NIS 2 million) and total liabilities at balance sheet date of NIS 80 million (2015- NIS 20 million), in respect of corporations in which, a person or a corporation, included in one of the groups of interested parties according to the Securities Act, holds twenty-five percent or over of their issued share capital or of the voting therein, or is entitled to appoint twenty-five percent or over of their number of directors.

(7) Equity based investees or investees under joint control - in accordance with Section 80(d)(7) of the public reporting instructions.

(8) In accordance with Section 80(d)(8) of the public reporting instructions.

(9) Details of these items are included also in the following Notes: Note 12 - Securities, Note 15 - Investee companies and Note 26 - Guaranties.

(10) Holdings by interested and related parties in the equity of a banking corporation.

(11) Credit risk inherent in off-balance sheet financial instruments, as computed for the purpose of limitations applying to a single borrower.

(12) Including whoever is entitled to appoint one or more directors of the banking corporation or its chief executive officer.

(13) Including their relatives as defined in IAS 24.

(14) Corporations, which a person or corporation included in one of the groups of interested parties, controls them, holds them jointly, has a significant influence or holds 25% or more of their issued share equity or their voting rights or is entitled to appoint 25% or more of the directors.

(15) Parties which are related parties according to IAS 24 and not included in other colomns and party which the activity of the Bank and its subsidiaries are dependent in a significant volume in its activities.

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

E. Aquisition of control of the Bank

On September 19, 2003, the control of FIBI Holding Ltd. (hereinafter - “FIBI”), the parent company of the Bank holding 48.3% of the equity and 67.2% of the voting in the Bank, was transferrd by way of the transfer by Palimon BV (hereinafter - “Palimon”), the owner of 51.89% in the equity and 70.59% of the voting in FIBI, of the said holdings to Binohon Ltd. and the Australian Lieberman Group, divided between them as to 55% to Binohon owned by Mr. Tzadik Bino, and 45% to the Lieberman Group (composed of the Michael and Helen Abeles family and the Lieberman family (Messrs Barry Liebrman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman), by way of Instanz Holdings Ltd. and Dolphin Energies Ltd. in equal parts). The purchasers have between them a voting and cooperation agreement. The sale was effected by an off-market transaction.

The transfer of control was in accordance of a permit issued by the Governor of Bank of Israel on August 27, 2003 to purchase the control and the means to control in FIBI Holdings Ltd. and The First International Bank of Israel Ltd. granted according to the Banking Law (licensing) 1981.

The permit states different condition and liabilities as to the holding of the means of control, their transfer and the relations between the permit holders, FIBI and the Bank.

The permit states that no dividend shall be distributed out of earnings retained by the Bank as of March 31, 2003, and in the event that the Bank would sustain losses subsequent to that date - no dividend shall be distributed until such losses are recovered. The balance of distributable retained earnings as of March 31, 2003 amounted to NIS 2,391 million.

The permit further determines that the appointment of the Chairman of the Bank and of its President and CEO will be subject to approval of the Supervisor of Banks.

It was also provided that the holders of the permit, including their relations and companies under their control, are not to receive any management fee or any other consideration or benefit from the Bank or from companies controlled by the Bank, however, they are entitled to render services which are provided in the usual manner by persons rendering such services and at market prices, after the Supervisor of Banks had been informed of the matter and given his approval, under terms specified in the permit. This provision does not apply to Directors’ remuneration that is paid equally to all Directors.

In accordance with with an amendment to the permit of 2008, the holders in Binohon may be Mr. Zadik Bino and/or his children Messrs Gil Bino, Hadar Bino Shmueli and Daphna Bino Or (hereinafter together – "the Bino children"). In accordance with a report by FIBI, Mr. Zadik Bino and the Bino children hold in equal parts the means of control in Binohon (each of them holding 25%).

On March 24, 2013, Instanz Holdings transferred to Instanz Number 2 Ltd. (hereinafter - "Instanz 2"), in an off-market transaction, 4,139,233 shares in FIBI, comprising 15.77% of the issued and paid share capital of FIBI, being all the holdings of Instanz Holdings in FIBI. Instanz 2 is a company incorporated in Israel being fully owned by Sing Acquisitions Pte. Ltd. (hereinafter - "Sing"), a company incorporated in Singapore, which is wholly owned (through Australian entities) by Messrs. Helen and Michael Abeles, who also fully control Instanz Holdings (through the same Australian entitie). The shares are held in trust for Instanz 2 by Guy Trust and Management Co. Ltd. Upon the transfer of the shares, Instanz 2 joined as a party the shareholder agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz Holdings continues as a party to the shareholder agreement and is a guarantor for the obligations of Instanz 2. In addition the permit was amended that the control of the permit holders mentioned above in FIBI will be by Sing and Instanz 2 instead of Instanz Pty Ltd. and Instanz holdings.

According to a report by FIBI dated August 28, 2016, Dolphin Energies Ltd. sold shares in FIBI anounting to 3.98% of the issued share capital and voting rights of FIBI.

According to FIBI's report, as of the date of the financial statements, the holdings of the controlling shareholders in FIBI (in the equity and voting rights) is as follows: Binohon Ltd.- 38.29%, Instanz number 2 Ltd.- 15.66% and Dolphin Energies Ltd.- 11.68%.

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

F. Agreement between FIBI Holdings Ltd. and Israel Discount Bank Ltd.

To the best knowledge of the Bank, a Letter of Consent dated July 31, 1983, had existed between FIBI and Discount (hereinafter - "the original arrangement"). In addition, on March 28, 2010, an agreemnt was signed between FIBI and Discount regarding the interest of Discount in the Bank (hereinafter in this Section - "the additional agreement"). The additional agreement entered into effect on September 6, 2010, after all the conditions precedent under the law, stated therein, had been fulfilled, including the distribution of dividend by the Bank and obtaining the relevant regulatory approvals. Also completed was the consolidation of the share capital of the Bank.

The principal terms relating to the holdings of Discount in the Bank, in accordance with the original arrangement, the additional agreement and proceedings in accordance therewith, relevant as of date of the report of the financial statements for 2014 are detailed in note 19.F. to the said financial statements.

On February 19, 2015 Discount reported that it sold in off market transaction 7,054,625 shares of the Bank in a price of NIS 49.51 per share (part of the transactions were cleared on February 22, 2015). According to Discount report it was obligated, within the terms of the transaction, not to sell additional shares of the Bank, during a period of 30 days following the transaction an a price lower than the price of the transaction.

In addition, on February 2, 2016 Discount announced that on the previos day it had sold all of the remaining shares of the Bank in its possession (9.28% of the issued equity and voting rights in the Bank). According to the announcement, the sale was made in an off market transaction at a price of NIS 44.70 per share.

After the sale of all of Discount holdings in the Bank, all the arrangement between FIBI and Discount are no longer relevant.

G. Dividend distribution policy

On August 30, 2010, the Bank Board of Directors adopted a dividend distribution policy, and on June 9, 2015 it was amended. According to the amended distribution policy the Bank would distribute annual dividends up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements shall be no less than the target specified, or to be specified, by the Bank Board of Directors from time to time. Past retained earnings shall be distributed by specific resolution. Such distributions shall be made subject to statutory provisions and to proper conduct of banking business, provided that no adverse changes occur to Bank earnings and/or business condition and/or financial condition and/or overall state of the economy and/or to the statutory environment.

Nothing in this resolution shall detract from the Board of Directors' authority to review the policy from time to time and to resolve, at any time, after taking into account business considerations and to statutory provisions applicable to the Bank, to change the policy or to change the dividend amount to be distributed for any specific period, or to resolve not to distribute any dividend at all.

It is hereby clarified that any dividend distribution (including pursuant to the aforementioned resolutions) shall be subject to specific approval by the Board of Directors and to all restrictions applicable to the Bank with regard to dividend distribution, and shall be made public with all required details in accordance with statutory provisions.

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

It is noted that a dividend distribution by the Bank is subject, in addition to provision of the Companies Act, to the following additional restrictions:

- Proper Conduct of Banking Business Directive No. 331, whereby a banking corporation may not distribute dividends upon any of the following cases (unless the prior consent of the Supervisor of Banks is obtained): (1) if the cumulative retained earnings, net of differences in debit included in other cumulative comprehensive profit, as per the financial statements, is not positive, or such distribution would cause it to not be positive; (2) if one or more of the three most recent calendar years ended with a loss or with a comprehensive loss; (3) if a loss or a comprehensive loss is indicated by the cumulative results of the three quarters ending at the end of the interim period for which the most recent financial statements were published; (4) if the Bank's financial statements show non-monetary assets in excess of shareholders' equity, or should such distribution result in such condition. In any case, the distribution is contingent on compilation of a written forecast for the year following the dividend distribution, provided that such forecast would show that the banking corporation's ratio of capital to risk assets shall not be lower than the required minimum, thereof.
- Proper Conduct of Banking Business Directives which include guidelines regarding the manner of calculation of minimal capital ratio requirements. Proper Conduct of Banking Business Directive No. 201 requires that as from January 1, 2015, the minimal ratio of Tier 1 equity capital to risk assets will be 9% and the ratio of comprehensive capital to risk assets will be 12.5%. Other ratios and dates, which do not apply to the Bank, were determined for banking corporations with stated consolidated assets that equal or exceed 20% of total assets of the banking sector as a whole.
- "Restrictions on extending housing loans"- as a result of the application of the amendment to Proper Conduct of Banking Business Directive No. 329, it is required to raise the target the Tier 1 equity capital and the target of the comprehensive capital by a rate reflecting 1% of the outsatanding balance of housing loans. The increase of the target will be in fixed instalment from January 1, 2015 until January 1, 2017.
- A letter addressed to the Bank by the Supervisor of Banks requires the Bank to inform the Supervisor in advance as to the intention to distribute a dividend in an amount exceeding 33% of the annual profit.
- The permit by the Governor of Bank of Israel issued in 2003 stipulated that no dividends may be distributed out of earnings accrued by the Bank through March 31, 2003 (which amounted to NIS 2,391 million), and that if any loss would be accrued after said date, no dividends may be distributed until such loss is recouped.
- Terms and conditions of subordinated capital notes issued by the Bank to institutional investors on May 25, 2009 with respect to a deposit amounting to NIS 235 million, which those institutional investors deposited with the Bank. In accordance with Bank of Israel permit, the aforementioned capital notes are considered upper secondary capital of the Bank. Determined in the capital notes is a mechanism for the absorption of losses on a current basis in accordance with the directives of the Supervisor of Banks. Under this mechanism, interest will not be paid if at the relevant date for its payment, suspending circumstances, as defined in the capital notes, exist. It was determined in this respect that the Bank will not pay a dividend for as long as the interest payments, which had been suspended, as stated, if at all, have not been paid in full.

  As regards dividend distributions in the years 2014- 2015 and 2016 see Note 24A.

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

H. (1) The employment agreement of the CEO, Ms. Smadar Berber-Tsadik, was for a period of five years, starting on March 19, 2007, with a provision that at the end of the initial period of the agreement, the agreement will continue for an unspecified period, and each party will be entitled to bring about its termination by means of a written notice of three months in advance. Following the publication of the Compensation of Officers of Financial Corporations (Special permit and the nondeductibility tax wise of exceptional compensation) Act, 2016 (hereinafter – "the Compensation Act"), the General Meeting of Shareholders approved on November 20, 2016 the terms of employment of the CEO of the Bank, Ms. Smadar Berber-Tsadik. These terms apply as from October 12, 2016 (hereinafter – "the beginning date"), taking into consideration the provisions of the Compensation Act (hereinafter – "the terms of employment"), with nothing in the employment terms detracting from the rights of the CEO accumulated prior to the beginning date (including the variable compensation in respect of 2016).

In accordance with the employment terms, the maximum annual fixed compensation of the CEO of the Bank shall equal the maximum amount stated in Section 2(a) of the Compensation Act (not including payments and allowances in respect of severance compensation and pension in accordance with statutory provisions, as detailed in the terms of employment). To the extent that the permissible maximum amount in accordance with the Compensation Act (including in accordance with Section 2(a) of the Act) allows, the component of fixed compensation of the CEO will be increased by an additional fixed component, which is not to exceed the amount of 2.5 salaries per year. In respect of the additional fixed compensation component, the Bank shall provide for payments and allowances in respect of severance compensation and pension in accordance with statutory provisions.

The salary of the CEO is linked to the CPI in accordance with the Compensation Act. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. The CEO is entitled to social benefits, executive insurance or to a provident fund, to a further education fund, to recreation pay and to the reimbursement of expenses incurred in the line of her duties, and to annual vacation and sick leave in accordance with her employment terms. The CEO is entitled to a company car. The CEO is entitled to changes in her monthly salary and/or in the related benefits, subject to parallel changes and adjustments, and subject to any statutory provisions and the stated maximum compensation (as defined in the employment terms).

In accordance with the employment terms, the Bank or the CEO are entitled to inform the other party, at any time during the employment period, of the termination of the employment, by giving a prior notice of three months. During the period of the prior notice, if the CEO continues in office, she would be entitled to a monthly salary and related benefits. The cost of the monthly salary and of the related benefits during the period of advance notice, has been provided in full in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, if the Bank decides not to continue the employment of the CEO during the period of advance notice.

The terms of employment define a non-competition period of three months with full pay, the cost of which as part of the previous employment terms of the CEO, had been provided in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, in the case of termination of employer/employee relations in accordance with the terms of employment.

The Compensation Committee and the Board of Directors are entitled to grant to the CEO an annual award not exceeding the amount of two monthly salaries, if in their opinion justifiable reasons exist, and subject to the maximum amount permitted by Section 2(b) of the Compensation Act.

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

In respect of her period of employment as from the beginning date, the CEO would be entitled to severance pay in accordance with the Severance Pay Act, 1963, and Regulations under it, based on the monthly salary in effect on date of termination of employer/employee relations, or to the funds and right accumulated to her credit under the pension arrangements in respect of the allowances for severance compensation during the period following the beginning date, the higher of the two. The CEO is entitled to severance compensation in accordance with statutory provisions and to enlarged severance compensation for the period of her employment up to the beginning date, which had been provided on a current basis in the financial statements of the Bank until the beginning date, had been deposited to her credit with appropriate Funds and would be released to in her favor at date of termination of employment relations.

(2) The engagement agreement with the outgoing Chairman of the Board, Mr. Rony Hezkiyahu, was for a specified period of two years (which terminated in May 2014), following which, the agreement continued for an unspecified period, and each party was entitled to bring about its termination by an advance notice of three months.

On November 20, 2016, the outgoing Chairman of the Board informed of his intention to terminate his office of Chairman of the Board of the Bank. On December 5, 2016, in view of the appointment of the outgoing Chairman of the Board to a public office and following his request to terminate his office as Chairman of the Bank on December 31, 2016, the Board of Directors stated and approved that employer/employee relations between the Bank and the outgoing Chairman of the Board would terminate on December 31, 2016, and that the outgoing Chairman of the Board would terminate his office on that date.

In accordance with the decision of the Supreme Court dated September 29, 2016, in the matter of the Compensation Act (HCJ 4406/16), senior officers of banking corporations, who announce their retirement from office at these corporations until January 1, 2017, shall not loose their entitlement to receive the full rights due to them in respect of the termination of employer/employee relations or in respect of termination of office, had these relations been terminated within the period of organization. Accordingly, the outgoing Chairman of the Board received a payment in full in respect of all the rights that would have been due to him in respect of the termination of employer/employee relations or termination of office, had these been terminated prior to October 12, 2016, namely, in accordance with the original terms of office and employment of the Chairman of the Board, which had already been provided for in the financial statements of the Bank. The forecasted expense in respect of compensation for the period from October 12, 2016 and November 20, 2016 (date of the notice given by the outgoing Chairman) did not exceed the maximum annual amount of NIS 2.5 million, as determined by the Compensation Act, considering the proportionate part of the year and the period, as stated. As from November 20, 2016 (date of the notice of the outgoing Chairman), the termination of employment terms according to the original terms of office and employment apply. In this respect, the outgoing Chairman was paid, inter alia, 200% of the severance compensation amount in accordance with the Severance Compensation Act, 1963 and Regulations under it, on the basis of his monthly salary in effect before the date of entry into effect of the Compensation Act. In accordance with the approval of the Compensation Committee and the Board of Directors, and in view of the employment agreement with the outgoing Chairman, the Bank paid to the outgoing Chairman of the Board, in one single payment proximate to the date of termination of employer/employee relations, a part of the balance of cost of the early notice (which had been provided in full in the financial statements of the Bank prior to the beginning date), in place of the period from January 1, 2017 and January 31, 2017, only.

The outgoing Chairman of the Board has been paid the cost of the non-competition period of three months (with no related benefits except for a company car) (as determined in the employment agreement, and which had been provided for in full in the financial statements of the Bank).

NOTE 33 - RELATED AND INTERESTED PARTIES (CONT'D)

(3) The engagement terms of the incoming Chairperson of the Board, Ms. Irit Isaacson, are for an unspecified period, which may be terminated by either party by a prior written notice of three months. On February 23, 2017, the General Meeting of Shareholders of the Bank approved the terms of engagement of the incoming Chairperson of the Board, as from January 1, 2017. The maximum amount of the fixed annual compensation of the incoming Chairperson would be NIS 2.26 million (excluding payments and allowances in respect of severance compensation and pension in accordance with statutory provisions and excluding an allowance in respect of the non-competition period, as detailed in the engagement terms).

The salary of the incoming Chairperson of the Board is linked to the Consumer Price Index in accordance with the Compensation Act. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. The incoming Chairperson of the Board is entitled to social benefits, executive insurance or to a provident fund, to a further education fund, to recreation pay and to the reimbursement of expenses incurred in the line of her duties, and to annual vacation and sick leave in accordance with her engagement terms. The Chairperson of the Board is entitled to a company car. The incoming Chairperson of the Board is entitled to changes in her monthly salary and/or in the related benefits, subject to parallel changes and adjustments, and subject to any statutory provisions and the stated maximum fixed compensation (as defined in the engagement terms).

The engagement terms of the Chairperson of the Board define a gradual non-competition period carrying a full salary (with no related benefits except for a company car), of one month in case the termination of office occurs during the first year of engagement, of two months in case the termination of office occurs during the second year of engagement, and of three months in case the termination of office occurs during the third year of engagement or thereafter. The Board of Directors has the right to waive the period of non-competition or a part thereof, and in such a case the Chairperson of the Board would not be entitled to the payment, as above.

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BOARD OF DIRECTORS

Mrs. Irit Izakson, Chairperson (since 1.1.2017)

Mr. Rony Hizkiaho, Chairman (until 31.12.2016)

Mr. Zadik Bino

Mr. David Assia

Mrs. Pnina Bitterman-Cohen

Mr. Gil Bino

Mr. Zeev Ben Asher

Mr. Dov Goldfriend

Mr. Joseph Horowitz

Mrs. Dalia Lev

Mr. Jacob Sitt

Mr. Ilan (Eilon) Aish

Mr. Menachem Inbar

Mr. Daniel Furman

DETAILS OF THE CORPORATION'S DIRECTORS IN ACCORDANCE WITH THE BANK OF ISRAEL'S DIRECTIVES FOR REPORTING TO THE PUBLIC (630) CONCERNING THE BOARD OF DIRECTORS' REPORT

Mrs. IRIT IZAKSON, Chairperson (since 1.1.2017)
Chairperson of the Board of Directors of the Bank since 1.1.2017.
Member of the Board of Trustees of University of Ben Gurion in the Negev.
Served as Chairperson: Isracard Ltd.; Europay (Eurocard)Israel Ltd.; Aminit Ltd.; Poalim Express Ltd.
Served as a director: Bank Hapoalin Ltd.; Arison Holdings (1999)Ltd.; Arisom Investments; Housing and Construction Ltd.; IDB Ltd.; Azrieli Fund and member of the Board of Trustees of Van Lir institution in Jerusalem.

