Condensed Financial Statements as at March 31, 2017

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This translation of the financial statement is for convenience purposes only.
The only binding version of the financial statement is the Hebrew version.

Condensed Report of the Board of Directors and Management on the Financials Statements as of March 31, 2017

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Condensed Report of the Board of Directors and Management on Financial Statements as of March 31, 2017

Introduction

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on May 15, 2017, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of March 31, 2017.

The Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures of the Bank are prepared in conformity with directives of the Supervisor of Banks.

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting principles for US banks.

See also Note 1 to financial statements as of December 31, 2016 and Note 1 to these condensed financial statements.

The Report of the Board of Directors and Management and these condensed financial statements are prepared in conformity with the structure stipulated by the Supervisor of Banks, which includes additional information for the financial statements available on the Bank website:

www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

This additional information includes a detailed Risks Report in conformity with disclosure requirements of Basel Pillar 3 and in conformity with additional recommendations by the Financial Stability Board (FSB).

The Bank website also includes additional supervisory information with details of capital instruments issued by the Bank.

Forward-Looking Information

Some of the information in the Report of the Board of Directors and Management, which does not relate to historical facts, constitutes “forward-looking information”, as defined in the Securities Law, 1968 (hereinafter: “the Law”).

Actual Bank results may materially differ from those provided in the forward-looking information due to multiple factors including, inter alia, changes in local and global capital markets, macro-economic changes, geo-political changes, changes in legislation and regulation and other changes outside the Bank's control, which may result in non-materialization of estimates and/or in changes to business plans.

Forward-looking information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking information and expressions involve risks and lack of certainty, because they are based on current assessments by the Bank of future events which includes, inter alia: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risks, changes in the financial strength of borrowers, the public’s preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank’s image, technological developments and human resources issues.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on data from the Bank of Israel data, the Ministry of Housing and others who issue data and assessments with regard to the capital market in Israel and overseas as well as forecasts and future assessments on various topics, so that there is a possibility that events or developments predicted to be reasonable would not material, in whole or in part.

Overview, targets and strategy

This chapter describes major developments in the Bank Group, its operating segments for the first quarter of 2017, performance, risk to which the Bank is exposed as well as targets and strategy. This chapter should be read, as needed, in conjunction with the chapter "Overview, targets and strategy" in the 2016 audited annual financial statements.

Condensed financial information and key performance indicators for the Bank Group

	For the quarter ended					All of
	31.3.2017	31.12.2016	30.9.2016	30.6.2016	31.3.2016	2016
	NIS in millions					
Statement of profit and loss - highlights						
Interest revenues, net	1,027	948	1,056	1,014	760	3,778
Non-interest financing revenues (expenses)	(1)	119	40	69	67	295
Commissions and other revenues	369	370	380	363	454	1,567
Total revenues	1,395	1,437	1,476	1,446	1,281	5,640
Expenses with respect to credit losses	49	81	59	57	3	200
Operating and other expenses	823	869	815	836	779	3,299
Of which: Payroll and associated expenses	498	566	508	520	477	2,071
Pre-tax profit	523	487	602	553	499	2,141
Provision for taxes on profit	192	212	218	200	203	833
Net profit[(1)]	321	265	373	340	288	1,266

Group net profit in the first quarter of 2017 amounted to NIS 321 million, compared to NIS 288 million in the corresponding period last year - an increase of 11.5%.

According to the Bank's current dividends policy, a dividend of 30% would be distributed with respect to earnings of this quarter (NIS 96.3 million). For more information see chapter "Dividends", on page 28.

The following major factors affected Group operating income in the first quarter of 2017 compared to the corresponding period last year:

- Total revenues in the first quarter of 2017 increased by 8.9% compared to the corresponding period last year, higher than the growth rate of total credit over this period (6.8%).
  For more information on the effect of the Consumer Price Index and other non-linear effects on revenues, see "Analysis of development of financing revenues from current operations" below.
- Total operating and other expenses increased in the first quarter of 2017 by 5.6% over the corresponding period last year. The increase is primarily due to the effect of implementation of the new core banking system at Bank Yahav, as from January 1, 2017. Excluding the unusual effect of increase in Bank Yahav's expenses as noted above, some of which are non-recurring, operating and other expenses increased by only 2.7%.

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

					As of
	31.3.2017	31.12.2016	30.9.2016	30.6.2016	31.3.2016
					NIS in millions
Balance sheet - key items					
Balance sheet total	234,071	230,455	225,520	217,758	216,809
Loans to the public, net	173,068	171,341	168,620	165,515	162,073
Cash and deposits with banks	41,683	41,725	40,753	36,842	38,193
Securities	11,791	10,262	9,407	8,419	9,013
Buildings and equipment	1,550	1,585	1,537	1,545	1,546
Deposits from the public	180,722	178,252	173,748	169,621	165,001
Debentures and subordinated notes	26,924	27,034	27,253	24,337	26,859
Deposits from banks	1,474	1,537	1,255	1,183	1,416
Shareholders' equity(1)	13,015	12,714	12,726	12,384	12,098

Quarterly development of balance sheet items shows consistent quarterly growth in Bank business:

- Total assets as of March 31, 2017 amounted to NIS 234.1 billion, an increase of NIS 17.3 billion (or 8.0%) over the corresponding period last year (an increase of NIS 3.6 billion compared to the end of 2016).
- Loans to the public, net as of March 31, 2017 amounted to NIS 173.1 billion, an increase of NIS 11.0 billion (or 6.8%) over the corresponding period last year (an increase of NIS 1.7 billion compared to the end of 2016).
- Deposits from the public as of March 31, 2017 amounted to NIS 180.7 billion, an increase of NIS 15.7 billion (or 9.5%) over the corresponding period last year (an increase of NIS 2.5 billion compared to the end of 2016).
- Shareholders' equity as of March 31, 2017 amounted to NIS 13.0 billion, an increase of NIS 0.9 billion (or 7.6%) over the corresponding period last year (an increase of NIS 0.3 billion compared to the end of 2016).

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

Key financial ratios (in percent)

	For the quarter ended					All of
	31.3.2017	31.12.2016	30.9.2016	30.6.2016	31.3.2016	2016
Key performance benchmarks						
Net profit return on equity(1)(2)	10.4	8.6	12.4	11.6	10.0	10.2
Net profit return on risk assets(2)(3)	0.97	0.80	1.13	1.05	0.89	0.97
Deposits from the public to loans to the public, net	104.4	104.0	103.0	102.5	101.8	104.0
Ratio of Tier I capital to risk elements	10.12	10.10	9.85	9.72	9.65	10.10
Total ratio of capital to risk elements	13.44	13.80	13.52	13.23	13.20	13.80
Leverage ratio(4)	5.27	5.27	5.31	5.33	5.23	5.27
(Quarterly) liquidity coverage ratio(5)	118	117	105	99	97	117
Cost income ratio(6)	59.0	60.5	55.2	57.8	60.8	58.5
Basic earnings per share (in NIS)	1.38	1.14	1.61	1.47	1.24	5.46
Key credit quality benchmarks						
Ratio of provision for credit losses to total loans to the public	0.84	0.83	0.83	0.84	0.84	0.83
Ratio of impaired debts or debts in arrears 90 days or longer to total loans to the public	0.95	0.95	0.94	1.06	1.09	0.95
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.12	0.19	0.14	0.14	0.01	0.12
Of which: With respect to commercial loans other than housing loans	0.35	0.53	0.37	0.34	0.09	0.33
Of which: With respect to housing loans	0.00	0.02	0.02	0.04	(0.03)	0.01
Additional information						
Share price (in NIS) at end of the quarter	61.44	56.35	47.65	44.40	44.07	56.35
Dividends per share (in Agorot)	17.1	24.1	22.0	18.6	15.5	80.3

Financial ratios indicate:

- Net profit return for the quarter was 10.4%, higher than the corresponding period last year (10.0%) and than all of 2016 (10.2%).
- The Bank posted a cost-income ratio of 59.0% in this quarter, despite the negative known CPI for the quarter and the unusual expenses at Bank Yahav with respect to implementation of the core banking system, as noted above.
- Credit quality benchmarks show low credit losses and indicate a high-quality credit portfolio.

Items of profit and loss, balance sheet items and various financial ratios are analyzed in detail in the Report of the Board of Directors and Management, in chapter "Explanation and analysis of results and business standing" and in chapter "Risks overview", as the case may be.

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Calculated on annualized basis.
(3) Net profit to average risk assets.
(4) Leverage Ratio - ratio of Tier I capital,(according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218
(5) Liquidity Coverage Ratio - ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations during the reported quarter.
(6) Total operating and other expenses to total operating and financing revenues before expenses with respect to credit losses.

Major risks

The Bank's risks mapping produced a listing of the following major risks: Credit risk (and credit concentration), market risk, interest risk (and, in particular, interest risk in the bank portfolio), liquidity risk, operating risk, including , information security and cyber risk, IT risk and legal risk, compliance and regulatory risk, cross-border risk, reputation risk and strategic-business risk. The risks mapping is regularly reviewed to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements.

For further details see chapter "Major risks" of the 2016 Report of the Board of Directors and Management.

Information about developments of risks is presented in the chapter "Risks overview" below. A detailed Risks Report is available on the Bank website.

For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 10.B.4 to the financial statements.

Business goals and strategy

For more information about the Bank's business goals and strategy for 2017-2021, see chapter "Business goals and strategy" of the 2016 Report of the Board of Directors and Management.

Since publication of the annual financial statements as of December 31, 2016, there were no changes to business goals and strategy.

Developments in capital structure

Investments in Bank Capital and Transactions in Bank Shares

For more information about share issuance in conjunction with an employee stock options plan, see condensed statement of changes in shareholders equity in the financial statements.

Developments in financing sources

Group financing sources include deposits from the public and from other banks, issuance of debentures as well as shareholder equity. The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity, liquidity, capital adequacy and leverage - subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market and management forecasts regarding development therein.

Obligatory notes and debentures issued to the public

The Bank is acting to raise long-term sources via issuances, inter alia via Mizrahi Tefahot Issuance Company Ltd. ("Tefahot Issue"), a wholly-owned subsidiary of the Bank. Over the years, Tefahot Issue Company issued subordinated notes to the public under published prospectuses.

As of the balance sheet date, all obligatory notes, including subordinated notes, issued to the public by Tefahot Issue, amounted to NIS 23.5 billion in total par value (as of December 31, 2016: NIS 23.5 billion), of which NIS 2.3 billion in subordinated notes (included in Tier II capital for maintaining minimum capital ratio and gradually reduced subject to transition provisions).

On April 2, 2017, after the balance sheet date, Tefahot Issue issued debentures (Series 40 and 41) by way of expansion of outstanding series, with total par value of NIS 2,579 million, for consideration of NIS 2,703 million.

Significant developments in IT

Project to replace the core banking system at Bank Yahav

In 2008, Bank Mizrahi-Tefahot acquired a controlling interest in Bank Yahav (50% of shares) from Bank HaPoalim Ltd. (hereinafter: "Bank HaPoalim").

Through December 31, 2016, Bank Yahav received computer and operating services from Bank HaPoalim. These services were provided to Bank Yahav in conformity with approval by the Supervisor of Banks and by the Anti-Trust Supervisor.

In order to disconnect from the Bank Hapoalim systems, in conformity with Bank of Israel directives, Bank Yahav contracted with an international company of the TATA Group, to create a core banking system and receive outsourced IT and operating services.

On January 1, 2017, Bank Yahav started receiving services from this company, as planned. The transition to the new core system was successfully completed after completion of data conversion and internal and external correctness tests (with third parties).

In the first days following the transition, Bank Yahav handled a large volume of client inquiries. As of the reporting date, the volume of inquiries has stabilized and holding times at the call center have decreased significantly and are back to normal.

In 2017, Bank Yahav continues to follow the work plan in order to stabilize the system, make corrections and complete development according to the schedule agreed during system development - and make additional developments as planned.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Developments in international geographic deployment

In the first quarter of 2017, the Bank discontinued operation of its representative office in Uruguay, informed the local regulator and is awaiting the latter's approval.

Other matters

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Note 10.B.(2-4) to the financial statements.

Inquiry by the US Department of Justice

For more information about the US DOJ inquiry with regard to Bank Group business with its US clients and for more information about a motion for approval of a derivative claim and motion for approval of a class action lawsuit on this matter, see Notes 10.B.2.H, 10.B.3.A and 10.B.4 to the financial statements.

Explanation and analysis of results and business standing

This chapter includes a description of trends, phenomena, developments and material changes with regard to results and business standing, including analysis of revenues, expenses and profit. It also describes the results of the Bank's supervisory operating segments and operating results for holdings in major investees.

Trends, phenomena and material changes

The General Environment and Effect of External Factors on the Bank Group

Major developments in the banking industry in Israel and overseas

- For more information about trends in recent years in the banking sector in Israel and overseas, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management for 2016.
- Other developments in 2017:

  Further to the directive with regard to operating streamlining of the banking system in Israel, the Bank of Israel issued a draft expanding the scope of streamlining and promoting further streamlining steps, including reducing real estate and maintenance costs of headquarters units, by providing relief for capital adequacy requirements. For more information about the draft, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Legislation and Supervisory Directives) of these annual financial statements.

Developments in Israel's Economy and in the global economy in 2016

Israeli economy

Real Developments

Macro-economic data in the first quarter of 2017 (excluding the exceptional impact of auto imports in the fourth quarter of 2016) showed growth continuing at a similar pace as in recent quarters. The labor market continues to be positive and is near to full employment. In recent months, imports of goods remained stable as exports of services continued to grow.
GDP growth in 2016 was 4.0% in annualized terms, compared to 2.5% in 2015 and compared to 3.2% in 2014.
The average unemployment rate in the first two months of 2017 was 4.3%, compared to 5.1% in the previous year. The employment rate remained at 64.1%.

Inflation and exchange rates

In the first quarter of 2017, the Consumer Price Index increased by 0.1%, compared to a decrease of 1.0% in the corresponding period last year. The increase in the CPI was primarily due to higher housing, home maintenance, fruits and vegetables and food prices. The higher prices were offset by lower prices for clothing and footwear, transportation and communication. In the twelve months ended March 2017, the CPI increased by 0.9%.

Below is information about official exchange rates and changes there to:

	March 31, 2017	December 31, 2016	Change in %
Exchange rate of:			
USD (in NIS)	3.632	3.845	(5.5)
EUR (in NIS)	3.882	4.044	(4.0)

On May 10, 2017, the USD/NIS exchange rate was 3.605 - a 0.7% revaluation compared to March 31, 2017. The EUR/NIS exchange rate on this date was 3.917 - a devaluation of 0.9% since March 31, 2017.

In support of the exchange rate, the Bank of Israel purchased in the first quarter of 2017 foreign currency valued at USD 3.0 million, after purchasing USD 1.4 billion per quarter on average in 2016 (USD 250 million purchased to offset the effect on USD exchange rates of gas production from the Tamar reservoir, compared to USD 450 million on average per quarter in the corresponding period last year).

Monetary and fiscal policy

In the first quarter of 2017, the Bank of Israel interest rate was unchanged at 0.10%. The Bank of Israel monetary policy year to date was affected, *inter alia*, by the constantly stronger NIS against the currency basket, continued weakness in exports of goods, moderate inflationary expectations and continuing expansive monetary policy in major world economies, against the backdrop of further slow growth in major world economies.

In the first quarter of 2017, the government budget recorded a NIS 2.4 billion cumulative deficit, compared to a NIS 0.9 billion cumulative budget surplus in the corresponding period last year. The deficit rate in relation to the GDP for the 12 months ended in March 2017 was 2.3%, similar to the 2.2% rate for all of 2016. Actual revenues collected in the first quarter of 2017 exceeded the expected amount in the original budget proposal by NIS 1.6 billion.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first two months of 2017 demand for new apartments (apartments sold and apartments constructed not for sale) was 7.2 thousand apartments, a decrease of 11.9% over the corresponding period last year and an increase of 11.4% over the corresponding period in 2015. The decrease compared to the corresponding period last year is due, *inter alia*, to lower demand for apartments by investors and to expectations of potential buyers for the "Buyer price" program to materialize. In this period, the number of new apartments sold decreased by 6.1%. Rate of change by region: Haifa 34%, Central (-32%), South (-19%), Northern 16%, Tel Aviv 12% and Jerusalem 3%. In the first quarter of 2017, housing loans given to the public amounted to NIS 13.0 billion, compared to NIS 14.9 billion in the corresponding period last year and NIS 14.8 billion in the corresponding period in 2015.

According to data from the Central Bureau of Statistics, housing prices in terms of the most recent 12 months, increased in February 2017 by 6.0%, compared to 6.6% in 2016 and to 7.8% in 2015.

Capital market

Trading in equity markets in Israel and world-wide in the first quarter of 2017 was positive, spearheaded by stock exchanges in the USA, which reacted positively to the new administration.

Equity market - The leading benchmarks, Tel Aviv 35 and Tel Aviv 125, were lower in the first quarter of 2017 by 5.0% and 2.4%, respectively, compared to decrease of 3.8% and 2.4% in 2016. The decline was spearheaded by big pharma shares. The Tel Aviv 90 Index was higher in the first quarter of 2017 by 8.4%, after rising by 17.3% in 2016.

Average daily trading volume in equities and convertible securities in the first quarter of 2017 was NIS 1.65 billion, compared to NIS 1.27 billion in 2016.

Debentures market - The debentures market was stagnant early in the first quarter of 2017 but then started to rally. CPI-linked Government debentures continued to decline as inflationary expectations declined, especially those with long maturities. NIS-denominated Government debentures and corporate debentures continued to provide positive returns to investors, in absence of alternatives and given the low interest rate environment.

The General Debentures Index rose by 0.6% in the first quarter of 2017, following an increase of 2.7% in 2016. The CPI-Linked Government Debentures Index decreased by 0.6%, after rising by 0.7% in 2016. The Non-Linked Government Debentures Index rose in the first quarter of 2017 by 0.6%, after rising by 1.2% in 2016. The Tel Bond 20 Index was up 1.2% in the first quarter of 2017, following an increase of 3.2% in 2016. The Tel Bond 40 Index was up 0.7% in the first quarter of 2017, following an increase of 1.7% in 2016.

Global economy

The US economy's growth rate slowed down in 2016, with US GDP increasing by 1.6%, compared to 2.6% in 2015 and to 2.4% in 2014. In the first quarter of 2017, industrial output and retail commerce benchmarks were higher and the purchasing manager index continued to indicate economic expansion. Data for the labor market in the first quarter of 2017 was mixed: The average number of new jobs in the economy was revised downwards, but real salary growth rate remained high and unemployment declined with a stable participation rate.

In 2016, GDP in the Euro Zone grew by 1.7%, compared to 2.0% in 2015 and 1.2% in 2014. In the first two months of 2017, growth in the industrial output and retail commerce benchmarks was more moderate; inflation over the trailing 12 months reached 1.5% in March 2017. Economic sentiment and business confidence benchmarks are at their highest levels since the first half of 2011. Unemployment continued to decline, albeit at a slow pace.

On June 23, 2016, UK citizens decided in a poll to have the UK leave the European Union (Brexit). In early February 2017, the UK parliament voted to activate Section 50 of the EU Bylaws, meaning the start of negotiations between the UK and the EU to agree on departure terms and conditions and to agree on trade agreements, movement of people, capital and taxation. In April, the UK Prime Minister, Theresa May, called for elections to be held early, on June 8, 2017. This is in order to get a mandate from voters in anticipation of the start of negotiations with the European Union. The IMF estimated that the cumulative impact, over several years, to global GDP growth due to the UK leaving the EU should not be significant, at 0.1%-0.3% of GDP. Following the Brexit vote, according to the Bank of Israel, it is more widely believed that major central banks would maintain their expansive monetary policy for a long time.

China's GDP grew in the first quarter of 2017 at an annualized 6.9%, slightly higher than the 6.8% growth in the fourth quarter of 2016. This growth rate is lower compared to growth in China's economy in previous years, but higher than previously expected. This is primarily due to improvement in exports and in industrial output. In early 2017, the Chinese Government stated that the target growth rate for China's economy in 2017 would be 6.5%, compared to a growth rate target of 6.5%-7.0% in the previous year.

The US election outcome, positive macro-economic indicators and absence of investment alternatives pushed equity indexes around the world higher. The Dow Jones and S&P 500 indexes rose by 4.6% and 5.5%, respectively in the first quarter of 2017 - after rising by 13.4% and 9.5% in 2016. The NASDAQ 100 Index rose in the first quarter of 2017 by 11.8%, after rising by 5.9% in 2016.

The German DAX Index and the French CAC Index were up in the first quarter of 2017 by 7.2% and 5.4%, respectively - after being up by 6.9% and 4.0%, respectively in 2016. In the UK, the FTSE 100 Index was up by 2.5% in the first quarter of 2017, following an increase of 14.4% in 2016. Japan's Nikkei Index declined in the first quarter of 2017 by 1.1%, after rallying by 0.4% in 2016.

Key and emerging risks

In its operations, the Bank is exposed to a succession of risks which may potentially impact its financial results and its image.

As part of the risks mapping, the Bank reviews the top risks, existing (or new) risks which may materialize over the coming 12 months which potentially may materially impact the Bank's financial results and stability, such as: credit, interest and liquidity risks. The Bank also identifies emerging risks, which may materialize over the longer term and subject to uncertainty with regard to their nature and impact on the organization. Of these risks, one may note the following: information security and cyber risks, IT risk, reputation risk as well as compliance and regulatory risks. As noted, the risks mapping is regularly reviewed to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements.

In the first quarter of 2017 there were no significant loss events.

For more information, including analysis of major risks to which the Bank is exposed and an overview of their management and evolution in the reported period, see chapter "Risks Overview" as well as the Detailed Risks Report on the Bank website

Independent Auditors' review report

The Independent Auditor has drawn attention in their review report to Note 10.B.2.H. and to Note 10.B.3(a-c) to the financial statements, with regard to claims filed against the Bank, including motions for class action status, as well as to Note 10.B.4 with regard to the US DOJ inquiry with regard to Bank Group business with its US clients.

Events after the balance sheet date

- For more information about debenture issuance by Mizrahi Tefahot Issue Company Ltd., see chapter "Developments in financing sources" above.
- For more information about dividend distribution with respect to earnings of the first quarter of 2017, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below and the statement of changes to shareholder equity and the Note "Events after the balance sheet date" of these condensed financial statements.

Changes to critical accounting policies and to critical accounting estimates

Deferred taxes

In conformity with the directives of the Supervisor of Banks, the Bank applied as from January 1, 2017 the US GAAP with regard to taxes on income. In conformity with the new rules, the Bank recognizes deferred tax liabilities with respect to undistributed earnings of investees.

Application of this directive has no material impact on the Bank's financial statements.

Other than the foregoing, in the first quarter of 2017 there were no changes to accounting policies and critical accounting estimates, which are listed in the Report of the Board of Directors and Management in the 2016 annual report.

For more information see Note 1 to the financial statements.

Material developments in revenues, expenses and other comprehensive income

Group net profit in the first quarter of 2017 amounted to NIS 321 million, compared to NIS 288 million in the corresponding period last year - an increase of 11.5%. This reflects a 10.4% annualized return on equity, compared to 10.0% in the corresponding period last year and 10.2% for all of 2016.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues [(1)] from current operations in the first quarter of 2017 amounted to NIS 1,047 million, as described below, compared to NIS 922 million in the corresponding period last year, an increase of 13.6%.

Net interest revenues and non-interest financing revenues[(1)] in the first quarter of 2017 amounted to NIS 1,026 million, as described on these financial statements, compared to NIS 827 million in the corresponding period last year, an increase of 24.1%.

Below is an analysis of development in financing revenues from current operations (NIS in millions):

	2017	2016				Change in %
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	First quarter of 2017 to first quarter of 2016
Interest revenues, net	1,027	948	1,056	1,014	760	
Non-interest financing revenues (expenses)[(1)]	(1)	119	40	69	67	
Total financing revenues	1,026	1,067	1,096	1,083	827	24.1
Less:						
Effect of CPI	(21)	(29)	43	54	(119)	
Revenues from collection of interest on problematic debts	13	7	13	10	10	
Gain from realized debentures and from debentures held for trade, net	7	1	17	23	31	
Effect of accounting treatment of derivatives at fair value and others[(2)]	(20)	70	33	47	(17)	
Total effects other than current operations	(21)	49	106	134	(95)	
Total financing revenues from current operations	1,047	1,018	990	949	922	13.6

(1) Non-interest financing revenues include effect of fair value and others and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.
Other effects include:
- Following the decrease in early mortgage repayment, in the first quarter of 2017, revenues decreased by NIS 26 million compared to the corresponding period last year.
- Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

Below are total financing revenues by supervisory operating segment (NIS in millions):

	First Quarter			
Operating segment	2017	2016	Change amount	Change rate (In %)
Individuals:				
Households - housing loans	305	257	48	18.7
Households - other	294	256	38	14.8
Private banking	14	11	3	27.3
Total - individuals	613	524	89	17.0
Business operations:				
Small and micro businesses	205	189	16	8.5
Medium businesses	48	43	5	11.6
Large businesses	109	106	3	2.8
Institutional investors	27	26	1	3.8
Total - business operations	389	364	25	6.9
Financial management	(16)	(99)	83	-
Total activity in Israel	986	789	197	25.0
Overseas operations	40	38	2	5.3
Total	1,026	827	199	24.1

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on management approach - see chapter "Supervisory operating segments" below.

Below are average balances of interest-bearing assets attributable to operations in Israel in the various linkage segments (NIS in millions):

	First Quarter		
Linkage segment	2017	2016	Change in %
Israeli currency - non-linked	150,790	130,422	15.6
Israeli currency - linked to the CPI	49,792	52,029	(4.3)
Foreign currency (including Israeli currency linked to foreign currency)	11,971	12,454	(3.9)
Total	212,553	194,905	9.1

The change in average balances of interest-bearing assets in the various segments is primarily due to diversion of uses to the NIS- segment.

Below are interest spreads (difference between interest income on assets and interest expenses on liabilities)(1) based on average balances(2), attributable to operations in Israel in the various linkage segments, in percent:

	First Quarter	
Linkage segments	2017	2016
Israeli currency - non-linked	2.02	2.05
Israeli currency - linked to the CPI	0.70	0.25
Foreign currency	1.86	1.22
Total	1.69	1.44

(1) Revenue and expense rates were calculated relative to interest-bearing assets and liabilities.

(2) Average balances before deduction of provision with respect to credit losses.

In the NIS-denominated segment, the interest spread is similar to the corresponding period last year, with the decrease in revenues from early repayment commissions offsetting the increase in interest spread for current operations. The increase in interest spread in CPI-linked NIS is due to continued improvement in interest spreads and to lower average cost of CPI-linked sources.

For composition of interest spreads by different criteria (activity type, linkage segment and quantity and price analysis), more information about non-interest bearing assets and liabilities and information about overseas activities, see appendix "Interest Revenue and Expense Rates" to the quarterly financial statements.

Expenses with respect to credit losses for the Group amounted to NIS 49 million in the first quarter of 2017, or an annualized rate of 0.12% of total loans to the public, net, compared with NIS 3 million in the corresponding period last year - an annualized rate of 0.01% of total loans to the public, net in the corresponding period last year - a decrease of NIS 46 million in total.

Development of expenses with respect to credit losses (NIS in millions) is as follows:

	First Quarter	
	2017	2016
Provision for credit losses on individual basis (including accounting write-offs)	41	52
Provision for credit losses on Group basis:		
By extent of arrears	(5)	(17)
Other	13	(32)
Total expenses with respect to credit losses	49	3
Expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	0.12%	0.01%
Of which: With respect to commercial loans other than housing loans	0.35%	0.09%
Of which: With respect to housing loans	0.00%	(0.03%)

The provision for credit losses by extent of arrears in the first quarter of 2016 was affected by significant arrears collection from clients. Changes in other group-based provision are explained by the difference in year range for past loss rate used to calculate the provision in these two periods, in conformity with directives of the Supervisor of Banks. In 2017, the historic range consists of 7 years.

Below are details of expenses with respect to credit losses by supervisory operating segments of the Group (NIS in millions):

	First Quarter	
Operating segment	2017	2016
Individuals:		
Households - housing loans	-	(9)
Households - other[(1)]	24	12
Private banking	-	-
Total - individuals	24	3
Business operations:		
Small and micro businesses	32	24
Medium businesses	(3)	(2)
Large businesses	(2)	(29)
Institutional investors	(2)	7
Total - business operations	25	-
Financial management	(1)	(1)
Total activity in Israel	48	2
Overseas operations	1	1
Total	49	3

(1) The increase in expenses with respect to credit losses is due to an increase in Group-based provision, based on the increase in loan volume, as well as to impact of legislation which reduces debt repayment by individual clients who are in difficulties.

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on management approach - see chapter "Supervisory operating segments" below.

For more information about analysis of development of loans to the public, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

For more information about analysis of credit risk, see chapter "Risks overview" below and the detailed Risks Management Report on the Bank website.

Net interest revenues after expenses with respect to credit losses in the first quarter of 2017 amounted to NIS 978 million (including non-interest financing revenues - NIS 977 million), compared to NIS 757 million in the corresponding period last year (including non-interest financing revenues - NIS 824 million). Net interest revenues after expenses with respect to credit losses and including non-interest financing revenues, increased in the first quarter of 2017 by 18.6% compared to the corresponding period last year.

See above the analysis of evolution of financing revenues from current operations and analysis of expenses with respect to credit losses.

Non-interest revenues in the first quarter of 2017 amounted to NIS 368 million, compared to NIS 521 million in the corresponding period last year, a decrease of 29.4% - see explanation below.

This item includes, *inter alia*, the effect of fair value, gains (losses) from transactions in debentures and expenses (revenues) with respect to linkage differentials on CPI derivatives, where the corresponding revenues (expenses) are recognized as interest revenues, in conformity with accounting rules, with the change compared to the corresponding periods last year being primarily due to linkage component of CPI-derivatives. See analysis of financing revenues from current operations above.