Mr. RONY HIZKIAHO, Chairman (until 31.12.2016)
Chairman of the Board of Directors of the Bank Since 16.5.2012.
Chairman of the friends society of: YELADIM - Fair Chance for Children
Chairman of the friends society of the Hebrew language academic supporters; member of the managing board of Midot - Analyzing and Rating NPOs; member of the board of trustees at Beit Berl college.
Served as the Supervisor of Banks in the Bank of Israel and Director of the company: FIBI Bank (U.K.) PLC.

Mr. ZADIK BINO
Director of the Bank since 21.9.2003
Chairman of the Board of Directors: Paz Oil Company Ltd.*
Director of Companies: Bino Holdings Ltd.; Binohon Ltd.; Barbino Ltd.; Bigro Commodities Limited; G.H.D. Investments (2006) Ltd.; Neroteck Ltd (until its voluntary liquidation on 19.1.2016); DADA Management Ltd
Served as Chairman of the Board of Directors: Paz Oil Company Ltd. (until 18.9.2016); F.I.B.I. Holding Ltd.; F.I.B.I. Investment House Ltd; F.I.B.I. Investment House A (1998) Ltd.
Served as a Director of Companies: Binofree Ltd; Nero Investment Company Ltd; Skylight-Advanced Simulation (Investments 1996) Ltd.; Paz Ashdod Refinery Ltd.

Mr. DAVID ASSIA
External Director (according to proper Banking Management Directives) of the bank since 24.12.2012.
Chairman of the Board of Directors: iAngels Crowd Ltd.
Director of Companies: Biocatch Ltd; ETORO Israel Ltd.; Yeda Research and Development Co. Ltd.; N.D.Y.R. Investments Ltd.; Nadir Holduings Millenium Ltd.; S.M. Telecom Ltd.; Enformia Software Ltd.; The Fund for Advancement of Education in Israel Founded by Iraqi Jews Fund in Israel Ltd.; Mashov Investments and Technologies (1993) Ltd. (Inactive); Kismet Investments Ltd; DB Maestro Ltd; IMPACT; Israeli Friends of the Weitzman Institue of Science; Israel Association of Electronics & Software.

Mrs. PNINA BITTERMAN-COHEN
External Director (according to companies law) of the Bank since 3.6.2009.
Served as vice president and legal counsel in Polar Investment Ltd. and as director in Subsidiaries of Polar Group.
Director of companies: Al Daf Engeeniring Ltd.; Poligir Capital Ltd..

Mr. GIL BINO
Director of the Bank since 21.9.2003
Chairman of the Board of Directors: F.I.B.I. Holding Ltd.
CEO of: Bino Holdings Ltd.; Barbino Ltd.; G.H.D. Investments (2006) Ltd.
Director of Companies: Alden Hotel AG.
Served as Chairman of the Board of: ; F.I.B.I. Investment House Ltd
Served as a Director of Companies: Paz Oil Company Ltd. (until 18.9.2016); Paz Industries and Services (Oil) Ltd.; Paz Ashdod Refinery Ltd; F.I.B.I. Investment House A (1998) Ltd.

DETAILS OF THE CORPORATION'S DIRECTORS IN ACCORDANCE WITH THE BANK OF ISRAEL'S DIRECTIVES FOR REPORTING TO THE PUBLIC (630) CONCERNING THE BOARD OF DIRECTORS' REPORT (CONT'D)

Mr. ZEEV BEN ASHER

External Director (according to companies law) of the Bank since 23.12.2010.

Director of Company: Sokolovsky Lor Ltd.

Coaches Executives.

Served as Director of: Excellence Investments Ltd; Clal Industries Ltd (until 10.12.2015).

Mr. DOV GOLDFRIEND

External Director (according to Proper Banking Management Directives) of the bank since 16.7.2015.

Serves as an external director: Rishon LeZion Economic company Ltd.; Rishon initiating Ltd.

CEO of A.T.R.N Management & Consulting Ltd.

Served as an external director of the companies: Leumi Card Ltd; Scorpio Real Estate Ltd.

Served as CEO of Poaley Agudat Isarel Bank Ltd.

Served as Vice President, member of the management and as Head of Chief Accountant Division and as a director of subsidiaries of The First International Bank of Isreal Ltd.

Mr. JOSEPH HOROWITZ

External Director (according to companies law) of the Bank since 15.11.2011.

Director of the company: Yosef Horowitz Advising Ltd; and Yad Vashem The Holocaust Martyrs' and Heroes' Remembrance Authority.

Served as Chief Internal Auditor of Bank Leumi Group and other senior rolls in Bank Leumi.

Mrs. DALIA LEV

Director of the Bank since 24.12.2012

Director of Companies: Strauss Group Ltd; Belgal Ltd.

Member of the board of trustees of Tel-Aviv University and Beer-Sheva University.

Served as Chairperson of the Board of Directors: Mei Avivim Ltd.

Served of a Director of Companies: Paz Oil Company Ltd. (until 18.9.2016); Israel Airports Authority; The First International Bank of Israel Ltd.; Paz Ashdod Refinery Ltd.

Mr. JACOB SITT

Director of the bank since 30.8.2010.

CEO of F.I.B.I. Holding Ltd.

Director of Companies: SITT Assets Management Ltd; RIT Housing Israel Ltd.; Panmar Ltd; Member of the managing board of ELIA voluntary association.

Served as Director and CEO of F.I.B.I. Investment House Ltd., as Joint Managing Director of Leumi & Co. Underwriters Ltd. and as Investments Manager and business development Vice President of Barbino Ltd.

Mr. ILAN (EILON) AISH

External Director (according to Proper Banking Management Directives) since 10.6.2015.

Director and CEO of Harvest Capital Markets Ltd.

Served as an external Director (according to Proper Banking Management Directives) of Israel Discount Bank Ltd.

Mr. MENACHEM INBAR

External Director (according to Proper Banking Management Directives) since 10.6.2015.

Director of the companies: Shifman Inbar Ltd; Shifman Inbar Advisers Ltd.

Served as a director of the companies: "Bezeq" - The Israel Telecommunication Corporation Ltd; Poaley Agudat Isarel Bank Ltd; Alrov (Israel) Ltd; Carmel Group Ltd.

DETAILS OF THE CORPORATION'S DIRECTORS IN ACCORDANCE WITH THE BANK OF ISRAEL'S DIRECTIVES FOR REPORTING TO THE PUBLIC (630) CONCERNING THE BOARD OF DIRECTORS' REPORT (CONT'D)

Mr. DANIEL FURMAN

External Director (according to Proper Banking Management Directives) since 30.10.2014.

Director of companies: Orad Hi-Tech Systems Ltd; Arba V. C. Management Co. Ltd; Canabi-Tech Ltd.; Cohanzick Absolute Return Master Fund Ltd; Cohanzick Absolute Return Fund Ltd.

Director and General Manager of ARBA Finance Company Ltd.

Joint Managing Director of Societe Palais De La Promenade SARL.

Member of the Management Committee and Chairman of the Endowment Funds Committee of The Hebrew University of Jerusalem.

For further details on the members of the Board of Directors of the Bank, see Article 26 “Board of Directors of the Bank” in the Bank's periodic report for 2016, which is published on the Securities Authority's magna site.

REPORTING ON DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE

Pursuant to the Companies Law, 1999, at least one of the external directors must have accounting and financial expertise, and the others should be professionally competent or have accounting and financial expertise (as these terms are defined in the law). In addition, under Bank of Israel directives, at least five of all the members of the Board of Directors and at least two members of the Audit Committee must have accounting and financial expertise.

In practice, of the thirteen directors currently serving on the Board of Directors, twelve directors (including two directors from the public) have accounting and financial expertise. On the Audit Committee, five out of the six directors on the committee have such expertise.

Set out below are details of the present members of the Bank's Board of Directors with accounting and financial expertise, with mention of their membership of the Audit Committee and a description of their professional background and/or education in accordance with which they are to be regarded as having accounting and financial expertise:

1. Chairperson of the Board of Directors (as of 1/1/2017), graduate in Economic at Tel Aviv university and MBA with specialization in Operations Research from the school of business administration of the Tel Aviv university. Serves as member of the board of trustees of the Ben-Gurion University in Beer Sheva. Served as chairperson of the board: Isracard Ltd.; Europay (Eurocard) Israel Ltd.; Aminut Ltd.; Poalim Express Ltd. Served as director: Bank Hapoalim Ltd.; Arison Holdings (1999) Ltd.; Arison Investments ltd.; Housing and Construction Ltd.; IDB Ltd.; Azrieli Fund and other public companies. Served as member in the board of trustees of Van Lir Institution in Jerusalem.
2. **Chairman of the Board of Directors, Mr. Rony Hizkiaho (until 31/12/2016)**. BSc. in Industrial Engineering and Management at Ben-Gurion University in Beer Sheva. Served as Supervisor of Banks at the Bank of Israel.
3. **Mr. Zadik Bino** served as Chairman of the Board of Directors and CEO of the First International Bank of Israel Ltd. and CEO of Bank Leumi Le-Israel B.M. Served as Chairman of the Board of Directors of FIBI Holdings Ltd., parent company of the First International Bank of Israel Ltd. Director of companies.
4. **Mr. Gil Bino**. Attorney-at-law, law and business administration graduate and EMBA, serves as Chairman of FIBI Holdings Ltd., the parent company of First International Bank Israel Ltd.; CEO of Bino Holdings Ltd. Director of companies.
5. **Mr. David Assia**. Economics and social science graduate and EMBA at Tel Aviv University. Serves as Chairman of: iAngels Crowd Ltd. Director at: Biocatch Ltd; Move-Art Consulting Ltd.; Yeda R&D Co. Ltd.; Nadir Investments Ltd.; Nadir Millennium Holdings Ltd.; S.M. Telecom Ltd.; Enformia Software Ltd.; Israel Education Funds under Iraq Descendants' Education Fund Ltd.; Mashov Investments and Technologies (1993) Ltd. (inactive); Kismet Investments Ltd; DB Maestro Ltd. Director at foundations: Impact, Israel Association of Electronics & Software; Weizmann Institute of Science Board of Governors.
6. **Mr. Zeev Ben-Asher**, (external director, member of the Audit Committee); EMBA graduate at Tel Aviv University; graduation certificate of Advanced Business Administration program at Harvard University. Served as a member of the Management at Bank Hapoalim and the First International Bank of Israel Ltd. Served as Director at Excellence Investments Ltd and Clal Industries Ltd. Coaches managers.
7. **Mr. Dov Goldfiend**, (member of the Audit Committee); CPA, BA in Economic and accounting and MA in Business Management at Tel Aviv University. Serves as CEO at A.T.R.N. management and consulting Ltd. Serves as external director: Rishon LeZion Economic Company Ltd.; Rishon Initiation Ltd. Served as external director: Leumi Card Ltd., Scorpio Real Estate Ltd. 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 in the First International Bank Group.
8. **Mr. Joseph Horowitz** (director from the public and Chairman of the Audit Committee), attorney-at-law, LLB in law from the Hebrew University of Jerusalem (Tel Aviv branch); serves as director at Yad Vashem memorial authority for the holocaust; served as Chief Internal Auditor and member of the Board of Management of Bank Leumi Le-Israel B.M. for 15 years, and previously served in senior functions at Bank Leumi.

9. **Mrs. Dalia Lev** (member of the Audit Committee). CPA, law degree from Bar-Ilan University, ISMP from Harvard University, qualified arbitrator, risk manager. Served as Chairperson at Mei Avivim Ltd. and Director at: Paz Oil Company Ltd. (until 18/9/2016); Airports Authority; First International Bank of Israel Ltd.; Paz Ashdod Oil Refinery Ltd. Serves as Director at: Strauss Group Ltd.; member of the board of trustees of Tel Aviv University and Ben-Gurion University in the Negev.
10. **Mr. Jacob Sitt**, attorney-at-law, LLB Law degree, BA in economics from Tel Aviv University, MBA (Financing) from the Multi disciplinary Center, Herzliya. Serves as CEO of FIBI Holdings Ltd. and as directors of companies. Served as CEO and director at: FIBI Investment House Ltd.. Served as Co-CEO at Leumi & Co. Underwriters Ltd. and as Investment Manager and VP, Business Development, at Barbino Ltd..
11. **Mr. Ilan (Eilon) Aish**, (member of the Audit Committee); CPA, BA in Economic and accounting from the University of Tel Aviv. Serves as Chairman and CEO of Harvest Capital Markets Ltd. Served as external director in Israel Discount Bank Ltd.
12. **Mr. Menachem Inbar,** Social Sciences B.A. graduate and Law M.A. Graduate at Bar Ilan University. Served as CEO: Arkin Holdings; Leumi and Co.Served as a director of the companies: "Bezeq" - The Israel Telecommunication Corporation Ltd; Poaley Agudat Isarel Bank Ltd; Alrov (Israel) Ltd; Carmel Group Ltd.
13. **Mr. Daniel Furman**, Economics and statistics graduate at the Hebrew University of Jerusalem and MBA of Business Administration at INSEAD France. Director of Orad Hi-Tech Systems Ltd; Arba V. C. Management Co. Ltd; Cohanzick Absolute Return Master Fund Ltd; Cohanzick Absolute Return Fund Ltd. Director and General Manager of ARBA Finance Company Ltd. Joint Managing Director of Societe Palais De La Promenade SARL. Member of the Management Committee and Chairman of the Endowment Funds Committee of The Hebrew University of Jarusalem.

During 2016, the Bank's Board of Directors held 28 meetings in plenary session and 54 meetings of its various Board Committees.

APPOINTMENTS AND RETIREMENTS

On December 31, 2016 Mr. Roni Hizkiahu retired from its position as the Chairman of the Board. The Board of Directors thanks Mr. Hizkiahu for its contribution to the Board of Directors work and its committees.

On January 1, 2017 Mrs. Irit Izakson was appointed as a director and Chairperson of the Board of Directors. Her appointed was also approved in the General meeting of shareholders as of February 23, 2017, and was set for three years from the date of the meeting.

On February 19, 2017, Mr. Amnon Beck finished his term as CEO of MATAF. At this point, and until a CEO will be appointed, Mrs. Iris Levanon was appointed as Substitute for the CEO.

MEMBERS OF SENIOR MANAGEMENT AND THEIR FUNCTIONS

Mrs. Smadar Barber-Tsadik	Chief Executive Officer
Mr. Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division
Mr. Yossi Levy	Executive Vice President, Head of Resources Division
Mr. Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division
Mr. Nachman Nitzan, C.P.A.	Executive Vice President, Head of Chief Accountant Division
Mr. Benzi Adiri	Executive Vice President, Chief Risk Officer & Head of Risk Management Division
Mrs. Yael Ronen, C.P.A	Executive Vice President, Chief Internal Auditor
Mrs. Ella Golan	Executive Vice President, Head of Banking Division
Mr. Aviel Strenschuss	Executive Vice President, Head of Financial Division
Mr. Yinnon Shveka	Executive Vice President, Head of Pagi Division
Mr. Aviad Biller, Adv.	Corporate Secretary
Somekh Chaikin, C.P.A	The Bank's auditors

MEMBERS OF SENIOR MANAGEMENT AND THEIR FUNCTIONS

Mrs. SMADAR BARBER-TSADIK

Serves as CEO since 20.3.2007(*).

Serves as Chairperson of the board: Mataf Computer and Financial operations Ltd; FIBI Bank (Swizerland) Ltd.

Serves as director of company: Shay Sh.Y.S Holdings (1999) Ltd.

Member of the Executive Commiittee and Acting President at The Association of the Banks in Israel.

Served as member of the managing committee of "Matan" (until 4.1.2016).

Seved as Chairperson of the Board: FIBI Bank (U.K.) PLC; Bank Otzar Hachayal Ltd.

Served as CEO at FIBI Holdings Ltd.; FIBI Investment House Ltd.; Sahar developments and Holdings Ltd.

Served as the Head of Business division of First International Bank of Israel Ltd.

Mr. ILAN BATZRI

Serves as Deputy CEO and Head of Corporate division since 20.3.2007(*).

Serves as Chairman of the Board of: Bank Massad Ltd.;

Serves as director at Fanka Ltd; FIBI Bank (Swizerland) Ltd.

Served as chairman of the board of FIBI Bank (U.K.) PLC.

Served as Head of Financial Management and Risk Management Division at First International Bank of Israel Ltd.

Mr. YOSSI LEVY

Serves as Executive Vice President, Head of Resources Division since 1.12.2003(*).

Serves as Chairman of the Board of Bank Otzar Hachayal Ltd.(since 23.2.2016).

Serves as Director of Fortrab Investment Company Ltd.

Served as Chairmen of the Board at First International Underwriting and Investment Ltd.

Served as Chairman of the Board and CEO at MATAF - Computerzing and Financial Operations Ltd.

Served as Direcror at the companies: Bank Massad Ltd.; Ubank Ltd; Poaley Agudat Israel Bank Ltd.

Served as Head of IT and Operation Division at First International Bank of Israel Ltd.

Mr. YORAM SIRKIS

Serves as Executive Vice President, Head of Client Assets Management Division, member of management, since 20.3.2007(*).

Serves as chairman of the board: Ubank Trust Company Ltd.

Serves as director of companies: First International Issues Ltd; The Tel-Aviv Stock Exchange Ltd.

Served as chairman of the Board at the companies: Ubank Ltd; First International Insurance Agency (2005) Ltd.

Served as a director at The First International Bank of Israel Nominees Company Ltd

Served as manager of securities department at First International Bank of Israel Ltd.

Mr. NACHMAN NITZAN

Serves as Executive Vice President, Head of Chief Accountant Division, member of management, since 1.9.2011(*).

Serves as chairman of the board and CEO at First International Issuence Ltd.

Director of companies: Bank Otzar Hachayal Ltd.; MATAF - Computerzing and Financial Operations Ltd.

Served as director at Israel Credit Cards Ltd.

Served as replacement and Deputy CEO, Head of the Financial Division and member of the executive committee at Jerusalem Bank Ltd.; CFO and Vice President at IDI insurance company (direct insurance); Chief Accountant and Vice President of Jerusalem Bank Ltd.

MEMBERS OF SENIOR MANAGEMENT AND THEIR FUNCTIONS (CONT'D)

Mr. BENZI ADIRI

Serves as Executive Vice President, Chief Risk Officer (CRO) and Head of Risk Management Division, since 23.2.2012(*).

Serves as a director at the subsidiary Bank Otzar Hachayal Ltd.

Served as Manager of Corporate division, Vice Presidnet and member of the management of Jerusalem Bank Ltd.

Mrs. YAEL RONEN

Serves as Chief Internal Auditor and Internal Auditor at the banking subsidiaries of First International Bank of Israel's group (excluding FIBI Bank (Swizerland) Ltd since 23.5.2011(*).

Serves as director at the internal audit union.

Served as Chairperson of the SOX committee at the Insurance companies union; member of the audit committee of Information Systems at the Institute of the Internal Auditors; Lecturer at the pre-exams CISA course of the Israeli Union for audit and security information and in the course of Information systems of the institute of Internal Auditors.

Served as manager of SOX department in Clal Insurance Ltd. group and as manager in the Information systems risk management at Somekh Chaikin CPA.

Mrs. ELLA GOLAN

Serves as Executive Vice President, Head of the Banking Division since 1.1.2014(*).

Serves as director at Massad Bank.

Served as director at Ubank Ltd (until 30.9.15); The Stock exchange clearing house.

Served as Deputy Head of Client Assets Management Division and as Manager of the Countrywide Securities Department of The First International Bank of Israel Ltd.

Mr. AVIEL STERNSCHUSS

Serves as Executive Vice President, Head of Financial Division, member of management, since 18.10.2015(*)(**).

Serves a director of the companies: Stocofin (Israel) Ltd; Israel Credit Cards Ltd; Ubank Trust Company Ltd; Ubank Investments and Holdings Ltd; Ubank Underwriting and Consulting Ltd; Ubank Finance (2005) Ltd.

Served as chairman of the board and CEO at First International Issues Ltd.

Served as CEO of Ubank Ltd.

Served as Chairman of the Board at Ubank Trust Company Ltd.

Served as director of companies: FIBI Bank (Swizerland) Ltd.; Business Reaserch Institute.