Commission revenues in the first quarter of 2017 amounted to NIS 357 million, compared to NIS 365 million in the corresponding period last year. Current growth in most commission items was offset by a decrease in revenues from Sales Act guarantee commissions, due to sale of the risk by insurance policies obtained for such guarantees.

Other revenues in the first quarter of 2017, amounted to NIS 12 million compared with NIS 89 million in the corresponding period last year - a decrease of NIS 77 million.

The corresponding period last year included pre-tax capital gains from realized assets in conjunction with asset reorganization and improvements to the branch network, amounting to NIS 78 million.

Operating and other expenses amounted to NIS 823 million in the first quarter of 2017, compared with NIS 779 million in the corresponding period last year - an increase by 5.6%.
All operating and other expenses were affected in this quarter by implementation of the new core banking system at Bank Yahav as from January 1, 2017, some of which expenses are non-recurring. Excluding the effect of increase in Bank Yahav's expenses, operating and other expenses increased by only 2.7%.

Payroll and associated expenses amounted to NIS 498 million in the first quarter of 2017, compared with NIS 477 million in the corresponding period last year - an increase by 4.4%. Excluding the effect of Bank Yahav - an increase by only 3.0%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 186 million in the first quarter of 2017, compared with NIS 174 million in the corresponding period last year - an increase of 6.9%. Excluding the effect of Bank Yahav - an increase by only 2.1%.

Other expenses in the first quarter of 2017 amounted to NIS 139 million, compared to NIS 128 million in the corresponding period last year - an increase of 8.6%. Excluding the effect of Bank Yahav - an increase by only 2.7%.

Cost-Income ratio information is as follows[1] (in percent):

	2017				2016	2016
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Annual
Cost-income ratio	59.0	60.5	55.2	57.8	60.8	58.5

(1) Total operating and other expenses to total operating and financing revenues before expenses with respect to credit losses.

Pre-tax profit for the Group in the first quarter of 2017 amounted to NIS 523 million, compared to NIS 499 million in the corresponding period last year - an increase of 4.8%. See detailed explanation above.

Provision for taxes in the first quarter of 2017 amounted to NIS 192 million, compared to NIS 203 million in the corresponding period last year.

The rate of provision for taxes on pre-tax profit in the first quarter of 2017 was 36.8% - compared to 40.7% in the corresponding period last year.

The provision for taxes on profit in the first quarter of 2016 includes an expense amounting to NIS 30 million, due to a decrease in the deferred tax balance as a result of the decrease in the tax rate in that period.

In this quarter, the provision for taxes includes the effect of application of US GAAP with regard to taxes on income. In conformity with the rules, the Bank recognizes deferred tax liabilities with respect to undistributed earnings of investees. See Note 1 to the financial statements for details.

The Bank's share of after-tax profit of associates in the first quarter of 2017 amounted to loss with respect to associates of NIS 1 million, compared to no profit with respect to associates in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first quarter of 2017 amounted to NIS 9 million, compared to NIS 8 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank amounted to NIS 321 million in the first quarter of 2017, compared with NIS 288 million in the corresponding period last year - an increase of 11.5%.

Other comprehensive income attributable to shareholders of the Bank primarily includes changes in adjustments for presentation of securities available for sale at fair value, changes in cash flows hedges and changes in adjustments with respect to employee benefits.

In the first quarter of 2017, other comprehensive income attributable to shareholders of the Bank increased by NIS 20 million compared to the corresponding period last year.

The change in Other Comprehensive Income attributable to shareholders of the Bank compared to the corresponding period last year is primarily due to adjustments with respect to employee benefits and presentation of securities available for sale at fair value. See Note 4 to the financial statements for details.

Below is the development of Group return[(1)] on equity[(2)] and ratio of Tier I capital[(3)] to risk elements, liquidity coverage ratio[(4)] and leverage ratio at the end of the quarter[(5)] (in %):

	2017				2016	2016
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Annual
Net return on equity	10.4	8.6	12.4	11.6	10.0	10.2
Ratio of Tier I capital to risk elements at end of quarter	10.12	10.10	9.85	9.72	9.65	10.10
(Quarterly) liquidity coverage ratio	118	117	105	99	97	117
Leverage ratio at end of quarter	5.27	5.27	5.31	5.33	5.23	5.27

(1) Annualized return.
(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interest and less/plus the average balance of unrealized gains/losses from adjustment to fair value of debentures held for trading as well as gains/losses from debentures available for sale.
(3) For more information about Proper Banking Conduct of Directive329 concerning "Restrictions on provision of housing loans" on Tier I equity as from January 1, 2015, see Note 9.M. to the financial statements.
(4) Liquidity Coverage Ratio - ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations during the reported quarter.
(5) Leverage Ratio - ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218

Earnings and dividends per share

Earnings and dividends per ordinary, NIS 0.1 par value share are as follows (in NIS):

	First Quarter		All of
	2017	2016	2016
Basic earnings per share	1.38	1.24	5.46
Diluted earnings per share	1.37	1.24	5.46
Dividends per share	17.1	15.5	80.3

Analysis of developments in assets, liabilities, equity and capital adequacy

Assets and liabilities

Development of key balance sheet items for the Bank Group (NIS in millions) is as follows:

				Change in % ove	
	March 31,		December 31,	March 31,	December 31,
	2017	2016	2016	2016	2016
Balance sheet total	234,071	216,809	230,455	8.0	1.6
Cash and deposits with banks	41,683	38,193	41,725	9.1	(0.1)
Loans to the public, net	173,068	162,073	171,341	6.8	1.0
Securities	11,791	9,013	10,262	30.8	14.9
Buildings and equipment	1,550	1,546	1,585	0.3	(2.2)
Deposits from the public	180,722	165,001	178,252	9.5	1.4
Deposits from banks	1,474	1,416	1,537	4.1	(4.1)
Debentures and subordinated notes	26,924	26,859	27,034	0.2	(0.4)
Shareholder equity	13,015	12,098	12,714	7.6	2.4

Cash and deposits with banks - the balance of cash and deposits with banks decreased in the first quarter of 2017 by NIS 42 million. The decrease in cash balance is part of on-going management of Bank liquidity.

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of March 31, 2017 accounted for 74% of total assets, similar to the end of 2016. Loans to the public, net for the Group increased in the first quarter of 2017 by NIS 1.7 billion, an increase of 1.0%.

For more information about on-balance sheet and off-balance sheet credit risk, development of problematic debts and various risk benchmarks with regard to housing loans, see chapter "Risks" below and the Detailed Risks t Report on the Bank website.

Loans to the public, net by linkage basis (NIS in millions) are as follows:

				Change in % ove	
	March 31,		December 31,	March 31,	December 31,
	2017	2016	2016	2016	2016
Israeli currency					
Non-linked	113,615	99,891	111,144	13.7	2.2
CPI-linked	49,387	51,054	49,369	(3.3)	-
Foreign currency and foreign currency linked	10,066	11,128	10,828	(9.5)	(7.0)
Total	173,068	162,073	171,341	6.8	1.0

Loans to the public, net by supervisory operating segments (NIS in millions) are as follows:

				Change in % ove	
		March 31,	December 31,	March 31,	December 31,
	2017	2016	2016	2016	2016
Individuals:					
Households - housing loans	115,378	107,422	114,076	7.4	1.1
Households - other	19,083	17,098	18,943	11.6	0.7
Private banking	98	60	81	-	20.6
Total - individuals	134,559	124,580	133,100	8.0	1.1
Business operations:					
Small and micro businesses	15,617	14,342	15,121	8.9	3.3
Medium businesses	4,907	4,783	4,786	2.6	2.5
Large businesses	12,329	13,084	12,525	(5.8)	(1.6)
Institutional investors	2,521	2,102	2,586	19.9	(2.5)
Total - business operations	35,374	34,311	35,018	3.1	1.0
Overseas operations	3,135	3,182	3,223	(1.5)	(2.7)
Total	173,068	162,073	171,341	6.8	1.0

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on management approach - see chapter "Supervisory operating segments" below.

Below are details of problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debts, credit risk and provision for credit loss:

Reported amounts	As of March 31, 2017			As of March 31, 2016			As of December 31, 2016		
(NIS in millions)	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Problematic credit risk									
Impaired credit risk	668	194	862	852	165	1,017	681	212	893
Inferior credit risk	436	-	436	109	-	109	428	-	428
Credit risk under special supervision(2)	1,448	255	1,703	1,222	252	1,474	1,381	229	1,610
Total troubled credit risk	2,552	449	3,001	2,183	417	2,600	2,490	441	2,931
Of which: Non-impaired debts in arrears 90 days or longer(2)	985			934			958		
2. Non-performing assets(3)	637			814			653		

(1) On- and off-balance sheet credit is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(2) Including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer, amounting to NIS 900 million (as of March 31, 2016 - NIS 877 million; as of December 31, 2016 - NIS 853 million).

(3) Assets not accruing interest.

See Notes 6 and 13 to the financial statements for further information.

Credit risk for loans to the public is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities.

Total credit risk for the Bank Group as of March 31, 2017 amounted to NIS 232 billion, compared to NIS 227 billion as of December 31, 2016 - an increase of 2.4%.

Development of key off balance sheet items for the Bank Group (NIS in millions) is as follows:

				Change in % over	
	March 31,		December 31,	March 31,	December 31,
	2017	2016	2016	2016	2016
Off balance sheet financial instruments other than derivatives [(1)]:					
Unutilized debitory account and other credit facilities in accounts on demand[(1)]	17,922	17,045	16,688	5.1	7.4
Guarantees to home buyers	12,318	12,361	12,461	(0.3)	(1.1)
Irrevocable commitments for loans approved but not yet granted	11,501	12,971	10,651	(11.3)	8.0
Unutilized revolving credit card facilities	7,579	8,047	7,559	(5.8)	0.3
Commitments to issue guarantees	6,499	4,849	5,797	34.0	12.1
Guarantees and other liabilities	5,153	4,559	4,869	13.0	5.8
Loan guarantees	2,048	2,308	2,606	(11.3)	(21.4)
Documentary credit	389	488	384	(20.3)	1.3
Derivative financial instruments[(2)]:					
Total par value of derivative financial instruments	234,381	239,825	233,901	(2.3)	0.2
(On-balance sheet) assets with respect to derivative instruments	3,951	3,924	3,581	0.7	10.3
(On-balance sheet) liabilities with respect to derivative instruments	4,143	4,878	3,568	(15.1)	16.1

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 11 to the financial statements for additional information.
(2) Includes forward transactions, swaps, options and credit derivatives.

For more information about on-balance sheet and off-balance sheet credit risk, see chapter "Risks" below and the Detailed Risks Report on the Bank website.

Securities - the balance of investment in securities increased in the first quarter of 2017 by NIS 1.5 billion, and increased by NIS 2.8 billion compared to the corresponding period last year. The increase in total investment in securities is within asset and liability management of the Bank.

Composition of Group securities by portfolio (NIS in millions) is as follows:

					March 31, 2017
	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[(1)]
Securities held to maturity	3,250	3,250	76	-	3,326
Securities available for sale	8,339	8,373	[(2)]19	[(2)](53)	8,339
Securities held for trade	202	202	-	-	202
Total securities	11,791	11,825	95	(53)	11,867
					March 31, 2016
Securities held to maturity	3,221	3,221	94	-	3,315
Securities available for sale	5,282	5,269	[(2)]29	[(2)](16)	5,282
Securities held for trade	510	510	-	-	510
Total securities	9,013	9,000	123	(16)	9,107
					December 31, 2016
Securities held to maturity	3,236	3,236	75	-	3,311
Securities available for sale	6,678	6,724	[(2)]30	[(2)](76)	6,678
Securities held for trade	348	347	1	-	348
Total securities	10,262	10,307	106	(76)	10,337

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

Distribution of Group security portfolio by linkage segment (NIS in millions) is as follows:

				Change in % ove	
	March 31,		December 31,	March 31,	December 31,
	2017	2016	2016	2016	2016
Israeli currency					
Non-linked	5,993	5,473	5,981	9.5	0.2
CPI-linked	773	130	146	-	-
Foreign currency and foreign currency linked	4,932	3,310	4,035	49.0	22.2
Non-monetary items	93	100	100	(7.0)	(7.0)
Total	11,791	9,013	10,262	30.8	14.9

Distribution of Group security portfolio by issuer type (NIS in millions) is as follows:

			Carrying amount as of
	March 31, 2017	March 31, 2016	December 31, 2016
Government debentures:			
Government of Israel	10,037	8,593	8,586
Government of USA	1,569	168	1,479
South Korea Government	56	39	59
Total government debentures	11,662	8,800	10,124
Debentures of banks in developed nations:			
UK	-	75	-
USA	18	-	19
Other	-	19	-
Total debentures of banks in developed nations	18	94	19
Corporate debentures (composition by sector):			
Public and community services	10	11	11
Financial services	8	8	8
Total corporate debentures	18	19	19
Shares	93	100	100
Total securities	11,791	9,013	10,262

For more information about investment in securities and impairment of a temporary nature of securities available for sale, listing the duration of impairment and its share out of the amortized cost, see Note 5 to the financial statements.

Buildings and equipment - The balance of buildings and equipment decreased in the first quarter of 2017 by NIS 35 million, or 2.2%. Concurrently with investment in technology, ownership of properties decreased (replaced by leasing), in line with Bank policy.

Deposits from the public - these account for 77% of total consolidated balance sheet as of March 31, 2017, similar to their weight at the end of 2016. In the first quarter of 2017, deposits from the public with the Bank Group increased by NIS 2.5 billion, or 1.4% (increase by 9.5% over the end of the corresponding period last year).

Composition of deposits from the public by linkage segments (NIS in millions) is as follows:

				Change in % over	
		March 31,	December 31,	March 31,	December 31,
	2017	2016	2016	2016	2016
Israeli currency					
Non-linked	127,550	112,071	122,611	13.8	4.0
CPI-linked	17,538	16,996	17,039	3.2	2.9
Foreign currency and foreign currency linked	35,634	35,934	38,602	(0.8)	(7.7)
Total	180,722	165,001	178,252	9.5	1.4

Composition of deposits from the public by supervisory operating segments (NIS in millions) is as follows:

				Change in % ove	
		March 31,	December 31,	March 31,	December 31,
	2017	2016	2016	2016	2016
Individuals:					
Households - other	72,500	67,678	71,334	7.1	1.6
Private banking	11,211	10,618	11,167	5.6	0.4
Total - individuals	83,711	78,296	82,501	6.9	1.5
Business operations:					
Small and micro businesses	17,288	13,671	15,738	26.5	9.8
Medium businesses	6,799	6,182	7,378	10.0	(7.8)
Large businesses	28,706	28,167	31,422	1.9	(8.6)
Institutional investors	38,759	34,054	35,964	13.8	7.8
Total - business operations	91,552	82,074	90,502	11.5	1.2
Overseas operations	5,459	4,631	5,249	17.9	4.0
Total	180,722	165,001	178,252	9.5	1.4

Evolution of deposits from the public for the Group by depositor size (NIS in millions) is as follows:

	March 31,		December 31,
	2017	2016(1)	2016
Maximum deposit			
Up to 1	60,868	56,691	59,606
Over 1 to 10	39,146	35,624	38,805
Over 10 to 100	26,013	23,018	25,042
Over 100 to 500	27,311	21,807	24,120
Above 500	27,384	27,861	30,679
Total	180,722	165,001	178,252

(1) Reclassified. Reclassification was due to adjustment of deposit composition by size, to also take into consideration the independent legal entity of depositors. Previously, some deposits have been classified as a single depositor group with no such distinction.

For more information about composition of deposits from the public, see Note 7 to the financial statements.

Deposits from banks - deposits from banks as of March 31, 2017 amounted to NIS 1.5 billion, similar to the end of 2016.

Debentures and subordinated notes - the balance of debentures and subordinated notes as of March 31, 2017 amounted to NIS 26.9 billion, compared to NIS 27.0 billion as of December 31, 2016, a decrease by 0.4%. See also chapter "Developments in financing sources" above.

For more information about debenture issuance after the balance sheet date, see chapter "Developments in financing sources" above.

Capital, capital adequacy and leverage

Equity attributable to shareholders of the Bank - the balance of equity attributable to shareholders of the Bank as of March 31, 2017 amounted to NIS 13.0 billion, compared to NIS 12.7 billion as of December 31, 2016 and NIS 12.1 billion as of March 31, 2016, an increase by 2.4% and 7.6%, respectively.

Below is the composition of shareholders' equity (NIS in millions):

	March 31,		December 31,
	2017	2016	2016
Share capital and premium[1]	2,246	2,224	2,239
Capital reserve from benefit from share-based payment transactions	52	66	58
Treasury shares	(76)	(76)	(76)
Total cumulative other loss[2][3]	(298)	(98)	(317)
Retained earnings[4]	11,091	9,982	10,810
Total	13,015	12,098	12,714

(1) For more information about share issuance, see statement of changes to shareholders' equity.
(2) For more information about other comprehensive income (loss), see Note 4 to the financial statements.
(3) Other comprehensive income (loss) as of March 31, 2017 and as of December 31, 2016 includes adjustments with respect to employee benefits. For more information about the effect of the streamlining plan approved by the Bank Board of Directors on December 27, 2016, see Notes 22 and 25 to the 2016 financial statements.
(4) For more information about developments in revenues and expenses accumulated to retained earnings in the reported period, see chapter "Material developments in revenues, expenses and other comprehensive income".

The ratio of shareholders' equity to total assets for the Group as of March 31, 2017 was 5.56%, compared to 5.52% as of December 31, 2016 and 5.58% as of March 31, 2016.

Capital adequacy

Supervisory capital

The Bank assesses its capital adequacy in accordance with Basel rules, as prescribed by Proper Banking Conduct Directives 201-211. The Bank applies the standard approach in assessing exposure to credit risk, operating risk and market risk.

Below is information about supervisory capital and risk assets on the consolidated report (NIS in millions):

	March 31, 2017	March 31, 2016	December 31, 2016
Capital for purpose of calculating minimum capital ratio			
Tier I shareholders' equity	13,533	12,490	13,318
Tier I capital	13,533	12,490	13,318
Tier II capital	4,442	4,598	4,888
Total capital	17,975	17,088	18,206
Weighted risk asset balances			
Credit risk	124,319	120,752	122,605
Market risks	1,266	957	1,184
Operating risk	8,198	7,744	8,113
Total weighted risk asset balances	133,783	129,453	131,902

Ratio of capital to risk elements

As from January 1, 2014, the Bank applies provisions for capital measurement and adequacy, based on Basel III provisions, as published by the Supervisor of Banks and as incorporated in Proper Banking Conduct Directives 201-211. As per instructions of the Supervisor of Banks, as from January 1, 2015 the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk elements of its balance sheet assets and off-balance-sheet items. The Supervisor of Banks' instructions specifies the manner of calculation of total capital and total risk elements

An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date.

This requirement was gradually implemented through January 1, 2017. Accordingly, the minimum Tier I equity ratio and the minimum total equity ratio required by the Supervisor of Banks, on a consolidated basis, in conformity with data as of the reporting date, are 9.87% and 13.37%, respectively. See Note 9 to the financial statements for additional information.

Development of Group ratio of capital to risk elements is as follows (in %):

	March 31, 2017	March 31, 2016	December 31, 2016
Ratio of Tier I capital to risk elements	10.12	9.65	10.10
Ratio of total capital to risk elements	13.44	13.20	13.80
Minimum Tier I capital ratio required by Supervisor of Banks	9.87	9.42	9.76
Total minimum capital ratio required by the directives of the Supervisor of Banks	13.37	12.92	13.26

Composition of risk assets and capital requirements with respect to credit risk by exposure group are as follows (NIS in millions):

	As of March 31, 2017		As of March 31, 2016		As of December 31, 2016	
Exposure group	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(2)	Weighted risk asset balances	Capital requirement(3)
Sovereign debts	643	86	637	82	549	73
Public sector entity debts	649	87	457	59	640	85
Banking corporation debts	752	100	775	100	770	101
Corporate debts	35,626	4,763	38,037	4,907	35,119	4,657
Debts secured by commercial real estate	2,065	276	2,249	290	2,312	307
Retail exposure to individuals	13,388	1,790	12,226	1,577	13,180	1,748
Loans to small businesses	6,581	880	6,031	778	6,307	836
Residential mortgages	59,446	7,948	55,293	7,133	58,597	7,770
Other assets	4,432	593	4,344	560	4,495	596
Total	123,582	16,523	120,049	15,486	121,969	16,173

Risk assets and capital requirements with respect to market risk, CVA risk[4] and operating risk are as follows (NIS in millions):

	As of March 31, 2017		As of March 31, 2016		As of December 31, 2016	
	Weighted risk asset balances	Capital require-ment[3]	Weighted risk asset balances	Capital require-ment[3]	Weighted risk asset balances	Capital require-ment[3]
Market risk	1,266	169	957	123	1,184	157
CVA risk with respect to derivatives[4]	737	99	703	91	636	84
Operating Risk[5]	8,198	1,096	7,744	999	8,113	1,076
Total	10,201	1,364	9,404	1,213	9,933	1,317
Total risk assets	133,783	17,887	129,453	16,699	131,902	17,490

(1) The capital requirement was calculated at 13.37% of risk asset balances.
(2) The capital requirement was calculated at 12.92% of risk asset balances.
(3) The capital requirement was calculated at 13.26% of risk asset balances.
(4) Credit Value Adjustments - mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.
(5) Capital allocation with respect to operating risk was calculated using the standard approach.

Below is capital for calculation of capital ratio after supervisory adjustments and deductions:

	As of March 31, 2017	As of March 31, 2016	As of December 31, 2016
Tier I shareholders' equity	13,533	12,490	13,318
Tier II capital	4,442	4,598	4,888
Total capital	17,975	17,088	18,206

Leverage ratio

On April 28, 2015, the Supervisor of Banks issued a new Proper Banking Conduct Directive 218 concerning "Leverage ratio". This directive adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items.

According to the directive, banking corporations shall maintain a leverage ratio of 5% or higher on a consolidated basis, as from January 1, 2018. Banking corporations which comply with the requirement upon publication of the directive may not drop below the threshold stated in the regulation. Any banking corporation which does not meet the requirements of this directive is required to increase its leverage ratio at fixed quarterly steps by January 1, 2018.

The Bank's leverage ratio as of March 31, 2017 is 5.27%, compared to 5.23% as of March 31, 2016 and similar to the leverage ratio as of December 31, 2016. The minimum leverage ratio required by the Supervisor of Banks is 5.00%.

For more information see Note 9 to the financial statements and the Detailed Risks Report on the Bank website.

Dividends

Dividend distribution policies

On November 21, 2016, the Bank's Board of Directors approved a new five-year strategic plan for 2017-2021 and resolved to approve a revised dividends policy as from 2017.

The Bank's dividends policy is to distribute dividends with respect to quarterly earnings, at 30% of net profit attributable to equity holders of the Bank.

The Bank has received approval from the Supervisor of Banks for the aforementioned outline of its dividends policies.

The Bank's Board of Directors would monitor execution of the new strategic plan in order to consider optional increase of the aforementioned dividends rate by a further step as from 2018. This would be subject to approval by the Supervisor of Banks.

The dividends policy is subject to the Bank achieving a ratio of Tier I capital to risk elements as required by the Supervisor of Banks and maintaining appropriate safety margins.

Below is a summary of previous Board resolutions with regard to dividend distribution policies:

- On April 3, 2006, the Board decided on annual dividend distribution at 40% of net operating profit and 80% of net profit from extraordinary items.
- On July 23, 2012, the Board decided that during the five-year plan for 2013-2017, the Bank would retain its dividend distribution policies.
- On August 14, 2013, a guideline was stipulated whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.
- On December 23, 2014, the Bank Board of Directors resolved to approve the dividend distribution policy for 2015-2016.
- The dividends policy calls for dividends to be distributed with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015), at a rate of up to 15% of net profit attributable to shareholders.
- On this date, it was resolved that in 2017 the dividends policy would continue to be annual distribution of 40% of net operating profit and 80% from extraordinary items.

Dividend distribution

Below are details of dividends distributed by the Bank since 2015 (in reported amounts):

Declaration date	Payment date	Dividends per share	Total dividends paid
		(Agorot)	(NIS in millions)
May 18, 2015	June 14, 2015	15.84	36.6
August 16, 2015	September 17, 2015	21.35	49.5
Total dividends distributed in 2015			86.1
February 24, 2016	March 21, 2016	15.52	36.0
May 18, 2016	June 21, 2016	18.62	43.2
August 10, 2016	September 11, 2016	21.99	51.0
November 14, 2016	December 12, 2016	24.12	56.0
Total dividends distributed in 2016			186.2
March 20, 2017	April 26, 2017	17.12	39.8

Dividends declared with respect to earnings in the first quarter of 2017

On May 15, 2017, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 96.3 million, or 30% of earnings in the first quarter of 2017. In line with the aforementioned revised dividend policy.

The dividends amount is 414.6% of issued share capital, i.e. NIS 0.4146 per NIS 0.1 par value share. The effective date for dividends payment is June 4, 2017 and the payment date is June 20, 2017. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

Other Off Balance Sheet Activity

Below is the development of off balance sheet monetary assets held on behalf of Bank Group clients, for which the Bank Group provides management, operating and/or custodial services (NIS in millions):

				Change in % over	
	March 31,		December 31,	March 31,	December 31,
	2017	2016	2016	2016	2016
Securities[1]	222,964	208,295	217,310	7.0	2.6
Assets of provident funds for which the Group provides operating services	76,580	73,956	75,515	3.5	1.4
Assets held in trust by the Bank Group	72,363	66,564	71,564	8.7	1.1
Assets of mutual funds for which the Bank provides operating services	16,028	15,017	13,896	6.7	15.3
Other assets under management[2]	11,517	9,467	11,055	21.7	4.2

(1) Value of securities portfolios in Bank custody, held by clients, including balance of securities of provident funds and mutual funds to which the Bank provides operating services. Note that the balance of client operations presented includes, in addition to the balance of securities for mutual funds as noted above, also the value of participation units in such funds held by Bank clients. The increase is primarily due to increase in activity of current and new clients.

(2) Including:
- Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. With respect to these balances, the Bank receives margin revenues or commissions.
- Other loans managed by the Bank, including housing loans managed and operated by the Bank on behalf of others.

Financial Information by Operating Segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the client's turnover (annual sales or annual revenues).

Supervisory operating segments include operating segments for individuals and operating segments for business clients other than individuals (including institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals - housing loans and others", in conformity with definitions of credit risk classification by economic sector.

Below are the supervisory operating segments and a brief definition of each one:

Households - individuals, other than private banking clients, as noted below.

Private banking - individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses - businesses with turnover amounting up to NIS 50 million.

Medium businesses - businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses - businesses with turnover higher than NIS 250 million

Institutional investors - Primarily provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios.

Financial management - includes trading operations, asset and liability management and non-banking investments.

Overseas operations - presented separately from operations in Israel, divided into individuals and business operations.

The Bank's operating segments by "management approach" are based on client attribution to the organizational structure responsible in the past period.

However, client attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as noted above.

There is a strong correlation between attributes specified by management for client attribution to the responsible division and the supervisory definitions.

However, according to "management approach", in some cases the final client attribution may be based on other parameters, such as: specialization of a certain unit in activity types of clients or past experience working with the client, which result in business and service-related advantages to client attribution to the specific division.

Given the Supervisor of Banks' requirement to discuss and analyze the supervisory operating segments in the Report of the Board of Directors and Management and given the correlation between supervisory operating segments and "management approach", the segment information (both quantitative and qualitative) is briefly presented below for each segment, as follows:

- Supervisory definition of the segment
- Explanation of differences between the "supervisory" definition and how business is actually managed (using "management approach")
- Financial results of the segment (using "supervisory approach")

For more information about principles for attribution of balances, revenues and expenses to clients in the system, see Note 12 to the financial statements.

For more information and detailed description of the segments, see chapter "Other Information about the Bank and Management thereof" on the 2106 financial statements.

Financial Information by Supervisory Operating Segments:

Below is a summary of financial results by supervisory operating segment (NIS in millions):

	Net profit		Share of total net profit (in %)	
	In the first quarter		In the first quarter	
	2017	2016	2017	2016
Individuals:				
Households - housing loans	135	113	40.5	35.1
Households - other	8	14	2.4	4.4
Private banking	3	2	0.9	0.6
Total - individuals	146	129	43.8	40.1
Business operations:				
Small and micro businesses	65	65	19.5	20.2
Medium businesses	27	24	8.1	7.5
Large businesses	68	81	20.4	25.2
Institutional investors	8	8	2.4	2.5
Total - business operations	168	178	50.5	55.3
Financial management	(12)	(34)	-	-
Total activity in Israel	302	273	94.3	95.3
Overseas operations	19	15	5.7	4.7
Total	321	288	100.0	100.0

For more information about operating results in conformity with management approach, see Note 12 to the financial statements.

Household segment

Supervisory definition

In conformity with the supervisory definition, the household segment includes individuals, other than those clients included in the private banking segment. Thus, this segment excludes individuals with financial assets in excess of NIS 3 million. Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals - housing loans and others", in conformity with definitions of credit risk classification by economic sector.

Differences between management approach and supervisory definition

- Some individual clients attributed to the private banking segment using "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification - the Bank threshold for client classification according to "management approach" is NIS 2.5 million, lower than the supervisory definition.
- As a rule, individual clients are attributed to the household segment. According to the supervisory approach, individual clients with high indebtedness or with business attributes are classified to the business operating segments, rather than to the household segment.

Operating results in the household segment

	For the three months ended March 31,					
			2017			2016
						NIS in millions
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	294	305	599	256	257	513
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	134	37	171	130	39	169
Total revenues	428	342	770	386	296	682
Expenses with respect to credit losses	24	-	24	12	(9)	3
Operating and other expenses	377	129	506	337	114	451
Profit before provision for taxes	27	213	240	37	191	228
Provision for taxes	10	78	88	15	78	93
After-tax profit	17	135	152	22	113	135
Net profit:						
Attributable to non-controlling interests	(9)	-	(9)	(8)	-	(8)
Attributable to shareholders of the banking corporation	8	135	143	14	113	127
Balance sheet - key items:						
Loans to the public (end balance)	19,285	115,996	135,281	17,278	108,027	125,305
Loans to the public, net (end balance)	19,083	115,378	134,461	17,098	107,422	124,520
Deposits from the public, net (ending balance)	72,500	-	72,500	67,678	-	67,678
Average balance of loans to the public	18,754	115,665	134,419	17,208	106,969	124,177
Average balance of deposits from the public	71,924	-	71,924	67,196	-	67,196
Average balance of risk assets	16,971	63,684	80,655	15,292	59,163	74,455
Credit margins and deposit margins:						
Margin from credit granting operations	199	297	496	175	252	427
Margin from activities of receiving deposits	93	-	93	81	-	81
Other	2	8	10	-	5	5
Total interest revenues, net	294	305	599	256	257	513

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2017 amounted to NIS 143 million, compared to NIS 127 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Contribution of housing loans (including general-purpose loans secured by a lien on a residential apartment) in the first quarter of 2017 amounted to NIS 135 million, compared to NIS 113 million in the corresponding period last year. Total interest revenues, net amounted to NIS 305 million, compared to NIS 257 million in the corresponding period last year, an increase of 18.7% - primarily due to an increase in mortgage business volume - reflected in an increase of NIS 8.7 billion in the average loan balance.

There were no expenses with respect to credit losses recognized in the current period, compared to a decrease in provision by NIS 9 million in the corresponding period last year. Commission and other revenues decreased by NIS 2 million, due to regulatory effects and current decrease in net revenues from credit portfolio service, due to the decrease in the housing loan portfolio guaranteed by the State.

Operating expenses amounted to NIS 129 million, compared to NIS 114 million in the corresponding period last year - an increase by 13.2%, lower than the 15.5% increase in total revenues.

Contribution of households - other operations (other than housing loans) in the first quarter of 2017 amounted to NIS 8 million, compared to NIS 14 million in the corresponding period last year - a decrease by NIS 6 million. Interest revenues, net increased by NIS 38 million. The increase is due to increase in lending margins and to increase in margin from deposit operations, due to higher volumes of both lending and deposits. Commissions and other revenues increased by NIS 4 million.

Expenses with respect to credit losses increased by NIS 11 million. Given the risk attributes of this segment, the Bank increases its qualitative group-based provision for individuals, as directed by the Supervisor of Banks.

Moreover, the increase in expenses with respect to credit losses is due, *inter alia*, to the impact of legislation which reduces debt repayment by individual clients who are in difficulties. For more information about credit risk to individuals, see chapter "Risks" below for detailed analysis of risk evolution.

Operating expenses amounted to NIS 377 million, compared to NIS 337 million in the corresponding period last year - an increase by 11.9%, attributed to unusual expenses at Bank Yahav due to implementation of the new core banking system. See also chapter "Explanation and analysis of results and business standing" above.

For more details and extensive information about results of this segment and operating results in conformity with management ‘s approach - see Note 12 to the financial statements.

Private Banking Segment

Supervisory definition

According to the supervisory definition, the private banking segment consists of individuals whose financial assets with the bank (including deposits, securities portfolios and other financial assets) exceed NIS 3 million.

Differences between management approach and supervisory definition

- Some individual clients attributed to the private banking segment using "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification - the Bank threshold for client classification according to "management approach" is NIS 2.5 million, lower than the supervisory definition.
- The private banking segment according to management approach also includes businesses with liquid assets in excess of NIS 8 million. These clients are classified to the business operating segments under the supervisory approach.

Operating results of private banking segment

	For the three months ended March 31,	
	2017	2016
		NIS in millions
Profit and profitability		
Total interest revenues, net	14	11
Non-interest financing revenues	-	-
Commissions and other revenues	2	4
Total revenues	16	15
Expenses with respect to credit losses	-	-
Operating and other expenses	12	11
Profit before provision for taxes	4	4
Provision for taxes	1	2
Net profit	3	2
Balance sheet - key items:		
Loans to the public (end balance)	99	61
Loans to the public, net (end balance)	98	60
Deposits from the public, net (ending balance)	11,211	10,618
Average balance of loans to the public	72	66
Average balance of deposits from the public	11,072	10,353
Average balance of risk assets	33	24
Credit margins and deposit margins:		
Margin from credit granting operations	-	-
Margin from activities of receiving deposits	14	11
Other	-	-
Total interest revenues, net	14	11

Contribution of the private banking segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2017 amounted to NIS 3 million, compared to NIS 2 million in the corresponding period last year.

Total interest revenues, net increased by NIS 3 million, due to increase in deposits from the public. Commissions and other revenues decreased by NIS 2 million.

Other items were essentially unchanged.

For more details and extensive information about results of this segment and operating results in conformity with management ‘s approach - see Note 12 to the financial statements.

For more information about the effect of attribution of expenses related to the US DOJ inquiry on this segment, see Note 12C to the financial statements.

Micro and Small Business Segment

Supervisory definition

The micro and small business segment includes businesses with annual turnover below NIS 50 million.

Differences between management approach and supervisory definition

- Business clients with liquid assets in excess of NIS 8 million are attributed to the private banking segment according to management approach. According to the supervisory segment approach, these clients are classified to the micro and small business segment, based on their annual turnover.
- Business clients currently attributed to commercial banking using management approach and whose annual turnover is lower than NIS 50 million, are classified to the micro and small business segment using the supervisory approach.

Operating results of micro and small business segment

	For the three months ended March 31,	
	2017	2016
		NIS in millions
Profit and profitability		
Total interest revenues, net	205	189
Non-interest financing revenues	-	-
Commissions and other revenues	80	77
Total revenues	285	266
Expenses with respect to credit losses	32	24
Operating and other expenses	150	133
Profit before provision for taxes	103	109
Provision for taxes	38	44
Net profit	65	65
Balance sheet - key items:		
Loans to the public (end balance)	15,894	14,577
Loans to the public, net (end balance)	15,617	14,342
Deposits from the public, net (ending balance)	17,288	13,671
Average balance of loans to the public	15,356	14,469
Average balance of deposits from the public	17,022	13,802
Average balance of risk assets	14,164	12,625
Credit margins and deposit margins:		
Margin from credit granting operations	184	174
Margin from activities of receiving deposits	18	12
Other	3	3
Total interest revenues, net	205	189

Contribution of the micro and small business segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2017 amounted to NIS 65 million, compared to NIS 65 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Interest revenues, net amounted to NIS 205 million, compared to NIS 189 million in the corresponding period last year - an increase of 8.5%, primarily due to increase in lending and deposit business.
Commissions and other revenues amounted to NIS 80 million, compared to NIS 77 million in the corresponding period last year - an increase by 3.9%.
Expenses with respect to credit losses amounted to NIS 32 million, compared to NIS 26 million in the corresponding period last year. The increase is due to an increase in group-based provision. The increase in group-based provision is due to growth in loans to the public.
Operating expenses amounted to NIS 150 million, compared to NIS 133 million in the corresponding period last year – an increase by NIS 17 million.
For more details and extensive information about results of this segment and operating results in conformity with management ‘s approach - see Note 12 to the financial statements.

Medium business segment

Supervisory definition

The medium business segment includes businesses with annual turnover higher than NIS 50 million and lower than NIS 250 million.

Differences between management approach and supervisory definition

- The commercial banking segment, according to management approach, includes businesses with turnover between NIS 30 and 120 million, and total indebtedness between NIS 6 and 25 million. This means that some commercial banking clients (under management approach) whose turnover is below NIS 50 million are classified to the micro and small business segment using the supervisory operating segments.
- On the other hand, business clients attributed to the business banking segment using management approach and whose annual turnover is lower than NIS 250 million, are attributed to the medium business segment using the supervisory approach.

Operating results of medium business segment

	For the three months ended March 31,	
	2017	2016
		NIS in millions
Profit and profitability		
Total interest revenues, net	48	43
Non-interest financing revenues	-	-
Commissions and other revenues	15	15
Total revenues	63	58
Reduced expenses with respect to credit losses	(3)	(2)
Operating and other expenses	23	20
Profit before provision for taxes	43	40
Provision for taxes	16	16
Net profit	27	24
Balance sheet - key items:		
Loans to the public (end balance)	4,992	4,861
Loans to the public, net (end balance)	4,907	4,783
Deposits from the public, net (ending balance)	6,799	6,182
Average balance of loans to the public	4,920	4,790
Average balance of deposits from the public	7,068	6,001
Average balance of risk assets	6,004	6,112
Credit margins and deposit margins:		
Margin from credit granting operations	40	38
Margin from activities of receiving deposits	6	5
Other	2	-
Total interest revenues, net	48	43

Contribution of the medium business segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2017 amounted to NIS 27 million, compared to NIS 26 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net increased by NIS 5 million, primarily due to increase in credit and deposit volumes in this segment.

Expenses with respect to credit losses amounted to a decrease in provision of NIS 3 million, compared to a decrease in provision of NIS 2 million in the corresponding period last year. The change in provision is attributed to effect of the group-based provision in this segment. For more information about directives of the Supervisor of Banks, see analysis of expenses with respect to credit losses above in chapter "Explanation and analysis of results and business standing".

Operating expenses amounted to NIS 23 million, compared to NIS 20 million in the corresponding period last year - an increase by NIS 3 million.

For more details and extensive information about results of this segment and operating results in conformity with management ‘s approach - see Note 12 to the financial statements.

Large business segment

Supervisory definition

The large business segment includes businesses with annual turnover higher than NIS 250 million.

Differences between management approach and supervisory definition

- The business banking segment, according to management approach, includes businesses with turnover higher than NIS 120 million, and total indebtedness higher than NIS 25 million. This means that some business banking clients (under management approach) whose turnover is below NIS 250 million are classified to the medium business segment using the supervisory approach.
- Institutional investors served, under management approach, by business banking are presented as a separate segment under supervisory operating segments.

Operating results of large business segment

	For the three months ended March 31,	
	2017	2016
		NIS in millions
Profit and profitability		
Total interest revenues, net	109	106
Non-interest financing revenues	-	-
Commissions and other revenues	31	37
Total revenues	140	143
Reduced expenses with respect to credit losses	(2)	(29)
Operating and other expenses	35	35
Profit before provision for taxes	107	137
Provision for taxes	39	56
Net profit	68	81
Balance sheet - key items:		
Loans to the public (end balance)	12,542	13,293
Loans to the public, net (end balance)	12,329	13,084
Deposits from the public, net (ending balance)	28,706	28,167
Average balance of loans to the public	13,140	13,255
Average balance of deposits from the public	28,263	26,661
Average balance of risk assets	20,369	24,273
Credit margins and deposit margins:		
Margin from credit granting operations	93	92
Margin from activities of receiving deposits	14	14
Other	2	-
Total interest revenues, net	109	106

Contribution of the large business segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2017 amounted to NIS 68 million, compared to NIS 81 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Total interest revenues, net amounted to NIS 109 million, compared to NIS 106 million in the corresponding period last year, due to an increase in credit spread.

Commissions and other revenues were impacted by the decrease in revenues from Sales Act guarantee commissions, due to insurance policies acquired for such guarantees.

Expenses with respect to credit losses were impacted by the group-based provision.

For more information about directives of the Supervisor of Banks, see analysis of expenses with respect to credit losses above in chapter "Explanation and analysis of results and business standing".

Operating expenses were essentially unchanged.

For more details and extensive information about results of this segment and operating results in conformity with management 's approach - see Note 12 to the financial statements.

Institutional investor segment

Supervisory definition

This segment includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios.

Differences between management approach and supervisory definition

Under management approach, institutional investors are served by business banking and by the financial management segment, but are presented as a separate segment under supervisory operating segments.

Operating results of institutional investor segment

	For the three months ended March 31,	
	2017	2016
		NIS in millions
Profit and profitability		
Total interest revenues, net	27	26
Non-interest financing revenues	-	-
Commissions and other revenues	19	25
Total revenues	46	51
Expenses (reduced expenses) with respect to credit losses	(2)	7
Operating and other expenses	35	31
Profit before provision for taxes	13	13
Provision for taxes	5	5
Net profit	8	8
Balance sheet - key items:		
Loans to the public (end balance)	2,561	2,141
Loans to the public, net (end balance)	2,521	2,102
Deposits from the public, net (ending balance)	38,759	34,054
Average balance of loans to the public	2,983	2,176
Average balance of deposits from the public	37,573	34,583
Average balance of risk assets	3,035	3,050
Credit margins and deposit margins:		
Margin from credit granting operations	10	11
Margin from activities of receiving deposits	16	15
Other	1	-
Total interest revenues, net	27	26

Contribution of the institutional investor segment (according to supervisory definitions) to Group profit in the first quarter of 2017 amounted to NIS 8 million, similar to the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net, amounted to NIS 27 million, compared to NIS 26 million in the corresponding period last year. Commission and other revenues decreased by NIS 6 million compared to the corresponding period last year. There was no significant change in margin from credit granting operations and in margin from receiving deposits.

Expenses with respect to credit losses amounted to revenues of NIS 2 million, compared to expenses of NIS 7 million in the corresponding period last year, due to the effect of group-based provision in this segment.

For more details and extensive information about results of this segment and operating results in conformity with management ‘s approach - see Note 12 to the financial statements.

Financial Management Segment

Supervisory definition

The financial management segment includes trading operations, asset and liability management and non-banking investments.

Trade operations - Investment in securities held for trade, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management - including investment in debentures available for sale and in debentures held to maturity, hedging using derivatives, ALM hedging, currency hedging of investments overseas.

Real investments - Investment in shares available for sale and in associates of businesses.

Other financial management operations - management, operation, trust and custody services for banks, sale and management of loan portfolios.

Differences between management approach and supervisory definition

Under management approach, institutional investors are served by the financial management segment, but are presented as a separate segment under supervisory operating segments.

Operating results of the financial management segment

	For the three months ended March 31,	
	2017	2016
		NIS in millions
Profit and profitability		
Total interest expenses, net	(13)	(161)
Non-interest financing revenues	(3)	62
Commissions and other revenues	41	119
Total revenues	25	20
Reduced expenses with respect to credit losses	(1)	(1)
Operating and other expenses	43	78
Profit before provision for taxes	(17)	(57)
Provision for taxes	(6)	(23)
After-tax profit	(11)	(34)
Share of banking corporation in earnings of associates		
Net profit before attribution to non-controlling interests	(12)	(34)
Net profit attributed to non-controlling interests	-	-
Net profit attributable to shareholders of the banking corporation	(12)	(34)
Balance sheet - key items:	-	-
Average balance of risk assets	5,124	5,312
Credit margins and deposit margins:	-	-
Margin from credit granting operations		
Margin from activities of receiving deposits	-	-
Other	(13)	(161)
Total interest expenses, net	(13)	(161)

Contribution of the financial management segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2017 amounted to a loss of NIS 12 million, compared to a loss of NIS 34 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Results of financing operations (net interest revenues and non-interest financing revenues) increased by NIS 83 million compared to the corresponding period last year, primarily due to impact of the Consumer Price Index. See also analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".

Commissions and other revenues amounted to NIS 41 million, compared to NIS 119 million in the corresponding period last year. The corresponding period last year included pre-tax capital gains from realized assets in conjunction with asset reorganization and improvements to the branch network, amounting to NIS 78 million.

For more details and extensive information about results of this segment and operating results in conformity with management 's approach - see Note 12 to the financial statements.

For more information about the effect of attribution of expenses related to the US DOJ inquiry on this segment, see Note 12C to the financial statements.

Overseas operations

Supervisory definition
The Bank's overseas operations are presented separately, divided into operations involving individuals and business operations.
Differences between management approach and supervisory definition
Business and individual clients at overseas branches classified into the various operating segments in conformity with management approach, are classified into the overseas operations segment in the disclosure of supervisory operating segments.
Business and individual clients at overseas branches are presented as a separate segment under supervisory operating segments and under management approach are managed by the various operating segments - mostly private and business banking.

Operating results of overseas operations

	For the three months ended March 31,	
	2017	2016
	NIS in millions	
Profit and profitability		
Total interest revenues, net	38	33
Non-interest financing revenues	2	5
Commissions and other revenues	10	8
Total revenues	50	46
Expenses with respect to credit losses	1	1
Operating and other expenses	19	20
Profit before provision for taxes	30	25
Provision for taxes	11	10
Net profit	19	15
Balance sheet - key items:		
Loans to the public (end balance)	3,164	3,213
Loans to the public, net (end balance)	3,135	3,182
Deposits from the public, net (ending balance)	5,459	4,631
Average balance of loans to the public	3,080	3,038
Average balance of deposits from the public	5,352	4,423
Average balance of risk assets	3,459	3,620
Credit margins and deposit margins:		
Margin from credit granting operations	26	20
Margin from activities of receiving deposits	3	4
Other	9	9
Total interest revenues, net	38	33

Contribution of overseas operations to Group profit in the first quarter of 2017 amounted to NIS 19 million, compared to NIS 15 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 38 million, compared to NIS 33 million in the corresponding period last year - an increase of 15.1%, primarily due to increase in lending spreads.

Commission revenues from current operations increased by NIS 2 million.

Operating expenses were essentially unchanged.
For more details and extensive information about results of this segment and operating results in conformity with management ‘s approach - see Note 12 to the financial statements.

For more information about the effect of attribution of expenses related to the US DOJ inquiry on overseas operations, see Note 12C to the financial statements.

Major Investees

The contribution of investees to net operating profit in the first quarter of 2017 amounted to NIS 18 million, compared with NIS 26 million in the corresponding period last year. These data include impact of changes in exchange rates on the balance of investment in overseas investees, covered by the Bank's own sources. Therefore, exchange rates have no impact on Group net profit.

Excluding the aforementioned effect of exchange rates, contribution of investees amounted to NIS 31 million, compared to NIS 30 million in the corresponding period last year - see explanation under Investees below.

Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav")

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981.

Bank Yahav's contribution to Group net profit in the first quarter of 2017 amounted to NIS 8 million, similar to the corresponding period last year. Bank Yahav's net profit return on equity in the first quarter of 2017 was 5.5% on annualized basis, compared to 5.8% in the corresponding period last year. Bank Yahav's balance sheet total as of March 31, 2017 amounted to NIS 23,958 million, compared to NIS 23,854 million as of December 31, 2016 - an increase of NIS 104 million, or 0.4%. Net loans to the public as of March 31, 2017 amounted to NIS 8,954 million, compared to NIS 8,931 million as of December 31, 2016 - an increase of NIS 23 million, or 0.3%. Net deposits from the public as of March 31, 2017 amounted to NIS 20,389 million, compared to NIS 20,273 million as of December 31, 2016 - an increase of NIS 116 million, or 0.6%.

Tefahot Insurance Agency (1989) Ltd. ("Tefahot Insurance")

Tefahot Insurance is an insurance agency wholly owned by the Bank, which sells life insurance policies and property insurance policies of clients obtaining mortgages from the Bank. Tefahot Insurance's contribution to Group net profit in the first quarter of 2017 (excluding net financing revenues from excess cash) amounted to NIS 13.1 million, compared to NIS 11.9 million in the corresponding period last year.

Net profit return on equity in the first quarter of 2017 was 8.1%, compared to 8.5% in the corresponding period last year.

Other investees operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in the first quarter of 2017 NIS 6 million, net - compared to NIS 5 million in the corresponding period last year. Of this, NIS 3 million (similar to the corresponding period last year) from trustee operations of the subsidiary, Mizrahi Tefahot Trust Company Ltd.

United Mizrahi Bank (Switzerland) Ltd.

United Mizrahi Bank (Switzerland) Ltd. ("Mizrahi Bank Switzerland") is focused on international private banking services. The Swiss bank is held by a wholly-owned Bank subsidiary, UMOHC B.V. ("United Mizrahi Overseas Holding Company"), incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in the first quarter of 2017 amounted to CHF 0.2 million, similar to the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of March 31, 2017 amounted to CHF 187 million, compared to CHF 193 million at the end of 2016.

The balance of loans to the public as of March 31, 2017 amounted to CHF 68 million, compared to CHF 69 million at end of 2016. Deposits with banks as of March 31, 2017 amounted to CHF 115 million, compared to CHF 121 million at end of 2016. Deposits from the public as of March 31, 2017 amounted to CHF 125 million, compared to CHF 131 million at end of 2016.

These data exclude off-balance-sheet items, such as fiduciary deposits and client security portfolios which are major components of the Bank's business operations in Switzerland.

The contribution of Mizrahi Overseas Holdings to Group net profit in the first quarter of 2017, net of exchange rate effects, amounted to net profit of NIS 1 million, similar to the corresponding period last year.

Actual net profit results of Mizrahi Overseas Holdings include the effect of changes in exchange rates, which is covered by the Bank's own resources.

For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 10.B.4 to the financial statements.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. Shares of non-banking corporations in which the Bank invested were acquired for the purpose of earning capital gains, and are presented at fair value in the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. 2.8% of these investments are negotiable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management assessment, a provision for impairment of the investment is recorded as a loss in the Bank’s accounts.

Bank investments in non-banking corporations as of March 31, 2017 amounted to NIS 93 million, compared to NIS 103 million and NIS 101 million as of March 31, 2016 and as of December 31, 2016, respectively.

Net gain from investments in non-banking corporations, after provision for impairment, amounted in the first quarter of 2017 to NIS 4 million for the Bank, compared to NIS 1 million in the corresponding period last year.

Risks overview

This chapter includes a concise overview and analysis of developments of major risks to which the Bank is exposed. If needed, this chapter should be read in conjunction with the chapter "Risks overview" in the 2016 audited annual financial statements. A detailed Risks Report which includes disclosure requirements of Basel Pillar 3 and additional information about risks, provided based on recommendations by the Financial Stability Board (FSB) is provided on the Bank website.

Overview of risks and manner of managing them

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to different risks, mainly - market, interest in the Bank portfolio, liquidity, credit and operating risks. The risks management and control policies, in various aspects, is designated to support achievement of the Group’s business goals while limiting exposure to such risks.

Risks description

The Bank is engaged in commercial banking operations (business and retail) and in mortgage operations, where the Bank is a leader in the Israeli banking system.

Credit risk is the primary risk faced by banking corporations in the course of their business. At the Bank, credit risk is primarily due to retail credit operations, mainly housing loans, which are typically associated with relatively low risk. In conformity with principles of the five-year strategic plan, the Bank strives to maintain and establish its leadership position in the retail sector and to increase focus on and expand operations of the business segments. The Bank monitors and manages risk in the loan portfolio using various tools, including by development and deployment of advanced models. For more details see chapter "Credit risk" below.

The Supervisor's directive with regard to additional capital at 1% of the mortgage portfolio, which increased the capital targets gradually from January 1, 2015 to January 1, 2017, impacted the Bank to a more significant extent than was the case for other banks in the system. The Bank has completed application of this directive and as from the end of 2016, has achieved the required capital targets with additional safety margins.

In the business sector, the Bank operates while regularly assessing risk at client level, at sector level and for the economy as a whole (sector concentration). Operations in this have been affected in recent years by expanded operations of institutional investors and insurance companies, which are focused on providing large-scale credit for long terms.

The end of 2016 marked the end of the transition period for implementation of minimum liquidity coverage ratio (LCR) at 100%. As from the end of 2016, the Bank maintains high liquidity ratios with appropriate safety margins and a stable source structure.

The Bank has low exposure to overseas operations, as are its operations in nostro investments, primarily designed for investment of excess liquidity in high-quality assets with minimal credit risk.

Developments in technology and ever increasing sophistication of those involved in cyber attacks result in higher risk, as well as more intense management and monitoring of operating risks, IT risks and information security risks.

The Bank Group is exposed to the effect of regulatory changes on its business, in conformity with the strategic plan outline. The Bank reviews, monitors and prepares for these effects as part of its regular operations.

The Bank is also exposed to macro-economic changes in Israel and overseas, which may affect Bank operations, revenues and capital. The Bank reviews its capital stability under various macro-economic scenarios, as part of the risks management process.

The Bank has in place an extensive framework for management and control of the risks to which the Bank is exposed, including an organizational structure to support management and control of such risks. Risks are managed at the Group in conformity with Bank of Israel's Proper Business Conduct Directive 310 "Risks management" and in conformity with the framework specified in Basel II, Pillar 2 - including required changes upon Basel III coming into effect. The Bank's Board of Directors and the Board's Risks Management Committee are responsible for setting the required principles for management and control of the various risks to which the Bank is exposed in its operations, including setting the risk appetite (maximum allowed exposure) and supervision of Bank compliance with the specified guidelines and risk appetite.

Bank management is responsible for application of these guidelines, using three lines of defense: first line - risks takers or business lines; second line - control line; third line - Internal Audit and by application of diverse processes, tools, supporting IT systems and reporting - designed to ensure Bank compliance with the guidelines specified by the Board of Directors.

The Bank has a structured process in place for mapping and identification of risks associated with Bank operations. The list of material risks is determined based on materiality threshold, reflected in terms of Bank capital and principles for addressing the various material risks as identified and mapped, including risk appetite and measurement.

Management and mitigation of each risk are included in specific policy documents, which are approved annually bu the Board of Directors. The Bank has also specified the required reporting chain, under normal conditions and under emergency conditions, as well as ongoing monitoring of the Bank's risk profile, given the risk appetite specified by the Board of Directors.

Description of risk appetite and risks management

The Bank's risk appetite is specified for all material risks using quantitative and qualitative restrictions; the quantitative restrictions are mostly specified as percentage of Tier I capital at the Bank. The Bank specified restrictions, under normal market conditions and under stress conditions, for most risks - based on the outcome of various stress tests conducted by the Bank. Each year, the risk appetite is challenged by the Chief Risks Officer, management and the Board of Directors, in view of the business targets specified in work plans, in conformity with the strategic plan, the risk profile and outcome of the qualitative process conducted by Bank managers. This process is designed to review the level of various risks and their development over the coming year. Consequently, the Bank's business strategy is supported by an appropriate risk appetite framework with constant monitoring of the risk profile and with alerts issued if the risk profile reaches the specified limits for risk appetite.

Stress testing

The Bank has extensive methodology for conducting diverse stress tests. This methodology and the use of the stress testing results are incorporated in a specific policy document. The Bank extensively uses the stress testing results in the capital planning process, which is part of the ICAAP document. This process reviews whether the Bank has sufficient capital to fulfill the strategic plan, which is challenged by a range of stress tests at various severity levels. These stress tests impact Bank profitability by causing potential loss due to material risks for Bank operations: credit risk, credit concentration risk, market risk, interest risk in the bank portfolio, operating risk etc. Stress tests strongly emphasize the Bank's mortgage portfolio, it's business lending operations, potential impact of information security and cyber events, operational failure events etc. The outcome of capital planning by the Bank, as resulting from the 2016 ICAAP process, indicates that the Bank has sufficient capital to achieve the targets in its strategic plan, even given stress tests at various severity levels. Furthermore, the Bank applies a Uniform Stress Scenario, a stress test based on macro-economic conditions specified by the Bank of Israel for the banking system. The results of the Uniform Scenario support the results of various stress tests conducted by the Bank, showing that the potential impact on Bank performance under such scenario is low relative to the Bank's capital and annual profit.

The Bank's quarterly risks document, which is discussed by management, by the Board’s Risks Management Committee and by the Bank’s Board of Directors, provides an extensive view of the different risks at the Bank, with emphasis on the risk profile given the risk appetite specified in all policy documents. Thus, this document complements and reinforces the view of the risk profile provided in the Bank's annual ICAAP document, as noted above.

Risk factor assessment

Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor[1]	Risk factor impact	Risk Owner
Overall effect of credit risks	Low-medium	Manager, Business Division
Risk from quality of borrowers and collateral	Low-medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Low	
Risk with respect to mortgage portfolio	Low	
Overall effect of market risk	Low-medium	Manager, Financial Division
Interest risk	Medium	
Inflation risk	Low-medium	
Exchange rate risk	Low	
Share price risk	Low	
Liquidity risk	Low-medium	Manager, Financial Division
Overall effect of operating risk	Medium	Manager, Risks Control Division
Cyber and information security	Medium	Manager, Risks Control Division
Information technology risk	Medium	Manager, Mizrahi-Tefahot Technology Division Ltd.
Legal risk	Low-medium	Chief Legal Counsel
Compliance and regulatory risk	Medium	Manager, Risks Control Division
Cross-border and AML risk	Low-medium	Manager, Risk Control Division
Reputation risk[2]	Low	Manager, Marketing, Promotion and Business Development Division
Strategic-business risk	Low	President & CEO

(1) Assessment of the effect of the aforementioned risk factors takes into account the risks associated with the US DOJ inquiry as well as all action taken by the Bank to defend its position with regard to that inquiry. For more information about the US DOJ inquiry with regard to Bank Group business with its US clients and for more information about a motion for approval of a derivative claim and motion for approval of a class action lawsuit on this matter, see Notes 10.B.2.H, 10.B.3.A and 10.B.4 to the financial statements.

(2) The risk of impairment of the Bank's results due to negative reports about the Bank.

The impact of the various risks factors in the table above have been determined based on management assessment, as provided from time to time. These assessments, based on monitoring of various quantitative risk benchmarks specified by the Bank, includes the direction of their development and are based on qualitative assessment of risks management and the effectiveness of control circles, in coordination with the Bank's ICAAP process and its results, led by the Bank's risk managers.

For more information see the Detailed Risks Report on the Bank website.