Acted as Manger of Insurance and Provident Fund Investment sector, Vice President of Menorah - Mivtachim Insurance Ltd.

Served as chairman of the Board at Menorah - Mivtachim Trust Funds Ltd.

Served as director of Menorah - Mivtachim Investment Portfolio Management Ltd.

Mr. YINNON SHVEKA

Serves as Executive Vice President, Head of Pagi Division, member of management since 1.1.2016(*)

Served as CEO of Poaley Agudat Isarel Bank Ltd.

(*) The date of which the office holders get their present title.

(**) On 1.10.15 was appointed as Executive Vice President and member of the executive committee. On 18.10.2015 was appointed as Head of Financial Division as well.

For further details on the senior manager members, see Article 26A “Senior Office Holders at the Bank” in the Bank’s periodic report for 2015, which is published on the Securities Authority’s magna site.

DISCLOSURE REGARDING THE INTERNAL AUDITOR

Details of the Chief Internal Auditor

Mrs. Yael Ronen CPA seves as Chief Internal Auditor of the Bank since May 2011, and serves as Internal Auditor at all the banking subsidiaries in the First International Group with the exception of the overseas subsidiary FIBI Bank (Switzerland). At the non-banking subsidiaries, the Deputy Internal Auditor was appointed as the internal auditor.

The Chief Internal Auditor has a bachelors in economics and psychology and in the accounting track for graduates at the University of Tel Aviv. In her previous position, she managed the Sarbanes Oxley Department of Clal Insurance Ltd., and was manager of the Information Systems Risk Management Department at the KPMG Somekh Chaikin accountants office, with an emphasis on auditing and consulting in the area of banking.

The Chief Internal Auditor is an employee of the Bank and conforms to the conditions prescribed in Paragraph 3(a) of the Internal Auditing Law. The Internal Auditor and her employees serve in auditing functions alone, without any conflict of interests, and act in accordance with the Internal Auditor’s Regulations as stated in Paragraph 146 (b) of the Companies Law, the provisions of Paragraph 8 of the Internal Auditing Law, 1992 and Proper Conduct of Banking Business Regulation 307.

Manner of appointment and organizational subordination

The appointment of the Internal Auditor was approved by the Audit Committee on March 15, 2011 and by the Board of Directors on March 22, 2011.

The Internal Auditor's superior in the organization is the Chairman of the Board of Directors.

The Internal Audit work program

The Internal Auditing Department operates on the basis of a 4-5 years multi-year work program and an annual work program derived from it, which covers all of the Bank's activities and the entities operating within it, including the subsidiaries in Israel. The work program is based on a systematic risk assessment methodology and takes into account inter alia the assessment of risks expressed in the ICAAP document and the Internal Audit's assessments concerning the risk centers in the Bank's activity, including focal points of operational, embezzlement and fraud risks, and the findings arising from previous audits which the Internal Audit and external entities had conducted. The work program includes the allocation of inputs and the frequency at which audits are to be conducted in accordance with the level of risk of the audited entity/activity.

The work program is submitted for discussion by the Audit Committee which recommends its approval to the Board of Directors, and which is then approved by the Board.

Under the work program, the Chief Internal Auditor is permitted at her discretion to deviate from the program and to conduct unplanned audits. Material changes from the approved work program are submitted for discussion by the Audit Committee.

Subsidiaries abroad

The Internal Auditor at FIBI Bank (Switzerland) is employed under an outsourcing arrangement and his work is reviewed and supervised by the Chief Internal Auditor. His work program is sent to the Chief Internal Auditor and is reported to the Bank's Audit Committee. His audit reports are sent to the Chief Internal Auditor on a permanent basis.

Positions

As stated, the Chief Internal Auditor is an employee of the Bank and is employed in a full-time position. The number of employees in the Internal Auditing Department of the Bank and its subsidiaries averaged 60 in 2016.

The number of employee posts is derived from the multi-year work program and includes outsourcing.

Conduct of the audit

Audit work is carried out on the basis of legal requirements, including the Internal Audit Law, the Banking Order, the Banking Regulations, the directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Regulation 307 and the directives of other supervisory bodies.

Proper Conduct of Banking Business Regulation 307 governs the matter of the internal audit function at the banking corporation in accordance with the Basel working framework, with the aim of enhancing corporate governance principles. The regulation covers inter alia the positions involved in the function, the extent of its activity, its working methods and the reports which it is required to send.

The Internal Audit operates in accordance with accepted professional standards determined by the international Institute of Internal Auditors.

The Board of Directors and the Audit Committee, which examined the Internal Audit's work program and its actual implementation, expressed their satisfaction that the Bank's Internal Audit conforms to the said requirements.

Access to information

As required in Paragraph 9 of the Internal Auditing Law, the Internal Auditor is given full access to all the information which she requires, including constant and unimpeded access to the information systems of the Bank, including financial data. It should be noted that such full access is given when auditing the subsidiaries in Israel.

Reporting by the Chief Internal Auditor

The Internal Audit reports, including periodic reports, are submitted in writing.

The Internal Audit reports are submitted to the members of Management in charge of the units/matters audited, and in accordance with criteria specified in the Board of Directors' procedures, to the CEO of the Bank and to the Chairman of the Board. Significant audit reports, as relevant, are discussed at meetings with the CEO of the Bank.

In consultation with the Chief Internal Auditor, the Chairman of the Audit Committee determines which audit reports will be presented in their entirety for discussion at the Audit Committee. In addition, a monthly report compiled by the Internal Audit, which contains executive summaries of all the audit reports that were circulated in the past month, is submitted to the members of the Audit Committee, who are entitled to peruse any audit report which they see fit and ask the Chairman to present it in its entirety at the Audit Committee.

The Internal Audit's periodic reports include a monthly report, a half-yearly report and an annual report. The monthly report is submitted to the CEO and to the members of the Management of the Bank, to the Chairman and members of the Audit Committee, and to the Chairman of the Board of Directors. The Internal Audit's half-yearly report and annual report include reporting concerning the performance of the work program versus the plan, a list of all the audit reports that were circulated in the period reported, a report on the findings from the monitoring of remedial action with respect to deficiencies arising from the audit reports, a summary of the material findings emerging from the audit reports, and the annual report appraising the effectiveness of the Internal Control.

The Board of Directors are sent copies of the Audit Committee's minutes, in order to notify those Board members who are not members of the Audit Committee of the content of the Committee's discussions.

In cases of particularly serious findings, an immediate report is sent to the CEO, to the Chairman of the Audit Committee and to the Chairman of the Board of Directors. The Internal Audit's reports for 2015 were discussed by the Bank's Audit Committee on April 19, 2016 and on May 10, 2016. The Internal Audit's reports for the first half of 2016 were discussed by the Bank's Audit Committee on September 20, 2016. The Internal Audit's reports for 2016 will be discussed in April 2017.

The Board of Directors' appraisal of the Chief Internal Auditor's activity

In the opinion of the Board of Directors and the Audit Committee, the scale, the nature and the continuity of the Internal Auditor's activity and work program are reasonable in the circumstances of the matter, and are adequate for the purpose of achieving the objectives of the internal audit function at the Bank.

Remuneration

Set out below are details of the payments to the Chief Internal Auditor and the components of these payments (in NIS thousand), in accordance with the details required in the table of the Bank's highest salary recipients:

	Year	
	2016	**2015**
Salary and bonuses	**960**	960
Severance pay, provident fund, advanced study fund, vacation, national insurance and additional benefits	**280**	287
Value of benefits	**67**	68
Total salary and included expenses	**1,307**	1,315

The compensation of the Chief Internal Auditor is commensurate with her position. In the estimation of the Board of Directors, nothing in the compensation of the Chief Internal Auditor can be regarded as leading to bias in her professional discretion.

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 Chairperson of the Board of Directors at Mei Avivim Ltd. and Supersal Ltd. Served as joined CEO at IDB Development company Ltd., and as Director at: Paz Oil Co. Ltd (until 18.9.2016); Airports Authority, Paz Oil Refinery Ashdod Ltd. Serves as Director at: Strauss Group Ltd; Belgal Ltd.
6. **Mr. Ilan (Eilon) Aish**, a member of the Audit Committee, serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is qualified as an independent director. Has accounting and financial speciality. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, BA in Economic and accounting from the University of Tel Aviv. Served as external director in Israel Discount Bank Ltd. Serves as director and joined CEO at Harvest Capital Markets Ltd.

As in each quarter, the Board of Directors' Audit Committee at its meeting on February 28, 2017, discussed allowances for credit losses, in order to approve these allowances and the provisions for writedown in the nostro portfolio before the financial statements were submitted for approval by the Board of Directors. The discussion was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

In addition, at its meeting on March 7, 2017 the Audit Committee discussed the findings of the Disclosure Committee in accordance with the provisions of SOX, and with the participation of the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

The Board of Directors' Audit Committee held a detailed preliminary discussion of the draft financial statements. The discussion was held on March 7, 2017, and was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank. Discussed at this meeting were material issues that may arise in the preparation of the financial statements and the accounting policy that was applied. Following the Audit Committee's discussion, the financial statements, amended as requested by the Audit Committee, were sent to the Board of Directors with the Committee's recommendation that the members of the Board approve the financial statements, since it had compiled recommendations to the Board in all the matters required in the Securities Regulations and directives of the Supervisor of Banks.

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 March 15, 2017, discussed the approval of the financial statements of the Bank, with the participation of the members of Bank management, including the CEO, the Chief Accountant and the Bank's External Auditor. The aforementioned recommendations by the Audit Committee were submitted to the members of the Board of Directors on March 9, 2017, in due time before the plenary discussion. At the discussion by the plenum of the Board of Directors, the CEO presented the financial results of the Bank and a comparison with previous periods. At this stage, a discussion was held during which the Bank's office-holders answered the directors' questions on matters relating to the financial results and to the financial statements. At the end of the discussion, the Board of Directors resolved to adopt the aforementioned recommendations of the Audit Committee, to approve the Bank's financial statements and to authorize for the Chairperson of the Board of Directors, the CEO and the Chief Accountant to sign the financial statements.

AUDITORS' REMUNERATION (1)(2)(3)

(NIS thousands)

	Consolidated		The Bank	
	2016	2015	2016	2015
For audit work(4):				
Auditors of the Bank	**8,302**	9,863	**5,684**	5,253
Another auditor	**1,234**	1,865	**-**	-
Total	**9,536**	11,728	**5,684**	5,253
For additional Auditing related services(5):				
Auditors of the Bank	**68**	-	**-**	-
For tax services:				
Auditors of the Bank	**397**	322	**397**	322
Other services:				
Auditors of the Bank	**1,468**	1,080	**1,298**	867
Total	**1,933**	1,402	**1,695**	1,189
Total auditors' remuneration	**11,469**	13,130	**7,379**	6,442

(1) Report of the Directors to the Annual Meeting of shareholders on the remuneration of the auditors for audit work and for additional services, according to sections 165 and 167 of the Companies Law - 1999.

(2) The auditors' remuneration includes payments to partnership and companies under their control as well as payment under the Value Added Tax Law.

(3) Includes remuneration paid and accrued.

(4) Includes audit of annual financial statements, review of interim statements, audit of internal control over financial reporting.

(5) Audit related fees include mainly: Prospectus work, special confirmation letters and comfort letters.

REMUNERATION OF SENIOR OFFICERS

(NIS thousands)

		2016				
Name	Title	Position	Holdings in the Bank's equity	Salary	Bonus	benefits(3)
Rony Hizkiaho	Chairman of the Board of Directors	**100%**	**-**	**2,409**	**-**	**131**
Smadar Barber-Tsadik	Chief Executive Officer	**100%**	**-**	**2,879**	**-**	**152**
Shuli Garburg	Fibi Bank (Switzerland) Chief Executive Officer	**100%**	**-**	**1,629**	**(5)942**	**-**
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	**100%**	**-**	**1,282**	**-**	**95**
Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division	**100%**	**-**	**1,326**	**-**	**80**
Moshe Yagen	Executive vice president at Otsar Hachayal, Deputy of head of the banking division	**100%**	**-**	**873**	**123**	**49**
Amnon Beck	MATAF Chief Executive Officer	**100%**	**-**	**1,126**	**-**	**81**
Yossi Levy	Executive Vice President, Head of Resources Division	**100%**	**-**	**1,389**	**-**	**101**

		2015				
Name	Title	Position	Holdings in the Bank's equity	Salary	Bonus	benefits(3)
Rony Hizkiaho	Chairman of the Board of Directors	100%	-	2,445	-	130
Smadar Barber-Tsadik	Chief Executive Officer	100%	-	3,032	-	153
Shuli Garburg	Fibi Bank (Switzerland) Chief Executive Officer	100%	-	1,690	(5)255	-
Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division	100%	-	1,327	-	81
Yossi Levy	Executive Vice President, Head of Resources Division	100%	-	1,387	-	117
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	100%	-	1,271	-	96
Amnon Beck	MATAF Chief Executive Officer	100%	-	1,129	-	79

(1) Not including VAT on salaries.

(2) Loans granted to senior executives at conditions similar to those that were granted to all Bank employees, the amounts of which were determined on the basis of uniform criteria.

(3) Value of benefits (including: car benefit, cellular phone, rental value, health insurance, etc.).

(4) Including remuneration recorded in 2016 for benefits accrued before entry into effect of "Remuneration of senior officers in financial entities" law as detailed: Roni Hizkiaho- NIS 235 thousands, Smadar Barber-Tsadik- NIS 864 thousands, Yoram Sirkis- NIS 730 thousands, Ilan Batzri- NIS 786 thousands.

(5) In 2016- preservation bonus (last year including conditioned bonus of three years in office).

Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Total payroll and related expenses(1)	Other payments	Loans granted under ordinary market terms(2)
(4)951	**-**	**3,491**	**-**	**-**
(4)1,561	**-**	**4,592**	**-**	**-**
353	**-**	**2,924**	**-**	**-**
(4)1,054	**-**	**2,431**	**-**	**-**
(4)786	**-**	**2,192**	**-**	**71**
990	**-**	**2,035**	**-**	**269**
575	**-**	**1,782**	**-**	**11**
268	**-**	**1,758**	**-**	**3,319**

Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Total payroll and related expenses(1)	Other payments	Loans granted under ordinary market terms(2)
803	-	3,378	-	-
1,116	-	4,301	-	-
383	-	2,328	-	-
392	-	1,800	-	63
259	-	1,763	-	3,448
315	-	1,682	-	-
362	-	1,570	-	48

Notes:

A. The bank accounts management conditions for senior executives, including all activity in those accounts, are similar to other customers conditions with similar characteristics.

B. For details regarding the Compensation policy for senior officers as approved by the general meeting of shareholders dated Fabruary 23, 2017, see immediate report of the Bank dated January 18, 2017 (reference no. 2017-01-006415) and the supplementary report dated February 14, 2017 (reference no. 2017-01-016098).In 2016 no bonuses were paid to senior officers at the Bank.

Mr. Rony Hizkiaho - was appointed Chairman of the Board of Directors of the Bank on May 16 2012 and finished his office at December 31, 2016.
For description of the engagement agreement with Mr. Ronny Hizkiaho - see Note 33.H(2) to the financial statements.

Mrs. Smadar Barber-Tsadik - has been employed by the bank since January 9, 2005 and has served as CEO of the Bank since March 19, 2007.
For description of the engagement agreement with Ms. Smadar Berber-Tsadik- see Note 33.H(1) to the financial statements. For details of the compensation policy, within the framework of which, the manner of determining the annual award for 2014 until 2016 has been regularized, among others, also to Ms. Berber-Tsadik, see immediate report of the Bank dated May 22, 2014, (reference no. 2014-01-070887).

Mr. Ilan Batzri - has been employed at the Bank since October 4, 1978, under a collective agreement, and as from October 1, 2000, under a personal agreement for an unassigned period.
Each of the parties to the agreement is entitled to terminate the contractual association at any time and for wharever reason, at six months prior written notification.
On termination of his employment at the Bank. Mr. Batzri is eligible to an ordinary severance payment at a level of 100% of his last monthly salary. The redemption value of the severance payment in the pension fund to which the Bank allocated money in his favor will be deducted from these amounts.
The non-competition period is six months from the date of termination of his employment at the Bank, of which three months will be paid.
Mr. Batzri's salary is linked to the Consumer Price Index.
For details of the compensation policy providing for the way of determining the annual award in respect of the year 2014 until 2016, among others, to Mr. Batzri see immediate report of the Bank dated May 22, 2014, mentioned above. For details of determination of the annual bonus for 2017 and later years, among others, to Mr. Batzri, see immediate report of the Bank dated January 18, 2017 menioned above.

Mr. Yossi Levy - Mr. Levy has a personal employment agreement with Mataf and has been seconded to the Bank.
Mr. Levy commenced his employment at Mataf on April 1, 1979, and the present personal employment agreement is valid from September 1, 1980.
Each of the parties to the personal agreement is entitled to terminate the contractual association at any time and for whatever reason, at three months prior written notification.
On termination of his employment, Mr. Levy is eligible to an ordinary severance payment at a level of 100% of the last monthly salary. The redemption value of the severance payment in the pension fund to which the Mataf allocated money in his favor will be deducted from these amounts.
Mr. Levy's salary is linked to the Consumer Price Index.
For details of the compensation policy providing for the way of determining the annual award in respect of the year 2014 until 2016, among others, to Mr. Levy see immediate report of the Bank dated May 22, 2014, mentioned above. For details of determination of the annual bonus for 2017 and later years, among others, to Mr. Levy, see immediate report of the Bank dated January 18, 2017 menioned above.

Mr. Yoram Sirkis - has been employed at the Bank since February 9, 1993, under a collective agreement and a personal agreement valid from Mars 20, 2007, for an assigned period until Mars 20, 2010. After that date the agreement will continue for an unassigned period in which each of the parties to the agreement may terminate the agreement at any time and for whatever reason by a prior and written notification of six month and in accordance with the condition of the employment. On termination of his employment Mr. Sirkis is eligible to an ordinary severance payment at a level of 100% of his last monthly salary, or 200% of his last monthly salary before the signing of the personal agreement, whichever is higher. The redemplion value of the severance payment in the pension fund to which the Bank allocated money in his favor will be deducted from these amounts.

The non-competition period is six month from the date of termination of his employment at the Bank of which three months will be paid. In case of termination of employment not as a result of dismissal, the Bank may waive the non-competition condition by prior written notice of one month.
Mr. Sirkis's salary is linked to the consumer price index.
For details of the compensation policy providing for the way of determining the annual award in respect of the year 2014 until 2016, among others, to Mr. Sirkis see immediate report of the Bank dated May 22, 2014, mentioned above. For details of determination of the annual bonus for 2017 and later years, among others, to Mr. Sirkis, see immediate report of the Bank dated January 18, 2017 menioned above.

Mr. Moshe Yagen- serves as Executive vice president at Otsar Hachayal, Deputy of head of the banking division since May 1, 2016. In the employment terms approved by the Board of Directors, an initial work period of three years was determined. At the end of this initial period, the work period is unassigned in which each of the parties to the agreement may terminate the agreement at any time and for whatever reason by a prior and written notification of three months.
On termination of his employment Mr. Yagen is eligible to the funds deposited by the Bank in his favor. If Mr. Yagen work will be terminated in dismissal, the severance pay to which Mr. Yagen will be entitled, including the accrued funds in his favor, will be no less than the multiplication of his last monthly salary by the years of his employment, or 200% of his last monthly salary before the signing of the personal agreement, whichever is higher.
The non-competition period is six month from the date of termination of his employment at the Bank of which three months will be paid.
Mr. Yagen's salary is linked to the consumer price index, in case of decline in the CPI, the salary will not change until a rise in the CPI will eliminate the decline.

Mr. Amnon Beck - Served as CEO of MATAF since November 1, 2006.
Mr Beck started work at MATAF on March 1, 1980, under a personal employment agreement. Each of the parties to the agreement may terminate the engagement, for whatever reason, giving a prior notice in writing of two-three months. Upon termination of his employment, Mr. Beck is entitled to severance pay based on 100% of his last monthly salary. From this amount shall be deducted the value of the severance pay component of the executive insurance policy purchased in his favor by MATAF.
The salary of Mr. Beck is linked to the rise in the CPI.
For details of the compensation policy providing for the way of determining the annual award in respect of the year 2014 until 2016, among others, to Mr. Beck see immediate report of the Bank dated May 22, 2014, mentioned above. For details of determination of the annual bonus for 2017 and later years, among others, to Mr. Beck, see immediate report of the Bank dated January 18, 2017 menioned above.
On February 19, 2017 Mr. Beck terminated his employment as the CEO of MATAF.

Mrs. Shuli Garburg - Acts as General Manager of FIBI Bank(Switzeland) under a personal engagement agreement in effect as from January 1, 2012. Each of the parties to the agreement may terminate the engagement giving an advance notice of six months and in accordance with the terms prescribed in the agreement. In light of the agreement for the sale of FIBI Bank (Switzerland) see note 18a to the financial statements) Mrs. Garburg is entitled to preservation bonus, according to a specific agreement that was signed with her and subject to its terms.

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 sites 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 sites 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 detrmined 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 (Relaxations in 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 for five years. The said

resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations.

The terms of the policy for a period of eighteen months commencing on 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) and from January 18, 2017 as mentioned below. The contents of this report are presented here by way of reference.

According to the above, on December 1, 2015 the Bank's Board of Directors passed a resolution, after obtaining the approval of the Audit Committee and the Remuneration Committee dated November 18, 2015, and in accordance to regulations 1(3), 1a1, 1b(5) and 1b1 to the relief regulations, to approve the renewal of the policy for an 18 months period starting January 1, 2016 till June 30, 2017 ("The current insurance period") through Menora-Mivtachim Insurance Ltd. For the companies in the group, as defined above. The policy include the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest. The terms of the policy for the current insurance period are detailed in the immediate report of the Bank dated December 1, 2015 (reference no. 2015-01-170883) and the contents of this report are presented here by way of reference.On February 23, 2017, the general meeting of the Bank approved a new remuneration plan to office holders at the Bank according to article 267A to the Companies Law which includes also the principals of insurance arangement to directors and office holders according to regulation 1.B.1 to the relief regulations, that its details are detailed in item 8 to apendix A of the immediate report of the Bank dated January 18, 2017 (reference no. 2017-01-006415) that is presented here by way of reference.

2. On October 30, 2014, after obtaining the authorizations from the Compensation Committee and the Board of Directors of the Bank, the general meeting of shareholders approved the continued employment of Mrs. Yehudit Dagan, who is "a relative of a controlling shareholder" in the Bank, as a clerk in the Banking Operations Division at MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF"), a wholly owned and wholly controlled subsidiary of the Bank, for a period of up to three additional years beginning on November 15, 2014 (date of expiry of three years since date of the general meeting's approval in 2011 of her continued employment) or until her retirement, whichever is earlier, at the existing terms of Mrs. Dagan's employment which are based on collective labor agreements. Also approved were certain potential changes in the terms of her employment, as is accepted and reasonable in the employment of an employee at the Bank and at MATAF of Mrs. Dagan's seniority and grade, all this as specified in the approval of her employment.
3. On September 23, 2014, after receipt of the approval of the Compensation Committee and in accordance with Regulation 1b. of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000, the Board of Directors of the Bank reapproved the continued payment of remuneration to directors from among the controlling shareholders of the Bank on the basis of the remuneration which was approved for all the directors (excluding the Chairman of the Board of Directors) at the general meeting of the Bank's shareholders of September 14, 2008. The amounts of remuneration approved are in accordance with the policy for the compensation for officers of the Bank, the details of which as regards directors' remuneration are specified in section 7 to the immediate report of January 5, 2014, and to the corrective report of that date (reference nos. 003511-01-2014 and 004648-01-2014, respectively), the contents thereof is presented herewith by way of reference. The approved amount of remuneration and the reasons for its approval are stated in an immediate report of the Bank dated September 23, 2014 (reference no. 163920-01-2014), the contents of which is presented herewith by way of reference. On February 23, 2017 the general meeting of shareholders approved the new compensation plan to office holders at the Bank the details of which as regards directors' remuneration (excluding the Chairman of the Board of Directors) are unchanged relative to the previous compensation plan and which are specified in section 7 to the immediate report of January 18, 2017 (reference no. 2017-01-006415) the contents thereof 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. The provision of indemnification obligation to directors from among the controlling shareholders in the Bank was re-approved by the general meeting on October 30, 2014 as detailed in Note 25.c to the financial statements.

e. Additional information on transactions with interested parties

1. See Note 33 to the financial statements for details of the balances and condensed results of transactions with interested parties and related parties.
2. The Group, including FIBI Holdings and its subsidiaries, purchases insurance policies jointly, including liability insurance for directors (including directors who are controlling owners and their relatives) and office-holders.
3. In addition, the Bank and its subsidiaries conduct transactions with interested parties in the Bank from time to time which are during the normal course of business and at market terms.
4. The Group purchases during the ordinary course of business from the Paz group (Paz Oil Ltd. and subsidiaries and affiliates), which is controlled by the controlling owners in the Bank, fuels for vehicles used by the company's employees (including leased vehicles). In 2016, the Bank Group purchased fuels from Paz group at an overall amount of NIS 5.7 million (2015 - NIS 6.6 million). In addition, the Bank is renting from Paz Group office premises of 345 square meter occupied by the Bank's Netanya branch until September 2017, and a consolidated company is renting from Paz Group office premises of 25 square meter for use of the Kfar Kara branch until February 2020. The rental fee for 2016 amounted to NIS 0.8 million (2015 - NIS 0.8 million).

5. 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
December 31, 2016									
Paz group(1)	**53,314**	**-**	**-**	**53,314**	**4,586**	**160**	**-**	**-**	**58,060**
Others(3)	**50**	**-**	**-**	**50**	**192**	**-**	**84**	**-**	**326**
Total	**53,364**	**-**	**-**	**53,364**	**4,778**	**160**	**84**	**-**	**58,386**
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	December 31, 2016		December 31, 2015	
	Balance on balance-sheet date	Highest balance during period(5)	Balance on balance-sheet date	Highest balance during period(5)
		NIS thousand		NIS thousand
Paz group(1)	**77,877**	**73,063**	15,149	109,525
FIBI Holdings group(2)	**-**	**-**	-	2,730
Others(3)	**4,550**	**5,140**	1,766	4,624
Total	**82,427**	**78,203**	16,915	116,879

(1) Paz Oil Co. Ltd. and its subsidiaries and affiliated companies. The controlling shareholders at the Bank hold more than 5% of controlling means in "Paz".
(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 definision of relative in the Banking Law (licencing)-1981.
(4) On the basis of balances at the end of each day.

DETAILS OF THE OWNERS OF CONTROL IN THE BANK

Acquisition of control in FIBI and in the Bank in 2003 and the Bank of Israel permit

On September 19, 2003, Binohon Ltd. and the Lieberman Group of Australia purchased shares in FIBI in a manner whereby Binohon, which is controlled by Mr. Zadik Bino, held 28.54% of the equity rights and 50.59% of the voting rights in FIBI, and the Lieberman Group held 23.35% of the equity rights and 20% of the voting rights (in equal parts via Instanz Holdings Ltd., which is controlled by Messrs. Michael and Helen Abeles from Australia, and Dolphin Energies Ltd., which is controlled by Messrs. Barry Lieberman, Casey Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia, all of them via a chain of Australian entities). The buyers are party to a voting and cooperation agreement, which includes various arrangements concerning their holdings in the controlling stake at FIBI, and indirectly, at the Bank, which include, to the best of the Bank's knowledge, the following provisions:

1) Subject to any law, arrangement for appointment of directors at FIBI Holdings and at the Bank: With respect to FIBI Holdings' Board of Directors, it was determined that at least 9 directors will be appointed, with five or more directors to be recommended by Binohon, one director to be recommended by Instanz Holdings, one director to be recommended by Dolphin Energies and two external directors to be appointed on the basis of Binohon's recommendation after consultation with Instanz Holdings and with Dolphin Energies. With respect to the Bank's Board of Directors, the parties agreed to act in order for the Bank's Board of Directors to consist of at least 11 directors; that FIBI will support the appointment of five directors to be recommended by Binohon, one director to be recommended by Instanz Holdings and one director to be recommended by Dolphin Energies, and for external directors at the Bank to be elected by consensus, as well as an arrangement in case no such consensus is reached;
2) With respect to participation of the parties at general meetings of FIBI's shareholders, the parties agreed to vote at such meetings in line with Binohon's position (after discussion among the parties), except regarding decisions on the appointment of directors at FIBI and at the Bank (to which the aforementioned agreement shall apply), and except for transactions by FIBI, the Bank and/or a subsidiary company thereof with interested parties in them, for which arrangements were determined whereby such transactions will not be made without the written consent of Binohon and either of Instanz Holdings or Dolphin Energies;
3) Subject to any law, arrangements regarding the exercise of their control at FIBI concerning voting by FIBI at general meetings of the Bank's shareholders, as follows: (a) In all matters concerning the subjects on the agenda of the Bank's general meeting, in respect of which the Board of Directors of the Bank issued resolutions or recommendations to the meeting, FIBI will vote in accordance with the position of FIBI's Board of Directors; (b) In all matters concerning issues in respect of which the Board of Directors of the Bank did not issue resolutions or recommendations or which were submitted to the Bank's general meeting at the request of a shareholder, without their having been discussed by the Board of Directors of the Bank, FIBI will vote in accordance with the position of FIBI's Board of Directors, providing that one of the directors who was appointed by Instanz Holdings or by Dolphin Energies supports the position and in the absence of such support, will vote against the proposed resolution. In the event that a personal interest exists for both the directors who were appointed as said by Instanz Holdings or Dolphin Energies, FIBI will vote in accordance with the position of FIBI's Board of Directors. It is clarified that these arrangements do not apply to the appointment of directors at the Bank, to which the aforementioned agreement applies. It is also clarified in the agreement that the shareholders' agreement is not to be construed as constituting a voting agreement applying to the directors at the Bank;
4) Agreement to act in accordance with the permit from the Bank of Israel for holding the means of control at the Bank which was granted to the controlling shareholders;
5) Right of first refusal granted to Binohon for the purchase of FIBI shares which constitute part of the controlling stake held by Instanz Holdings and Dolphin Energies, should any of the latter enter into an agreement to sell these shares;
6) Tag-along right granted to Dolphin Energies and to Instanz Holdings at the time of sale by Binohon of FIBI shares which constitute part of the controlling stake held by Binohon;

7) Binohon's right to require Dolphin Energies and Instanz Holdings to join its sale of FIBI shares.

Transfer of control of FIBI was made in accordance with the permit issued by the Bank of Israel on August 27, 2003 (hereinafter: “the permit”), which prescribed inter alia terms and obligations regarding the direct and indirect means of control in FIBI and the Bank, their transfer and the relationships between the recipients of the permit, FIBI and the Bank, including as follows (to the best of the Bank's knowledge):

1) For as long as the permit recipients are in control of FIBI, FIBI will not sell and will not transfer, directly or indirectly, means of control in the Bank if as a result of this, its rate of holding in the Bank falls below the minimum rate that was determined (48.34% of share capital and 67.25% of voting rights), and a minimum rate for the holdings in FIBI was also determined. The permit stipulates that the controlling group must at any time retain a minimum holding rate in FIBI and the Bank. For this purpose, the controlling group will purchase means of control if the rate of holding in any type of means of control falls below the minimum rate. It was also determined that if FIBI or the Bank issues rights to shares or any other security that is convertible into shares, the controlling group will retain the minimum rate of holding minus three percentage points when calculated at full dilution. Notwithstanding the foregoing, if an equalization of rights is made between the different types of shares existing at FIBI or at the Bank, the core of control or the minimum holding rate with respect to the voting rights, will be equalized to the minimum rate with respect to the share capital, providing that the group continues to retain sole and exclusive control in FIBI and the Bank. Additional means of control in the Bank may be purchased, to be held directly by FIBI, at a rate not exceeding 3% of the Bank's share capital and of the voting rights deriving from this additional holding (means of control at this rate were purchased by FIBI in 2005 and sold by it in April 2013). In addition, it was determined that FIBI's principal activity will be holding of the control in the Bank.
2) Since five years have passed since the permit was granted, the permit holders may sell or transfer means of control in FIBI, but only if (a) they sell or transfer jointly all means of control which constitute the minimum stake in FIBI, to an individual or group lawfully licensed to receive them; or (b) the buyer or transferee are lawfully licensed to purchase and receive the means of control, and to regularly act in coordination with the other permit holders, pursuant to the aforementioned shareholders' agreement in FIBI, or any other agreement approved by the Supervisor of Banks.
3) The means of control in FIBI (which were purchased when the control was purchased) which are held directly by the permit holders as well as the means of control in the Bank which are held by FIBI (at a minimum rate mentioned in Paragraph 1 above) will be deposited with an Israeli resident trustee, whose identity, deed of trust and instructions that were given to it will be subject to the approval of the Supervisor of Banks. The aforementioned means of control in FIBI and the Bank are held in the said manner in accordance with the conditions of the permit via Gai Trust and Management Co. Ltd.
4) Dividends will not be distributed from the earnings accrued at the Bank up to March 31, 2003, and if losses are accrued after this date, dividends will not be distributed unless these losses have been covered. The balance of the distributable surpluses at the Bank as of March 31, 2003 amounted to NIS 2,391 million.
5) Appointments of the Chairman of the Board of Directors and the CEO of the Bank will be subject to the consent of the Supervisor of Banks.
6) The permit recipients, including their relatives and corporations controlled by any of them, will not receive management fees or any proceeds and other benefit from the Bank or from corporations controlled by the Bank. They will however be entitled to provide services that are supplied on a regular basis by their providers and at market prices, after prior notification to the Supervisor of Banks at the conditions specified in the permit. Should the Supervisor of Banks notify that the service is not of a type that is provided on a regular basis to others or that the consideration threrefor is unreasonable, the service is not to be provided. This directive will not apply to director remuneration which is paid at an equal amount to all the directors at the Bank.
7) Without the Supervisor of Banks’ approval, the permit recipients and corporations under their control, including FIBI and corporations under its control, will not engage in any business activity, in Israel or outside Israel, which constitutes the receipt of deposits, the granting of credit or any other financial activity that involves an element of competition with

the Bank's business activity. In addition, without the Supervisor of Banks' approval, the permit recipients or any of them or corporations under their control will not be interested parties (as defined in the permit), directors or senior executives at corporations that engage in the said business activities.

8) The purchase of means of control in FIBI or in the Bank, including provision of a guarantee for the said finance, will not be financed, directly or indirectly, by the Bank or by banking corporations under its control.
9) Minimum rates of holding have been determined for the permit recipients in FIBI as well as directives concerning arrangements within the group of permit recipients, including directives concerning their purchase of additional means of control in FIBI, from the aspect of the manner in which they hold additional means of control that will be purchased and from the aspect of the ratio of the rates of holding of FIBI shares among the members of the controlling group.
10) The controlling group undertook to inform the Bank's Board of Directors of the permit and its conditions, with the exception of certain conditions.

Following amendments to the permit, FIBI has been permitted to increase its holdings in the Bank by a rate not exceeding 8% of the Bank's share capital, over and above the holding rates detailed in the permit. Accordingly and taking into account FIBI's holdings in the Bank as at the date of this report, FIBI is entitled to increase its holdings in the Bank by a rate of up to 8% of the Bank's share capital and at a rate of voting rights deriving from this additional holding.

The permit states that the Bino family will hold the means of control in FIBI (being part of the control core acquired in 2003) through Binohon Ltd. directly; furthermore, following the amendments to the permit, the holders of Binohon may be Mr. Zadik Bino and/or the children of Mr. Zadik Bino - Mr. Gil Bino (acting as Director of the Bank), Ms. Hadar Bino Shmueli, Ms. Daphna Bino Or (hereinafter together - "the Bino family").

The Bino family is entitled to hold the surplus rate in FIBI (over and above the minimum rate that is determined in the permit, as stated above), through another corporation.

In 2009, FIBI completed the capital consolidation of its shares.

In 2010, the Vank completed the capital consolidation of its shares.

Additional details regarding the stake in FIBI held by the controlling shareholders

In accordance with the reports of FIBI, as of April 2, 2015 that Mr. Zadik Bino, and his children- Mr. Gil Bino, Mrs. Hadar Bino-Shmueli and Mrs. Dafna Bino-Or, hold equal controling share in Binohon- 25% each.

FIBI reported on March 24, 2013 that Instanz Holdings transfered to Instanz no. 2 (hereinafter - "Instanz 2") in an off-floor transaction 4,139,233 of FIBI shares which constitute 15.77% of the issued and paid-up share capital of FIBI and the entire hodlings of Instanz in FIBI. Instanz 2 is a company incorporated in Israel and is wholly owned subsidiary of Sing Acquisitions Pte. Ltd (hereinafter - "Sing") which is a company incorporated in Singapur and controlled solely by Messers Helen and Michael Abeles (via Australians bodies), that also fully control (via the same Australian bodies) Instanz. The transfered shares are held in trust for Instanz 2 by Gai Trust and Management Co. Ltd. After the transfer of the shares, Instanz 2 became a party to the shareholders agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz will continue to be a party to the shareholders agreement and will be a guarantor for the obligations of Instanz 2. In addition the permit was amended that the control of the permit holders mentioned above in FIBI will be by Sing and Instanz 2 instead of Instanz Pty. Ltd and Instanz holdings.

In accordance with FIBI's reports, at August 28, 2016 Dolphin energies Ltd sold FIBI's shares of 3.98% of FIBI's issued capital and the voting rights attached to it. According to FIBI's report, at the date of these financial ststements, the holdings of the controlling stakeholders in FIBI (in equity and voting) are as follows: Binohon – 38.29%, Instanz No. 2 Ltd. – 15.66% and Dolphin Energies Ltd – 11.68%.

Details concerning FIBI’s holdings in the Bank

To the best of the Bank's knowledge, as of the publication date of the financial statements, FIBI holds 48.34% of the equity and voting rights in the Bank (a rate constituting the core of control, in accordance with the control permit from the Bank of Israel).

FIBI is a publicly-traded company whose shares are listed on the Tel Aviv Stock Exchange.

It is noted that in accordance with the provisions of the Promotion of Competition and Reduction in Centralization Act, 2013, and the list of centralized factors in the market that was published by the Committee for the Reduction in Centralization, the Bank has been defined as a significant financial institution and PAZ Oil Company Ltd. ("PAZ") has been defined as a significant non-financial corporation. In view of the above, and in accordance with the existing situation, at the end of a transitional period of six years from date of publication of the Centralization Act, the controlling shareholders of the Bank would not be pernmitted to control both the Bank and PAZ at the same time,or to control the Bank and hold 5% or more im any meaning of control in PAZ.

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

In addition, to the best of the Bank's knowledge, following the arrangements that had existed between FIBI and Israel Discount Bank Ltd. (hereinafter - "Discount"), when the latter was an interested party in the Bank, as detailed in Note 33.f to the financial report for 2015.

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 and all the arrangements are no longer relevant.

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 2016 and similar to previous years, the Bank continued these projects the purpose of which is to advance wellness, the quality of life and a healthy lifestyle in the community, with a focus on children and youth in risk situations concentrating on sport instruments, quality of life and healthy lifestyle.

Also, during the year additional activities of volunteering and aid to weak populations such as packing food baskets for the holidays.

The Bank encourages and supports the volunteers from among employees of the Bank, that are interested to take part in the project and to contribute 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. The total amount of contribution in 2016 in the bank's group amounted to NIS 2.8 million.