Credit risk

Risk description and development

Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. This risk is affected by multiple factors: Business risk due to client activities, concentration risk due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes, overseas credit risk and operating risk which, should they materialize, would have implications for credit risk. Moreover, such risk is interrelated to multiple other risks, such as market and interest risk, liquidity risk, compliance risks etc.

In the first quarter of 2017, the overall effect of credit risk remained Low-Medium, with risk in the housing loan portfolio categorized as Low. The current provision in this portfolio in the current quarter generated revenues for the Bank and the rate of problematic debt is trending downwards.

In the first quarter of 2017, the Bank continued to reduce credit risk by selling credit risk and continues to act to deploy the use of advanced models for retail credit analysis.

Analysis of developments in credit quality and problematic credit risk

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups is provided with regard to each group of borrowers whose net indebtedness, on a consolidated basis, after allowed deductions pursuant to Proper Banking Conduct Directive 313, exceeds 15% of the banking corporation's capital (as defined in Directive 313), NIS in millions.

As of March 31, 2017, the Bank had no borrower group which meets the aforementioned criteria.

For more information about significant exposures to borrower groups, see chapter "Credit Risk" in the Report of the 2016 Report of the Board of Directors and Management.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of March 31, 2017 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	262	736	998
2.	Construction and real estate	121	765	886
3.	Construction and real estate	92	683	775
4.	Construction and real estate	-	619	619
5.	Construction and real estate	27	579	606
6.	Transport and storage	200	400	600

On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

Leveraged financing

Leveraged financing is credit financing provided to customers which fulfills one of the following criteria:

1. Credit for an equity transaction would be classified according to one of the following rules:
   - Credit for an equity transaction (as defined below), provided that the balance of such credit exceeds 0.5% of Bank capital or NIS 35 million, whichever is higher.
   - For credit financing acquisition of equity interests in another banking corporation, or in a banking holding corporation, provided that the balance of such credit exceeds NIS 35 million.
   - Additional credit extended to the borrower after the financing for the equity transaction, with repayment primarily based on the cash flows derived from the equity interests whose purchase was financed by the banking corporation.

"**Equity transaction":** A transaction with one of the following goals:

- Buyout - purchase or buyback, by the borrower, of the borrower's issued capital (including an employee stock ownership plan).
- Acquisition of another corporation - the purchase of any capital rights in another corporation, or the purchase of all, or a significant share, of the assets of another corporation.
- Capital distribution - the payment of dividends or other transaction whose goal is to increase shareholder value.

An equity transaction, with regard to leveraged financing, is one where the loan balance exceeds 0.5% of Bank capital and where the LTV ratio exceeds 50%.

2. **Financing for leveraged companies**, which is credit extended to companies with attributes which indicate that an adverse change in the global economic environment or in the specific environment of the sector in which they do business, may significantly impact their capacity to repay the bank. The Bank has specified criteria for defining credit included in this category, based on the business client's credit risk rating, as reflected by the Bank's rating model; it also specified benchmarks for leveraging (i.e. for significantly high deviation from typical norms for the sector), determined based on generally accepted financial ratios among Bank clients with material credit in major sectors in which the Bank operates. Leverage benchmarks and economic sectors are reviewed based on changes to the business environment and are modified as necessary. Borrowers flagged for one or more of the criteria specified are individually reviewed by a forum which includes representatives from the Business Division, the Risks Control Division and the Accounting and Financial Reporting Division, which reviews changes to financial parameters of the company and the economic environment in which it operates.

As from January 1, 2016, amendments became effective with regard to limits on financing of equity transactions in conformity with Proper Banking Conduct Directive 323 and Proper Banking Conduct Directive 327 with regard to management of leveraged loans. These regulations specify the overall risks framework for leveraged loans.

Details of Bank exposure to credit constituting leveraged financing are as follows:

Credit for equity transactions (NIS in millions):

	March 31, 2017				March 31, 2016				December 31, 2016			
Economic sector of acquired company	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses
Commerce	-	-	-	-	106	-	106	-	81	15	96	-
Total	-	-	-	-	106	-	106	-	81	15	96	-

Credit to leveraged companies (NIS in millions):

	March 31, 2017				March 31, 2016				December 31, 2016			
Economic sector of borrower	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses
Construction and real estate	-	-	-	-	76	190	266	-	64	210	274	-
Commerce	478	140	618	-	57	63	120	-	404	161	565	-
Financial services	307	-	307	-	-	-	-	-	309	-	309	-
Information and communications	-	95	95	-	58	95	153	-	-	95	95	-
Industry and production	-	-	-	-	62	5	67	-	-	-	-	-
Total	775	235	1,020	-	253	353	606	-	777	466	1,243	-

Developments in problematic credit risk

Below is a summary of overall problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debts, credit risk and provision for credit losses (NIS in millions):

	Total credit risk		
	March 31, 2017	March 31, 2016	December 31, 2016
Problematic credit risk			
Impaired credit risk	862	1,017	893
Inferior credit risk	436	109	428
Credit risk under special supervision - housing	900	877	853
Credit risk under special supervision - other	803	597	757
Total problematic credit risk	3,001	2,600	2,931

Major risk benchmarks related to credit quality (in percent):

	March 31, 2017	March 31, 2016	December 31, 2016
Ratio of impaired loans to the public to total loans to the public	0.4	0.5	0.4
Ratio of impaired loans to the public to total non-housing loans	1.2	1.5	1.2
Ratio of problematic loans to the public to total non-housing loans	2.9	2.4	2.8
Ratio of housing loans in arrears 90 days or longer to total loans to the public (1)(2)	0.5	0.5	0.5
Ratio of problematic credit risk to total credit risk with respect to the public	1.3	1.2	1.3

(1) This non-housing rate is negligible.
(2) Balance of credit in arrears before provision by extent of arrears.

For more information see chapter "Explanation and analysis of results and business standing" above.

Analysis of movement in balance of provision for credit losses (NIS in millions):

	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision as of December 31, 2016	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	26	-	24	50	(1)	49
Accounting write-offs	(37)	(3)	(30)	(70)	-	(70)
Recovery of debts written off for accounting purposes in previous years	17	-	14	31	-	31
Net accounting write-offs	(20)	(3)	(16)	(39)	-	(39)
Balance of provision as of March 31, 2017	730	612	216	1,558	1	1,559

	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision as of December 31, 2015	700	614	192	1,506	3	1,509
Expenses with respect to credit losses	-	(9)	13	4	(1)	3
Accounting write-offs	(49)	(2)	(33)	(84)	-	(84)
Recovery of debts written off for accounting purposes in previous years	22	-	16	38	-	38
Net accounting write-offs	(27)	(2)	(17)	(46)	-	(46)
Balance of provision as of March 31, 2016	673	603	188	1,464	2	1,466

For more information about provision for credit losses see Notes 6 and 13 to the financial statements.

Major risk benchmarks related to provision for credit losses (in percent):

	March 31, 2017	March 31, 2016	December 31, 2016
Ratio of provision for credit losses to total loans to the public	0.9	0.9	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7	0.7
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.1	0.0	0.1
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.1	0.0	0.1
Of which: With respect to commercial loans other than housing loans(1)	0.3	0.2	0.3
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1	0.1

(1) The rate with respect to housing loans is negligible.

Credit risk to individuals (excluding housing loans)(1)

The household segment is a key growth engine and a significant component of the Bank's strategic plan for 2017-2021.

The individual client segment is highly diversified - by number of clients and by geographic location. Most clients in this segment are salaried employees with an individual account or joint household account. A recession in non-banking operations is a major risk factor for household activity and higher unemployment may increase the number of clients who face difficulties.

Credit policy and work procedures with regard to extending credit, including to individual clients, include directives and guidelines with regard to proper credit underwriting and adapting credit to client needs and repayment capacity: Review of credit objective, requested LTV, loan term, analysis of client's repayment capacity and repayment sources, for all of their indebtedness. This is done along with review of various economic parameters of the client and based on familiarity with the client and the cumulative experience working with the client.

The Bank regularly monitors the risk level in the loan portfolio to individuals, including by using an internal model for credit rating of individual clients, monitoring and analysis of expenses with respect to credit losses and by conducting various stress tests, including stress tests in conformity with Bank of Israel directives, which include scenarios such as: economic recession, significant increase in unemployment and higher interest rates.

Below is information about credit risk to individuals - balances and various risk attributes as of December 31 (NIS in millions):

	As of March 31,		As of December 31
	2017	2016	2016
Debts[1]			
Checking accounts and credit cards	5,470	5,389	5,553
Auto loans	1,791	1,691	1,883
Other loans and credit	10,952	9,040	10,477
Total debt (on-balance sheet credit)	18,213	16,120	17,913
Unutilized facilities, guarantees and other commitments		-	-
Checking account and credit cards - unutilized facilities	10,297	10,825	10,097
Guarantees	194	191	195
Other liabilities	40	96	61
Total unutilized facilities, guarantees and other commitments (off-balance sheet credit)	10,531	11,112	10,353
Total credit risk to individuals	28,744	27,232	28,265
Of which:			
Part of loans maturing in over 5 years[2]	1,971	1,429	1,920
On-balance sheet credit over NIS 300 thousand	1,188	904	1,198
Financial asset portfolio and other collateral against credit risk[3]			
Financial assets portfolio	3,428	3,183	3,443
Other collateral[4]	1,208	1,132	1,201
Total financial assets portfolio and other collateral against credit risk	4,636	4,315	4,644

(1) As defined in Proper Banking Conduct Directive 451.
(2) Primarily loans to salaried Government employees, where loan repayment is directly deducted from the client's pay check and which bear significantly lower risk than similar loans for the same term.
(3) Amounts presented are the financial assets portfolio and other collateral, only up to client indebtedness amount.
(4) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit.

Problematic credit risk before provision for credit losses (NIS in millions):

	As of March 31, 2017			As of March 31, 2016			As of December 31, 2016		
	Credit risk[1]			Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Balance of problematic credit risk	183	3	186	181	4	185	183	3	186
Problematic credit risk rate[2]	1.00%	0.03%	0.65%	1.09%	0.04%	0.66%	1.02%	0.03%	0.66%

(1) On- and off-balance sheet credit before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(2) The ratio of problematic credit risk to total credit risk before provision for credit losses.

Below is the expense rate with respect to credit losses to individuals (annualized)

	As of March 31, 2017	As of March 31, 2016	As of December 31, 2016
Expense with respect to credit losses as percentage of total loans to the public to individuals	0.59%	0.32%	0.51%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 13.5% compared to March 31, 2016 and by 2.1% compared to December 31, 2016, primarily due to increase in loans and other credit.
- There was no significant change to composition of debts by individuals in the first quarter of 2017.

  As of March 31, 2017:

Checking accounts and credit cards	30%
Auto loans	10%
Other loans and credit	60%

- Of all debts (on-balance sheet credit) as of March 31, 2017, 26% is secured by financial assets and other collateral in the client's account (similar to rates as of March 31, 2016 and as of December 31, 2016).

Given the risk attributes of this segment, the Bank increased its qualitative group-based provision for individuals, as directed by the Supervisor of Banks.

Moreover, the increase in expenses with respect to credit losses is due, *inter alia*, to the impact of legislation which reduces debt repayment by individual clients who are in difficulties.

Credit risk in construction and real estate economic sector in Israel

Credit operations in this sector account for a significant component of credit operations of the Business Division. In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand in central Israel at mid-level prices. In addition, the financing is allocated between geographic regions, based inter alia on relevant demand. In providing credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risks in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed project, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risks inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by business centers and branches with professional knowledge of the subject, and under the supervision of the construction and real estate sector. The Bank also sets policies and rules for financing other real estate transactions, such as financing for rental properties, purchase groups, National Zoning Plan 38 etc. In 2016, the Business Division and the Retail Division created units aimed at providing a response to smaller-scale projects.

For more information about the Bank acquiring an insurance policy for guarantees on December 28, 2016, see chapter "Significant events in the Bank Group's business" of the 2016 Report of the Board of Directors and Management.

Below is information about credit risk in the construction and real estate economic sector in Israel, by real estate collateral type (NIS in millions)

							March 31, 2017
	Credit risk to the public[(1)]						
			Credit risk		Total problematic credit risk	Balance of provision for credit losses	
	On balance sheet[(2)]	Off balance sheet[(3)]	Total	Impaired	Other problematic [(4)]	Balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	6,342	13,786	20,128	153	258	39	34
Commercial and industrial	3,835	1,004	4,839	63	(8)	62	3
Total secured by real estate in Israel:	10,177	14,790	24,967	216	250	101	37
Not secured by real estate in Israel	2,363	3,205	5,568	136	44	39	15
Total for construction and real estate economic sector in Israel	12,540	17,995	30,535	352	294	140	52
Of which: Designated for project assistance	6,067	13,582	19,649	37	233	52	35
							March 31, 2016
Secured by real estate in Israel:							
Housing	4,839	13,807	18,646	155	236	55	11
Commercial and industrial	3,560	861	4,421	48	10	58	2
Total secured by real estate in Israel:	8,392	14,668	23,067	203	246	113	13
Not secured by real estate in Israel	2,640	2,470	5,110	156	76	45	5
Total for construction and real estate economic sector in Israel	11,039	17,138	28,177	359	322	158	18
Of which: Designated for project assistance	4,375	12,737	17,112	3	213	11	11
							December 31, 2016
Secured by real estate in Israel:							
Housing	6,144	14,445	20,589	170	211	48	32
Commercial and industrial	3,667	977	4,644	63	8	60	4
Total secured by real estate in Israel:	9,811	15,422	25,233	233	219	108	36
Not secured by real estate in Israel	2,435	2,330	4,765	159	39	42	13
Total for construction and real estate economic sector in Israel	12,246	17,752	29,998	392	258	150	49
Of which: Designated for project assistance	5,740	13,309	19,049	30	223	48	33

(1) On- and off-balance sheet credit risk, problematic credit risk and impaired credit to the public are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower.

(2) Loans to the public, investment in debentures by the public, other debt by the public and other assets with respect to derivative instruments against the public.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.

(4) On- and off-balance sheet credit risk with respect to the public, which is inferior or under special supervision.

Below is information about credit risk in the construction and real estate economic sector in Israel, by asset status (NIS in millions):

	March 31, 2017			March 31, 2016			December 31, 2016		
	Credit risk[(1)]			Credit risk[(1)]			Credit risk[(1)]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	4,351	1,343	5,694	2,493	781	3,273	3,860	1,074	4,934
Real estate under construction	3,570	13,009	16,579	3,729	13,344	17,073	3,870	13,828	17,699
Real estate completely constructed	2,256	438	2,694	2,177	543	2,721	2,081	520	2,601
Total credit secured by real estate in Israel	10,177	14,790	24,967	8,399	14,668	23,067	9,811	15,422	25,233
Not secured by real estate in Israel	2,363	3,205	5,568	2,640	2,470	5,110	2,435	2,330	4,765
Total credit risk for construction and real estate	12,540	17,995	30,535	11,039	17,138	28,177	12,246	17,752	29,998

(1) On- and off-balance sheet credit risk, problematic credit risk and impaired credit to the public are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower.

Credit risk data for the construction and real estate clients sector as of March 31, 2017 show that 48% of the on-balance sheet credit risk and 75% of the off-balance sheet credit risk is associated with closed assistance to real estate projects, mostly for residential construction in areas of strong demand in Central Israel and in Jerusalem. Most of the off-balance sheet credit is due to guarantees provided to home buyers pursuant to the Sale Act.

Most of the credit risk in the construction and real estate sector is backed by real estate fully pledged to secure loan repayment. Note that for credit not secured by real estate collateral, there is other collateral in place, such as: deposits, securities etc.

The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of March 31, 2017, as presented in chapter "Risks" below (Credit Risk by Economic Sector) is 13.2%.

Note that according to Proper Banking Conduct Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 9.26% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of Sales Act guarantees for which the Bank has obtained an insurance policy).

Credit Risk by Economic Sector - Consolidated

As of March 31, 2017

Reported amounts (NIS in millions)

		Off balance sheet debts[1] and credit risk (other than derivatives)[2]		Total credit risk	
	Debts[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Public - commercial					
Agriculture, forestry and fishing	609	187	796	-	-
Mining and excavation	330	358	688	-	22
Industry and production	4,971	3,280	8,251	-	45
Construction and real estate - construction[7]	10,537	17,672	28,209	-	3
Construction and real estate - real estate operations	1,998	317	2,315	-	2
Electricity and water delivery	537	1,163	1,700	-	366
Commerce	8,143	2,569	10,712	-	120
Hotels, dining and food services	824	234	1,058	-	-
Transport and storage	1,204	744	1,948	-	2
Information and communications	511	559	1,070	-	1
Financial services	2,953	5,965	8,918	-	586
Other business services	2,502	1,070	3,572	-	5
Public and community services	1,540	362	1,902	-	29
Total commercial credit	36,659	34,480	71,139	-	1,181
Private individuals - housing loans	115,996	6,031	122,027	-	-
Private individuals - other	18,213	10,531	28,744	-	67
Total	170,868	51,042	221,910	-	1,248
For borrowers' activities overseas	3,665	3,478	7,143	18	180
Total loans to the public	174,533	54,520	229,053	18	1,428
Banking corporations	2,775	251	3,026	18	2,523
Governments	312	-	312	11,708	-
Total credit	177,620	54,771	232,391	11,744	3,951

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Includes borrowed securities amounting to NIS 46 million.
(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policy. In conformity with the Supervisor of Banks' directives, the directive is to be applied prospectively as from the 2014 financial statements.
(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(7) Includes on-balance sheet credit risk amounting to NIS 1,374 million and off-balance sheet credit risk amounting to NIS 1,447 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 6,165 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

			Total problematic credit risk		Problematic off balance sheet debts[1] and credit risk (other than derivatives)		
					Credit losses[3]		
Futures transactions	Total	Credit performance rating[5]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	796	779	17	6	4	-	12
12	722	722	-	-	-	-	4
110	8,406	8,209	197	90	4	4	92
1	28,213	27,644	569	282	1	6	135
5	2,322	2,245	77	70	(2)	-	57
91	2,157	2,152	5	3	1	1	4
47	10,879	10,357	522	207	21	5	216
-	1,058	1,030	28	10	5	1	23
3	1,953	1,929	24	12	2	3	8
4	1,075	1,065	10	4	1	-	8
1,318	10,822	10,499	323	17	(20)	(6)	82
37	3,614	3,536	78	37	7	3	45
41	1,972	1,944	28	17	2	3	7
1,669	73,989	72,111	1,878	755	26	20	693
-	122,027	121,091	936	36	-	3	611
39	28,850	28,429	183	67	24	16	216
1,708	224,866	221,631	2,997	858	50	39	1,520
35	7,376	7,372	4	4	-	-	38
1,743	232,242	229,003	3,001	862	50	39	1,558
680	6,247	6,247	-	-	(1)	-	1
-	12,020	12,020	-	-	-	-	-
2,423	250,509	247,270	3,001	862	49	39	1,559

Credit Risk by Economic Sector - Consolidated - continued

As of March 31, 2016

Reported amounts (NIS in millions)

	Off balance sheet debts[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debts[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Public - commercial					
Agriculture, forestry and fishing	653	289	942	-	1
Mining and excavation	417	300	717	-	30
Industry and production	5,070	2,875	7,945	-	94
Construction and real estate - construction[7]	8,840	16,943	25,783	-	2
Construction and real estate - real estate operations	2,197	195	2,392	-	-
Electricity and water delivery	775	428	1,203	-	310
Commerce	7,917	2,082	9,999	-	55
Hotels, dining and food services	796	256	1,052	-	-
Transport and storage	957	454	1,411	-	1
Information and communications	650	460	1,110	-	11
Financial services	3,639	6,834	10,473	-	642
Other business services	2,292	1,020	3,312	-	6
Public and community services	1,266	290	1,556	-	11
Total commercial credit	35,469	32,426	67,895	-	1,163
Private individuals - housing loans	107,991	7,815	115,806	-	-
Private individuals - other	16,120	11,112	27,232	-	46
Total	159,580	51,353	210,933	-	1,209
For borrowers' activities overseas	3,871	1,568	5,439	19	42
Total loans to the public	163,451	52,921	216,372	19	1,251
Banking corporations	4,276	328	4,604	94	2,671
Governments	323	-	323	8,951	-
Total credit	168,050	53,249	221,299	9,064	3,922

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivative instruments.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Includes borrowed securities amounting to NIS 151 million.

(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies. In conformity with the Supervisor of Banks' directives, the directive is to be applied prospectively as from the 2014 financial statements.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 1,374 million and off-balance sheet credit risk amounting to NIS 1,575 million, extended to certain purchase groups which are in the process of construction.

			Total problematic credit risk	Problematic off balance sheet debts[1] and credit risk (other than derivatives)			
					Credit losses[3]		
Futures transactions	Total	Credit performance rating[5]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
1	944	931	13	12	(2)	(2)	6
10	757	757	-	-	(1)	-	5
129	8,168	8,021	147	79	13	8	92
-	25,785	25,231	554	234	(44)	14	86
-	2,392	2,265	127	125	13	1	90
102	1,615	1,610	5	3	5	3	5
33	10,087	9,674	413	347	(2)	3	155
-	1,052	1,018	34	20	2	1	18
2	1,414	1,391	23	16	-	1	5
3	1,124	1,055	69	4	5	1	27
1,665	12,780	12,748	32	20	8	(6)	98
26	3,344	3,289	50	20	8	2	39
40	1,607	1,576	31	18	3	1	12
2,011	71,069	69,566	1,498	898	8	27	638
-	115,806	114,902	904	27	(9)	1	603
51	27,329	26,839	185	79	13	17	188
2,062	214,204	211,307	2,587	1,004	12	45	1,429
32	5,532	5,519	13	13	(8)	1	35
2,094	219,736	216,826	2,600	1,017	4	46	1,464
730	8,099	8,099	-	-	(1)	-	2
-	9,274	9,274	-	-	-	-	-
2,824	237,109	234,199	2,600	1,017	3	46	1,466

Credit Risk by Economic Sector - Consolidated - continued

As of December 31, 2016

Reported amounts (NIS in millions)

	Off balance sheet debts[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debts[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Public - commercial					
Agriculture, forestry and fishing	594	184	778	-	-
Mining and excavation	336	252	588	-	18
Industry and production	5,153	3,050	8,203	-	78
Construction and real estate - construction[7]	10,150	17,400	27,550	-	2
Construction and real estate - real estate operations	2,096	344	2,440	-	2
Electricity and water delivery	524	558	1,082	-	331
Commerce	7,848	2,297	10,145	-	63
Hotels, dining and food services	807	229	1,036	-	-
Transport and storage	1,107	710	1,817	-	5
Information and communications	502	578	1,080	-	-
Financial services	3,484	6,327	9,811	-	652
Other business services	2,369	1,103	3,472	-	12
Public and community services	1,356	385	1,741	-	8
Total commercial credit	36,326	33,417	69,743	-	1,171
Private individuals - housing loans	114,691	5,659	120,350	-	-
Private individuals - other	17,913	10,353	28,266	-	14
Total	168,930	49,429	218,359	-	1,185
For borrowers' activities overseas	3,849	1,371	5,220	19	135
Total loans to the public	172,779	50,800	223,579	19	1,320
Banking corporations	2,509	281	2,790	19	2,264
Governments	330	-	330	10,133	-
Total credit	175,618	51,081	226,699	10,171	3,584

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Includes borrowed securities amounting to NIS 9 million.
(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policy. In conformity with the Supervisor of Banks' directives, the directive is to be applied prospectively as from the 2014 financial statements.
(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(7) Includes on-balance sheet credit risk amounting to NIS 1,544 million and off-balance sheet credit risk amounting to NIS 1,646 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 6,111 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

			Total problematic credit risk		Problematic off balance sheet debts[1] and credit risk (other than derivatives)		
					Credit losses[3]		
Futures transactions	Total	Credit performance rating[5]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	778	767	11	7	4	2	8
9	615	615	-	-	(2)	-	4
135	8,416	8,228	188	91	20	15	92
1	27,553	26,984	569	314	7	11	140
3	2,445	2,364	81	78	(19)	-	59
95	1,508	1,503	5	3	3	2	4
52	10,260	9,725	535	211	61	21	200
-	1,036	1,011	25	11	9	7	19
5	1,827	1,810	17	11	7	4	9
4	1,084	1,075	9	3	(15)	1	7
1,519	11,982	11,653	329	17	(4)	(16)	96
53	3,537	3,468	69	27	23	15	41
41	1,790	1,767	23	18	6	8	8
1,917	72,831	70,970	1,861	791	100	70	687
-	120,350	119,470	880	27	13	12	614
37	28,317	27,893	186	71	92	76	208
1,954	221,498	218,333	2,927	889	205	158	1,509
30	5,404	5,400	4	4	(4)	2	38
1,984	226,902	223,733	2,931	893	201	160	1,547
786	5,859	5,859	-	-	(1)	-	2
-	10,463	10,463	-	-	-	-	-
2,770	243,224	240,055	2,931	893	200	160	1,549

Exposure to Foreign Countries - Consolidated[1]

Reported amounts (NIS in millions)

Part A - Information regarding total exposure to foreign countries and exposure to countries for which total exposure to each country exceeds 1% of total consolidated assets or 20% of capital, whichever is lower:

	Balance sheet exposure[2]									Off-balance sheet exposure[2][3][6]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of Bank affiliates in foreign country to local residents								Cross-border balance sheet exposure	
	To governments (4)	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	On-balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which: Off-balance sheet problematic credit risk	Maturing in under 1 year	Maturing in over 1 year
March 31, 2017													
USA	3,144	406	1,313	281	281	-	4,863	18	-	1,297	-	2,089	2,774
UK	-	146	408	1,013	525	488	1,042	14	-	3,402	-	190	364
Others [5]	115	406	3,267	-	-	-	3,788	24	-	4,004	-	1,255	2,533
Total exposure to foreign countries	3,259	958	4,988	1,294	806	488	9,693	56	-	8,703	-	3,534	5,671
Of which: Total exposure to LDC countries	2	-	493	-	-	-	495	3	-	148	-	151	344
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	48	-	-	-	50	-	-	454[6]	-	12	38
March 31, 2016													
USA	3,010	849	1,283	464	464	-	5,142	5	1	505	-	3,801	1,341
Others [5]	43	935	4,052	1,017	347	670	5,700	38	-	1,084	-	1,827	3,203
Total exposure to foreign countries	3,053	1,784	5,335	1,481	811	670	10,842	43	1	1,589	-	6,298	4,544
Of which: Total exposure to LDC countries	6	28	527	-	-	-	561	2	-	65	-	205	356
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	30	53	-	-	-	83	-	-	75	-	16	67

See remarks below.

Exposure to Foreign Countries - Consolidated[1] - continued

Reported amounts (NIS in millions)

As of December 31, 2016													
	Balance sheet exposure[2]									Off-balance sheet exposure[2][3][6]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of Bank affiliates in foreign country to local residents								Cross-border balance sheet exposure	
	To governments [4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	On-balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which: Off-balance sheet problematic credit risk	Maturing in under 1 year	Maturing in over 1 year
USA	2,660	413	1,208	405	405	-	4,281	9	-	1,268	-	1,646	2,635
UK	-	159	422	978	551	427	1,008	6	-	3,411	-	201	380
France	-	126	1,304	-	-	-	1,430	19	-	916	-	200	1,230
Others [5]	121	515	2,122	-	-	-	2,758	4	-	3,054	-	1,248	1,510
Total exposure to foreign countries	2,781	1,213	5,056	1,383	956	427	9,477	38	-	8,649	-	3,295	5,755
Of which: Total exposure to LDC countries	-	1	509	-	-	-	510	1	-	151	-	147	363
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	51	-	-	-	53	-	-	837[6]	-	14	39

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.

(2) On- and off-balance sheet credit risk, troubled commercial credit risk and impaired debt are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Banking Conduct Directive 313.

(4) Governments, official institutions and central banks.

(5) The Bank closely monitors events in the financial markets which took place after the balance sheet date and adjusts its current operations as required. The Bank informs the Supervisor of Banks of its exposure to foreign financial institutions and of steps taken to mitigate the risk associated with its operations.

(6) The balance of off-balance sheet exposure includes NIS 6,165 million with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel. (as of December 31, 2016: NIS 6,111 million), of which NIS 385 million to international reinsurers from Ireland, rated A (as of December 31, 2016: NIS 767 million).

Exposure to Foreign Countries - Consolidated[1] - continued

Reported amounts (NIS in millions)

Part B - Information regarding countries for which total exposure to each country is between 0.75%-1% of total consolidated assets or between 15%-20% of capital, whichever is lower:

	March 31, 2017		March 31, 2016		December 31, 2016	
	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure
France	1,297	929	1,478	229	-	-

Part C - Information regarding balance sheet exposure to foreign countries facing liquidity issues

Movement in balance sheet exposure to foreign countries facing liquidity issues:

	For the three months ended March 31, 2017	For the three months ended March 31, 2016	For the year ended December 31, 2016
	Ireland	Ireland	Ireland
Exposure at start of reported period	15	16	16
Net change in short-term exposure	(3)	1	(1)
Exposure at end of reported period	12	17	15

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.