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CHART OF PRINCIPAL INVESTEE COMPANIES

- Bank Otsar Hahayal Ltd.
  (E. 78% V. 78%)
- Bank Massad Ltd
  (E. 51% V. 51%)
- Israel Credit Cards Ltd.
  (E. 28.2% V. 21%)
- First International Issues Ltd.
  (E. 100% V. 100%)

V - Bank's Voting Right
E - Bank's Share in Equity

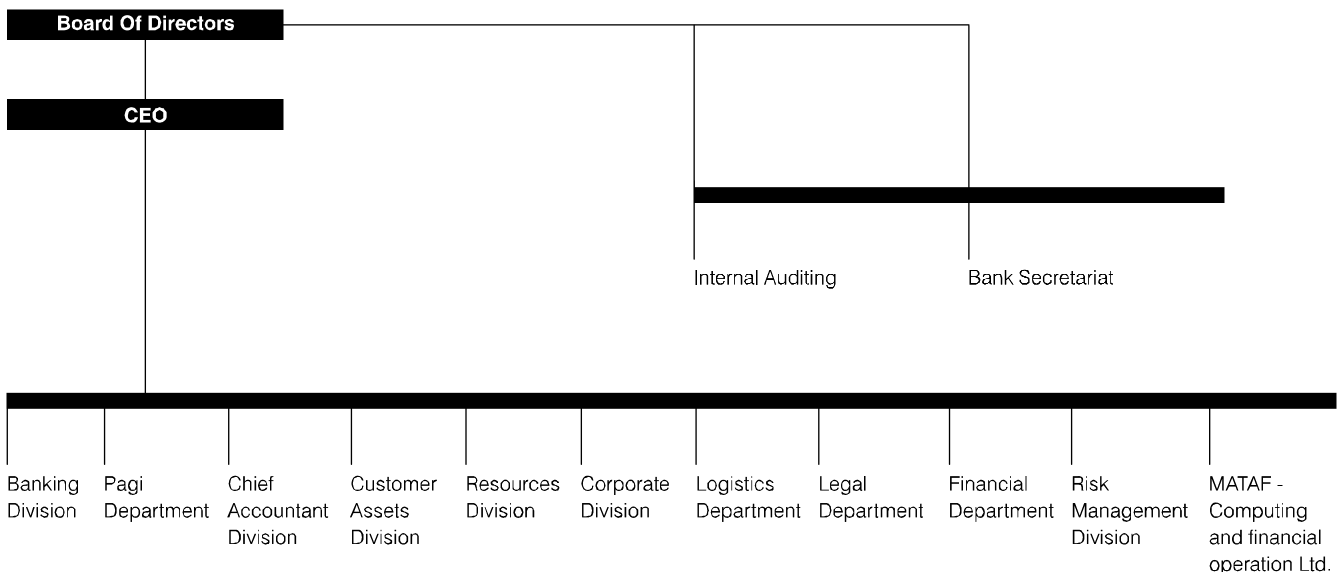
FIXED ASSETS

	As of December 31			
	2016			2015
	Cost	Accumulated depreciation	Balance	Balance
				NIS million
Buildings and land (including installations and improvements to rented properties)	**1,634**	**606**	**1,028**	1,113
Equipment (including computers, furniture and vehicles)	**719**	**614**	**105**	116
Total	**2,353**	**1,220**	**1,133**	1,229

As of December 31, 2016, the Bank Group owned or leased a total area of 69 thousand square meters in 66 properties. In addition, the Group rents in Israel a total area of 49 thousand square meters in 156 properties throughout the country. The rental agreements for rented premises are for varying periods and in most cases an option to extend the rental periods is provided. The majority of rental contracts are linked to the consumer price index.
See Note 16 to the financial statements for details on additional aspects of the investment in premises and equipment.

HUMAN CAPITAL

The organizational structure of the Bank



As of December 31, 2016 the Bank Group operated via 165 branches and sub-branches (96 branches and sub-branches at the Bank, 47 branches and sub-branches in Otzar Hachayal and 22 branches and sub-branches in Massad). The Group examines on a current basis the developments in the profitability and business activity of the branches, relative to the target populations for which they were ment to serve, the targets set in the working plans of the banks in the Group and the ability to utilize to the fullness the potential in the geographical area in which each branch operates. In this franework the compatability of the branches distribution to the business environment is examined on a current basis, as well as to the changes in the areas comprising potential business development in the target population of each bank in the Group.

Human Resources Strategy

The Bank’s human resources strategy is formulated in accordance with the Bank’s policy and business objectives, and is centered on strategic partnership for the purpose of achieving these objectives and realizing the full potential of the Bank's human capital. Accordingly, human resources strategy in 2016 was focused on a number of main areas:

Development of human capital - Strengthening and development of human capital in accordance with the Bank’s requirements and business objectives, from the long-term aspect: detection and full exploitation of the potential inherent among employees, outlining of knowledge gaps and assimilation of core abilities, professional and managerial instruction and executive development.

Long-term personnel planning - Outlining and planning human capital requirements for the purpose of achieving the Bank's objectives, adaptation of career tracks, recruitment and training of managerial cadres and professional cadres in accordance with the Bank's requirements.

Organizational development - Development of advanced tools in all areas for processing the human capital at the organization, including: enhancement of recruitment processes, employee assimilation and retention, recognition of employees' endeavor, increasing the efficiency of organizational processes and development of control devices, performance appraisal, and support at the Bank's units.

Intra-organizational communications - Management of intra-organizational communications in order to promote cross-organizational dialog and cooperation while strengthening human capital, emphasis on openness and transparency of information, employing various means for encouraging dialog at the Bank, and branding of the Bank's welfare activities.
Organizational culture - Supporting a culture that strengthens the values and objectives of the Bank, with an emphasis on excellence in all areas of endeavor, ethical behavior, social accountability and contribution to the community.

Personnel

The number of full-time employees in the First International Bank Group on December 31, 2016 was 4,563 compared with 4,817 at the end of 2015, a decrease of 5.3%.

The following are details of manpower in the Bank Group in terms of positions(1)

	2016		2015	
	Annual average(1)	**Balance at end of the year**	**Annual average(1)**	**Balance at end of year**
The Bank- in Israel	(2)**3,505**	**3,421**	3,259	3,289
Subsidiaries in Israel	**1,145**	**1,113**	1,700	1,499
Subsidiary abroad	**30**	**29**	32	29
Total at the Bank Group	**4,680**	**4,563**	4,991	4,817

(1) Number of positions include translation of overtime to positions.
(2) The increase in number of positions in the Bank derives from the merger of PAGI and Ubank with and into the Bank.

The following are details of the Group's employees according to supervisory segments of activity:
The positions presented according to segments of activity include position of direct employees of the segment and positions of head-office employees at different levels, which the cost of their employment was allocated on the segment. The computation of the said positions is based on the model of cost allocation which the Bank uses.

	Year 2016	**Year 2015**
Large business segment	**339**	368
Medium business segment	**187**	217
Small and minute business segment	**1,143**	1,124
Household segment	**2,548**	2,766
Private banking segment	**111**	116
Institutional entities	**292**	332
Financial management segment	**60**	68
Total	**4,680**	4,991

Human resource characteristics

The average seniority of the Bank’s employees amounted to 18.1 years compared with 17.7 years in 2015. The average age of the Bank's employees was 46.6 compared with 46.5 in 2015.

Employee mobility

In order to reduce as far as possible the dependency on office-holders and as part of employees' personal and professional development, the Bank insists on employee mobility and rotation of employees within the Bank. For this purpose, the Bank regularly moves employees in sensitive functions who have served in their positions for more than the desirable number of years on the basis of a multi-year rotation plan, according to the type of position and/or personnel requirements and subject to the constraints imposed by the work agreements at the Bank.

Human resource quality and managerial quality

The enhancement of human resources continued in 2016 via the creation of advanced processes at the different stages of the employee's life at the organization: recruitment, classification and absorption of new employees, the conferral of tenure and new appointments and management development.

Management cadres and management development plans

The Bank's management cadre was built up on the basis of the managerial profile and critical core proficiencies. This cadre is used as a means for monitoring employees with managerial potential, for personal planning and development purposes and in order to map qualitative and quantitative gaps. As a result, different tracks for management development have been established during recent years, in order to train managerial reserves for various terms.
The proportion of graduate employees at the Bank amounted to 58% at the end of 2016.

Code of Ethics

The Bank has institutionalized the process of developing tools for assimilation of the code and for promoting a culture of ethical behavior and social accountability. For this purpose, the Bank established ethical institutions at the bank, including an Ethics Committee headed by a member of management, which is responsible for assimilation of the code and for providing guidance and training on the basis of the values in the Code of Ethics, among other things, using a Code of Ethics Portal was instituted at the Bank. This portal contains interactive tools for the use of all employees. The Bank's Code of Ethics was updated in cooperation with employees during 2016.

Intra-organizational communication

Intra-organizational communication serves as a strategic managerial tool for supporting the Bank's objectives and activities, for assisting in all key processes and events, and for fostering dialog and a sense of connection between employees and the organization. The Bank has placed an emphasis on effective management of intra-organizational communication for the purpose of promoting transparency, increasing the level of employee satisfaction and strengthening the connection between all of the Bank's employees.

Professional instruction and training

In 2016, an emphasis was placed on the development of a climate of study and excellence among the Bank's employees, and innovative information tools and processes were employed for mapping knowledge gaps and for the development of advanced professional instruction activities in the Bank Group. An emphasis was also placed on instruction in the Bank's core areas of activity, and on managers' development before entering into and during the function.
The number of days of instruction at the Bank Group totaled 19,284 in 2016, which were equivalent to 75 employee positions and an average of 3.7 days of instruction a year per employee at the Group. This compares with 18,723 days of instruction in 2015, which were equivalent to 73 employee positions and an average of 3.6 days of instruction a year per employee.

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, on April 5, 2016 to approve the conversion of the rights to jubilee awards of all employees of the Bank, who under the collective labor agreements are entitled to jubilee awards and jubilee vacation accrued in their favor and of certain employees of MATAF to whom jubillee awards are paid.

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

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

B. The managers and signatories of the Bank filed on September 28, 2016, a party motion regarding the dispute concerning the collective employment agreement. It is argued in the motion that under the linkage to Bank Leumi employment terms agreement, the managers and signatories are entitled to an award equal to one month's salary per person, following such a payment made by Bank Leumi to its employees on June 2, 2016.

The Bank submmited a response to the party motion and the hearing of the party motion tool place in labor court on February 19, 2017. In the hearing it was concluded on submmiting written conclusions, after which a verdict will be given.

C. The clercks of the Bank filed on November 17, 2016, a party motion regarding the dispute concerning the collective employment agreement. It is argued in the motion that under the linkage to Bank Leumi employment terms agreement, the clercks are entitled to an award equal to one month's salary per person, following such a payment made by Bank Leumi to its employees on June 2, 2016.

The Bank submmited a response to the party motion and the hearing of the party motion tool place in labor court on February 23, 2017. In the hearing, the clercks asked and were granted permission to submmit evidence as to the essence of the award paid in Bank Leumi. A proof hearing was set for June 15, 2017.

D. Also a party motion dispute concerning collective agreement that was submmited by the clercks, is pending in the Tel Aviv labor court, in which they motioned to receive conversion of unutilized sick days to vacation days for actual utilization in age retirement, following an agreement made in Bank Leumi in January 2015. The Bank submmited its response to the motion, the clercks submmited their summation in the file, the Bank submmited its summation and now the parties are waiting for the verdict.

E. A notice from the New Federation of Labor (hereinafter – "the Federation") was received on March 8, 2017, according to which, over one third of the employees of MATAF Computer and Financial Operations Ltd. (hereinafter – "MATAF") had joined the Federation, and that as from March 8, 2017, the Federation serves as the representative organization for MATAF employees. Management of MATAF has informed the Federation of its consent for beginning negotiations for the signing of an initial labor agreement.

F. Otzar Hahayal

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

COMPENSATION POLICY IN A BANKING CORPORATION

The compensation policy for officers of the Bank

The General Meeting of Shareholders of the Bank approved on February 16, 2014, a compensation policy for officers of the Bank, in accordance with Section 267A of the Companies Act and with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter – "the Directive"). For additional details regarding the said compensation policy for officers, see the immediate report of the Bank dated January 5, 2014 (Ref. No. 004648-01-2014). On April 12, 2016 the Compensation of Officers of Financial Corporation Act (Special approval and the non-deductibility tax wise of exceptional compensation), 2016 (hereinafter – "the Compensation Act"), was published. On August 13, 2016 and on September 29, 2016, amendments to the Directive were published (hereinafter – "amendments to the Directive"). For additional details regarding the Compensation Act and the amendments to the Directive, see the Chapter "Corporate governance" within Section "Legislative limitations, standards and special constraints applicable to the Bank Group". Taking into consideration the provisions of the Compensation Act, the General Meeting of Shareholders of the Bank approved on November 20, 2016, the terms of engagement of the President and CEO of the Bank, Ms. Smadar Bereber Tsadik, applying as from October 12, 2016. For additional details, see the immediate report by the Bank dated October 13, 2016 (ref. No. 064245-01-2016). The content of this report is included hereby by way of reference.

The discussion of the terms of engagement of the outgoing Chairman of the Board of Directors, Mr. Rony Hezkiyahu were removed from the Agenda of the General Meeting of Shareholders. In accordance with the decision of the Board of Directors and at the request of the Chairman of the Board following his notice of November 20, 2016, regarding his intention to terminate on February 23, 2017, his office as Chairman of the Board, the General Meeting of Shareholders of the Bank approved a new compensation policy for officers of the Bank under Section 267A of the Companies Act, updated in accordance with the provisions of the Compensation At and the amendments to the Directive, as well as the terms of engagement of the incoming Chairman of the Board, Ms. Irit Isaacson, applying as from date of appointment. For additional details, see the immediate report by the Bank dated January 18, 2017 (ref. No. 006415-01-2017). The content of this report is included hereby by way of reference.

Employee compensation policy

In June 2014, the Bank approved a compensation policy for all Bank employees, including central employees, as well as principles for the compensation policy of the Group, the compensation policy for officers, as approved in 2014 by the General meeting of Shareholders, forming a part thereof. The compensation policy for employees sets rules for the compensation of employees and of central employees, as well as instructions regarding the distribution of responsibility among the relevant functions at the Bank engaged in the compensation mechanism. Moreover, within the framework of the compensation policy of the Group principles were set regarding the fixed compensation and the variable compensation for officers of the controlled companies. In 2014, the subsidiary companies in Israel that are subject to the Directive, approved a compensation policy in accordance with the principles of the Group policy, as approved by the Bank.

For further disclosure in the matter of compensation, see the document "Disclosure according to Pillar III of Basel and additional information regarding risk", available for perusal on the Internet.

MATERIAL AGREEMENTS

Apart from the agreements in the normal course of business, the agreements detailed below, which were signed in 2016 and/or were signed previously and are still binding on the Bank, are likely to be considered as material agreements not in the normal course of business:

1. Agreement with the holders of shares and a PUT option in Otsar Hahayal

   As part of the arrangements reached in 2006 between the Bank and "Hever" Servicemen and Veterans Ltd. (hereinafter - "Hever"), being an additional shareholder of Otsar Hahayal, the Bank has certain obligations towards Hever, among which is a PUT option whereby Chever is entitled to obligate the Bank to purchase from its holdings in Otsar Hahayal, in whole or in part. For details regarding the PUT option see note 15 to the financial statements.

   Hever has the right of relative participation in the sale of Otsar Hahayal shares by the Bank.

   Hever has the right to object to the appointment of the CEO at Otsar Hahayal, providing that it does not object to more than two candidates. Arrangements were determined for the appointment of directors and the fulfillment of functions on the board of directors on the part of Hever. It was also determined that Otsar Hahayal will adopt a dividend policy whereby a dividend will be distributed at the maximum legitimate rate. At this stage however and with Hever's consent, such a policy has not been adopted. It should be noted that Otsar Hahayal's articles of association contain a right of refusal mechanism. Under the control permit which the Bank and Hever received from the Bank of Israel, the Bank and Hever were permitted to own control and holdings in Otsar Hahayal together, cooperation between the Bank and Hever was permitted under restrictive terms, and additional terms were prescribed with respect to control, prevention of competition and the services which Otsar Hahayal will receive. On January 29, 2015, Hever informed the Bank that it was waiving its right to appoint an external director on Otsar Hachayal from the four directors it is entitled to recommend, in accordance with the agreement.

   In addition, under the Bank's permit for control in Otsar Hahayal, the Bank is required to maintain its existing rate of holdings in Otsar Hahayal and in the event of a public offering, to maintain a rate of holding of not less than 50.1%.

2. Collective Labor Agreements:

   There are two employees' organizations at the Bank - the clerks organization, and the managers and authorized signatories' organization.

   The following is a summary of the principal agreements signed with the two employees' organizations:

   - A collective agreement of November 19, 1975 between the Bank's management and the National Organization of the Association of the Managers and Authorized Signatories of the Bank regarding the linkage of salary conditions and related work conditions as practiced with respect to authorized signatories at Bank Leumi Le-Israel Ltd. On November 12, 2000 a special collective agreement was signed. The agreement stipulated employees' obligations and rights inter alia concerning mobility between functions, overtime policy, annual vacation, vacation provision, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute).

     Apart from these agreements, individual agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.

   - A collective agreement of October 25, 1974 between the Bank's management and the national organization of the Bank's employees concerning the receipt of related payments such as are received by the employees of Bank Leumi le-Israel Ltd. There is also a special collective agreement from that year which determines the obligations and rights of employees inter alia concerning mobility between functions, overtime policy, annual vacation, vacation provision, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute). In addition to these agreements, individual agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.

3. Indemnification of officers of the Bank and its subsidiaries - see Note 25.3.C to the financial statements.

4. Deeds of trust and guarantees in the issue of bonds, subordinated deeds of liability and subordinated capital notes.

First International Issues Company Ltd., a wholly owned subsidiary of the Bank, concluded deeds of trust in connection with the issue of bonds, subordinated deeds of liability and subordinated capital notes of different series issued by First International Issues, in accordance with prospectuses in public or private placements.

Agreements were signed between First International Issues and the Bank concerning issues whose proceeds are placed in deposits or subordinated deposits at the Bank at terms identical to the terms of certificates of liability, including the repayment of principal and payments of interest.

On May 15, 2007 a similar agreement was signed between First International Issues and Otsar Hahayal with respect to the proceeds of issues that are deposited at Otsar Hahayal.

The total revaluated value of the certificates of liability that were issued under the said deeds of trust, whose proceeds were deposited at the Bank and at Otsar Hahayal, and which are held by the public, amounted to NIS 5,058 million on December 31, 2016 (including linkage differentials, accrued interest, issue expenses, discounting and premium).

5. Arrangements concerning matters connected with the capital market - a notification which the Bank sent on August 1, 1984 to the Supervisor of Banks at the time, concerning a number of restrictions which the Bank took upon itself in connection with its activity in the capital market.

6. Pledge of the Bank's assets to clearing houses in Israel and abroad and to foreign banks and brokers - see Note 26 to the financial statements.

7. Pledge to the benefit of the Bank of Israel - see Note 26 to the financial statements.

8. Mutual guarantee for the Maof Risk Fund and a risk fund that was established by the stock exchange - see Note 25.3.D and 25.3.E to the financial statements.

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

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

BANKING

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

On January 25, 2017, Bank of Israel distributed to members of the Advisory Committee a draft amendment of the Banking Rules (Customer service) (Commission fees) (Amendment), 2008. The draft states, among other things, that fees charged in respect of services provided online, would be lower than those charged for the same service provided by a bank employee.

This Amendment is expected to increase competition between banks in providing online services, which, on the one hand may lead to an increase in the volume of activity, and on the other hand to a possible erosion in fees. At this stage it is not possible to quantify the effect of the change on the Bank's Group.

The Banking Act (Licensing) (Amendment No. 22), 2016, and Proper Conduct of Banking Business Directive in the matter of the closing down of bank branches and reducing teller services

An Amendment to the Banking Act (Licensing) was published on August 16, 2016, according to which a bank is required to submit to the Supervisor of Banks a reasoned application in writing for the closure of a permanent branch, and to obtain his approval within a period of thirty days. Where the Supervisor disapproves the closure of the branch, the bank is entitled to a hearing of its arguments. Following approval of the closure, the bank is required to inform customers of the branch regarding its closure sixty days prior to the closing date.

On January 9, 2017, a Proper Conduct of Banking Business Directive was published in the matter of the closure of bank branches and the reduction in teller services. In accordance with this Directive, a bank is required to form and implement a policy regarding branching and the discontinuation of teller services, as well as form a work plan and work procedures supporting the implementation of the policy. Prior to the closing down of a branch or the discontinuation of teller services, a bank is required to perform a preliminary examination and form a plan that would detail the manner of continuing the banking services in alternative ways, including providing human assistance for adapting customers to the change. A bank is required to provide customers with prior notice of sixty days regarding the closure of a branch or the discontinuation of teller services.

The Directive may lead to changes in the branching strategy of the banks in a manner which would affect the nature and level of competition between banks in certain geographical areas or on a national level. At the present stage , it is not possible to quantify the effect of the Directive on the Bank Group.

ONLINE BANKING

Proper Conduct of Banking Business Directive No. 367 regarding online banking

The Directive was published on July 21, 2016, with a view of encouraging the development of digital banking, thus increasing competition in the banking segment. The Directive removes existing obstractions and allows expansion of the scope of banking services provided by technological means, as well as providing means for the remote conduct of various banking operations. At the same time, the Directive imposes on banking corporations increased responsibility for the management of the singular risks inherent in such operations, among which are data protection and cyber risks as well as risk of damage to privacy. The Directive also requires the reinforement of the risk management framework and its adaptation to the environment of advanced technological operations, including the addition of controls, the monitoring of irregular operations, delivery of warning notices to customers and guidance provided to customers.

The Directive constitutes a reform in banking rules and is expected to lead to far reaching changes in a variety of banking services and their scope, that would be provided online to customers, this according to the technological developments in the fintech field and intenational trends. At the present stage , it is not possible to quantify the effect of the Directive on the Bank Group.

CREDIT AND COLLATERAL

The Bills discussed below offer a significant reform in collateral and insolvency laws, and includes, inter alia, possible impairment in the rights of secured creditors and in the ability to collect debts.

The Insolvency and Economic Recovery Bill, 2016

The Bill passed its first reading on March 9, 2016. It includes a comprehensive reform of insolvency legislation, while determining one legislative framework that includes the two classes of debtors – corporations and individuals, as well as reference to the unique aspects relating to each. Among other things, the Bill includes the following new premises:

The definition of insolvency would be based on the cash flow test, this, instead of the assets test in practice today;

A future creditor would not be entitled to request the opening of insolvency proceedings, otherwise than in the case where the debtor is acting with intention of deceiving his credirors;

As regards corporations, the District Court shall decide on the appropriate manner for dealing with insolvency of a corporation – economic recovery proceedings or liquidation proceedings;

As regards individuals, proceedings shall be conducted before a Magistrate Court or before administrative authorities, depending on the scope of debts of the debtor. During an examination period, the economic condition and conduct of the debtor will be examined and a stay of proceedings will apply. At the end of the examination period, a recovery plan would be formed for the debtor, whereupon the conclusion thereof, the individual would be exempted from his debts. Where the individual has no ability to repay his debts, he would be immediately exempted;

The majority of preferential debts would be cancelled;

A creditor secured by a floating pledge, would be entitled to an amount of up to 75% of the value of the assets subject to the floating pledge, unless the floating pledge had been registered prior to the publication of the Act, subject to terms detailed in the Bill; A secured creditor would be entitled to receive interest in arrears on the secured debt, payable out of the proceeds of realization of the pledged assets, only after the debts of the ordinary creditors have been repaid in full.

The Pledge Bill, 2015

On July 17, 2015, the Knesset passed, in first reading, the Pledge Bill.

The Bill proposes to establish a comprehensive reform of the pledge laws and to replace the provisions of the existing Pledge Act and of the Companies Ordinance in this matter.

Among the central changes of the Bill are: the right of an individual to pledge an asset not yet in his possession or even an asset that has not yet come into existence; revocation of the concept of a "floating pledge" – the borrower company would be able to create a fixed pledge upon its future assets, and the status of such pledge would not be automatically inferior to specific pledges; cancellation of the possibility of a creditor to limit the power of the debtor to effect transactions regarding the pledged asset, and more.

COMPETITION

Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (Legislation amendments), 2017.

Following the recommendations of the committee for the increase in competition regarding prevalent banking and financial services, headed by Adv. Dror Strom ("the Committee"), the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act, 2017 ("the Act") was published on January 31, 2017, the principal provisions thereof are detailed below.

Further steps are being taken by Bank of Israel for the implementation of the recommendations of the Committee, among which are increasing the number of participants in the retail credit market, removal of obstructions for the establishment of new banks in Israel, including mitigation for credit card companies and opening the payment layout to competition.

Among the main items of the Act are: a bank having a wide scope of operations, the value of its assets, as stated in its most recent financial statements prepared on a consolidated basis ("balance sheet assets") exceeds 20% of the said assets of all banks in Israel ("a bank having a large volume of activity") shall not engage in the issue of debit cards and in the clearing of transactions made by debit cards, shall not control and shall not hold means of control in a corporation engaged in in the issue and clearing as stated above (a bank shall be entitled to operate the issue of debit cards through another entity or to engage with a clearing agents).The said restrictions on a bank having a large volume of activity (if it controlled or held means of control immediately prior to the date of publication of the Act) would apply three years from date of publication of the Act, and under certain conditions – four years from data of publication of the Act.

It is further stated that as from the end of four years from date of publication of the Act and until six years from that date, The Minister of Finance will have the authority to determine that the said restrictions would apply also to a banking corporation which is not a bank having a large volume of activity, provided that the value of its balance sheet assets does not exceed 10% of the total balance sheet assets of all banks in Israel.

As of date of publication of this report, the value of the balance sheet assets of the Bank is less than 10% of total balance sheet assets of all banks in Israel.

In addition, a transitional period of five years since date of publication of the Act has been determined, and in respect of a bank having a large volume of activity – three years from date of separation of ownership ("the transitional period"), within the framework of which restrictions would be imposed on banks that issue debit cards and prior to date of publication of the Act controlled or held means of control in a debit card company (including the Bank). It is, inter alia, stated that as from the end of one year from date of publication of the Act and until the end of the transitional period, banks, as stated, are required to perform the debit card issue operation through at least one debit card company, and with respect to a bank having a large volume of activity and to any other bank not engaged in issueance operations (including the Bank), by means of at least two companies, provided that at least one of which is not controlled by that bank and it does not hold means of control in that company. It is further stated that as from the end of two years from date of publication of the Act and until the end of the transitional period, a bank, as stated, shall not perform through one debit card company the operation and issue of over 52% of the total number of new debit cards which it issues to its customers. The Minister of Finance, with the consent of the Governor and with the approval of the Economic Committee of the Knesset, may, at any time, change during the transitional period, by an Order issued to all banks or to a certain class thereof, the rate stated in this Section, if he finds the matter justified in order to enhance competition in the credit market. Additional restrictions apply during the transitional period to a bank having a large volume of activity in respect of the division of income between such bank and the credit card company, of the reduction in credit facilities and of setting limits to the date on which it is entitled to approach its customers regarding an offer for the issue/renewal of a card.

During the transitional period, credit cards companies are entitled to make use of the name of the customer and the details of engagment with him, if legally obtained while performing the issue of a debit card, for the purpose of approching the customer offering him a debit card or the granting of credit, this even without obtaining the consent of the customer (so long as the customer has not requested that use would not be made of the said information).

The Act includes further instructions, the aim of which is to increase competition as well as the negotiating ability of customers, imposing a duty on a bank to issue credit cards of issuers engaged with that bank in an issue agreement and presentation of data to the customer, at his request, also regarding transactions made by credit card that had not been issued by the bank and payments therefore were made by charging the account of the customer with that bank, prohibiting the changing to the worse of engagement terms and prohibiting the prevention of competition and access to information of financial bodies. It is further stated that a financial body shall enable the customer or a provider of a cost comparison service (acting on behalf of the customer) to view online financial information relating to the customer and make use of such information for the purpose of providing services stated in the Act.

The Act further prohibits the unreasonable refusal of a request by the customer for the registration of an additional subordinate pledge of an asset, in favor of another creditor, as well as for the realization of such a pledge. It is further prohibited to hold over 10% of a certain class of means of control in Automatic Bank Services Ltd., which operates an interface between issuers and clearing agents for the approval of debit card transactions, and a transitional period in this respect was determined in respect of existing stakeholders.

The Act instructs the establishment of a technological infrastructure providing computer services. If at the end of eighteen months since the effective date of the Act, the Minister of Finance finds that no adequate alternative technologies are available and that the matter is essential for the increase in competition, then he could require a bank, whose share in balance sheet assets exceeds 10%, to sell and operate computer services or lease out properties used for this purpose, under terms determined in the Act.

The measures involved in this legislation are expected to increase the level of competition in the banking sector in Israel, whether by way of incteasing the negotiating power of the consumer, or by way of encouraging the entry of new participants. This result creates on the one hand a competitive threat to the First International Bank Group, though , on the other hand, contains opportunities, in particular for the Bank, which does not have a large volume of activity. The Bank plans to utilize to the fullest the business opportunities inherent in the enhanced competition in this field.

THE CAPITAL MARKET

A. Provident funds

The Ministry of Finance published on December 19, 2016, a draft of the Supervision over Financial Services Regulations (Provident funds) (Purchase, sale and holding of securities) (Amendment), 2016, which amends prior drafts in the same matter.

The draft amendment states that an institutional investor being a member of a group of investors, where one of them has an agreement with a corporation for the provision of management or operating services ("the Operator"), may purchase of sell securities by means of the Operator, or by means of a related party thereof, provided that the rate of the purchase or sale commission shall not exceed 20% of the total purchase or sale commissions paid by the institutional investor during the year. Furthermore, conditions were stated, under which an institutional investor may purchase or sell securities by means of parties related to the institutional investor. The Draft amendment also adds a requirement for a competitive process, at least once in every three years, with respect to the holding of securities and states that an institutional investor who had engaged in a direct agreement with a global custodian (excluding a bank, a mortgage bank or a foreign bank holding a license from Bank of Israel) for the holding of securities, shall be exempted from the duty to hold a competitive process for obtaining holding services.

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

B. Securities Bill (Amendment No. 60) (Change in the Structure of the Stock Exchange), 2016

The above Bill, with certain amendments, was approved on February 20, 2017 by the Finance Committee of the Knesset. The amended Bill is expected to be submitted to the Knesset for approval in second and third readings. The aim of the Bill is to regulate a change in the ownership structure of the Stock Exchange and the clearing houses, while severing the link between the ownership of the Stock Exchange and of the clearing houses and the membership therein, turning them into profit-earning companies. Following the structural change, access to trading and/or clearing would no longer be dependent on ownership rights in the Stock Exchange and/or the clearing houses, but would be based upon a contractual engagement between the Stock Exchange and/or the clearing houses and the potential members.

Following are the principal provisions of the Bill, as amended by the Finance Committee of the Knesset:

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

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

Moreover, the Bill proposes that the proceeds from the sale of the means of control by existing Stock Exchange members, which are in excess of their proportionate part in the equity of the Stock Exchange, in accordance with its financial statements for 2015, shall be paid over to the Stock Exchange and used exclusively for the reduction in commission fees and for investment in technological infrastructure. In accordance with the Bill, within four months from the date of publication of the Act, the Stock Exchange shall submit a request for the approval of the arrangement program. In the event that the Stock Exchange shall not submit to the Court such a request within the stated period, or if such a request is not approved within two months from date of submission, the Securities Authority will be entitled to take measures for the approval by the Court of the arrangement for the allocation of rights, taking into consideration the recommendations of an expert appointed by it and resolutions taken within the framework of the arrangemnt program.

Upon termination of the period of five years since date of approval of the arrangement program by the Court, or until the date of issue to the public of shares in the Stock Exchange and their listing for trade, if at all, whichever is earlier, the present members of the Stock Exchange shall not be permitted to hold means of control in the Stock Exchange at a rate exceeding 5%. During this period, they shall not purchase means of control that exceed the rate permitted by the Act, as well as any rights attached to such holdings.

In addition, The Bill contains special corporate governance principles in accordance with the holdings of Stock Exchange members in the Stock Exchange. Likewise, reporting duties to the Finance Committee were determined with respect to different issues.

On background of earlier drafts of the Bill and as a preliminary stage, the General Meeting of Shareholders of the Stock Exchange approved on July 30, 2015, a proposal for an arrangement plan regarding the present members of the Stock Exchange, among themseleves and between them and the Stock Exchange, for the implementation of the change in structure of the Stock Exchabge and the turning of it into a profit earning corporation, having only one class of share capital; this by way of allottment of shares to the present members of the Stock Exchange, on the basis of an economic model, while making several adjustments (hereinafter – "the arrangement plan"). In accordance with the approved outline, the share of the Bank Group (prior to allottment of shares to employees and officers of the Stock Exchange) will amount to 21.6%.

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

In accordance with the Bill, regulations would be enacted in the matter of registration for trading and the removal from trading of shares in accordance with this arrangement. Furthermore, the Securities Authority shall instruct the Stock Exchange regarding the differentiation between shares regidtered for trading in accordance with the proposed arrangement and other securities registered for trading on the Stock Exchange, as well as in the matter of disclosure of

information to investors regarding the risks involved in the trading in shares registered for trading under the proposed arrangement.
According to the Bill, the Act will become effective ninty days following its date of publication.

CORPORATE GOVERNANCE AND COMPANIES

Compensation of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of expenses relating to exceptional compensation), 2016.
The Compensation of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional compensation), 2016, published on April 12, 2016, and which applies, inter alia, also to banking corporations. The Act includes two principal rulings. The one, the establishment of a corporate mechanism for the approval of an engagement for the granting of compensation to a senior officer or to an employee of a financial corporation, the expected expense in respect thereof exceeds NIS 2.5 million per annum (linked). The compensation amount is to be computed on a cumulative basis for all member companies of a financial group. The mechanism includes the approval by the compensation committee, and in the absence of which, by the audit committee, if such exists, the approval by the board of directors, with the majority of external/independent directors (where such exist), and the approval by the general meeting of shareholders. In the case of a corporation which is a public corporation, approval by the meeting of shareholders requires a supermajority vote by the minority shareholders. It is determined within the framework of this arrangement that in any event, no compensation may be approved, if the expected expense in respect thereof exceeds the said amount, where such amount is 35 times higher than the lowest amount of compensation payable to an employee of that corporation (including outsourcing employees as defined in the Act) (hereinafter – "ratio limitation"). The other rule states that in computing the taxable income of a financial corporation, deductions shall not be allowed in respect of payroll of senior officers and employees in an amount equal to twice the difference between the payroll cost and the amount of NIS 2.5 million (linked to the CPI) per annum, while from that maximum amount shall be deducted also the amount of annual expense relating to the granting of shares or to the right to receive shares.
In accordance with the transitional instruction included therein, the Act shall apply to engagements approved as from date of publication of the Act onwards. Engagements that had been approved prior to the publication of the Act, require approval until the end of six months from date of publication of the Act. It is noted that, according to the Act, the provision that limits the amount deductible tax wise from the taxable income of a financial corporation, shall take effect on January 1, 2017, in respect of engagements approved subsequently to the date of publication of the Act, and as regards engagements approved prior to the date of publication of the Act, the provision will take effect six months following the publication of the Act.
On April 7, 2016, on background of the passing of the Act, which, inter alia, creates uncertainty as to the past rights of longstanding employees of banks, the Supervisor of Banks approched all banks, requesting them, inter alia, to assess the possible implications and risk affecting each of the banks as a result of the Act taking effect, including the possibility of resignation of key officers at the various administrative levels, and the impact it may have upon the long-term plans of banks, including the ability to carry out significant efficiency programs. The Bank responded on April 20 2016, to the approach of the Supervisor, after holding a discussion in the matter by the Board of Directors. At this stage, it seems that the Act may be detrimental to the existing terms of office and employment of the former 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. The Board of Directors of the Bank approved on November 17, 2016, an update of the strategic plan of the Bank

regarding efficiency measures. For additional details, see the immediate report of the Bank dated November 17, 2016 (Ref. No. 2016-01-0795). There is no change regarding the Bank estimate as to the effect of the said uncertainty.

In the course of June 2016, two petitions with respect to the Act were filed with the High Court of Justice (the hearing of which was combined), one by the Union of Banks and the other by the Union of Insurance Companies.

At the request of the Union of Banks, the High Court of Justice issued on July 11, 2016, an interim order according to which, employees and officers of banking corporations, who would inform of their retirement from work at the said banking corporations within forty-five days from date of the decision in the said petition from date of cancellation of the interim order, shall not loose their existing right to receive the full compensation due to them following the termination of employer/employee relations, or following the termination of their office, had these relations been terminated at date of filing of the petition (hereinafter – "the interim order").

A verdict in the said petitions was given on September 29, 2016, rejecting both petitions. Notwithstanding the above, the Court determined, without deciding in respect of each case in question, that the Act is intended to apply to compensation payable for future work, and is not to apply to the rights acquired in consideration for work performed by the employee prior to October 12, 2016. It was also determined that the interim order would be extended to January 1, 2017, and shall apply also to senior employees of insuarnce companies.

On November 20, 2016, the general meeting of shareholders of the Bank approved the engagement terms of the President and CEO of the Bank, applying as from October 12, 2016, with reference to the provisions of the Compensation Act. For additional details, see the immediate report of the Bank dated October 13, 2016 (Ref. No. 2016-01-064245).

The engagement terms of the former Chairman, Mr. Rony Hizkiyahu, were removed from the Agenda of the general meeting of shareholders, in accordance with a resolution of the Board of Directors and at the request of the former Chairman of the Board, following his announcement of November 20, 2016, regarding his intention to terminate his office as Chairman of the Board. OnFebruary 23, 2017, the general meeting of shareholders of the Bank approved a new compensation policy for officers of the Bank, in accordance with Section 267A of the Companies Act, which is updated in accordance with the Compensation Act and with the updated Proper Conduct of Banking Business Directive No. 301A, and approved also the terms of engagement of the incoming Chairperson, MS. Irit Isaacson, as from date of her appointment. For additional details, see the immediate report of the Bank dated January 18, 2017 (Ref. No. 2017-01-006415). The contents of the said report are included herewith by way of reference.

Proper Conduct of Banking Business Directive No. 301A – Compensation policy of a banking corporation

On September 29, 2016, an amendment to the said Directive was published, which includes the following principal provisions: reduction of the number of central employees, so that it is not mandatory to include therein as a central employee a manager who reports directly to a manager who reports directly to the President ans CEO; the option not to define as a central employee, an employee who is not an officer, to whom Amendment No. 20 of the Companies Act applies, if the compensation paid to him in the past two years does not exceed NIS 500,000 per year, or his variable compensation in the past two years does not exceed 20% of the annual compenstion; a determination that for the purpose of the variable compensation, criteria determined in advance may include a discretionary component, on condition that the amount of this component should not exceed an amount equal to three montly salaries per year; cancellation of the requirement that at least 50% of the variable compensation in a calendar year shall be granted in the form of a capital compensation; cancellation of the requirement to defer and spread the variable compensation in respect of a central employee, whose maximum amount of compensation agrees with the new Compensation Act, and the total of the variable compensation granted to him in a calendar year does not exceed 40% of the fixed compensation for that year; changing the definition of a fixed compensation, so that the compensation (including shares), which is blocked for realization at date of granting thereof, may be considered as fixed compensation. Furthermore, within the framework of the amendments to the FAQ file with respect to the implementation of the Directive dated September 29, 2016, a clarification was added, inter alia, whereby in accordance with the amended Regulations under the Companies Act, an immaterial change in the terms of employment of of a senior officer directly responsible to the President and CEO, shall not require the approval of the

Compensation Committee, if it had been approved by the President and CEO, on condition that the compensation policy permits the approval of such a change by the President and CEO and the terms of employment agree with the compensation policy.