Credit exposure to foreign financial institutions

Below is information on the Bank's exposure to foreign financial institutions[(1)(2)] (NIS in millions):

External credit rating	On-balance sheet credit risk[(3)] Before offset of deposits with respect to master netting agreements[(5)]	On-balance sheet credit risk[(3)] After offset of deposits with respect to master netting agreements[(6)]	Off balance sheet credit risk[(4)]	Current credit exposure Before offset of deposits with respect to master netting agreements[(5)]	Current credit exposure After offset of deposits with respect to master netting agreements[(6)]
					March 31, 2017
AAA to AA-	567	529	2,453	3,020	2,982
A+ to A-	413	208	4,702	5,115	4,910
BBB+ to BBB-	12	8	-	12	8
BB+ to B-	-	-	19	19	19
Lower than B-	-	-	-	-	-
Unrated	1	1	-	1	1
Total credit exposure to foreign financial institutions	993	746	7,174	8,167	7,920
					March 31, 2016
AAA to AA-	827	711	1	828	712
A+ to A-	1,053	744	65	1,118	809
BBB+ to BBB-	32	26	-	32	26
BB+ to B-	-	-	14	14	14
Lower than B-	-	-	-	-	-
Unrated	1	1	-	1	1
Total credit exposure to foreign financial institutions	1,913	1,482	80	1,993	1,562
					December 31, 2016
AAA to AA-	597	409	1,698	2,295	2,107
A+ to A-	628	419	5,425	6,053	5,844
BBB+ to BBB-	25	7	-	25	7
BB+ to B-	-	-	18	18	18
Lower than B-	-	-	-	-	-
Unrated	1	1	-	1	1
Total credit exposure to foreign financial institutions	1,251	836	7,141	8,392	7,977

As of March 31, 2017, March 31, 2016 and December 31, 2016 there was no problematic commercial credit risk, net.

Problematic credit risk - credit risk for impaired, inferior credit or credit under special supervision.

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
(2) After deduction of provision for credit losses.
(3) Bank deposits, credit to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivative instruments.
(4) Primarily guarantees and commitments to grant credit, including guarantees to secure indebtedness of third parties. The balance of off-balance sheet exposure to financial institutions includes NIS 6,165 million as of March 31, 2017 (as of December 31, 2016: NIS 6,111 million) with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel.
(5) Presented net of fair value of liabilities with respect to derivative instruments for counter-parties which have signed master netting agreements. Comparative figures were reclassified.
(6) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivatives.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 11.B. to the financial statements.
Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, credit to the public, public investment in debentures and other assets with respect to derivative instruments. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.
In conjunction with its policies regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, *inter alia*, the risk appetite - i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various nations and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.
The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, provided by one of the leading international rating agencies are used - based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with these financial institution is also taken into consideration. The policies also specify a hierarchy of authority for approval of specific transactions within the exposure limits.
The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to these institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.
The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure with respect to derivatives and investments in securities are for longer terms.

Housing credit risk and its development

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of housing loans. The Bank estimates the risk profile associated with provision of housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, which recently has decreased even further due to Bank of Israel directives, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral.
The Bank acts regularly to control and manage the risk associated with housing loans, for which the Retail Division, the Risks Control Division and other Bank entities are responsible. This activity includes portfolio analysis by inherent risk factors (LTV, repayment ratio, geographic location, loan age, income decile etc.) and carrying out a variety of stress tests to review the impact of macro-economic factors on portfolio risk - primarily the impact of unemployment and interest rates. The Bank has developed an advanced model for rating housing loans, which includes a rating for each loan and calculation of potential loss in case of failure. This model is in addition to the Bank's existing monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on housing loan operations, to account for major risk factors. These factors are reviewed from time to time and additional restrictions are imposed as needed, i.e. based on the actual risk profile of the mortgage portfolio and its trend, as well as on regulatory directives from the Bank of Israel.
The risk appetite for mortgages is defined using multiple risk benchmarks, which apply to credit risk and concentration risk aspects at regular performance level. These benchmarks include: differential risk premium (reflecting the risk of the mortgagee), the LTV ratio, property location (geographic risk), credit quality benchmark (see below under Credit Control), loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, document quality, normative interest rate, financial wealth and cross restrictions on combinations of multiple parameters.
The Bank constantly monitors the risk profile of the mortgage portfolio and its development over time, in view of the specified risk appetite. In particular, this monitoring is conducted through the Bank's quarterly

risks document which is presented to and approved by the Board of Directors and its Risks Management Committee. Such monitoring reveals that the leading risk benchmarks are relatively low and continuously improving. These benchmarks include: LTV ratios, repayment ratio, rate of obligo in default and, in particular, the rate of arrears for new loans (one year since origination), which is constantly dropping to very low rates, which is testimony to the high quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of March 2017) was 54.6% (reflecting the LTV ratio upon loan origination - see more details below). The Bank also estimates the "actual" LTV ratio for the portfolio, based on changes to property values, based on estimates by the Central Bureau of Statistics against the outstanding portfolio balances. This ratio is significantly lower than the original LTV ratio due to the constantly higher housing prices. These data support the Bank's estimate that the potential for loss due to the Bank's mortgage portfolio, even in scenarios involving material decline in housing prices, is low. In addition, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using multiple methodologies. The outcome of stress testing indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)		
		First Quarter	Rate of change
	2017	2016	In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	5,149	6,267	(17.8)
From funds of the Finance Ministry			
Directed loans	38	24	58.3
Standing loans and grants	18	45	(60.0)
Total new loans	5,205	6,336	(17.9)
Refinanced loans	326	804	(59.5)
Total loans originated	5,531	7,140	(22.5)
Number of borrowers (includes refinanced loans)	12,388	13,680	(9.4)

Below are details of various risk attributes of the housing loan portfolio[1] as of March 31, 2017 (NIS in millions):

LTV ratio	Repayment as percentage of regular income	Loan age[2] (time elapsed since loan grant)						
		Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	2,764	8,883	11,312	18,169	13,981	4,158	59,267
	35%-50%	380	1,362	1,532	4,409	3,661	854	12,198
	50%-80%	-	-	1	798	1,281	315	2,395
	Over 80%	-	-	-	77	133	63	273
60%-75%	Up to 35%	941	4,656	7,029	11,504	6,386	974	31,490
	35%-50%	117	636	867	1,910	1,668	259	5,457
	50%-80%	-	-	1	220	503	104	828
	Over 80%	-	-	-	5	49	14	68
Over 75%	Up to 35%	15	104	109	734	1,739	1,218	3,919
	35%-50%	1	12	11	165	388	415	992
	50%-80%	-	-	-	9	98	142	249
	Over 80%	-	-	-	2	13	31	46
Total		4,218	15,653	20,862	38,002	29,900	8,547	117,182
Of which: Loans granted with original amount over NIS 2 million		219	916	969	1,770	1,349	70	5,293
Percentage of total housing loans		5.2%	5.9%	4.6%	4.7%	4.5%	0.8%	4.5%
Loans bearing variable interest:								
Non-linked, at prime lending rate		919	3,847	5,842	10,695	12,379	1,932	35,614
CPI-linked[3]		12	17	39	372	4,439	1,500	6,379
In foreign currency[3]		112	242	383	1,437	1,309	307	3,790
Total		1,043	4,106	6,264	12,504	18,127	3,739	45,783
Non-linked loans at prime lending rate, as percentage of total housing loans		21.8%	24.6%	28.0%	28.1%	41.4%	22.6%	30.4%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.3%	0.1%	0.2%	1.0%	14.8%	17.6%	5.4%
Loans with LTV over 75% as percentage of total housing loans		0.4%	0.7%	0.6%	2.4%	7.5%	21.1%	4.4%

(1) Balance of housing loans after provision by extent of arrears.

(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date. Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date.
This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.

(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted up to once every 5 years.

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of March 31, 2017).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral).

The average loan-to-value ratio for the Bank's mortgage portfolio as of March 31, 2017 was 54.6%, compared to 55.0% on March 31, 2016 and to 54.7% on December 31, 2016. Out of the total loan portfolio of the Bank, amounting to NIS 117.2 million, some 96% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current "actual" LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is significantly lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.2 billion, or only 0.2% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of March 31, 2017, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago - by 4%. For loans originated one to 5 years ago - by 7%; and for loans originated over 5 years ago - by 18%. For all loans - by 10%.

On November 1, 2012, the Supervisor of Banks issued directives which restrict the loan-to-value ratio for housing loans (these directives were grouped, together with other directives, in a directive with regard to housing loans dated July 15, 2014).

These directives stipulate that the LTV ratio may not exceed:

Up to 75% - for borrowers who are Israeli citizens buying a single apartment (as defined in Section 9(c) of the Real Estate Taxation Act)

Up to 70% - for second home buyers buying an alternative apartment (an apartment bought by an Israeli citizen who owns a residential apartment which would be a single apartment if not for the apartment being purchased, where the borrower commits to sell their existing apartment as stated in Section 9(c1a)(2)(a)(2) of the Real Estate Taxation Act)

Up to 50% - for buyers of a rental property, for general-purpose loans and for loans to foreign residents.

Loans granted with LTV ratio higher than 75% (cases which are exceptions to the directive on limitation of LTV ratio) are usually secured by credit insurance, which significantly reduces risk for the Bank, although it does not affect the LTV, capital allocation required for such loan or the repayment ratio calculation. Out of the balance of loans granted with an original LTV ratio higher than 75%, a total of NIS 2.1 billion is insured by credit insurance - 40.3%.

In recent years, due to measures taken by the Bank to mitigate risk in the mortgage portfolio and the aforementioned restrictions imposed by the Bank of Israel, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 0.6% for loans granted 1-2 years ago, 0.7% for loans granted 3-12 months ago and 0.4% for loans granted in the first quarter of 2017.

Repayment as percentage of regular income

The LTV ratio of a housing loan is a benchmark of loan security, regardless of borrower attributes. Therefore, in addition, when a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular borrower income.

The average repayment ratio for the Bank's housing loan portfolio is 27.5%. Some 80.7% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.6%). Some 16.0% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.8%). Some 3.0% of mortgages were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.6%), and only 0.3% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.5%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.

On August 29, 2013, the Supervisor of Banks issued directives with regard to restrictions on provision of housing loans, which stipulated restrictions on the ratio of monthly loan repayment to income.

On July 15, 2014, the Supervisor of Banks issued Directive 329 concerning restrictions on provision of housing loans, which incorporates, *inter alia*, the directives described above, dated August 29, 2013. This also redefines the term "repayment ratio".

Loans bearing variable interest

The Bank offers clients housing loans which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

The directive by the Supervisor of Banks dated May 3, 2011, restricted the portion of loans extended bearing interest which may vary within a 5-year term to 33% of total loan amount. The Supervisor's letter dated August 29, 2013 stipulates that in addition, a banking corporation may not approve a housing loan where the ratio of the loan portion bearing variable interest to total loan amount exceeds 67% - regardless of the frequency of interest rate change.

The aforementioned directives by the Supervisor of Banks, dated May 3, 2011 and dated August 29, 2013, were incorporated in a directive concerning restrictions on provision of housing loans dated May 15, 2014.

The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing adjustable interest and how this risk may be mitigated or avoided. The Bank advises clients to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 10.6 billion, or only 9.1% of the housing loan portfolio.

Note however that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase to the "normative interest rate".

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 5.3 billion on March 31, 2017, or only 4.5% of the Bank's housing loan portfolio.

Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, as of March 31, 2017, in accordance with appendix to Proper Banking Conduct Directive 314. (NIS in millions):

	Extent of arrears							
			In arrears 90 days or longer				Balance with respect to refinanced loans in arrears(4)	Total
	In arrears 30 to 89 days(3)	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	6	12	10	9	196	227	53	286
Of which: Balance of provision for interest(1)	-	-	-	-	100	100	6	106
Recorded debt balance	373	424	162	56	124	766	136	1,275
Balance of provision for credit losses (2)	-	-	23	28	94	145	67	212
Debt balance, net	373	424	139	28	30	621	69	1,063

(1) With respect to interest on amounts in arrears.
(2) Excludes balance of provision for interest.
(3) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(4) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.

For more information about housing credit risk, see the Detailed Risks Report on the Bank website.

Market risk and interest risk

Risk description and development

Market risk - This is the risk of loss from on- and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).

Interest rate risk in the banking book is the risk to Bank profit (change in revenues) or to the Bank's economic value, primarily due to changes in the structure of interest rate curves relevant for Bank operations, non-identical fluctuations of various curves used by the Bank for pricing and management of its exposures, or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates.

The market risk in the negotiable portfolio is minimal, in line with Bank policy. The bank portfolio is exposed to increase in the interest rate curve due to the relatively long-term structure of uses (the mortgage portfolio) and continuing decrease in early mortgage repayment rates. Bank exposure to interest risks in the first quarter of 2017 is estimated as Medium. Note that in this quarter, the Bank revised the method of risk measurement due to implementation of the Basel position paper dated April 2016 with regard to interest risk management. Exposure is monitored using various benchmarks in the normal course of business and under stress conditions. The risk profile is a reasonable distance away from the risk appetite redefined in the first quarter of 2017, in line with the manner of measurement.

Below is the VaR for the Bank Group (NIS in millions):

		First Quarter	All of
	2017	2016	2016
At end of period	764	245	386
Maximum value during period	(MAR) 764	(MAR) 245	(Dec.) 386
Minimum value during period	(FEB) 388	(JAN) 235	(JAN) 235

Market risk is primarily due to interest risk in the bank portfolio, as presented below.

Back-testing of the historical-analytic VaR model shows one case in which the daily loss exceeded the forecasted VaR value. This deviation, of a small amount, was primarily due to an increase in the NIS-denominated curve (for longer terms). This number of cases is within the criteria specified by the Basel Committee for review of the VaR model quality.

Analysis of interest risk in bank portfolio

Below is the effect of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

						March 31, 2017
						Change in fair value
	Israeli currency					Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(1,118)	(815)	2	(35)	5	(1,961)
Decrease of 2%	1,632	1,014	27	42	(7)	2,708
						March 31, 2016
2% increase	(817)	330	125	(22)	(1)	(385)
Decrease of 2%	1,084	(498)	(125)	24	1	486
						December 31, 2016
2% increase	(1,221)	421	(55)	(25)	5	(875)
Decrease of 2%	1,710	(574)	75	29	(5)	1,235

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the prepayment rate and manner are taken into account. Market risk in the Bank's negotiable portfolio, primarily composed of portfolios managed in the trading room, is managed by means of quantitative limitations specified for each portfolio based on its activity.
The increase in risk values reflects the continuing decline in early mortgage repayment rates.
Note that as noted above, the Bank revised the method of risk measurement in the first quarter of 2017, implementing recommendations made in the Basel position paper dated April 2016 with regard to interest risk management.

Exposure of the Bank and its subsidiaries to changes in interest rates

Reported amounts (NIS in millions)

	As of March 31, 2017					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets(1)	122,779	2,029	5,813	9,357	8,571	6,765
Financial derivative instruments (other than options)	7,523	9,095	22,889	12,538	9,067	7,315
Options (in terms of underlying asset)	786	1,377	1,625	337	193	79
Total fair value	131,088	12,501	30,327	22,232	17,831	14,159
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities(1)	80,089	9,992	20,503	13,576	9,685	5,337
Financial derivative instruments (other than options)	20,337	24,553	13,122	10,050	8,585	7,298
Options (in terms of underlying asset)	1,336	700	1,705	320	156	40
Total fair value	101,762	35,245	35,330	23,946	18,426	12,675
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	29,326	(22,744)	(5,003)	(1,714)	(595)	1,484
Cumulative exposure in sector	29,326	6,582	1,579	(135)	(730)	754

Specific remarks:

(1) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Weighted average by fair value of average effective duration.

Over 10 to 20 years	Over 20 years	Without maturity	As of March 31, 2017: Total fair value	As of March 31, 2017: Internal rate of return	As of March 31, 2017: Average effective duration(2)	March 31, 2016: Total fair value	March 31, 2016: Internal rate of return	March 31, 2016: Average effective duration(2)	As of December 31, 2016: Total fair value	As of December 31, 2016: Internal rate of return	As of December 31, 2016: Average effective duration(2)
				In %	in years		In %	in years		In %	in years
4,839	288	307	160,748	4.06	0.98	139,772	3.40	1.03	157,045	3.99	1.25
70	-	-	68,497		1.07	70,153		1.98	67,969		1.06
-	-	-	4,397		1.32	4,646		0.76	3,466		1.56
4,909	288	307	233,642		1.01	214,571		1.33	228,480		1.20
685	78	-	139,945	0.99	0.94	123,672	1.10	0.90	134,532	0.93	0.90
32	-	-	83,977		0.95	82,128		1.93	85,522		0.90
-	-	-	4,257		1.07	5,715		0.55	3,104		1.39
717	78	-	228,179		0.95	211,515		1.29	223,158		0.91
4,192	210	307	5,463			3,056			5,322		
4,946	5,156	5,463	5,463			3,056			5,322		

Exposure of the Bank and its subsidiaries to changes in interest rates - continued

Reported amounts (NIS in millions)

	As of March 31, 2017					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets[1]	1,275	2,573	11,085	16,203	11,563	3,550
Financial derivative instruments (other than options)	168	60	233	2,244	517	383
Total fair value	1,443	2,633	11,318	18,447	12,080	3,933
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[1]	532	2,964	6,125	15,186	6,603	6,428
Financial derivative instruments (other than options)	270	126	2,180	3,462	981	402
Total fair value	802	3,090	8,305	18,648	7,584	6,830
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	641	(457)	3,013	(201)	4,496	(2,897)
Cumulative exposure in sector	641	184	3,197	2,996	7,492	4,595

Specific remarks:

(1) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Weighted average by fair value of average effective duration.

			As of March 31, 2017			March 31, 2016			As of December 31, 2016		
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	in years		In %	in years		In %	in years
1,384	149	35	47,817	2.81	2.80	51,142	2.88	2.60	48,935	2.80	2.35
-	-	-	3,605		2.79	3,135		2.73	3,569		2.75
1,384	149	35	51,422		2.80	54,277		2.61	52,504		2.38
2,435	-	1	40,274	1.22	3.41	40,419	1.28	3.56	40,185	1.33	3.58
43	-	-	7,464		1.94	8,985		0.76	8,995		1.80
2,478	-	1	47,738		3.18	49,404		3.05	49,180		3.25
(1,094)	149	34	3,684			4,873			3,324		
3,501	3,650	3,684	3,684			4,873			3,324		

Exposure of the Bank and its subsidiaries to changes in interest rates - continued

Reported amounts (NIS in millions)

	As of March 31, 2017					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Foreign currency[1]						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets[2]	6,971	4,735	1,262	1,147	822	2,885
Financial derivative instruments (other than options)	28,877	31,124	15,210	7,859	2,094	2,077
Options (in terms of underlying asset)	1,155	1,259	1,970	292	137	35
Total fair value	37,003	37,118	18,442	9,298	3,053	4,997
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[2]	19,360	7,823	8,415	548	99	124
Financial derivative instruments (other than options)	16,556	15,922	22,420	9,194	2,093	2,064
Options (in terms of underlying asset)	934	1,523	1,835	309	166	66
Total fair value	36,850	25,268	32,670	10,051	2,358	2,254
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	153	11,850	(14,228)	(753)	695	2,743
Cumulative exposure in sector	153	12,003	(2,225)	(2,978)	(2,283)	460

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

(2) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(3) Weighted average by fair value of average effective duration.

As of March 31, 2017						March 31, 2016			As of December 31, 2016		
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration[(2)]	Total fair value	Internal rate of return	Average effective duration[(2)]	Total fair value	Internal rate of return	Average effective duration[(2)]
				In %	in years		In %	in years		In %	in years
59	-	390	18,271	1.99	1.29	19,163	2.39	1.02	17,487	1.20	1.23
-	-	-	87,241		0.40	91,017		1.72	91,892		0.41
-	-	-	4,848		0.14	5,996		0.52	3,671		0.08
59	-	390	110,360		0.54	116,176		1.54	113,050		0.53
2	-	701	37,072	0.72	0.32	36,924	0.61	0.35	39,907	0.68	0.32
-	-	-	68,249		0.63	74,146		1.01	68,991		0.59
-	-	-	4,833		0.25	4,929		0.69	3,937		0.32
2	-	701	110,154		0.51	115,999		0.79	112,835		0.49
57	-	(311)	206			177			215		
517	517	206	206			177			215		

Exposure of the Bank and its subsidiaries to changes in interest rates - continued
Reported amounts (NIS in millions)

	As of March 31, 2017					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets[1]	131,025	9,337	18,160	26,707	20,956	13,200
Financial derivative instruments (other than options)	36,568	40,279	38,332	22,641	11,678	9,775
Options (in terms of underlying asset)	1,941	2,636	3,595	629	330	114
Total fair value	169,534	52,252	60,087	49,977	32,964	23,089
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[1]	99,981	20,779	35,043	29,310	16,387	11,889
Financial derivative instruments (other than options)	37,163	40,601	37,722	22,706	11,659	9,764
Options (in terms of underlying asset)	2,270	2,223	3,540	629	322	106
Total fair value	139,414	63,603	76,305	52,645	28,368	21,759
Financial instruments, net						
Total exposure to interest rate fluctuations	30,120	(11,351)	(16,218)	(2,668)	4,596	1,330
Total cumulative exposure	30,120	18,769	2,551	(117)	4,479	5,809

Specific remarks:
(1) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
(2) Weighted average by fair value of average effective duration.

General remarks:
- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value consistent with assumptions according to which fair value was calculated for the financial instruments in Note 15 to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 15 to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with Public Reporting Directives. These transactions include, inter alia, loans with exit points, deposits bearing graduated interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience.

Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	As of March 31, 2017 Internal rate of return	Average effective duration(2)	March 31, 2016 Total fair value	Internal rate of return	Average effective duration(2)	As of December 31, 2016 Total fair value	Internal rate of return	Average effective duration(2)
				In %	in years		In %	in years		In %	in years
6,282	437	732	226,836	3.37	1.39	210,077	3.10	1.41	223,467	3.40	1.49
70	-	-	159,343		0.74	164,305		1.85	163,430		0.73
-	-	-	9,245		0.70	10,642		0.63	7,137		0.80
6,352	437	732	395,424		1.11	385,024		1.58	394,034		1.16
3,122	78	702	217,291	1.09	1.29	201,015	1.17	1.33	214,624	1.13	1.29
75	-	-	159,690		0.86	165,259		1.46	163,508		0.82
-	-	-	9,090		0.63	10,644		0.61	7,041		0.80
3,197	78	702	386,071		1.10	376,918		1.37	385,173		1.08
3,155	359	30	9,353			8,106			8,861		
8,964	9,323	9,353	9,353			8,106			8,861		

Impact of hypothetical changes in interest rates on fair value of financial instruments of the Bank and its subsidiaries

Fair value of financial instruments before impact of hypothetical changes in interest rates (NIS in millions):

	Israeli currency		Foreign currency[2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
March 31, 2017						
Financial assets[1]	160,748	47,817	13,629	2,733	1,909	226,836
Amounts receivable with respect to financial derivative instruments[3]	72,894	3,605	75,421	10,671	5,997	168,588
Financial liabilities[1]	(139,945)	(40,274)	(29,514)	(4,965)	(2,593)	(217,291)
Amounts payable with respect to financial derivative instruments[3]	(88,234)	(7,464)	(59,344)	(8,423)	(5,315)	(168,780)
Total	5,463	3,684	192	16	(2)	9,353
December 31, 2016						
Financial assets[1]	157,045	48,935	12,728	2,877	1,882	223,467
Amounts receivable with respect to financial derivative instruments[3]	71,435	3,569	76,490	13,753	5,320	170,567
Financial liabilities[1]	(134,532)	(40,185)	(29,860)	(7,376)	(2,671)	(214,624)
Amounts payable with respect to financial derivative instruments[3]	(88,626)	(8,995)	(59,188)	(9,217)	(4,523)	(170,549)
Total	5,322	3,324	170	37	8	8,861

Net fair value of financial instruments, after impact of changes in interest rates (NIS in millions)[4]:

	Israeli currency		Foreign currency[2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
March 31, 2017								
Change in interest rates:								
Concurrent immediate increase of 1%	5,153	3,824	130	(15)	(5)	9,087	(266)	(2.8)
Concurrent immediate increase of 0.1%	5,437	3,700	182	13	(3)	9,329	(24)	(0.3)
Concurrent immediate decrease of 1%	5,843	3,534	291	51	(1)	9,718	365	3.9
December 31, 2016								
Change in interest rates:								
Concurrent immediate increase of 1%	5,021	4,033	(88)	(145)	-	8,821	(40)	(0.5)
Concurrent immediate increase of 0.1%	5,290	3,686	142	27	7	9,152	291	3.3
Concurrent immediate decrease of 1%	5,670	3,210	495	155	16	9,546	685	7.7

(1) Includes Israeli currency linked to foreign currency.

(2) Includes complex financial instruments. Excludes balance sheet balances of derivatives and fair value of off-balance sheet financial instruments.

Note that in calculation of the fair value of financial instruments, as stated in Note 15 to the financial instruments, the discount rate for financial assets reflects the inherent credit risk and the discount rate for financial liabilities also reflects the Bank's premium on raising resources. This differs from calculation of the effect of interest risk in the banking portfolio, in EVE (Economic Value of Equity) terms, which only includes the effect of exposure to risk-free interest. There are also differences in assignment of expected future cash flows from different financial instruments. For the effects listed above, the fair value of financial instruments bearing adjustable interest were calculated assuming that cash flows would be repaid upon the next change in contractual interest rate.

(3) Amounts receivable (and payable) with respect to financial derivatives, discounted using interest rates used for calculation of the fair value.

(4) Net fair value of financial instruments presented in each linkage segment is the net fair value for this segment, assuming the indicated change in all interest rates in the linkage segment. Total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items), assuming the indicated change in all interest rates in all linkage segments.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 15 to the financial statements.

Analysis of CPI and exchange rate exposures

Below is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of March 31, 2017, capital increase (erosion) (NIS in millions):

				Scenarios		Historical stress scenario[(1)]
	10% increase	5% increase	Decrease of 5%	Decrease of 10%	Maximum increase	Maximum decrease
CPI	703.4	376.4	(522.8)	(1,045.7)	144.9	(80.7)
Dollar	0.2	2.9	(1.0)	(5.2)	2.8	(0.7)
Pound Sterling	0.8	0.3	(0.4)	(1.0)	0.3	(0.6)
Yen	1.6	0.4	0.1	0.0	0.4	0.0
Euro	8.2	2.1	2.6	4.7	1.1	1.5
Swiss Franc	(0.5)	(0.3)	0.1	0.2	(0.8)	0.1

(1) Extreme scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

For more information about market and interest risk, see the Detailed Risks Report on the Bank website.

Share price risk

Bank policy with regard to investment in non-banking corporations is to realize the current portfolio and individually review any new investments. Shares of non-banking corporations in which the Bank invested were acquired for the purpose of earning capital gains, and are presented at fair value in the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. Investments in non-banking corporations are managed by the Business Banking Division. The steering committee for investments in non-banking corporations convenes quarterly and advises Bank management on investments in non-banking corporations. The steering committee is responsible for management and maintenance of the existing portfolio, trying to improve it so as to allow for rational realization of this portfolio within a reasonable time frame but with no specified schedule, in order to allow for maximum returns. Quarterly reports are provided to the Risks Control Division and to other divisions.

About 2% of these investments in non-banking corporations are negotiable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management assessment, a provision for impairment of the investment is recorded as a loss in the Bank's accounts.

For more information about equity investments in the bank portfolio, see Note 5 to these financial statements and Notes 12 and 15.A to the 2016 financial statements.

Operating risk

Risk description and development

Operating risk is defined by the Bank of Israel as the risk of loss due to inappropriateness or failure of internal procedures, people, systems or due to external events.

The Bank adopts a wider definition of operating risk. The definition would turn the framework for addressing operating risk into an active one, designed to support operations of the business units, to improve major business processes associated with their operations and thus, to increase business value, rather than only reducing the expected loss due to operating risk. The definition does not supersede the definition which is supported by Basel and by the Bank of Israel, but rather expands it in order to create a framework for operating risk management, which analyzes processes, systems and other risks which may impact the business viability of the Bank.

Information security and cyber risk - Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.

IT risk - IT risk is risk of failure of the Bank's systems.

Legal risk - Risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk includes risks arising from legal exposure due to Bank conduct with its various interested parties (such as: clients, suppliers and other third parties).

In the first quarter of 2017, there were no significant events in the various operating risk areas.

The Bank applies Proper Banking Conduct Directive 355 concerning "Management of business continuity". On April 9, 2017, the Bank of Israel issued a revision of Proper Banking Conduct Directive 355, elaborating aspects related to significant operating disruption, including strikes and highlighting the importance of maintaining proper function of the payment and settlement systems.

The Bank has an annual work plan for maintenance and exercise of the business continuity plan; in the first quarter of 2017, the Bank started implementing this plan and conducting exercises and technology trials: Training was carried out and the issue of emergency operations was implemented to branch managers in four regions; an exercise was performed on the production floor of the main computer site in order to review and improve readiness and awareness of system administrators in the technology division. The Bank also started revising the Bank's emergency program in the backup site. As part of Group responsibility for business continuity, the Bank was involved and provided support for business continuity, with the launch of Bank Yahav's new IT system early in 2017.

Information security and cyber security

Directive 361 with regard to Cyber Defense Management provides guidelines for proper management of cyber risks, which require expansion and adjustment of the IT risks management framework with regard to the threat space perception and the required defensive capabilities. Accordingly, the Bank has an approved strategy and comprehensive cyber defense policy and has specified the defense lines for implementation thereof, has appointed an Information Security and Cyber Defense Manager, reporting to the Manager, Risks Control Division - responsible, *inter alia*, for setting policy on information security and cyber defense at the Bank, development of a cyber defense work plan, monitoring the implementation of this work plan and review of the effectiveness of systems and processes for information security and cyber defense.

As from the first quarter of 2017, direct banking systems at the Bank include authentication processes and tools in conformity with Proper Banking Conduct Directive 367.

In the first quarter of 2017 there were no significant cyber-related events impacted the Bank.

Information technology risk

In recent years, the risks associated with IT management has increased, due to development and implementation of new technologies and evolution of new risk and threats. Other than under routine conditions, the IT management framework addresses system failures, such as: system faults and preparation for emergency situations. This is also intended to ensure that the Bank maintain business continuity during an alert or emergency. This may mitigate reputation risks and business risks which may arise under such conditions.