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

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

CROSS BORDER ACTIVITY BY CUSTOMERS

The Income Tax Ordinance Amendment Act (No. 227), 2016

In order to be able to implement the bilateral agreement between the United States and Israel with respect to the implementation of FATCA ("the FATCA agreement") and agreements for the automatic exchange of information for tax purposes relating to financial accounts (CRS – Common Reporting Standard) to be signed by the competent authorities in Israel and the competent authorities in countries with which an agreement for the exchange of information had been signed, in the format determined by the OECD, the Income Tax Ordinance Amendment Act (No. 227), 2016 was published on July 14, 2016. The Act requires reporting Israeli financial institutions to collect and deliver information, as defined in the Act, everything as will be determined by the Minister of Finance in regulations to be published in this respect. In terms of the Act, a montary sanction may be imposed on reporting Israeli financial institutions in respect of unidentified details, or due to deficiencies in transmitting them, and this without derogating from the criminal responsibility of a person stemming from violation of an instruction, as stated, comprising an offence.

The Income Tax Regulations (Implementation of the FATCA Agreement), 2016

These Regulations, published on August 4, 2016, state the duties applying to financial institutions for the purpose of implementation of the FATCA Agreement, and regularize the various procedures that financial institutions have to apply in respect of a due diligence examination of financial accounts for the identification of the account holders and the classification thereof as accounts that should be reported under the agreement. The Regulations include also the duty of informing the customer regarding information provided to the Tax Authorities, the duty of reporting and withholding of tax imposed on financial institutions which are not participating in the implementation of the FATCA Agreement, and transitional instructions applying to the terms of recognition of an entity as a "public institution" by a reporting Israeli financial institution.

Circular letter of Bank of Israel regarding the management of risks associated with cross-border activity by customers

In accordance with the circular, published on March 16, 2015, in view of the growing risks involved in the activity regarding foreign residents, a banking corporation has to review and update its policy, procedures and controls with respect to operations of foreign residents. It is further stated in the circular that refusal to open a new account for a customer who does not cooperate with the banking corporation in the manner required for the implementation of the policy and procedures of that banking corporation with respect to the cross-border risks, and refusal to provide banking services with respect to an existing account, which expose the banking corporation to the risk of being considered a collaborator of the customer in evading the foreign legislation applying to the customer, shall be considered "reasonable refusal" in terms of the Banking Act (Customer service), 1981.

The Bank is aware of the risks involved in the operations of foreign residents and of the intensified regulation and enforcement exercised by the foreign tax authorities, including risks regarding possible tax evasion by customers subject to US tax laws ("American customers"). The Bank has a singular policy in this respect and employs measures for the facing of risks involved in the activity with foreign residents being part of the different procedures of the Bank, alongside the preparations for the implementation of the FATCA rules, as required.

Prohibition on money laundering and compliance with Israeli tax laws

Prohibition of Money Laundering Act (Amendment No. 14), 2016

The Amendment, published on April 7, 2016, and entered into effect following six months from date of publication, adds to the offences of origin mentioned in the First Addendum to the Prohibition on Money Laundering Act, 2000, tax offences committed in amounts and under certain circumstances.

It is further determined that in the case where a money laundering offence has been committed, the origin of which is a tax offense, by a person who is not the one liable for the tax, than the tax evasion offence would be considered an offence of origin, with no additional circumstances or terms.

Furthermore, the investigative power of the tax Authority and its entitlement to information from the Prohibition of Money Laundering and Finance of Terror Authority, have been expanded, in order to assist it in the uncovering and investigation of money laundering offenses originating in tax offenses.

Letter of Bank of Israel to banking corporations in the matter of preparations for compliance risk management in view of tax offences being determined as offences of origin

In accordance with the said letter, published on November 23, 2016, banking corporations are asked to examine the required changes to their policy, regarding risk assessment and procedures, following Amendment No. 14 to the Money Laundering Act, and the addition of tax offences as offence of origin.

Therefore, all instructions relating to matters of money laundering applying to banking corporations shall apply also in respect of tax offences committed by a customer. The Act and the letter requires the banks to modify thier policy and adopt monitoring and control measures designed to reduce the risk of banks being used for tax evasion purposes.

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

The draft, published on December 19, 2016, is intended to expand and re-edit Proper Conduct of Banking Business Directive No. 411 as a risk management Directive, as well as determine operational measures for the reduction of risk.

An additional Chapter was added within the framework of these amendments relating to the assessment of risk, which states that a bank has to perform an extensive risk assessment for the identification and analysis of money laundering and finance of terror risks, which would constitute the infrastructure for the implementation of a risk based approach, and , inter alia, wouls assist in the adequate allocation of resources for the reduction in identified risks.

Also added is a Chapter dealing with risk reduction, which states that the policy and procedures, the measures and controls for the reduction of risk, should be consistent with the risk assessment of the bank.

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

LEGAL PROCEEDINGS

Note 25 (g) to the financial statements includes details of material claims pending against the Bank and its subsidiary companies.

THE RATING OF THE BANK BY RATING AGENCIES

Set out below is the Bank's rating as determined by rating agencies in Israel and by an international rating agency:

- S&P Maalot rated the Bank ilAA+/Stable and its subordinated notes at ilAA and the subordinated notes with loss absorbsion mechanism ilA+.
- Midrug rated the Bank's internal finance resolution at Aa3.il/Stable, the Bank's short-term deposits P-1.il, its long-term deposits and senior debt Aa1.il/Stable and its subordinated notes Aa2.il/stable (on December 12, 2016 Midrug raised the Bank's rating forecast of subordinated notes from negative to stable).
- Moody's rates the Bank as follows: long and short-term foreign-currency and local currency deposits A3/Prime-2. The rating forecast is Stable.

PRINCIPAL DEVELOPMENTS IN ISRAEL AND GLOBALLY

Nonfinancial developments

Indicators for nonfinancial activity, published at the beginning of 2017, continue to be positive indicating that the economy continued to grow in 2016 at an increasing pace. In accordance with assessments published during February 2017 by the Central Bureau of Statistics (hereinafter – "the CBS"), the economy grew in the second half of 2016 by 5.0% (in annualized terms) following a growth of 3.8% in the first half of the year and 2.2% in the second half of 2015. The growth in the product in the second half of the year reflects increases in both public and private expenditure items, a rise in investments in fixed assets as well as a rise in exports of goods and services. Furthermore, the import of goods and services also recorded growth.

According to an assessment of the Ministry of Finance, the downward trend in the ratio of the public debt to the product is also continuing. The ratio of the public debt for 2016 is expected to decline to a level of 62.1% of the product, in comparison to 63.9% in 2015. The central factors contributing to this decline are the nominal growth rate alongside a low deficit as well as market factors, such as a negative price index, the strengthening of the shekel as against the US dollar and the Euro and the continuing decline in accumulated interest on the government debt. The ratio of debt to the product comprises a central indicator of the financial stability of the State of Israel and in determining its credit rating.

The Combined state of the Economy Index of Bank of Israel also indicates a positive and stable growth of the Israeli economy in the last quarters of 2016, when in the whole of 2016 the Index rose by 3.7%, in contrast to a rise of 2.9% in 2015.

The Research Division of Bank of Israel increased in December 2016 the product growth forecast for 2016 to 3.5%, in contrast to 2.8% in the former forecast published in September 2016. Likewise, the product growth forecast for 2017 was raised to 3.2% in comparison with 3.1% in the former forecast.

State budget

The government budgetary deficit for 2016 is expected to be lower than that recorded last year, as well as lower than the targeted budgetary deficit for this year. In accordance with a preliminary assessment of the Ministry of Finance, the government deficit for 2016 is expected to amount to NIS 25.9 billion, comprising 2.15% of the GDP, as compared with a deficit of NIS 24.9 billion, comprising 2.2% of GDP in 2015. A higher deficit of NIS 35 billion, comprising 2.9% of GDP, was planned in the original budget for 2016.

The low deficit in relation to that planned in the original budget, stems mostly from higher than forecasted revenues in the amount of NIS 8.8 billion, mainly due to an increase in wages and the steep rise in the import of motor vehicles (which is highly taxed) as well as growing enforcement and collection efforts on the part of the Tax Authorities.

During the month of April 2016, the Fitch rating agency marked up the credit rating forecast of the State of Israel regarding the foreign currency debt from stable to positive and ratified it at an "A" level. The upward updating of the forecast stems from the further strengthening of the foreign account of Israel (a growth in surplus on the current account and higher foreign currency balances of Bank of Israel) and the improvement in the ratio of the public debt to the product.

Inflation

The year 2016 sums up three years of negative inflation in the Israeli economy, this following a decline of 0.2% in the Consumer price Index ("CPI") in 2016, of 1.0% in 2015 and of 0.2% in 2014. Most of the decline in 2016 was recorded in the fruit and vegetable item – 2.7% (following a rise of 13.2% in 2015), in the furniture and household equipment item – 2.4%, on background of increasing competition in this field, and in the transportation and communication item – 1.9%, mostly due to lower public transport prices and lower airline ticket prices following the "open skies" reform. Most of the increase in prices was recorded in the housing item – 1.4% (reflecting mostly higher rental costs in renewed leases) though this rate of increase in this item is lower than that of prior years (2015 – 2%, 2014 – 3.4%), as well as in the Health item – 0.8%.

The Research Division of Bank of Israel assessed in December 2016, that the level of inflation in 2017 would be at the lower edge of the targeted price stability range of the Government (1% to 3%), mostly on background of the assessment that prices of imported products are expected to rise at a higher rate than that recorded in the recent two years, while increased competition and continuing measures taken by the Government to reduce the cost of living are expected to continue moderating the domestic inflation.

As of December 2016, inflationary expectations for the coming twelve months, derived from the capital market amount to a rate of 0.3%.

Housing market

According to an assessment of the housing price index of the CBS published in January 2017, a moderate increase of 0.4% was recorded in housing prices in October –November 2016, in contrast to the months of September-October 2016, while in the twelve months ended October 2016, housing prices rose by 8.6%.

The supply of housing units in the first nine months of 2016 fell, following the start of construction of 38,670 new housing units (a decline of 4.0% in comparison with the corresponding period last year), a decline of 6.0% in beginnings of construction of housing units. The construction of 31,440 new housing units was completed (5.7% lower than that of the corresponding period last year) with a decline of 4.3% in the floor area of completed housing units. A continuing trend of decline in the number of completed new housing units is noticed since the beginning of 2015.

A decline was recorded also in the volume of sale of new housing units, such that in the months of January to November 2016 27,130 housing units were sold (a decline of 7.0% in comparison to the corresponding period last year). The total amount of new mortgage loans taken during 2016 was lower by 10% than the corresponding data for 2015.

Labor market

Unemployment data continue to be positive with a continuing trend of improvement in the data. The rate of unemployment in December 2016 (for aged 15 and over) dropped to 4.3%, in comparison with 5.0% in September 2016. With respect to the main employable ages (ages 25-64), the rate of unemployed in the fourth quarter of the year was 3.8%, in comparison with 4.1% in the third quarter of the year.

Exchange rate

The exchange rate of the shekel as against the US dollar weakened in 2016 by 1.3%. The exchange rate of the shekel as against the Euro weakened by 4.9%.

In the course of 2016, Bank of Israel purchased an amount of US$6.1 billion (of which US$1.5 billion are intended to offset the effect on the exchange rate of the natural gas production in Israel). In November 2015 Bank of Israel informed that within the framework of the plan to offset the effect on the exchange rate of the natural gas production in Israel, it will purchase an amount of US$1.8 billion in 2016. In November 2016, Bank of Israel informed that as part of this program, it will purchase an amount of US$1.5 billion in 2017.

	Exchange rate as of			Rate of change	
	31.12.16	**30.9.16**	**31.12.15**	**2016**	**2015**
US dollar	**3.85**	**3.76**	3.90	(1.5%)	0.3%
Euro	**4.04**	**4.20**	4.25	(4.8%)	(10.1%)

Bank of Israel interest rate

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

The Research Division of Bank of Israel estimated in December 2016, that the Bank of Israel interest rate would remain at its present level until the third quarter of 2017, and will rise in the fourth quarter of 2017 to a level of 0.25%, this on background of the gradual increase expected in inflation and the continuing growth in the product.

The global environment

A review of the International Monetary Fund of January 2017 indicates a continuing moderate growth of the global economy, with a slight improvement in the growth rate. The growth forecast for 2017 is estimated at 3.4%, and at 3.6% for 2018. Most of the improvement is expected in the manufacturing sector. On the other hand, political uncertainty has grown in several of the countries.

The US growth forecast for 2017 rose to 2.3%, in contrast to a growth rate of 2.2% according to the previous forecast. The growth forecast for 2018 increase to 2.5%, in contrast to 2.1% in the previous forecast. The growth forecast for 2017 for the developed economies rose to 1.9%, in contrast to 1.8% in the previous forecast.

Towards the end of 2016, the US Federal Reserve Bank increased the interest rate by 0.25%. It seems that the labor market in the US is nearing full employment, due to moderation in the addition in vacant positions in the recent months and stabilization at a low level of the unemployment rate (4.7%). Private consumption continues to lead the economy, though recovery is noted also in industrial production and the real estate market is also improving. The rate of inflation is approaching the target line, in view of the fading of the effect of the decline in energy prices last year. Nevertheless, moderation is noted in market expectations for increases in the interest rate in 2017, so that only two increases in the interest rate are now expected for 2017.

A positive momentum is noted in Europe, mainly in Germany, the economy of which grew by 1.9% in 2016. Unemployment in the Eurozone remained at a high level of 9.8%, though this is the lower rate in the past seven years. The inflation rate rose sharply to 1.1%, caused by the effect of the rise in oil prices, though the core inflation rate (after eliminating the effect of the energy and food items) was lower. The political uncertainty remained at a high level in view of election campaigns expected to take place this year in several countries and the challenges facing the banking sector. It seems that economic growth in Britain in 2016 was not affected by the brexit decision, though according to present estimates, growth would slowdown in the coming years.

Positive data and improved economic activity were recorded in Japan, though there are still no signs of inflationary recovery.

In China, the slowdown in economic growth continues. The accelerated rise in credit and the pulling out of capital are a source for concern.

Capital markets

During 2016, the principal equities indices on the local capital market declined, as follows: The TA 100 Index – by 2.5%, The TA 25 Index – by 3.8%. The general bond index rose by 2.1%.

Weakness continues in the trading turnover in shares and bonds on the local Stock Exchange: the average daily turnover of shares of the TA 25 Index recorded a decline of 8.0%, shares of the TA 100 Index recorded a decline of 5.7%, and the trading turnover of bonds recorded a decline of 9.6%.

	Rate of change		Average daily trade turnover	
	%		NIS million	
	2016	**2015**	**2016**	**2015**
TA 25 Index	**(3.8%)**	4.4%	**647**	703
TA 100 Index	**(2.5%)**	2.0%	**845**	896
General bond Index	**2.1%**	1.8%	**3,761**	4,159

The total amount of capital raised in 2016 (both in shares and bonds) recorded an increase of 6%, in comparison with the corresponding period last year. This increase was due mainly to the increase in government bond and corporate bond issues.

	Amount of capital raised		
	NIS million		
	2016	**2015**	**Rate of change**
Shares and convertibles	**26,968**	38,320	(29.6%)
Government bonds	**47,511**	38,716	22.7%
Corporate bonds (incl. institutional)	**67,135**	57,084	17.6%
Total	**141,614**	134,120	5.6%

The S&P 500 Index rose during 2016 by 9.6%. In Europe the Eurostocks 600 Index declined by 1.2% and the developing countries index (the MSCI_EM Index) rose by 8.6%.

THE SUPERVISORY SEGMENTS OF ACTIVITY - ADDITIONAL DETAILS

For the description of segments of activity see note 28 to the financial statements and the chapter of segments of activity in the Board of Directors and Management report.

Structure of the competition in the segment and changes in it

CORPORATE SEGMENT

- The majority of business customers in Israel manage accounts at a number of banks, and often at all the large banks operating in Israel as well as at foreign banks.
- The level of competition in the banking system for quality corporate segment customers is very high. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products.
- Apart from the expansion of the non-bank market in Israel as a substitute for bank credit as described above, globalization and liberalization have provided the Corporate Segment's customers with opportunities for raising capital in local and worldwide capital markets, and with ready access to credit and banking services from foreign banks and financial entities abroad.

THE PRIVATE BANKING SEGMENT

- Activity in the private banking segment, which is characterized by a high level of competition, comprises a central layer of the Group's strategy. The Group competes in this segment against all Israeli banks as well as against representative offices in Israel of foreign banks and investment houses, against institutional bodies, private brokers and investments in overseas markets.
- On this background, and in view of the relatively low credit risk level involved in the private banking segment operations, competition as regards customers is fierce and very dynamic. This competition is expressed in the allocation of considerable resources for the raising of the level of service and consulting to private banking customers, in the training of staff, in a continuous expansion of the array of products being offered, the upgrading of decision supporting technological systems, in the benefits regarding account management terms, in the erosion in the level of bank charges and fees, in many advertizing campaigns, focus on personal service and creation of a customer adjusted overall service program.
- In the upper section of the private banking segment, as well as with respect to activity with foreign resident customers, the Group faces competitors in the global private banking market, which is characterized by a specially high level of competition. In particular, the Group competes against Israeli banks operating abroad, against banks and other institutions specializing in private banking for the foreign population and against international investment houses.
  In order to improve the Group preparedness in attending to the upper section of private banking segment, the Bank is preparing to change Ubank's branches into platinum centers which will attend the said customers with a service model that will be uniquely tailored to the character of the customers' activity and their needs.
- The Bank and the Group are constantly acting to improve work processes and introduce technological improvements with the aim of improving the level of service and expanding the variety of products, including the upgrading and development of services offered on the Internet and on cellular phones, and development of advanced capital market services.

THE MEDIUM BUSINESS SEGMENT

- The competition in the banking system for commercial segment customers is growing continually. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products. Competition also comes from non-banking entities, such as insurance companies, and from the opportunity for raising capital in local and overseas markets.
- Most commercial customers in Israel manage accounts at a number of banks, which increases the competition for these customers. In addition, regulatory requirements that restrict the banks in their activity with large business customers and their increased severity in recent years are prompting the banking system to focus on commercial, mainly middle-market customers.
- The Bank uses the competitive advantage existing in the Group's activity and offers customers to enjoy the factoring services and the financing within the framework of the small and middle market business fund managed by Otsar Hachayal.
- Competition also exists in investment and savings activity with the segment's middle-market customers, against other banks and against non-bank entities that specialize in the capital and money markets (including insurance companies and investment houses).

THE HOUSEHOLD SEGMENT

In recent years the level of competition on the household segment is rising- both in the banking system and against entities outside the banking system. As part of competition on market share the Group performes needed changes, including adjustment of preparations in the following areas:

- Focusing on the development of the online services of the Group; "International online", advanced cellular phone applications, self service stations, etc.
- An extensive marketing activity based on supportive computer systems.
- Modifications to the branch layout in accordance with developments in the targeted population of the Group and in accordance with business potential areas.
- Strengthening the personal bond and relations with the customer.
- At the same time, the group continues to focus on specific target populations within the household segment, such as: defense agencies staff and retirees, teaching staff population, professionals, employees of large corporations, the ultra-orthodox customer segment and more.

The improved position of the Group in the household segment will continue to comprise a central layer of the business strategy of the Group. This strategy is designed to decentralize the income mix of the Group, as well as create a new customer pool, which will provide reserve of private banking customers in the future. The Bank strives to preserve and enlarge the activity of the Group among existing customers, including dual customers, who conduct a part of their financial activity with other banks. Moreover, the Group continues to attract new customers from among the target population of the Group, each member bank in its own specialized field, and to introduce measures for the efficiency and improvement of the retail infrastructure.

The following processes are being implemented and/or planned in the course of business for the realization of this strategy:

- Strengthening the concept of focusing on the customer, while modifying value offers, products, the level of service and distribution channels to the preferences and financial needs of each customer.
- Educated management of the retail network with a multi-channel concept, based both on the adequate deployment of the branch layout, and on the constant expansion of online banking services, including advanced automatic appliances, the Internet website, cellular phone applications which are in a state of constant expension of the banking services included in them, such as FIBI – the virtual banker, biometric identification, expension of the service of information in a click- allowing the customer receiving information without the need to identify, sending personal massages to customers, correspondence with a banker via mail or sms in the website or the application, etc.
- A data based systematic initiation of activity with customers in all lines of operation, including account management services, investment activity and consulting, consumption credit and mortgages.
- Preservation of leadership and competitive advantage in the field of savings and investments.
- Development of mortgage activity as a supplementary retail product.

THE SMALL AND MINUTE BUSINESS SEGMENT

The competition in the Small and minute Business Segment has increased during recent years. In this segment, the Group competes with all the banks in Israel and mainly with the four largest banks. During recent years however, competition has also increased from the small banks, which are expanding their activity with the segment. Competition also derives from such financial entities as credit card companies, leasing companies and insurance companies. Additional factor contributing to the intensification of the competition in the segment is the existence of specific government funds for granting credit to small and medium sized businesses.

APPENDICES

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

A. Average balances and interest rates - assets

	Year ended December 31, 2016			Year ended December 31, 2015			Year ended December 31, 2014		
	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income	Rate of income
		NIS million	%		NIS million	%		NIS million	%
Interest-bearing assets									
Credit to the public(2)(5)									
- In Israel	**70,282**	**2,354**	**3.35**	65,454	2,111	3.23	63,023	2,385	3.78
- Outside Israel	**350**	**8**	**2.29**	377	9	2.39	433	9	2.08
Total	**70,632**	**2,362**	**3.34**	65,831	2,120	3.22	63,456	2,394	3.77
Credit to the Government									
- In Israel	**641**	**-**	**-**	651	(3)	(0.46)	439	3	0.68
Total	**641**	**-**	**-**	651	(3)	(0.46)	439	3	0.68
Deposits with banks									
- In Israel	**2,931**	**10**	**0.34**	3,177	8	0.25	2,502	16	0.64
- Outside Israel	**297**	**-**	**-**	508	1	0.20	458	1	0.22
Total	**3,228**	**10**	**0.31**	3,685	9	0.24	2,960	17	0.57
Deposits with central banks									
- In Israel	**21,284**	**22**	**0.10**	22,970	28	0.12	17,562	106	0.60
Total	**21,284**	**22**	**0.10**	22,970	28	0.12	17,562	106	0.60
Securities borrowed or repurchased									
- In Israel	**567**	**1**	**0.18**	498	1	0.20	980	6	0.61
Total	**567**	**1**	**0.18**	498	1	0.20	980	6	0.61
Held to maturity or available for sale bonds(3)									
- In Israel	**14,697**	**119**	**0.81**	13,170	92	0.70	9,703	123	1.27
- Outside Israel	**99**	**2**	**2.02**	116	2	1.72	134	2	1.49
Total	**14,796**	**121**	**0.82**	13,286	94	0.71	9,837	125	1.27
Trading bonds									
- In Israel	**895**	**5**	**0.56**	965	5	0.52	1,416	11	0.78
- Outside Israel	**2**	**-**	**-**	3	-	-	4	-	-
Total	**897**	**5**	**0.56**	968	5	0.52	1,420	11	0.78
Other assets									
- In Israel	**110**	**5**	**4.55**	147	6	4.08	613	2	0.33
- Outside Israel	**-**	**-**	**-**	-	-	-	114	-	-
Total	**110**	**5**	**4.55**	147	6	4.08	727	2	0.28
Total Interest-bearing assets	**112,155**	**2,526**	**2.25**	108,036	2,260	2.09	97,381	2,664	2.74
Non-interest-bearing debtors regarding credit cards	**3,017**			3,005			2,921		
Other non-interest-bearing assets(4)	**12,152**			11,029			10,913		
Total assets	**127,324**			122,070			111,215		
Total interest-bearing assets attributed to activity outside Israel	**748**	**10**	**1.34**	1,004	12	1.20	1,143	12	1.05

See notes in page 362.

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

	Year ended December 31, 2016			Year ended December 31, 2015			Year ended December 31, 2014		
	Average balance (1)	Interest expenses	Rate of expense (1)	Average balance (1)	Interest expenses	Rate of expense (1)	Average balance (1)	Interest expenses	Rate of expense (1)
		NIS million	%		NIS million	%		NIS million	%
Interest-bearing liabilities									
Deposits from the public									
- In Israel									
Demand	**6,390**	**-**	**-**	5,968	1	0.02	4,253	6	0.14
Fixed-term	**57,861**	**182**	**0.31**	57,367	131	0.23	59,274	316	0.53
Total	**64,251**	**182**	**0.28**	63,335	132	0.21	63,527	322	0.51
Deposits from the Government									
- In Israel	**304**	**5**	**1.64**	618	6	0.97	710	7	0.99
Total	**304**	**5**	**1.64**	618	6	0.97	710	7	0.99
Deposits from banks									
- In Israel	**1,361**	**3**	**0.22**	1,344	1	0.07	926	1	0.11
Total	**1,361**	**3**	**0.22**	1,344	1	0.07	926	1	0.11
Bonds									
- In Israel	**5,611**	**163**	**2.91**	5,902	168	2.85	5,474	222	4.06
Total	**5,611**	**163**	**2.91**	5,902	168	2.85	5,474	222	4.06
Other liabilities									
- In Israel	**245**	**4**	**1.63**	522	-	-	1,026	11	1.07
- Outside Israel	**-**	**-**	**-**	-	-	-	10	-	-
Total	**245**	**4**	**1.63**	522	-	-	1,036	11	0.78
Total Interest-bearing liabilities	**71,772**	**357**	**0.50**	71,721	307	0.43	71,673	563	0.79
Non-interest-bearing deposits from the public	**41,009**			36,100			25,711		
Non-interest-bearing creditors in respect of credit cards	**3,017**			3,005			2,921		
Other non-interest-bearing liabilities(6)	**3,624**			4,011			3,750		
Total liabilities	**119,422**			114,837			104,055		
Total capital resources	**7,902**			7,233			7,160		
Total liabilities and capital resources	**127,324**			122,070			111,215		
Interest spraed			**1.75**			1.66			1.95
Net return on interest-bearing assets(7)									
- In Israel	**111,407**	**2,159**	**1.94**	107,032	1,941	1.81	96,238	2,089	2.17
- Outside Israel	**748**	**10**	**1.34**	1,004	12	1.20	1,143	12	1.05
Total	**112,155**	**2,169**	**1.93**	108,036	1,953	1.81	97,381	2,101	2.16
Total interest-bearing liabilities attributed to activity outside Israel	**-**	**-**	**-**	-	-	-	10	-	-

See notes in page 362.

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

	Year ended December 31, 2016			Year ended December 31, 2015			Year ended December 31, 2014		
	Average balance (1)	Interest income (expenses)	Rate of income (expense)	Average balance (1)	Interest income (expenses)	Rate of income (expense)	Average balance (1)	Interest income (expenses)	Rate of income (expense)
		NIS million	%		NIS million	%		NIS million	%
Non-linked Istaeli currency									
Total interest-bearing assets	**85,109**	**1,982**	**2.33**	80,839	1,762	2.18	70,018	1,959	2.80
Total interest-bearing liabilities	**49,403**	**(79)**	**(0.16)**	46,836	(67)	(0.14)	44,723	(174)	(0.39)
Interest spread			**2.17**			2.04			2.41
Israeli currency linked to the CPI									
Total interest-bearing assets	**12,413**	**299**	**2.41**	13,929	277	1.99	14,828	458	3.09
Total interest-bearing liabilities	**11,081**	**(220)**	**(1.99)**	13,031	(205)	(1.57)	14,166	(348)	(2.46)
Interest spread			**0.42**			0.42			0.63
Foreign currency (including linked to f-c)									
Total interest-bearing assets	**13,885**	**235**	**1.69**	12,264	209	1.70	11,392	235	2.06
Total interest-bearing liabilities	**11,288**	**(58)**	**(0.51)**	11,854	(35)	(0.29)	12,774	(41)	(0.32)
Interest spread			**1.18**			1.41			1.74
Total activity in Israel									
Total interest-bearing assets	**111,407**	**2,516**	**2.26**	107,032	2,248	2.10	96,238	2,652	2.75
Total interest-bearing liabilities	**71,772**	**(357)**	**(0.50)**	71,721	(307)	(0.43)	71,663	(563)	(0.78)
Interest spread			**1.76**			1.67			1.97

See notes in page 362.

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

D. Analysis of changes in interest income and expenses

	Year ended December 31, 2016 compared with the year ended December 31, 2015			Year ended December 31, 2015 compared with the year ended December 31, 2014		
	Increase (decrease) due to the change			Increase (decrease) due to the change		
	Quantity	Price	Net change	Quantity	Price	Net change
						NIS million
Interest-bearing assets						
Credit to the public						
In Israel	**162**	**81**	**243**	78	(352)	(274)
Outside Israel	**(1)**	**-**	**(1)**	(1)	1	-
Total	**161**	**81**	**242**	77	(351)	(274)
Other interest-bearing assets						
In Israel	**(2)**	**27**	**25**	28	(158)	(130)
Outside Israel	**(1)**	**-**	**(1)**	-	-	-
Total	**(3)**	**27**	**24**	28	(158)	(130)
Total interest income	**158**	**108**	**266**	105	(509)	(404)
Interest-bearing liabilities						
Deposits from the public						
- In Israel						
Demand	**-**	**(1)**	**(1)**	-	(5)	(5)
Fixed-term	**2**	**49**	**51**	(4)	(181)	(185)
- Outside Israel						
Fixed-term	**-**	**-**	**-**	-	-	-
Total	**2**	**48**	**50**	(4)	(186)	(190)
Other interest-bearing liabilities						
In Israel	**(20)**	**20**	**-**	5	(71)	(66)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**(20)**	**20**	**-**	5	(71)	(66)
Total interest expenses	**(18)**	**68**	**50**	1	(257)	(256)
Total interest income less interest expenses	**176**	**40**	**216**	104	(252)	(148)

(1) On the basis of opening balances, excluding the non linked Shekel segment in which calculated on daily balances.
(2) Before deduction of the average balance of provisions for credit losses including impaired debts which are non-interest-bearing 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 income in the item "adjustments to fair value of available for sale securities" for the year ended on December 31, 2016 in the amount of NIS 12 million (year ended on December 31, 2015 amount of NIS 9 mllion and for the year ended on December 31, 2014 an amount of NIS 63 million).
(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.
(5) Fees in the amount of NIS 95 million, NIS 137 million and NIS 143 million were included in interest income for the years ended December 31, 2016, December 31, 2015 and December 31, 2014 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.

APPENDIX 2 -
CONSOLIDATED STATEMENTS OF INCOME - MULTI-PERIOD DATA
(NIS million)

	Year ended December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
Interest Income	**2,526**	2,260	2,664	3,322	3,787
Interest Expenses	**357**	307	563	1,135	1,537
Interest Income, net	**2,169**	1,953	2,101	2,187	2,250
Expenses from credit losses	**80**	18	89	97	134
Net Interest Income after expenses from credit losses	**2,089**	1,935	2,012	2,090	2,116
Non Interest Income					
Non Interest Financing income	**115**	149	230	200	150
Commissions	**1,300**	1,378	1,375	1,418	1,362
Other income	**65**	14	62	46	35
Total non Interest income	**1,480**	1,541	1,667	1,664	1,547
Operating and other expenses					
Salaries and related expenses	**1,656**	1,629	1,780	1,746	1,676
Maintenance and depreciation of premises and equipment	**409**	428	444	438	435
Amortizations and impairment of intangible assets and goodwill	**116**	131	139	145	146
Other expenses	**502**	522	549	531	557
Total operating and other expenses	**2,683**	2,710	2,912	2,860	2,814
Profit before taxes	**886**	766	767	894	849
Provision for taxes on profit	**398**	326	328	366	315
Profit after taxes	**488**	440	439	528	534
The bank's share in profit of equity-basis investees, after taxes	**72**	38	35	30	51
Net profit:					
Before attribution to noncontrolling interests	**560**	478	474	558	585
Attributed to noncontrolling interests	**(39)**	(32)	(19)	(20)	(22)
Attributed to shareholders of the Bank	**521**	446	455	538	563
Primary profit per share attributed to the shareholders of the Bank					
Net profit per share of NIS 0.05 par value	**5.19**	4.45	4.54	5.36	5.61

APPENDIX 3 -
CONSOLIDATED STATEMENTS OF INCOME FOR 2015-2016 - MULTY QUARTER DATA

(NIS million)

Year				2016				2015
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Interest Income	**627**	**682**	**670**	**547**	527	621	730	382
Interest Expenses (income)	**71**	**129**	**136**	**21**	28	124	217	(62)
Interest Income, net	**556**	**553**	**534**	**526**	499	497	513	444
Expenses (income) from credit losses	**34**	**21**	**92**	**(67)**	(17)	9	14	12
Net Interest Income after expenses from credit losses	**522**	**532**	**442**	**593**	516	488	499	432
Non Interest Income								
Non Interest Financing income	**24**	**24**	**33**	**34**	32	14	28	75
Commissions	**318**	**326**	**329**	**327**	337	340	344	357
Other income	**6**	**5**	**42**	**12**	1	4	3	6
Total non Interest income	**348**	**355**	**404**	**373**	370	358	375	438
Operating and other expenses								
Salaries and related expenses	**413**	**404**	**405**	**434**	424	419	410	376
Maintenance and depreciation of premises and equipment	**100**	**104**	**99**	**106**	105	110	105	108
Amortizations and impairment of intangible assets	**23**	**31**	**31**	**31**	32	31	37	31
Other expenses	**129**	**123**	**123**	**127**	139	126	123	134
Total operating and other expenses	**665**	**662**	**658**	**698**	700	686	675	649
Profit before taxes	**205**	**225**	**188**	**268**	186	160	199	221
Provision for taxes on profit	**95**	**91**	**94**	**118**	71	77	84	94
Profit after taxes	**110**	**134**	**94**	**150**	115	83	115	127
The bank's share in profit of equity-basis investees, after taxes	**10**	**3**	**49**	**10**	10	10	10	8
Net profit:								
Before attribution to noncontrolling interests	**120**	**137**	**143**	**160**	125	93	125	135
Attributed to noncontrolling interests	**(8)**	**(9)**	**(9)**	**(13)**	(8)	(7)	(7)	(10)
Attributed to shareholders of the Bank	**112**	**128**	**134**	**147**	117	86	118	125

				2016				2015
				NIS				NIS
Primary profit per share attributed to the shareholders								
Net profit per share of NIS 0.05 par value	**1.11**	**1.27**	**1.35**	**1.46**	1.17	0.86	1.17	1.25

APPENDIX 4 - CONSOLIDATED BALANCE SHEETS - MULTI-PERIOD DATA

(NIS million)

	As at December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
Assets					
Cash and deposits with banks	**29,150**	30,727	29,182	26,100	22,939
Securities	**15,776**	16,439	12,554	10,799	9,756
Securities which were borrowed	**414**	353	477	990	932
Credit to the public	**78,175**	73,379	69,807	69,507	68,689
Provision for Credit losses	**(847)**	(824)	(876)	(827)	(836)
Credit to the public, net	**77,328**	72,555	68,931	68,680	67,853
Credit to the government	**654**	669	658	23	3
Investments in investee companies	**514**	438	396	373	368
Premises and equipment	**1,133**	1,229	1,222	1,180	1,185
Intangible assets	**243**	272	335	407	471
Assets in respect of derivative instruments	**1,332**	1,636	3,015	1,462	1,219
Other assets	**1,020**	1,158	1,037	895	843
Assets held for sale	**343**	-	-	116	-
Total assets	**127,907**	125,476	117,807	111,025	105,569
Liabilities, temporary equity and Shareholders' Equity					
Deposits from the public	**105,817**	103,262	95,155	89,122	84,365
Deposits from banks	**755**	1,565	1,469	1,335	1,385
Deposits from the Government	**570**	511	556	650	685
Bonds and subordinated capital notes	**5,801**	5,862	4,903	5,702	5,620
Liabilities in respect of derivative instruments	**1,356**	1,659	3,162	1,789	1,710
Other liabilities	**4,929**	4,954	5,519	5,515	5,136
Liabilities held for sale	**745**	-	-	11	-
Total liabilities	**119,973**	117,813	110,764	104,124	98,901
Temporary equity - noncontrolling interest	**330**	326	-	-	-
Capital attributed to the shareholders of the Bank	**7,321**	7,073	6,797	6,673	6,459
Noncontrolling interests	**283**	264	246	228	209
Total equity	**7,604**	7,337	7,043	6,901	6,668
Total liabilities, temporary equity and shareholders' equity	**127,907**	125,476	117,807	111,025	105,569

APPENDIX 5 -
CONSOLIDATED BALANCE SHEETS FOR 2016-2015 - MULTY QUARTER DATA

(NIS million)

Year				**2016**				**2015**
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Assets								
Cash and deposits with banks	**29,150**	**26,672**	**30,635**	**29,336**	30,727	33,046	28,827	29,314
Securities	**15,776**	**16,127**	**14,917**	**16,599**	16,439	13,605	15,434	13,614
Securities which were borrowed	**414**	**505**	**602**	**726**	353	332	549	479
Credit to the public	**78,175**	**78,944**	**76,955**	**75,321**	73,379	70,726	71,423	71,595
Provision for Credit losses	**(847)**	**(865)**	**(858)**	**(787)**	(824)	(848)	(834)	(849)
Credit to the public, net	**77,328**	**78,079**	**76,097**	**74,534**	72,555	69,878	70,589	70,746
Credit to the government	**654**	**653**	**647**	**645**	669	662	664	669
Investments in investee companies	**514**	**505**	**505**	**450**	438	427	416	404
Premises and equipment	**1,133**	**1,144**	**1,200**	**1,206**	1,229	1,220	1,241	1,230
Intangible assets	**243**	**223**	**237**	**255**	272	273	292	313
Assets in respect of derivative instruments	**1,332**	**1,139**	**1,480**	**1,872**	1,636	2,189	2,146	2,452
Other assets	**1,020**	**980**	**987**	**985**	1,158	1,226	1,266	1,084
Assets held for sale	**343**	**44**	**-**	**-**	-	-	-	-
Total assets	**127,907**	**126,071**	**127,307**	**126,608**	125,476	122,858	121,424	120,305
Liabilities, Temporary equity and Shareholders' Equity								
Deposits from the public	**105,817**	**104,549**	**105,316**	**103,853**	103,262	100,652	98,634	97,277
Deposits from banks	**755**	**789**	**1,207**	**1,624**	1,565	938	1,233	1,271
Deposits from the Government	**570**	**515**	**841**	**669**	511	402	575	538
Bonds and subordinated capital notes	**5,801**	**5,597**	**5,693**	**5,697**	5,862	5,950	6,050	6,106
Liabilities in respect of derivative instruments	**1,356**	**1,300**	**1,564**	**2,041**	1,659	2,149	2,274	2,373
Other liabilities	**4,929**	**5,304**	**4,746**	**4,916**	4,954	5,149	5,117	5,267
Liabilities held for sale	**745**	**-**	**-**	**-**	-	-	-	-
Total liabilities	**119,973**	**118,054**	**119,367**	**118,800**	117,813	115,240	113,883	112,832
Temporary equity - noncontrolling interests	**330**	**329**	**326**	**323**	326	324	322	316
Capital attributed to the shareholders of the Bank	**7,321**	**7,411**	**7,339**	**7,216**	7,073	7,035	6,966	6,905
Noncontrolling interests	**283**	**277**	**275**	**269**	264	259	253	252
Total equity	**7,604**	**7,688**	**7,614**	**7,485**	7,337	7,294	7,219	7,157
Total liabilities, Temporary equity and shareholders' equity	**127,907**	**126,071**	**127,307**	**126,608**	125,476	122,858	121,424	120,305

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