For more information about the project to replace the core banking system at Bank Yahav, see chapter "Significant developments in IT" above.

Legal risk

Proper Banking Conduct Directive no. 350 concerning "Operating risks" defines legal risk as including, but not being limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements.

The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank. For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 10.B.4 to the financial statements.

For more information about operating risk, see also the Detailed Risks Report on the Bank website.

Liquidity and financing risk

Risk description and development

Liquidity risk - risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.
Financing risk - risk resulting from shortage of financing sources or too high costs to raise such sources.
Liquidity risk is managed subject to the limitations of the Board of Directors and Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.
In September 2016, the Bank of Israel issued a Q&A File with regard to Directive 221 "Liquidity coverage ratio". The update stipulated that banking corporations would not be required, as of January 1, 2017, to maintain a minimum liquidity ratio (as specified in Proper Banking Conduct Directive 342) equal to or higher than 1. However, they should continue to calculate various stress scenarios, as stated in Proper Banking Conduct Directive 342. Therefore, as from the start of 2017, the Board of Directors' restrictions with regard to minimum liquidity ratio (internal model) were replaced by management restrictions.
There were no deviations from the Board of Directors' limitations recorded in the first quarter of 2017.
For more information about liquidity risk, see also the Detailed Risks Report on the Bank website.

Financing risk is managed, as part of the liquidity risk, using Board and management restrictions on concentration of financing sources and through reduced dependence on material counter-parties.

The Bank's main financing sources are stable and diverse sources for different time horizons - retail and business deposits, long-term deposits from financial institutions and issues of debentures and notes. The Bank sees the great importance of diversification of its financing sources and acts proactively to identify sources for longer terms, including through a wide range of deposits offered by the Bank to its clients, deposits with unique attributes, which allow clients to benefit from relatively high interest over the long term with optional liquidity during the deposit term. In the first quarter of 2017, concentration risk for financing sources remained low.

For more information about financing sources, see chapter "Developments in financing sources" above.

For more information about financing risk, see also the Detailed Risks Report on the Bank website.

Liquidity coverage ratio

As from April 1, 2015, the Bank applies Directive 221 "Liquidity coverage ratio" which became effective on that date. This Directive stipulates minimum liquidity ratios for a one-month term (regulatory LCR), calculated based on uniform multipliers for the banking system, specified by the Bank of Israel based on Basel III directives. At the end of 2016, the transition period for implementation of the minimum liquidity coverage ratio ended - and as from January 1, 2017, the minimum required is 100%. As part of its risks management policy, the Bank Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; hence the target liquidity coverage ratio for the Bank and the Group in 2017 would by 5% higher than the minimum required. This ratio is managed and reported for all currencies in aggregate and for NIS separately, both at Bank level and on Group basis. The ratio for the bank solo and the consolidated ratio are calculated daily and reported as the average of daily observations over 90 days prior to the report date. This regulation is in addition to liquidity risk management using internal models, as stipulated by Directive 342, as described above.

The average liquidity coverage ratio (consolidated) for the first quarter of 2017 was 118%, similar to the average ratio of 117% in the fourth quarter of 2016 (the minimum ratio required by the Supervisor of Banks in 2016 was 80%). There were no deviations from the limitations for this ratio recorded in the first quarter of 2017.

For more information about liquidity risk, see also the Detailed Risks Report on the Bank website.

As of March 31, 2017, the balance of the three largest depositor groups at the Bank Group amounted to NIS 7.7 billion.

raising sources and Bank liquidity status - In the first quarter of 2017, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 178.3 billion on December 31, 2016 to NIS 180.7 billion on March 31, 2017, an increase of 1.4%.

In the non-linked segment, total deposits from the public amounted to NIS 127.6 billion, an increase of 4.0% compared to end of 2016. In the CPI-linked sector, deposits from the public amounted to NIS 17.5

billion, an increase of 2.9%, and in the foreign currency sector - to NIS 35.6 billion, a decrease of 7.7% compared to end of 2016.

Other risks

Compliance and regulatory risk

Risk description and its development

Compliance risk is the risk of imposition of legal or regulatory sanctions, material financial loss or impact to reputation, which the Bank may incur due to its failure to comply with compliance provisions.

Compliance risk includes cross-border risk, which is presented separately below.

The risk level for compliance and regulation, in our opinion, is on a downward trend. The decrease is due to continued addressing of risk classified as High and continued reinforcement of control in both First Line and Second Line units. This is against the backdrop of increased regulation and new directives issued with high frequency.

For more information see the Detailed Risks Report on the Bank website.

Cross-border and AML risk

Risk description and its development

Cross-border risk is the risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of impact to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries - whether provisions binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.

Cross-border risk includes, *inter alia*, risk of damage, including injury to reputation, due to lawsuits or other enforcement proceedings brought by authorities in other countries, with regard to foreign tax laws applicable to certain Bank clients, AML and terror financing laws, sanctions imposed by international bodies and foreign authorities or other laws. Cross-border risk applies primarily at the Bank's overseas affiliates; in transactions with clients who are foreign residents; in business operations conducted by Bank representatives in foreign countries; and with regard to funds of individual Israeli clients invested overseas.

Cross-border risk includes the risk arising from obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Act - "FATCA").

AML risk - The risk of imposition of legal or regulatory sanctions, of material financial loss or of damage to reputation and image, which the Bank may incur due to non-compliance with AML and terror financing provisions.

Cross-border risk continues to moderately decline, due to further action taken to manage this risk.

Following the amendment of the Prohibition of Money Laundering Act, which adds serious tax offenses to the list of original violations, making them subject to all requirements with regard to AML, the Bank has adjusted its policy, work processes and infrastructure for compliance with this requirement.

On March 6, 2017, Proper Banking Conduct Directive 411 "AML and Terror Financing Risk Management" was issued, replacing the current Directive 411, to become effective at the start of 2018. The Bank is preparing to implement the new directive by the required date.

AML risk increased, primarily due to addition of serious tax offenses, as noted, to the Prohibition of Money Laundering Act.

For more information see the Detailed Risks Report on the Bank website.

Reputation risk

Risk description and its development

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operating risk event. Furthermore, impact to Bank reputation may bring about the materialization of other risks, in particular liquidity risk - with growing demand by clients to withdraw deposits.

In the first quarter of 2017 there were no events which negatively impacted the Bank's reputation.

For more information see the Detailed Risks Report on the Bank website.

Strategic risk

Risk description and its development

Strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned. The materiality of strategic risk requires the Bank to take measures which would allow it to manage this risk and take steps for assessment and early identification of events which may preclude implementation of the strategy.

For more information see the Detailed Risks Report on the Bank website.

For more information about environmental risk, see chapter "Credit Risk" of the 2016 Report of the Board of Directors and Management.

Policies and critical accounting estimates, controls and procedures

Policies and critical accounting estimates

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, these directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.

The significant accounting policies are detailed in Note 1 to the 2016 financial statements.

The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

Provisions for legal claims

The financial statements include appropriate provisions to cover possible damages, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is sometimes made on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.
3) Remote risk: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

Note 26.C to the annual financial statements for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to shareholders of the Bank) and Note 10.B. to these financial statements provide disclosure of material changes compared to the annual report.

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible, on the date of preparing these financial statements, to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Note that the provision for legal claims and contingent liabilities depends on multiple factors and involves a high degree of uncertainty. New information to be received by the Bank in future with regard to existing exposures as of the approval date of the financial statements may materially impact the exposure amount or the provision required with respect to such exposure. For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 10.B.4 to the financial statements.

For more information about accounting policies on critical matters, see chapter "Policies and critical accounting estimates" of the 2016 Report of the Board of Directors and Management.

For more information about changes to critical accounting policies and critical accounting estimates with regard to deferred taxes, see chapter "Changes to critical accounting policies and to critical accounting estimates" above.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, based on requirements stipulated in Sections 302 and 404 of the American Sarbanes Oxley Act, the Bank President & CEO and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures ("Disclosure Certification").

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Regulations of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal controls over financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

Evaluation of controls and procedures with regard to disclosure

Further to adjustment of controls and procedures with regard to disclosure concerning the change in structure of the financial statements, made in 2016, in the first quarter of 2017 additional adjustments were made with regard to quarterly financial statements. Bank management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures as of March 31, 2017. Based on this evaluation, the Bank President & CEO and the Chief Accountant of the Bank concluded that at the end of the period ended March 31, 2017, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

Changes to internal controls

In the first quarter of 2017, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal controls over financial reporting.

M. Vidman

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher

Eldad Fresher
President & CEO

Approval date:
Ramat Gan
May 15, 2017

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended March 31, 2017 ("the Report").

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.

3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.

4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure[(1)] and to the Bank's internal controls over financial reporting[(1)]. Furthermore:

   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:

   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Eldad Fresher
President & CEO

May 15, 2017

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended March 31, 2017 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1). Furthermore:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Menahem Aviv
Vice- president,
Chief Accountant

May 15, 2017

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Deloitte.

Independent Auditors' Review Report to Shareholders of Bank Mizrahi- Tefahot Limited

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated interim balance sheet as of March 31, 2017, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information for the interim period of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.30% of total consolidated assets as of March 31, 2017, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 9.55% of total consolidated net interest revenues before expenses with respect to credit losses for the three- month period then ended. Furthermore, we did not review the condensed financial information for the interim period of an equity- accounted associate, the investment in which amounted to NIS 19 million as of March 31, 2017. The condensed financial information for the interim period of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

We have conducted our review in accordance with Review Standard no. 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to review of banking corporations is stipulated in accordance with directives and guidance of the Supervisor of Banks. A review of financial information for interim periods consists of discussions, mostly with persons responsible for financial and accounting issues, and of application of analytical and other review procedures. A review is significantly limited in scope as compared to an audit conducted in accordance with generally accepted audit standards in Israel, and therefore it does not enable us to achieve assurance that we have knowledge of all material matters which might have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to believe that the aforementioned financial data has not been prepared, in all material aspects, in accordance with Israeli GAAP for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks.

Without qualifying our conclusion, we draw your attention to:

1. Note 10.B.2.(h) and Note 10.B.3.(a- c) with regard to lawsuits filed against the Bank and a subsidiary thereof, including motions for class action status.
2. Note 10.B.4. with regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients.

3.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Member of Deloitte Touche Tohmatsu Limited

Certified Public Accountants
Tel Aviv, May 15, 2017

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Condensed Financial Statements

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Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

		For the three months ended March 31,		For the year ended December 31,
	Note	2017	2016	2016
Interest revenues	2	1,356	868	5,311
Interest expenses	2	329	108	1,533
Interest revenues, net		1,027	760	3,778
Expenses with respect to credit losses	6,13	49	3	200
Interest revenues, net after expenses with respect to credit losses		978	757	3,578
Non- interest revenues				
Non- interest financing revenues (expenses)	3	(1)	67	295
Fees		357	365	1,433
Other revenues		12	89	134
Total non- interest revenues		368	521	1,862
Operating and other expenses				
Payroll and associated expenses		498	477	2,071
Maintenance and depreciation of buildings and equipment		186	174	693
Other expenses		139	128	535
Total operating and other expenses		823	779	3,299
Pre- tax profit		523	499	2,141
Provision for taxes on profit		192	203	833
After- tax profit		331	296	1,308
Share in loss of associates, after tax		(1)	-	-
Net profit:				
Before attribution to non- controlling interests		330	296	1,308
Attributable to non- controlling interests		(9)	(8)	(42)
Attributable to shareholders of the Bank		321	288	1,266

The accompanying notes are an integral part of the financial statements.

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President & CEO

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, May 15, 2017

Condensed consolidated statement of profit and loss - Continued

(Reported amounts)

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
Earnings per share[(1)]			
Basic earnings per share (in NIS)			
Net profit attributable to shareholders of the Bank	1.38	1.24	5.46
Diluted earnings per share (in NIS)			
Net profit attributable to shareholders of the Bank	1.37	1.24	5.46

(1) Share of NIS 0.1 par value each.

The accompanying notes are an integral part of the financial statements.

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	Note	For the three months ended March 31, 2017	For the three months ended March 31, 2016	For the year ended December 31, 2016
Net profit:				
Before attribution to non- controlling interests		330	296	1,308
Attributable to non- controlling interests		(9)	(8)	(42)
Net profit attributable to shareholders of the Bank		321	288	1,266
Other comprehensive income (loss) before taxes				
Adjustments for presentation of available- for- sale securities at fair value, net		11	34	(26)
Adjustments from translation of financial statements of investments in associates[(1)]	4	(1)	-	1
Net gains (losses) with respect to cash flows hedging		(1)	(6)	(9)
Adjustment of liabilities with respect to employee benefits[(2)]		21	(29)	(294)[(3)]
Total other comprehensive income (loss), before tax		30	(1)	(328)
Related tax effect		(11)	(2)	108
Other comprehensive income (loss) after taxes[(4)]				
Other comprehensive income (loss), before attribution to non- controlling interest		19	(3)	(220)[(3)]
Less other comprehensive income (loss) attributable to non- controlling interest		-	2	-
Other comprehensive income (loss) attributable to equity holders of the Bank, after taxes		19	(1)	(220)
Comprehensive income:				
Before attribution to non- controlling interests		349	293	1,088
Attributable to non- controlling interests		(9)	(6)	(42)
Comprehensive income attributable to shareholders of the Bank		340	287	1,046

(1) Adjustments from translation of financial statements of associates.

(2) Includes adjustments with respect to actuarial estimates included in the reported period for defined- benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.

(3) Includes the cost of update to the actuarial liability with respect to the streamlining plan, amounting to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity.

(4) For details see Note 4 to the financial statements - Cumulative Other Comprehensive Income (Loss).

The accompanying notes are an integral part of the financial statements.

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

		As of March 31,		As of December 31
	Note	2017	2016	2016
Assets				
Cash and deposits with banks		41,683	38,193	41,725
Securities[(2)(1)]	5	11,791	9,013	10,262
Securities loaned or purchased in resale agreements		46	151	9
Loans to the public	6,13	174,533	163,451	172,779
Provision for credit losses	6,13	(1,465)	(1,378)	(1,438)
Loans to the public, net		173,068	162,073	171,341
Loans to Governments		312	323	330
Investments in associates		33	36	34
Buildings and equipment		1,550	1,546	1,585
Intangible assets and goodwill		87	87	87
Assets with respect to derivative instruments	11	3,951	3,922	3,584
Other assets		1,550	1,465	1,498
Total assets		234,071	216,809	230,455
Liabilities and Equity				
Deposits from the public	7	180,722	165,001	178,252
Deposits from banks		1,474	1,416	1,537
Deposits from the Government		56	55	50
Debentures and subordinated notes		26,924	26,859	27,034
Liabilities with respect to derivative instruments	11	4,143	4,878	3,566
Other liabilities[(3)]		7,118	5,928	6,692
Total liabilities		220,437	204,137	217,131
Shareholders' equity **attributable to shareholders of the Bank**		13,015	12,098	12,714
Non- controlling interests		619	574	610
Total equity		13,634	12,672	13,324
Total liabilities and equity		234,071	216,809	230,455

(1) Of which: NIS 8,450 million at fair value on consolidated basis (March 31, 2016 - NIS 5,695 million; December 31, 2016 - NIS 6,928 million).

(2) For more information with regard to securities pledged to lenders, see Note 5 to the financial statements.

(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 93 million (on March 31, 2016 - NIS 86 million, on December 31, 2016 - NIS 109 million).

The accompanying notes are an integral part of the financial statements.

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended March 31, 2017 (unaudited)			
	Share capital and premium[1]	Capital reserve from benefit from share- based payment transactions	Treasury shares	Total paid- up share capital and capital reserves
Balance as of December 31, 2016	2,239	58	(76)	2,221
Net profit for the period	-	-	-	-
Dividends declared and yet unpaid[6]				-
Benefit from share- based payment transactions	-	-	-	-
Related tax effect	-	1	-	1
Realization of share- based payment transactions[2]	7	(7)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of March 31, 2017	2,246	52	(76)	2,222
	For the three months ended March 31, 2016 (unaudited)			
Balance as of December 31, 2015	2,222	68	(76)	2,214
Net profit for the period	-	-	-	-
Dividends paid[5]	-	-	-	-
Benefit from share- based payment transactions	-	1	-	1
Related tax effect	-	(1)	-	(1)
Realization of share- based payment transactions[2]	2	(2)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of March 31, 2016	2,224	66	(76)	2,214
	For the year ended December 31, 2016 (audited)			
Balance as of December 31, 2015	2,222	68	(76)	2,214
Net profit for the period	-	-	-	-
Dividends paid[5]	-	-	-	-
Benefit from share- based payment transactions	-	8	-	8
Related tax effect	-	(1)	-	(1)
Realization of share- based payment transactions[2]	17	(17)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of December 31, 2016	2,239	58	(76)	2,221

(1) Share premium generated prior to March 31, 1986.

(2) In the first quarter of 2017, 212,323 ordinary NIS 0.1 par value shares were issued (In the first quarter of 2016, 45,063 ordinary NIS 0.1 par value shares were issued) for exercise of options pursuant to the Employee Stock Option Plan, and issued 9,137 ordinary NIS 0.1 par value shares to the Bank President & CEO.
In 2016, the Bank issued 157,119 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employee Stock Option Plan, and issued to the Bank President & CEO 31,065 ordinary NIS 0.1 par value shares. each.

(3) For details see Note 4 - Cumulative Other Comprehensive Income.

(4) For more information about various limitations on dividend distributions, see Note 24 to the 2016 financial statements.

(5) On March 21, 2016, June 21, 2016, September 11, 2016 and November 14, 2016, the Bank paid dividends amounting to NIS 36.0, 43.2, 51.0 and 56.0 million, respectively, in conformity with a decision by the Bank/s Board of Directors.

(6) On March 20, 2017, the Bank’s Board of Directors resolved to distribute dividends amounting to NIS 39.8 million. On April 26, 2017, after the balance sheet date, the aforementioned dividend was paid.

(7) On May 15, 2017, after the balance sheet date, the Bank’s Board of Directors resolved to distribute dividends amounting to NIS 96.3 million, or 30% of earnings in the first quarter of 2017. According to accounting rules, this amount would be deducted from retained earnings in the second quarter of 2017.

The accompanying notes are an integral part of the financial statements.

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total shareholder equity	Non- controlling interests	Total equity
(317)	10,810	12,714	610	13,324
-	321	321	9	330
	(40)	(40)		(40)
-	-	-	-	-
-	-	1	-	1
-	-	-	-	-
19	-	19	-	19
(298)	11,091	13,015	619	13,634
(97)	9,730	11,847	568	12,415
-	288	288	8	296
-	(36)	(36)	-	(36)
-	-	1	-	1
-	-	(1)	-	(1)
-	-	-	-	-
(1)	-	(1)	(2)	(3)
(98)	9,982	12,098	574	12,672
(97)	9,730	11,847	568	12,415
-	1,266	1,266	42	1,308
-	(186)	(186)	-	(186)
-	-	8	-	8
-	-	(1)	-	(1)
-	-	-	-	-
(220)	-	(220)		(220)
(317)	10,810[7]	12,714	610	13,324

Condensed statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
Cash flows provided by current operations			
Net profit	330	296	1,308
Adjustments			
Share of the Bank in un- distributed earnings of associates	1	-	-
Depreciation of buildings and equipment	63	55	223
Expenses with respect to credit losses	49	3	200
Gain from sale of securities available for sale	(11)	(31)	(61)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	3	-	(14)
Gain from sale of buildings and equipment	-	(78)	(92)
Expenses arising from share- based payment transactions	-	1	8
Deferred taxes, net	(29)	26	(3)
Change in employee provisions and liabilities	(17)	(9)	307
Effect of changes in exchange rate on cash balances	64	194	195
Proceeds from sale of loan portfolios	(1)	(15)	(45)
Net change in current assets			
Deposits with banks	179	(1,282)	(50)
Loans to the public	(2,431)	(3,374)	(14,670)
Loans to Governments	18	(7)	(14)
Securities loaned or purchased in resale agreements	(37)	(80)	62
Assets with respect to derivative instruments	(368)	(401)	(66)
Securities held for trade	143	(288)	(112)
Other assets, net	(22)	604	613
Net change in current liabilities			
Deposits from banks	(63)	250	371
Deposits from the public	2,470	2,621	15,872
Deposits from the Government	6	(3)	(8)
Liabilities with respect to derivative instruments	577	1,244	(68)
Other liabilities	387	124	273
Accrual differences included with investment and financing operations	23	(58)	110
Net cash provided by current operations	1,334	(208)	4,339

Condensed statement of cash flows - Continued

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
Cash flows provided by investment operations			
Acquisition of debentures held to maturity	(111)	-	-
Acquisition of securities available for sale	(2,355)	(1,877)	(6,902)
Proceeds from sale of securities available for sale	516	4,780	7,546
Proceeds from redemption of securities available for sale	221	189	1,083
Proceeds from sale of loan portfolios	892	518	2,662
Purchase of loan portfolios	(218)	-	(265)
Acquisition of buildings and equipment	(21)	(38)	(245)
Proceeds from sale of buildings and equipment	-	-	125
Proceeds from realized investment in associates	-	-	2
Net cash provided by investment operations	(1,076)	3,572	4,006
Cash flows provided by financing operations			
Issuance of debentures and subordinated notes	-	3,304	6,318
Redemption of debentures and subordinated notes	(57)	(16)	(3,096)
Dividends paid to shareholders	-	(36)	(186)
Net cash provided by financing operations	(57)	3,252	3,036
Increase in cash	201	6,616	11,381
Cash balance at beginning of year	41,495	30,309	30,309
Effect of changes in exchange rate on cash balances	(64)	(194)	(195)
Cash balance at end of year	41,632	36,731	41,495
Interest and taxes paid / received			
Interest received	1,517	680	5,204
Interest paid	130	148	1,676
Dividends received	4	2	35
Taxes on income received	60	72	81
Taxes on income paid	151	142	800
Appendix A - Non- cash Transactions			
Acquisition of buildings and equipment	7	2	13

Note 1 - Reporting Principles and Accounting Policies

A. Overview

The Bank Board of Directors authorized publication of these condensed financial statements on May 15, 2017.

The condensed financial statements as of March 31, 2017 are prepared in accordance with Israeli GAAP for financial reporting of interim periods and in accordance with directives of the Supervisor of Banks, and do not include all information required in annual financial statements. These condensed financial statements should be read in conjunction with the audited financial statements as of December 31, 2016.

As noted in the annual report, for most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).

When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.

In accordance with directives of the Supervisor of Banks, the condensed financial statements are only issued on a consolidated basis.

The Group accounting policies in these condensed consolidated quarterly financial statements is consistent with the policies applied to the annual financial statements, except as noted below in section B.

B. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 1, 2017 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. Reporting by Israeli banking corporations in conformity with US GAAP with regard to income taxes
2. Reporting by banking corporations in Israel in conformity with US GAAP on these topics: foreign currency issues, accounting policies, changes in accounting estimates and errors and events subsequent to the balance sheet date

Below is a description of the substance of changes made to accounting policies and reporting regulations in the condensed consolidated financial statements and description of the effect of their initial application, if any.

1. Reporting by Israeli banking corporations in conformity with US GAAP with regard to income taxes

On October 22, 2015, the Supervisor of Banks issued a circular containing amendments to Public Reporting Directives concerning reporting by banking corporations and credit card companies in Israel, in conformity with US GAAP with regard to income taxes.

According to this circular, banking corporations are required to adopt US GAAP with regard to taxes on income, including the presentation, measurement and disclosure rules set forth in provisions of ASC 740 "Income Taxes" and in ASC 830- 740 "Foreign Currency Matters - Income Taxes".

According to the circular, a banking corporation is not required to provide disclosure on financial statements in 2017 with regard to disallowed tax benefits, which are required by section 740- 10- 50- 15 and section 740- 10- 50- 15A of the codification.

The provisions listed in the circular would apply as from January 1, 2017.

On October 13, 2016, the Supervisor of Banks issued an update to how the new directives in the circular dated October 22, 2015 are to be initially applied, so that temporary differences with respect to prior periods would continue to be treated according to directives effective through December 31, 2016.

According to the circular, the major changes to these directives are:

- Required recognition of deferred tax liabilities with respect to undistributed earnings of investees.
- Interest revenues and expenses with respect to taxes on income would be classified under "Taxes on income".
- Fines payable to tax authorities would be classified under "Taxes on income".
- Laws would be deemed "legislated" only when officially published.
- The requirement to present a Note on information based on historical nominal data for tax purposes has been eliminated.

In conformity with the rules, the Bank recognizes deferred tax liabilities with respect to undistributed earnings of investees.

Application of this circular has no material impact on the Bank's financial statements.

2. Implementation of reporting by banking corporations in Israel in conformity with US GAAP on these topics: foreign currency issues, accounting policies, changes in accounting estimates and errors and events subsequent to the balance sheet date

On March 21, 2016, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with US GAAP. The circular revises the Public Reporting Directives and adopts generally accepted accounting standards in the US on these topics:

- US GAAP with regard to topic 830 of the codification "Foreign currency matters".
- US GAAP with regard to accounting policies, changes in accounting estimates and errors, including topic 250 of the codification "Accounting changes and error corrections".
- US GAAP with regard to events after the balance sheet date in conformity with topic 855- 10 of the codification "Subsequent events".

The provisions stipulated by the circular would apply as from January 01, 2017. Upon initial application, action should be taken in conformity with transitional provisions included in US GAAP for these matters, *mutatis mutandis*, including retroactive amendment of comparative figures, if required by US GAAP for these matters. Note that when applying provisions of topic 830 of the codification "Foreign currency matters", banks would not include exchange rate differentials with regard to available- for- sale debentures as part of fair value adjustments of such debentures, but would continue to treat these as required by the Public Reporting Directives prior to adoption of this topic.

Furthermore, IAS 29 "Financial Reporting in Hyper inflationary Economies", as adopted in the Public Reporting Regulations, would not be applied as from the effective start date of the circular. Note that there is no change to the date of discontinuation of adjustment for inflation of financial statements of banking corporations, and the financial statements would be compiled based on reported amounts - unless otherwise provided for in the Public Reporting Regulations.

Application of this circular has no material impact on the Bank's financial statements.

Note 1 - Reporting Principles and Accounting Policies - continued

C. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

1. Recognition of revenues from contracts with clients

On January 11, 2015, the Supervisor of Banks issued a circular concerning adoption of an update to accounting rules with regard to revenues from contracts with clients. The circular updates the Public Reporting Directives in view of the publication of ASU 2014- 09, adopting a new standard on revenue recognition in US accounting rules. The standard stipulates that revenue is to be recognized at the amount expected to be received in consideration of transfer of goods or provision of services to clients.

The new standard does not apply, *inter alia*, to financial instruments and to contractual rights or obligations within the scope of chapter 310 of the codification. Furthermore, the Bank of Israel directives clarify that, in general, provisions of the new standards would not apply to accounting treatment of interest revenues and expenses nor to non- interest financing revenues.

According to transition provisions for 2015, the amendments to Public Reporting Directives should be applied in conformity with the circular on adoption of updated accounting rules concerning "Revenues from contracts with clients", as from January 1, 2018. Upon initial application, it is allowed to choose retroactive application, while restating comparative figures, or to choose prospective application, while charging the cumulative effect to equity upon initial application.

Application of the circular is not expected to have any material impact on the Bank's financial statements.

2. Reporting by banking corporations in Israel in conformity with US GAAP on these topics: Non- current assets held for sale and discontinued operations; fixed assets and impairment of fixed assets, investment property; earnings per share; statement of cash flows; interim reporting; and other topics.

On October 13, 2016, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with US GAAP. The circular revises the Public Reporting Directives and adopts generally accepted accounting standards in the US on these topics:

- US GAAP with regard to topic 205- 20 of the codification "Discontinued operations".
- US GAAP with regard to topic 360 and 360- 10 of the codification "Fixed assets".
- US GAAP with regard to topic 260 of the codification "Earnings per share".
- US GAAP with regard to topic 230- 10 of the codification "Statement of cash flows".
- US GAAP with regard to topic 270 of the codification "Interim period reporting".

The provisions stipulated by the circular would apply as from January 1, 2018. Upon initial application, action should be taken in conformity with transitional provisions included in US GAAP for these matters, *mutatis mutandis*, including retroactive amendment of comparative figures, if required by US GAAP for these matters.

Application of the circular is not expected to have any material impact on the Bank's financial statements.

3. Update to Q&A file concerning implementation of Public Reporting Directives with regard to impaired debt, credit risk and provision for credit losses

On February 20, 2017, the Supervisor of Banks issued a Q&A file concerning implementation of Public Reporting Directives with regard to impaired debt, credit risk and provision for credit losses

The file includes clarifications with regard to definition of primary repayment source, with regard to classification of troubled debt and clarification of the treatment of leveraged loans. The clarifications are as follows:

- Primary repayment source is defined as a stable cash source over time, which must be controlled by the debtor and must be separated, explicitly or by nature, for debt service. Notwithstanding support from secondary and tertiary repayment sources, appropriate debt classification, through default or when default is highly likely, is based in general on the debtor's repayment capacity, i.e. expected robustness of the primary repayment source.
- Classification of leveraged loans:
  - With leveraged loans, the primary repayment source is the debtor's capacity to generate sufficient cash flow. Secondary repayment sources may include collateral, sale of assets, re- financing and equity issuance. Clarification was given whereby debt re- financing, equity issuance and sale of assets may not be considered a primary repayment source (except for unusual circumstances).
  - Loans with "Lenient financial covenants" should not be automatically classified as troubled loans.
  - A low ratio of debt to company valuation is not sufficient for avoiding classification as troubled debt.
  - Leveraged loans with debt to EBITDA ratio higher than 6 may require more stringent review, in order to assess the robustness of the capital structure and the borrower's repayment capacity.

These changes would apply as from July 1, 2017.

The Bank is reviewing the effect of these clarifications to the Q&A on its financial statements.

Note 2 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
A. Interest revenues[(1)]			
From loans to the public	1,301	839	5,157
From loans to Governments	3	1	10
From deposits with the Bank of Israel and from cash	17	9	46
From deposits with banks	3	1	5
From securities loaned or acquired in resale agreements	-	-	-
From debentures	32	18	93
Total interest revenues	1,356	868	5,311
B. Interest expenses			
On deposits from the public	227	115	1,045
On deposits from governments	-	-	2
On deposits from banks	3	1	12
On debentures and subordinated notes	98	(8)	472
On other liabilities	1	-	2
Total interest expenses	329	108	1,533
Total interest revenues, net	1,027	760	3,778
C. Details of net effect of hedging derivative instruments on interest revenues	(4)	(17)	(24)
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	10	7	40
Available for sale	21	9	49
Held for trading	1	2	4
Total included under interest revenues	32	18	93

(1) Includes the effective element in the hedging ratios.

Note 3 - Non- interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
A. Non- interest financing revenues (expenses) with respect to non- trading operations			
1. From activity in derivative instruments			
Non- effective element of hedging ratios[(1)]	(3)	-	8
Net revenues (expenses) with respect to ALM derivatives[(2)]	(785)	(168)	(244)
Total from activity in derivative instruments	(788)	(168)	(236)
2. From investment in debentures			
Gains on sale of debentures available for sale	10	31	58
Total from investment in debentures	10	31	58
3. Exchange rate differences, net	799	338	364
4. Gain from investment in shares			
Gains on sale of available- for- sale shares	1	-	3
Dividends from available- for- sale shares	3	2	3
Total from investment in shares	4	2	6
5. Net gain with respect to loans sold	1	15	45
Total non- interest financing revenues with respect to non- trade operations	26	218	237
B. Non- interest financing revenues (expenses)with respect to trading operations[(1)]			
Net revenues (expenses) with respect to other derivative instruments	(24)	(151)	44
Realized gains (losses) from adjustment to fair value of debentures held for trade, net	(2)	2	(1)
Unrealized gains (losses) from adjustment to fair value of debentures held for trade, net	(1)	(2)	15
Total from trading operations[(2)]	(27)	(151)	58
Details of non- interest financing revenues (expenses) with respect to trading operations, by risk exposure			
Interest exposure	2	(1)	(3)
Foreign currency exposure	(28)	(150)	65
Exposure to shares	1	(1)	1
Exposure to commodities and others	(2)	1	(5)
Total	(27)	(151)	58

(1) Includes exchange rate differentials resulting from trade operations.

(2) For interest revenues from investment in debentures held for trade, see Note 2.D.

Note 4 - Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

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

	Other comprehensive income (loss), before attribution to non-controlling interest						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments [1]	Net gain from cash flow hedges	Adjustments with respect to employee benefits	Total	Other comprehensive income attributed to non- controlling interests	Other comprehensive income attributable to shareholders of the Bank
							For the three months ended March 31, 2017
							(unaudited)
Balance as of December 31, 2016	(29)	1	9	(303)	(322)	(5)	(317)
Net change in the period	7	(1)	(1)	14	19	-	19
Balance as of March 31, 2017	(22)	0	8	(289)	(303)	(5)	(298)
							For the three months ended March 31, 2016
							(unaudited)
Balance as of December 31, 2015	(12)	-	14	(104)	(102)	(5)	(97)
Net change in the period	21	-	(4)	(20)	(3)	(2)	(1)
Balance as of March 31, 2016	9	-	10	(124)	(105)	(7)	(98)
							For the year ended December 31, 2016
							(audited)
Balance as of December 31, 2015	(12)	-	14	(104)	(102)	(5)	(97)
Net change in the period	(17)	1	(5)	(199)[2]	(220)	-	(220)
Balance as of December 31, 2016	(29)	1	9	(303)	(322)	(5)	(317)

(1) Foreign currency translation adjustment of associates whose functional currency differs from that of the Bank.

(2) Includes the cost of update to the actuarial liability with respect to the streamlining plan, amounting to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity.

Note 4 - Cumulative other comprehensive income (loss) - continued

Reported amounts (NIS in millions)

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

	For the three months ended March 31,						For the year ended December 31,		
	2017			2016			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income (loss), before attribution to non- controlling interests:									
Adjustments for presentation of securities available for sale at fair value									
Net unrealized gains (losses) from adjustments to fair value	21	(8)	13	65	(24)	41	32	(11)	21
Losses (gains) with respect to available- for- sale securities reclassified to the statement of profit and loss(1)	(10)	4	(6)	(31)	11	(20)	(58)	20	(38)
Net change in the period	11	(4)	7	34	(13)	21	(26)	9	(17)
Translation adjustments									
Adjustments from translation of financial statements(2)	(1)	-	(1)	-	-	-	1	-	1
Net change in the period	(1)	-	(1)	-	-	-	1	-	1
Cash flows hedges									
Net gains (losses) with respect to cash flows hedging	(1)	-	(1)	(6)	2	(4)	(9)	4	(5)
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss(3)	-	-	-	-	-	-	-	-	-
Net change in the period	(1)	-	(1)	(6)	2	(4)	(9)	4	(5)
Employee benefits									
Net actuarial gain (loss) for the period	18	(6)	12	(31)	10	(21)	(4)(303)	98	(205)
Net losses reclassified to the statement of profit and loss	3	(1)	2	2	(1)	1	9	(3)	6
Net change in the period	21	(7)	14	(29)	9	(20)	(294)	95	(199)
Total net change in the period	30	(11)	19	(1)	(2)	(3)	(328)	108	(220)
Total net change in the period attributable to non- controlling interests	-	-	-	2	-	2	-	-	-
Total net change in the period attributable to shareholders of the Bank	30	(11)	19	1	(2)	(1)	(328)	108	(220)

(1) Pre- tax amount included in the statement of profit and loss under "Non- interest financing revenues". For details, see Note 3.A.2. to the financial statements.

(2) Foreign currency translation adjustment of associates whose functional currency differs from that of the Bank.

(3) Pre- tax amount included in the statement of profit and loss under "Interest revenues". For more information see Note 2.C. to the financial statements.

(4) Includes the cost of update to the actuarial liability with respect to the streamlining plan, amounting to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity.

Note 5 - Securities

March 31, 2017 (unaudited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[(1)]
(1) Debentures held to maturity					
of Government of Israel	3,250	3,250	76	-	3,326
Total debentures held to maturity	3,250	3,250	76	-	3,326

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[(1)]
			Gains	Losses	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[(2)]	6,585	6,585	18	(18)	6,585
Of foreign governments [(2)(5)]	1,625	1,658	1	(34)	1,625
Of foreign financial institutions	18	18	-	-	18
Of others overseas	18	19	-	(1)	18
Total debentures available for sale	8,246	8,280	19	(53)	8,246
Shares[(3)]	93	93	-	-	93
Total securities available for sale	8,339	8,373	[(4)]19	[(4)](53)	8,339

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[(1)]
(3) Securities held for trade					
Debentures -					
of Government of Israel	202	202	-	-	202
Total securities held for trade	202	202	-	-	202
Total securities	11,791	11,825	95	(53)	11,867

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Includes: Securities pledged to lenders, amounting to NIS 494 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 91 million.

(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(5) Primarily US government debentures.

Remarks:

(1) For more information about operations involving investments in debentures - see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investment in shares - see Note 3.A.4 to the financial statements.

(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities.

Note 5 - Securities - Continued

March 31, 2016 (unaudited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	3,221	3,221	94	-	3,315
Total debentures held to maturity	3,221	3,221	94	-	3,315

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[1]
			Gains	Losses	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[2]	4,862	4,848	29	(15)	4,862
Of foreign governments [2][5]	207	207	-	-	207
Of foreign financial institutions	94	94	-	-	94
Of others overseas	19	19	-	-	19
Total debentures available for sale	5,182	5,168	29	(15)	5,182
Shares[3]	100	101	-	(1)	100
Total securities available for sale	5,282	5,269	[4]29	[4](16)	5,282

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
of Government of Israel	510	510	-	-	510
Total securities held for trade	510	510	-	-	510
Total securities	9,013	9,000	123	(16)	9,107

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Includes: Securities pledged to lenders, amounting to NIS 524 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 97 million.

(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(5) Primarily US government debentures.

Remarks:

(1) For more information about operations involving investments in debentures - see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investment in shares - see Note 3.A.4 to the financial statements.

(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities. See also chapter "Risks Overview" in the Report of the Board of Directors and Management, with regard to exposure to foreign countries.

Note 5 - Securities - Continued

As of December 31, 2016 (audited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	3,236	3,236	75	-	3,311
Total debentures held to maturity	3,236	3,236	75	-	3,311

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[1]
			Gains	Losses	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[2]	5,002	5,007	29	(34)	5,002
Of foreign governments [2][5]	1,538	1,578	1	(41)	1,538
Of foreign financial institutions	19	19	-	-	19
Of others overseas	19	19	-	-	19
Total debentures available for sale	6,578	6,623	30	(75)	6,578
Shares[3]	100	101	-	(1)	100
Total securities available for sale	6,678	6,724	[4]30	[4](76)	6,678

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
of Government of Israel	348	347	1	-	348
Total securities held for trade	348	347	1	-	348
Total securities	10,262	10,307	106	(76)	10,337

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Includes: Securities pledged to lenders, amounting to NIS 452 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 98 million.

(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(5) Primarily US government debentures.

Remarks:

(1) For more information about operations involving investments in debentures - see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investment in shares - see Note 3.A.4 to the financial statements.

(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities.

Note 5 - Securities - Continued

Reported amounts (NIS in millions)

(4) Fair value and unrealized losses, by time period and impairment rate, of securities available for sale, which include unrealized loss:

	As of March 31, 2017							
	Less than 12 months				12 months or more			
		Unrealized losses				Unrealized losses		
	Fair value(1)	0%- 20%	20%- 40%	Total	Fair value(1)	0%- 20%	20%- 40%	Total
Debentures -								
of Government of Israel	3,272	18	-	18	184	1	-	1
Of foreign governments	1,289	34	-	34	-	-	-	-
Total securities available for sale	4,561	52	-	52	184	1	-	1

	As of March 31, 2016							
	Less than 12 months				12 months or more			
		Unrealized losses				Unrealized losses		
	Fair value(1)	0%- 20%	20%- 40%	Total	Fair value(1)	0%- 20%	20%- 40%	Total
Debentures -								
of Government of Israel	287	1	-	1	104	12	2	14
Of foreign governments	-	-	-	-	1	1	-	1
Total securities available for sale	287	1	-	1	105	13	2	15

	As of December 31, 2016							
	Less than 12 months				12 months or more			
		Unrealized losses				Unrealized losses		
	Fair value(1)	0%- 20%	20%- 40%	Total	Fair value(1)	0%- 20%	20%- 40%	Total
Debentures -								
of Government of Israel	3,971	34	-	34	184	-	-	-
Of foreign governments	1,245	40	-	40	-	1	-	1
Shares	-	-	-	-	3	1	-	1
Total securities available for sale	5,216	74	-	74	187	2	-	2

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) The Bank has no securities in a position with unrecognized loss.

(5) Asset- backed and mortgage- backed securities

As of March 31, 2017, March 31, 2016 and December 31, 2016, there was no balance of asset- backed or mortgage- backed securities.

Note 6 - Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[(1)], loans to the public and balance of provision for credit losses

	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
						March 31, 2017
Recorded debt balance of debt s[(1)]						
reviewed on individual basis	29,964	36	553	30,553	3,087	33,640
reviewed on group basis	9,754	116,304	17,922	143,980	-	143,980
Of which: By extent of arrears[(3)]	1,053	115,650	-	116,703	-	116,703
Total debts	39,718	[(2)]116,340	18,475	174,533	3,087	177,620
Of which:						
Impaired debts under restructuring	102	-	47	149	-	149
Other impaired debts	464	36	19	519	-	519
Total impaired debts	566	36	66	668	-	668
Debts in arrears 90 days or longer	61	900	24	985	-	985
Other problematic debts	810	-	89	899	-	899
Total problematic debts	1,437	936	179	2,552	-	2,552
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	537	2	20	559	1	560
reviewed on group basis	108	610	188	906	-	906
Of which: Provision by extent of arrears[(3)]	5	610	-	615	-	615
Total provision for credit losses	645	612	208	1,465	1	1,466
Of which: With respect to impaired debts	135	2	13	150	-	150

	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
						March 31, 2016
Recorded debt balance of debt s[(1)]						
reviewed on individual basis	29,574	27	778	30,379	4,599	34,979
reviewed on group basis	[(4)]9,098	108,296	[(4)]15,678	133,072	-	133,074
Of which: By extent of arrears[(3)]	1,130	107,716	-	108,846	-	108,848
Total debts	38,672	[(2)]108,323	16,456	163,451	4,599	168,053
Of which:						
Impaired debts under restructuring	166	-	51	217	-	217
Other impaired debts	580	27	28	635	-	635
Total impaired debts	746	27	79	852	-	852
Debts in arrears 90 days or longer	38	877	19	934	-	934
Other problematic debts	310	-	87	397	-	397
Total problematic debts	1,094	904	185	2,183	-	2,183
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	509	1	18	528	2	530
reviewed on group basis	[(4)]86	602	[(4)]162	850	-	850
Of which: Provision by extent of arrears[(3)]	4	602	-	606	-	606
Total provision for credit losses	595	603	180	1,378	2	1,380
Of which: With respect to impaired debts	127	1	12	140	-	140

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general- purpose loans secured by a lien on a residential apartment, amounting to NIS 5,844 million (as of March 31, 2016 - NIS 5,467 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 406 million (as of March 31, 2016: NIS 376 million).

(4) Reclassified.

Note 6 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses - continued

						December 31, 2016
	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
Recorded debt balance of debt s[1]						
reviewed on individual basis	29,972	27	725	30,724	2,839	33,563
reviewed on group basis	9,634	114,959	17,462	142,055	-	142,055
Of which: By extent of arrears[3]	1,243	114,373	-	115,616	-	115,616
Total debts	39,606	[2]114,986	18,187	172,779	2,839	175,618
Of which:						
Impaired debts under restructuring	102	-	46	148	-	148
Other impaired debts	482	27	24	533	-	533
Total impaired debts	584	27	70	681	-	681
Debts in arrears 90 days or longer	79	853	26	958	-	958
Other problematic debts	762	-	89	851	-	851
Total problematic debts	1,425	880	185	2,490	-	2,490
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	518	2	7	527	2	529
reviewed on group basis	108	613	190	911	-	911
Of which: Provision by extent of arrears[3]	5	613	-	618	-	618
Total provision for credit losses	626	615	197	1,438	2	1,440
Of which: With respect to impaired debts	132	2	12	146	-	146

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general- purpose loans secured by a lien on a residential apartment, amounting to NIS 5,731 million.

(3) Includes balance of provision in excess of that required by the extent of arrears method, assessed on group basis, amounting to NIS 401 million.

Note 6 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

						March 31, 2017
	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	26	-	24	50	(1)	49
Net accounting write- off[(1)]	(37)	(3)	(30)	(70)	-	(70)
Recovery of debts written off in previous years[(1)]	17	-	14	31	-	31
Net accounting write- offs	(20)	(3)	(16)	(39)	-	(39)
Balance of provision for credit losses at end of period	730	612	216	1,558	1	1,559
Of which: With respect to off balance sheet credit instruments	85	-	8	93	-	93

						March 31, 2016
Balance of provision for credit losses at start of period	700	614	192	1,506	3	1,509
Expenses with respect to credit losses	-	(9)	13	4	(1)	3
Net accounting write- off[(1)]	(49)	(2)	(33)	(84)	-	(84)
Recovery of debts written off in previous years[(1)]	22	-	16	38	-	38
Net accounting write- offs	(27)	(2)	(17)	(46)	-	(46)
Balance of provision for credit losses at end of period	673	603	188	1,464	2	1,466
Of which: With respect to off balance sheet credit instruments	78	-	8	86	-	86

(1) Net accounting write- offs presented in the Note primarily consists of write- offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of provision for large impaired debt s will typically be subject to accounting write- off after two years. Debt measured on group basis will be subject to write- off after 150 days in arrears. This means that the Bank's collection effort may sometimes take longer than the timing for write- off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 7 - Deposits from the Public
Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	March 31,		December 31,
	2017	2016	2016
	(unaudited)		(audited)
In Israel			
On- call			
Non interest- bearing	38,501	35,222	40,470
Interest- bearing	19,648	16,943	18,935
Total on- call	58,149	52,165	59,405
Term deposits	117,114	108,205	113,598
Total deposits in Israel	175,263	160,370	173,003
Outside of Israel			
On- call			
Non interest- bearing	657	615	694
Interest- bearing	7	6	7
Total on- call	664	621	701
Term deposits	4,795	4,010	4,548
Total deposits overseas	5,459	4,631	5,249
Total deposits from the public	180,722	165,001	178,252
(1) Of which:			
Deposits from individuals	83,711	78,296	82,501
Deposits from institutional investors	38,759	34,054	35,964
Deposits from corporations and others	52,793	48,020	54,538

B. Deposits from the public by size

	March 31,		December 31,
	2017	2016[(1)]	2016
	(unaudited)		(audited)
Maximum deposit			
Up to 1	60,868	56,691	59,606
Over 1 to 10	39,146	35,624	38,805
Over 10 to 100	26,013	23,018	25,042
Over 100 to 500	27,311	21,807	24,120
Above 500	27,384	27,861	30,679
Total	180,722	165,001	178,252

(1) Reclassified. Reclassification was due to adjustment of deposit composition by size, to also take into consideration the independent legal entity of depositors. Previously, some deposits have been classified as a single depositor group with no such distinction.

Note 8 - Employee Rights

1. Employment terms of the vast majority of Group employees and managers are subject to provisions of collective bargaining agreements. Liabilities to these employees, except for Bank Yahav employees, are covered by regular deposits to pension, provident and severance- pay funds, which release the Bank from severance- pay liabilities for those employees by law. For more information about various benefits to Bank employees and managers, see Note 22 to the financial statements as of December 31, 2016.

2. Remuneration policy for all Bank employees other than officers

On March 20, 2017, the Bank's Board of Directors, based on recommendations by the Remuneration Committee, approved a remuneration policy for all Bank employees other than officers. The remuneration policy is based on Proper Banking Conduct Directive 301A with regard to remuneration policy at banking corporations (hereinafter: "the remuneration policy").

The remuneration policy discusses remuneration terms of key employees at the Bank (including senior managers other than key employees) and those of other managers at the Bank and of other Bank employees for 2017- 2019.

The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

3. Net benefit cost components recognized in profit and loss with respect to defined- benefit and defined-contribution pension plans (NIS in millions):

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
		(unaudited)	(audited)
Cost of service(1)	10	6	26
Cost of interest(2)	10	7	31
Expected return on plan assets(3)	(1)	(1)	(4)
Deduction of non- allowed amounts:			
Net actuarial loss(4)	3	2	9
Total benefit cost, net	22	14	62
Total expense with respect to defined- contribution pension	30	28	114
Total expenses included in payroll and associated expenses	52	42	176

4. Deposits to defined- benefit pension plans (NIS in millions):

	Forecast	Actual deposits		
	For(5)	For the three months ended March 31,		For the year ended December 31,
	2017	2017	2016	2016
			(unaudited)	(audited)
Deposits	4.5	1.5	1.4	6.2

(1) Cost of service is the current accrual of future employee benefits in the period.
(2) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.
(3) Expected return is the expected return on plan assets, determined based on expected long- term rates of return on plan assets and based on the established market value of plan assets.
(4) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.
(5) Estimated deposits to be paid into defined- benefit pension plans through end of 2017.

Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks

Reported amounts (NIS in millions)

A. Capital adequacy pursuant to directives of the Supervisor of Banks

Calculated in accordance with Proper Banking Conduct Directives 201- 211 "Measurement and Capital Adequacy"

	March 31,		December 31,
	2017	2016	2016
	(unaudited)		(audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I shareholders' equity	13,533	12,490	13,318
Tier I capital	13,533	12,490	13,318
Tier II capital	4,442	4,598	4,888
Total capital	17,975	17,088	18,206
B. Weighted risk asset balances			
Credit risk	124,319	120,752	122,605
Market risks	1,266	957	1,184
Operating risk	8,198	7,744	8,113
Total weighted risk asset balances	133,783	129,453	(1)131,902
			In %
C. Ratio of capital to risk elements			
Bank data:			
Ratio of Tier I capital to risk elements	10.12	9.65	10.10
Ratio of Tier I capital to risk elements	10.12	9.65	10.10
Ratio of total capital to risk elements	13.44	13.20	13.80
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.87	9.42	9.76
Total minimum capital ratio required by the Supervisor of Banks(2)	13.37	12.92	13.26
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Ratio of Tier I capital to risk elements	9.53	10.53	9.41
Ratio of Tier I capital to risk elements	9.53	10.53	9.41
Ratio of total capital to risk elements	13.42	13.66	13.27
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks(3)	12.50	13.00	12.50

(1) Of the total weighted balance of risk assets, NIS 230 million was deducted due to adjustments with respect to the streamlining plan.

(2) Capital ratios required by the Supervisor of Banks as from January 1, 2015. As from January 1, 2015, an additional capital requirement was added to these ratios at 1% of the housing loan balance as of the reporting date. This requirement was gradually implemented through January 1, 2017.

(3) In May 2016, the Bank of Israel reduced its overall capital ratio requirement for Bank Yahav from 13.00% to 12.50%.

Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

Reported amounts (NIS in millions)

A. Capital adequacy pursuant to directives of the Supervisor of Banks - continued

Calculated in accordance with Proper Banking Conduct Directives 201- 211 "Measurement and Capital Adequacy" - continued

	March 31,		December 31,
	2017	2016	2016
	(unaudited)		(audited)
3. Capital components for calculation of capital ratio (on consolidated basis)			
A. Tier I capital			
Shareholders' equity	13,634	12,672	13,324
Differences between shareholder equity and Tier I capital	(173)	(80)	(91)
Total Tier I equity before regulatory adjustments and deductions	13,461	12,592	13,233
Regulatory adjustments and deductions:			
Goodwill	(87)	(87)	(87)
Regulatory adjustments and other deductions - Tier I capital	(19)	(15)	(16)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan - Tier I capital	(106)	(102)	(103)
Total adjustments with respect to the streamlining plan - Tier I capital	178	-	188
Total Tier I capital after regulatory adjustments and deductions	13,533	12,490	13,318
B. Tier II capital			
Tier II capital: Instruments, before deductions	3,044	3,276	3,491
Tier II capital: Provisions, before deductions	1,398	1,322	1,397
Total Tier II capital, before deductions	4,442	4,598	4,888
Deductions:			
Total deductions - Tier II capital	-	-	-
Total Tier II capital	4,442	4,598	4,888
4. Effect of transitional provisions on Tier I capital ratio (for details see sections J. and K. below):			
Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements, before effect of transition provision of Directive 299 and before effect of adjustments with respect to the streamlining plan(1)	9.92%	9.52%	9.83%
Effect of transition provisions, before effect of adjustments with respect to the streamlining plan	0.06%	0.13%	0.13%
Effect of adjustments with respect to the streamlining plan	0.14%	-	0.14%
Ratio of Tier I equity to risk elements before application of transitional provisions	10.12%	9.65%	10.10%

(1) Including adoption of US GAAP with regard to employee rights.

Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

Reported amounts (NIS in millions)

B. Liquidity coverage ratio pursuant to directives of the Supervisor of Banks

Calculated in accordance with Proper Banking Conduct Directive 221 "Liquidity coverage ratio"

	March 31,		December 31,
	2017	2016	2016
	(unaudited)		(audited)
	In %		
1. Consolidated data[1]			
Liquidity coverage ratio	118	97	117
Minimum liquidity coverage ratio required by the Supervisor of Banks[2]	100	80	80
2. Bank data			
Liquidity coverage ratio	118	97	117
Minimum liquidity coverage ratio required by the Supervisor of Banks[2]	100	80	80
3. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Liquidity coverage ratio	353	808	286
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100

(1) In terms of simple average of daily observations during the reported quarter.

(2) As from January 1, 2017, the minimum liquidity coverage ratio required by the Supervisor of Banks is 100%.

C. Leverage ratio pursuant to directives of the Supervisor of Banks

Calculated in conformity with Proper Banking Conduct Directive 218 "Leverage ratio"

	March 31,		December 31,
	2017	2016	2016
	(unaudited)		(audited)
1. Consolidated data			
Tier I capital[1]	13,533	12,490	13,318
Total exposure	256,712	238,693	252,489
Leverage ratio	5.27	5.23	5.27
Minimum leverage ratio required by the Supervisor of Banks[2]	5.00	5.00	5.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Leverage ratio	5.04	4.93	5.00
Minimum leverage ratio required by the Supervisor of Banks[2][3]	4.70	4.70	4.70

(1) For effect of transition provisions and effect of adjustments with respect to the streamlining plan, see sections A.3, A.4 above.

(2) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018.

(3) In March 2016, the Supervisor of Banks specified that the minimum leverage ratio required of Bank Yahav is 4.70%.

Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

D. On June 30, 2010, the Supervisor of Banks issued a letter to banking corporations, on capital policies for interim periods, in which they are required to adopt a target for Tier I capital ratio by December 31, 2010, to be no less than 7.5%. Concurrently, the banks are required to submit to the Supervisor a work plan for achieving this target. The letter further stipulates that in absence of prior approval by the Supervisor of Banks, the bank shall not distribute dividends if the target has not been achieved, or if such dividend distribution would cause the bank not to achieve the target. This directive is intended to clarify the expectations of the Supervisor of Banks from banking corporations in the interim period, pending adaptation of the Supervisor's directives to emerging changes in recommendations of the Basel Committee.

E. On October 25, 2010, the Bank's Board of Directors decided that the target core capital ratio would be no less than 7.5%. Further, the Board of Directors resolved to direct Bank management to act so as to maintain appropriate safety margins, in order to ensure that the core capital ratio shall be no less than the foregoing. The Bank's Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

F. On March 28, 2012, the Supervisor of Banks issued a directive to all banking corporations, citing a higher minimum core capital ratio than the one currently required. According to the directive, all banking corporations would be required to achieve a minimum core capital ratio of 9% by January 1, 2015. In addition, large banking corporations, whose total consolidated balance sheet assets exceed 20% of total balance sheet assets for the Israeli banking sector, would be required to achieve a minimum core capital ratio of 10% by January 1, 2017. The directive with regard to a minimum core capital ratio of 10% does not apply to the Bank.

G. On July 23, 2012, the Bank's Board of Directors instructed Bank management to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

H. On March 21, 2013, the Supervisor of Banks issued directives with regard to residential real estate. In conformity with the directives, capital allocation for loans originated as from January 1, 2013 is calculated using the following weighting:

For loans with LTV up to 45%	- 35% risk weighting
For loans with LTV from 45% to 60%	- 50% risk weighting
For loans with LTV over 60%	- 75% risk weighting
For leveraged loans with LTV ratio over 60% with A variable interest component of 25% or higher	- 75% risk weighting
This compares with the former weighting:	
For loans with LTV up to 75%	- 35% risk weighting
For loans with LTV over 75%	- 75% risk weighting
For leveraged loans with LTV ratio over 60% with A variable interest component of 25% or higher	- 100% risk weighting

In addition, the credit conversion factor for guarantees to secure investments of apartment buyers was reduced from 20% to 10% if the apartment has been delivered to the resident.

I. On April 30, 2013, the Supervisor of Banks issued a letter confirming that notes to be issued by the Bank would count as lower Tier II capital with regard to maintaining a minimum capital ratio.
Changes to conditions for recognition as lower Tier II capital, following implementation of Basel III directives, would retroactively apply to these notes.

Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

J. On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Banking Conduct Directives 201- 211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets (hereinafter: “the directives”).

The amendments to the regulations are primarily focused on improving capital quality and size and improving the coverage for Credit Valuation Adjustment (CVA) risk.

The directives are effective as from January 1, 2014, subject to transitional provisions.

Below are the key amendments included in these directives:

- **Capital structure**

  Supervisory capital would be composed of only two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.

  The requirement for Tier III capital to cover market risk was eliminated.

- **Qualified capital instruments for Tier I additional capital and Tier II capital**

  Qualification criteria were specified for capital instruments classified as Tier I additional capital and as Tier II capital. These instruments are to include a mechanism for absorbing losses of principal, whereby conversion into shares or principal reduction would take place when the Tier I equity ratio drops below 7% for Tier I additional capital instruments, or below 5% for Tier II capital instruments.

- **Non- controlling interest**

  The amount of non- controlling interest recognized as capital would be limited, and excess equity of a subsidiary would not be recognized.

- **Group provision for credit losses**

  The amount of the group provision would be recognized as Tier II capital up to 1.25% of weighted risk assets for credit risk.

  On the other hand, the provision amount would be added to the weighted risk assets for credit risk.

- **Adjustments to and deductions from supervisory capital**

  - Deferred taxes due to temporary differences would be accounted for as follows:

    Up to 10% of Tier I equity - weighted at 250% risk weighting.

    Over 10% of Tier I equity - would be deducted from capital.
  - Investments in equity components of financial institutions - banks, insurance companies and any company doing business in the capital market segment - would be accounted for as a deduction from capital or by risk weighting, subject to specified tests.
  - The accumulated gain with respect to cash flow hedging of items not listed at fair value on the balance sheet - would be deducted from capital. This means that positive amounts would be deducted from capital and negative amounts would be added to capital.
  - Accounting adjustments with respect to liabilities of derivatives arising from a change in the Bank's credit risk (Debit Valuation Adjustment - DVA) would be deducted from capital.

- **Capital allocation with respect to CVA loss (Credit Value Adjustments) - loss due to revaluation at market value with respect to counter- party credit risk.**

  In addition to capital requirement with respect to default risk arising from counter- party credit risk under the standard approach, an additional capital allocation is required to cover the risk of potential loss which may arise from marking to market value of OTC derivatives.

  In order to comply with the new requirements in conjunction with application of the Basel III directives, a graduated transition period of several years was specified, until these directives are completely applied.

  - Supervisory adjustments and deductions from capital and non- controlling interest not qualified for inclusion under supervisory capital - an annual 20% deduction as from January 1, 2014.
  - Capital instruments not qualified as supervisory capital - recognition of 80% of the balance of such instruments as from the effective start date and a 10% deduction annually through January 1, 2022.

Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

The amendment to Directive 202 stipulates that the target date for compliance with the minimum 9% Tier I capital ratio for a non- large banking corporation is January 1, 2015 - in line with the Supervisor of Banks' letter dated March 28, 2012.

The Bank is prepared to implement these directives and is reviewing their impact on the Bank's strategic plan.

K. Following the publication of these directives, the Bank has revisited its compliance with the schedules for achieving the target core capital ratio of no less than 9%

Following this review and based on assumptions, as of the review date, with regard to expected profit in 2013- 2014 and to growth rate of risk assets, the Bank presented to the Supervisor of Banks an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.

After checking with the Supervisor of Banks, the Bank's Board of Directors resolved, on August 14, 2013, to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to bringing forward the implementation of the Supervisor of Banks' directives, dated March 28, 2012, with the intention of implementing these, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012- 01- 191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

L. On August 29, 2013, the Supervisor of Banks issued directives with regard to "Restrictions on provision of housing loans". According to the directives, as from September 1, 2013 a bank may not approve nor originate housing loans where the ratio of monthly repayment to borrower income exceeds 50%.

Furthermore, loans with a ratio of monthly repayment to borrower income in excess of 40% will have a 100% risk weighting in calculation of capital allocation.

M. On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Banking Conduct Directive no. 329, as well as a Q&A file on this issue. The circular consists of two amendments to the directive:

- Increase to the capital target - the target Tier I capital to risk elements ratio is to include an addition equal to 1% of the housing loan portfolio balance. The equity targets would be increased by fixed quarterly steps from January 1, 2015 to January 1, 2017 (over eight quarters).
- Risk weighting of leveraged loans bearing variable interest - the risk weighting of leveraged loans bearing variable interest would be reduced from 100% to 75%.

Following implementation of this directive, the target ratio of Tier I capital to risk elements increased by 0.1%, according to data as of the reporting date, in each of the seven quarters as from the implementation date of this directive, for a total increase of 0.87% when implementation is complete. This target may change based on actual data for the housing loan portfolio and for total risk assets.

N. On December 23, 2014, the Bank's Board of Directors resolved to approve the revised dividend distribution policy for 2015 and 2016. The revised dividends policy calls for dividends to be distributed with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015), at a rate of up to 15% of net profit attributable to shareholders.

The revised dividends policies are subject to the Bank's maintaining proper safety margins, as specified for this matter, so that the Bank's Tier I capital ratio would not be lower than the target required by the Supervisor of Banks' directives, as adopted by the Board of Directors.

Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

O. As from January 1, 2015, the Bank has adopted US GAAP with regard to employee rights.

In conformity with transition provisions specified in Proper Banking Conduct Directive 299, a cumulative other comprehensive loss balance and amounts directly charged to retained earnings as of January 1, 2013 with respect to remeasurement of net liabilities or net assets with respect to defined benefit to employees, would not be immediately taken into account for calculation of the capital requirements, but would rather be subject to transitional provisions, so that the impact would be applied at equal rates of 20% as from January 1, 2014, 40% as from January 1, 2015 and through to full application as from January 1, 2018.

P. On April 28, 2015, the Supervisor of Banks issued a new Proper Banking Conduct Directive 218 concerning "Leverage ratio". This directive adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital according to Basel rules to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off- balance sheet items.

According to the directive, banking corporations shall maintain a leverage ratio of 5% or higher on a consolidated basis, as from January 1, 2018. Banking corporations which comply with the requirement upon publication of the directive may not drop below the threshold stated in the regulation. Any banking corporation which does not meet the requirements of this directive is required to increase its leverage ratio at fixed quarterly steps by January 1, 2018.

Q. On October 22, 2015, the Supervisor of Banks issued a circular concerning capital requirements with respect to exposure to central counter- parties (CCP). The circular includes an amendment to Proper Banking Conduct Directive 203 with regard to capital measurement and adequacy, in conformity with directives of the Basel Committee on this matter.

The directive stipulates rules for treatment of exposure to clearinghouses, arising from trading of OTC derivatives, from transactions in negotiable derivatives and from transactions for financing securities.

Below are highlights of the amended directive:

- A central counter- party has been defined as a clearinghouse operating as a financial broker between counter- parties to contracts traded on a financial market.
- The trading exposure of a bank which is a member of the clearinghouse to a qualified central counter- party (QCCP) would be weighted at a risk weighting of 2% (compared to zero exposure currently). The trading exposure of a bank which is a member of the clearinghouse, that makes transfers to the clearinghouse's risk fund would be weighted in conformity with a formula specified in the directive.
- The trading exposure of a bank which is a member of the clearinghouse to clients active on a stock exchange in Israel would be calculated based on the calculation method for bi- lateral transactions (compared to current calculation according to rules of the stock exchange in Israel).
- The trading exposure of a bank acting through a member of the clearinghouse would carry a risk weighting of 2% or 4%, subject to compliance with business, operational and legal conditions specified in the directive.
- The trading exposure of a bank to a Non- Qualified Central Counter- Party would carry a risk weighting as applicable to that counter- party.

Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

On June 9, 2016, the Supervisor of Banks issued a letter, whereby the provisions of the circular would apply as from January 1, 2017.

Note that the provision allows the Tel Aviv Stock Exchange to be treated as a Qualified Central Counter- Party through June 30, 2017.

On December 28, 2016, the Supervisor of Banks' issued a letter whereby, notwithstanding the foregoing, calculation of exposure with respect to clients with activities on the MAOF stock exchange would continue to be based on the scenario method.

The Bank is applying this directive.

R. In December 2015 and in January 2016, the Bank issued contingent subordinated notes (Contingent Convertibles - CoCo) with loss- absorption provisions through principal write- off, amounting to NIS 600 million.

These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

The notes include loss- absorption provisions if the Bank's Tier I equity should drop below 5% or in case of another event leading to non- sustainability of the Bank, in conformity with the Supervisor of Banks' decision.

In such case, the notes would be partially or completely written off.

Should the Tier I equity ratio exceed the minimum required ratio, the Bank may announce a principal write- off, in whole or in part.

Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA- .

In July 2016, Bank Yahav issued contingent subordinated notes (Contingent Convertibles - Coco) with loss- absorption provisions through principal write- off, amounting to NIS 218 million.

These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

S. On November 21, 2016, the Bank’s Board of Directors approved a new five- year strategic plan for 2017- 2021 and resolved to approve a revised dividends policy as from 2017.

The Bank's revised dividends policy is to distribute dividends with respect to quarterly earnings, at 30% of net profit attributable to equity holders of the Bank.

The Bank has received approval from the Supervisor of Banks for the aforementioned outline of its revised dividends policies.

The Bank’s Board of Directors would monitor execution of the new strategic plan in order to consider optional increase of the aforementioned dividends rate by a further step as from 2018. This would be subject to approval by the Supervisor of Banks.

The revised dividends policy is subject to the Bank achieving a ratio of Tier I capital to risk elements as required by the Supervisor of Banks and maintaining appropriate safety margins.

Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

T. On December 27, 2016, the Bank's Board of Directors approved the streamlining plan recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017- 2021, at improved conditions.
Bank management is in negotiations with the employee union with regard to the retirement program and as a first step, has started implementation of the plan in the Technology Division Ltd., pending agreement with the employee union at the Bank.
The cost of update to the actuarial liability with respect to the streamlining plan, recorded on the financial statements as of December 31, 2016, amounts to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity (under Other Comprehensive Income).
In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system, the Supervisor of Banks allowed capital relief with respect to this plan. The Bank applies this capital relief so that supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining (a decrease by 0.14%) would be applied on a straight line basis as from 2017, over a five- year period.
For more information on the streamlining plan approved by the Bank Board of Directors on December 27, 2016, see Notes 22 and 25 to the 2016 financial statements.

U. On December 28, 2016, the Bank acquired an insurance policy for credit exposure due to guarantees provided by the Bank pursuant to the Sale Act (Apartments) (Securing Investments of Home Buyers), 1974 and obligations to issue such guarantees.
The insurance policy covers 80% of the guarantees amounting to NIS 15.5 billion and is effective as from December 31, 2016.
Obtaining this insurance resulted in a reduction of NIS 3.3 billion in the Bank's risk assets and in an increase of 0.25% in the Bank's Tier I capital ratio.

Note 10 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

		March 31,	December 31,
	2017	2016	2016
		(unaudited)	(audited)
Obligations with respect to:			
Long- term leases(1)	(2)2,419	736	(2)2,401
Computerization and software service contracts	280	224	233
Acquisition and renovation of buildings	11	4	6

(1) The Bank and subsidiaries have long- term leases on buildings and equipment for which the rental payments are as follows (subject to linkage conditions):

		March 31,	December 31,
	2017	2016	2016
		(unaudited)	(audited)
First year	162	**65**	162
Second year	157	63	155
Third year	155	61	153
Fourth year	147	53	145
Fifth year	146	50	143
Sixth year and thereafter	1,652	444	1,643
Total	2,419	**736**	2,401

(2) Includes IT and operating services provided to Bank Yahav by an international Tata Group company as from January 1, 2017. The company specializes, *inter alia*, in providing IT services to financial institutions and banking corporations world- wide. In this regard, Bank Yahav uses a core banking system which includes banking services in various channels, based on the bank's lines of business. Bank Yahav also receives operating services from the company with respect to IT systems it provides, as well as additional outsourced services.

Bank Yahav's contract with the company is a long- term one and Bank Yahav may optionally extend it for additional terms of up to 30 years.

Note 10 - Contingent Liabilities and Special Commitments - continued

B. Contingent liabilities and other special commitments

1. For details of other contingent liabilities and special commitments by the Bank group, see Note 26 to the 2016 financial statements. Below is a description of material changes relative to the Note provided in the 2016 annual report.
2. Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

   Below are details of material claims, including motions for class action status and claims where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2016 financial statements:

   A) In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank - firstly, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount. The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the aforementioned indications on the reporting forms, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt on Court Order Execution Service files is higher than the real debt, and over- charges in payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

      The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

      On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012.

      On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

The parties have agreed and launched a reconciliation process aimed to try and resolve their differences. The reconciliation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files.

The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon there after, in an attempt to reached an agreed arrangement.

On August 29, 2016, a Court hearing took place and the Court resolved that the parties to this lawsuit and to the lawsuit described in section E. below, should file a settlement agreement and motion for approval thereof, no later than October 30, 2016. The resolution dated November 7, 2016 allowed the parties an extension to file a settlement agreement and motion for approval thereof, no later than November 30, 2016.On January 16, 2017, a hearing took place with regard to the settlement agreement, after which it was agreed that the parties would file, within 45 days, a settlement agreement and motion for approval thereof; a hearing is scheduled for March 28, 2017. On March 28, 2017, a hearing took place with regard to the settlement agreement and in particular, concerning the issue of Court action and the scope thereof. The parties are to file the agreement and a motion for approval thereof with the Court by June 1, 2017; a hearing is scheduled for June 12, 2017.

B) In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to "hundreds of millions of NIS". No specific amount was specified in the statement of claim. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

In February 2012, the Bank filed its response to the motion and in August 2012, the plaintiff filed their response to the Bank's response to the motion.

In November 2012, the parties launched a reconciliation process designed to try and settle their disagreements. The reconciliation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files. The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon there after, in an attempt to reached an agreed arrangement.

Following direct negotiations between the parties, the parties reached an agreed settlement brought for approval by the Court on November 14, 2016. On January 16, 2017, a hearing took place at which the parties agreed for the Bank to respond to questions raised at the hearing with regard to the settlement agreement and motion for approval filed by the parties. On February 8, 2017, the Bank filed its comments with the Court. On March 7, 2017, the Court ordered that within 15 days, a revised announcement text is to be filed with the Court for approval, and a copy of the settlement agreement is to be sent to the Supervisor of Banks and to the Attorney General. On April 2, the Court approved the revised announcement text and on April 12, 2017, the announcement was published in the newspapers with regard to filing a motion for approval of a settlement agreement.

C) In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts. The plaintiff is unable to estimate the amount claimed.

The parties agreed to add this motion to the reconciliation process on- going with regard to other motions which also concern collection processes conducted by the Bank against clients in debt, as stated in sections A. and B. above and on January 4, 2016, a resolution was issued to refer the above claim for hearing by the same party as the above claims.

As noted above, the parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated and were recently resumed. Upon resumption of negotiations between the parties, on July 31, 2016 the Bank filed an agreed motion seeking an extension to file its response by September 30, 2016.

On August 29, 2016, a Court hearing took place and the Court resolved that the parties to this lawsuit and to the lawsuit described in section A. above, should file a settlement agreement and motion for approval thereof. Concurrently, the Court approved a further extension for the Bank to file its response to this motion, by November 30, 2016.

On January 16, 2017, a hearing took place with regard to the settlement agreement, at which it was agreed that the parties would file, within 45 days, a settlement agreement and motion for approval thereof. A hearing is scheduled for March 28, 2017.

On March 28, 2017, a hearing took place with regard to the settlement agreement and in particular, concerning the issue of Court action and the scope thereof. The parties are to file the agreement and a motion for approval thereof with the Court by June 1, 2017; a hearing is scheduled for June 12, 2017.

D) 1. In August 2013, a claim and motion for class action status in the amount of NIS 10.5 billion were filed with the Tel Aviv District Court against the 5 major banks, including the Bank, and against bank Presidents, including the Bank President & CEO, in person - with respect to unlawful charging of commissions by the banks with regard to foreign currency conversion and transfer, which the plaintiffs allege was made without proper disclosure. The plaintiffs also claim that a restrictive trade practice exists among the banks.
In September 2013, the defendants filed a motion with the Court, seeking dismissal of the personal claim against bank Presidents, and the individual claim against them was dismissed.
A revised motion for class action status filed on February 3, 2014 set the claim amount at NIS 11.15 billion for all banks on aggregate.
2. In March 2014, a claim and motion for class action status in the amount of NIS 2.07 billion were filed with the Tel Aviv District Court against the Bank and against Bank Otzar HaChayal, Mercantile Discount Bank, Bank Igud Le Israel and Bank Yahav, alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency (this claim is identical to the aforementioned one).
A motion has been filed to combine heating of this motion with the first aforementioned motion and the Court has agreed to said motion and has combined both claims.

On December 23, 2014. the Bank filed its response to each of the motions for class action status. The plaintiffs filed their response to the combined response to the two aforementioned motions, in which they attributed part of the claim amount to each of the plaintiffs; the Bank's alleged share for both these claims amounted to NIS 1.145 billion in principal.
On March 8, 2015, a pre- trial hearing of this case took place, after which the Court set deadlines for completion of the statements of claim by all parties.
On April 23, 2015, the plaintiffs filed, in conformity with the Court decision, a summary motion for approval of class action status, based on the current motions. The Bank filed its response to the summary motion on October 18, 2015.

On October 25, 2015, another pre- trial hearing took place. In this hearing, the Court combined the hearing of motions filed against the credit card companies and the Postal Bank with those filed against the banks. Evidentiary hearings took place in March 2016. The plaintiffs filed their summations in April 2016. Given the banks' motion to dismiss the plaintiffs' summation, an extension was granted for the banks to file their summations within 60 days after the decision on the motion to dismiss. On August 10, 2016, the Court accepted the motion by the banks and ordered the summation by the plaintiffs to be dismissed; on September 4, 2016, the plaintiffs filed new summations; and on January 17, 2017, the Bank filed its summation and the plaintiffs filed their response summations. In February 2017, the banks filed a motion to reject the response summations. On February 23, the Court resolved that this motion would be addressed as part of the resolution on the motion for class action status, which has yet to be resolved.

E) In March 2014, a claim and motion for class action status were filed with the Central District Court against the Bank, alleging unlawful charging of warning letter commission and excessive interest charged for exceeding the authorized limit on accounts, allegedly in breach of Proper Banking Conduct Directive 325 concerning "management of credit facility in checking account". The plaintiff claims that this directive is breached, *inter alia*, by the Bank allowing charges to clients which the Bank could and should have rejected, since the Bank may not allow clients to exceed their credit facility - thereby causing them to exceed their credit facility.

   The plaintiff claims to be unable to estimate the damage caused to potential class members, but believes this amounts to hundreds of millions of NIS.

   The Bank filed its response to the motion in October 2014. On March 10, 2015, the plaintiff filed their response to the Bank's response to the motion. A common pre- trial hearing for the three motions filed against the Bank, Bank Leumi and Discount Bank - against which claims were filed citing similar causes - took place on March 26, 2015. On November 2, the Bank filed its motion to reject parts of the plaintiff's response to the Bank's response. The plaintiff has yet to file its response. On April 18, 2016, another preliminary hearing took place; according to the Court decision, the plaintiffs were granted an extension to file their response to the motion by the Bank to dismiss part of the plaintiff's response to the Bank's response. On October 27, 2016, another pre- trial hearing took place to discuss motions by the banks to dismiss sections in the plaintiffs' response to the banks' response to the motion; another pre- trial hearing took place on April 18, 2016. On October 27, 2016, a pre- trial hearing took place to discuss motions by the banks to dismiss sections in the plaintiffs' response to the banks' response to the motion; an evidentiary hearing is scheduled for May 4, 2017. Concurrently, the parties are negotiating an agreed withdrawal settlement. On May 1, 2017, the parties filed a motion to withdraw by agreement.

F) In August 2014, a counter- claim was filed with the Supreme Court in New York by a plaintiff who is subject to debt collection proceedings concerning his guarantee to secure credit obtained by a company controlled there by. The plaintiff claims it has sustained damage in excess of USD 57 million due to a breach of verbal commitment made by the Bank to the plaintiff not to enforce his personal guarantee. The plaintiff claims that deeds and omissions by the Bank have resulted in failure to meet his various obligations and in destruction of his business. In March 2015, the Bank filed a motion to dismiss. The plaintiff filed its response in May 2015. On July 10, 2015, the Bank filed its response to the plaintiff's claim and to the motion to dismiss.

   On July 31, 2015, a hearing of the motion to dismiss took place. On December 14, the Court rejected the plaintiff's claim with regard to alleged Bank omissions - but left in place the cause of claim with regard to verbal termination of their guarantee.

   The Bank filed its response to the plaintiff's claim on February 11, 2016 and document discovery is now under way.

   On August 18, 2016, the Bank filed an appeal of the Court resolution to partially dismiss the motion to dismiss filed by the Bank, with regard to the plaintiff's claim that the Bank has verbally approved the termination of their guarantee; on November 11, 2016, the plaintiff filed their response to the appeal. In December, the Bank filed its response to the plaintiff's response. A resolution is still pending. The parties have signed an agreement whereby all proceedings would be withdrawn.

Note 10 - Contingent Liabilities and Special Commitments - continued

G) In March 2015, a counter- claim was filed against the Bank with the Central District Court, along with a motion for class action status, with respect to alleged over- charging of commissions in an "individual" account and in a "small business" account, allegedly in breach of Banking Rules (Customer Service) (Commissions), 2008. The plaintiff alleges that the breach was due, inter alia, to the Bank charging holders of "individual" or "small business" account commissions for certain services at higher tariffs than those set for large corporations, in contravention of the aforementioned Banking Rules.

The plaintiff claimed they were unable to estimate the damage incurred by potential class members.

The Bank filed its response to the motion on June 30, 2015. The plaintiff also filed their response to the Bank's response.

According to a Court resolution dated September 10, 2015, the Bank of Israel filed its position on December 15, 2015. On December 16, 2015, another pre- trial hearing took place - at which the parties were urged to negotiate a potential settlement agreement. Another pre- trial hearing took place on March 29, 2016. An evidentiary hearing took place on July 12, 2016. On November 8, 2016, the plaintiff filed their summation and on January 22, 2017, the Bank filed their summation, the plaintiff filed their response summation and a resolution is still pending.

H) In March 2015, a claim and motion for class action status was filed with the District Court in Tel Aviv against the Bank, its President, Board members and controlling shareholders, with regard to damage allegedly caused to the plaintiff and to class members due to the alleged breach of mandatory disclosure of material information to investors.

The plaintiff alleges that the defendants have allegedly acted in contravention of the Securities Act, 1968 and relevant regulations, by failing to disclose on the Bank's financial statements that a provision has been made with respect to an investigation against the Bank in the USA, the nature and amounts of such provisions and the fact that the Supervisor of Banks has required the Bank to make provisions on the Bank's financial statements with regard to exposure to investigation by authorities in the USA.

The plaintiff claims that - due to the requirement by the Supervisor of Banks - the Bank made provisions amounting to tens of millions of NIS on its financial statements for the second and third quarters of 2014, classified under "Other expenses".

The plaintiff claims that, based on information in the aforementioned financial statements, tens of thousands of investors have bought Bank shares without having the aforementioned material information. The plaintiff also claims that the price at which class members purchased those Bank shares was higher than the price they would have paid for the shares, had the proper disclosure been made.

No specific amount was specified in the statement of claim. However, the plaintiff referred to the mechanism for calculation of damage whereby, on the date when the alleged deception was made public, the Bank share under- performed the Bank Share Index by 2.19% (excluding Bank HaPoalim and Bank Mizrahi Tefahot).

The plaintiff wishes to specify, in conformity with the Class Action Lawsuit Act, that the lawsuit would be filed on behalf of "anyone who bought shares of Bank Mizrahi- Tefahot Ltd. from the publication date of the financial statements for the second quarter of 2014 (August 13, 2014) and held the shares on February 26, 2015".

The response by the Bank and other defendants was filed on November 19, 2015; discovery proceedings have been completed. On August 3, 2016, the Court approved the consent by the parties to dismiss the controlling shareholders of the Bank from the motion. The plaintiff's filed their response to the response by the Bank and other defendants to the motion on September 11, 2016; on October 9, 2016, the defendants filed a motion to dismiss the plaintiffs' response claiming, *inter alia*, a broader scope. The plaintiff also filed a motion to call the Supervisor of Banks in the relevant period to testify on the motion. The Bank filed its response to the motion on November 2, 2016.

On January 3, 2017, a resolution was given by the Court, whereby the Bank and other defendants may file their response to the plaintiff's response to the defendants' response to the motion. The Court also rules that on the date to be set for hearing of the actual motion, the then Supervisor of Banks would be invited.

On March 1, 2017, the Bank and the other defendants filed their response to the previous responses. On April 23, 2017, an evidentiary hearing was scheduled for June 11, 2017, including the testimony of the then Supervisor of Banks on the relevant dates.

See also section 4 with regard to inquiry by the US Department of Justice concerning Bank Group business with its US clients.

I) In December 2015, a motion for class action status was filed against Bank Yahav, alleging that Bank Yahav charged individual clients (and small businesses) commissions whose amount and rate exceed the allowed maximum, specified in the price list for non- small businesses. This claim does not specify an estimated claim amount.

J) In January 2016, a claim and motion for class action status was filed with the Jerusalem District Court, amounting in total to NIS 697.5 million, against the Bank, First International Bank of Israel Ltd., Bank Otzar HaChayal Ltd., Bank Yahav for Government Employees Ltd. and Bank Igud LeIsrael Ltd. (hereinafter: "the defendants"). This claim alleges discrimination of the Arab population with regard to access to banking services, in that the defendants do not maintain branches close to Arab population and do not make their banking services accessible to this population - in alleged violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000.

The plaintiff seeks a verdict stating, in conformity with the Class Action Lawsuit Act, that the claim is to be filed on behalf of all Israeli residents who are Muslim, Christian or Druze, who suffer from discrimination in access to banking services by the defendants, due to absence of bank branches of the defendants in their town.

The plaintiffs set their claim against all defendants at NIS 697.5 million, noting that each defendant's share of the damage caused to class members is based on their market share - as is their share in compensation to class members. The Bank filed its response to the motion on August 4, 2016 and the plaintiffs filed their response there to on November 13, 2016.

A pre- trial hearing took place on December 19, 2016, at which the Court recommended that the parties reach a settlement in this case. As proposed by the Court, the parties have started negotiations. A further pre- trial hearing is scheduled for May 10, 2017.

Note 10 - Contingent Liabilities and Special Commitments - continued

K) In May 2016, a lawsuit was filed against the Bank with the Tel Aviv Yafo District Court, along with a motion for class action status, amounting to NIS 220 million. The lawsuit alleges unlawful over-charging of commissions to clients eligible to be classified as a small business, in breach of the Bank's duties in its relations with clients.

The plaintiff claims that the Bank has not disclosed to clients who manage a small business that they are eligible for the lower commission schedule of a "small business", in order to foil the commission reform and to charge small businesses commissions other than according to the small business tariff, allegedly resulting in unlawful gain at the expense of these clients.

The Bank filed its response to the motion on November 1, 2016 and the plaintiff filed their response to the Bank's response on November 30, 2016.

On April 23, 2017, a preliminary hearing took place and resolutions were handed down with regard to questions and document discovery; the parties are to comply with these by May 23, 2017. A resolution was also given whereby, after 30 days, the parties are to inform the Court if there is any feasibility of progress to be made on this case which would obviate the need for a Court ruling.

L) In August 2016, a motion for class action status filed with the Tel Aviv- Yafo District Court, against the Bank and 9 other banks, alleging unlawful over- charging of fees to clients not classified as individuals or small businesses, in breach of the Bank's duties in its relations with clients.

The plaintiffs claim that the defendant banks charge any clients not classified as individuals or small businesses, fees not listed in the binding statutory price list, in conformity with the Banking Act (Customer Service), 1981 or in amounts higher than specified there in, allegedly in violation of the Act. The plaintiff claim that upon filing the motion, they are unable to demonstrate the exact size of the class or of the damage. However, they set the total damage incurred by the class at an estimated NIS 1 billion or higher, against all defendant banks together.

On March 19, 2017, the banks filed a motion, asking the Court to order the plaintiff to deposit a bond and to grant an extension for filing the response to the motion for class action status. At this stage, an extension has been granted for filing the banks' response, pending a different resolution.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 2 above, there is additional, non- remote exposure for which no provision was made, amounting to NIS 68 million.

3. Motions for class action status are pending against the Bank and subsidiaries, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

A) In March 2015, a motion for approval of derivative claim was filed with the District Court in Tel Aviv ("the motion") on behalf of the Bank and its subsidiary, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") against past and incumbent officers of the Bank and of Mizrahi Switzerland, at a minimum amount of NIS 95 million, for damage allegedly sustained by Mizrahi Group due to the defendants' deeds and omissions with regard to providing assistance to US clients in avoiding taxes in the USA. The plaintiff claims that defendants should reimburse the Bank for the damage they have caused to Mizrahi Group in general and to the Bank in particular.

On March 24, 2015, a Bank shareholder filed a motion in conjunction with the aforementioned proceeding, seeking to join as a party to said proceeding and to delay the hearing or, alternatively, to dismiss it out of hand, given the motion for document discovery filed by that shareholder in December 2014 with the Tel Aviv District Court against the Bank and its officers pursuant to provisions of Section 198a of the Companies Law 1999 ("the motion for discovery"). In conjunction with the motion for discovery, the plaintiff asked the Court to instruct the Bank and the other defendants to provide to the plaintiff various documents with regard to on- going proceedings in the USA, so as to allow the plaintiff to review potential filing of a motion for derivative defense (on behalf of the Bank in the USA) or filing of a motion for approval of derivative claim (against executives and employees of the Bank). The plaintiff claims in the motion for discovery that the process of the motion for discovery is a pending process which has priority over the motion for approval - which is why hearing of the motion for approval should be delayed and even dismissed out of hand.

On May 10, 2015, the Court approved, in conjunction with the motion for approval, a hearing arrangement agreed by the parties in this case, with regard to dates for filing statements of claim whereby, *inter alia*, at this stage the deadlines for filing the defendants' responses to the motion for approval would be suspended and soon after a decision is given, *inter alia*, with regard to the aforementioned motion to join and subject to it, the schedule for filing these responses would be set considering, *inter alia*, the progress made in proceedings with the Department of Justice in the USA.

It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed. Should the discovery motion be dismissed, or should a motion for approval not be filed by 90 days after receiving the documents - the motion for approval would be considered a preliminary motion to any other motion, if filed.

On April 18, 2016, the Court resolved to postpone the hearing of the motion pending conclusion of the inquiry and reporting of its outcome.

See also section 4 with regard to inquiry by the US Department of Justice concerning Bank Group business with its US clients.

B) In December 2016, a motion for class action status was filed with the Central District Court against the Bank, Bank HaPoalim, Bank Leumi and Discount Bank, alleging charging of foreign currency- related fees not in conformity with provisions of the complete price list, as stated in Banking Regulations (Customer Service) (Fees), 2008 and in violation of Section 9 of the Banking Act (Customer Service), 1981. According to the plaintiff, the defendant banks charge minimum fees with respect to various foreign currency- related transactions, graduated according to transaction amount, allegedly in contravention of provisions of the complete price list, whereby the defendant banks must list the fee they charge for a range of transactions as "Percentage (minimum, maximum)". The plaintiff further claims that the defendant banks are in breach of the Anti- Trust Act by maintaining a restrictive arrangement.

The plaintiff notes that they do not have the final data, which are available to the defendants. However, they estimate the damage incurred to be at least NIS 500 million.

The Bank filed its response on April 23, 2017 and a pre- trial hearing is scheduled for May 23, 2017.

C) In February 2017, a motion for class action status was filed against Bank Yahav with the Central District Court. The plaintiff claims that Bank Yahav's transition to a new core system caused its clients to incur damage due to impact to service levels in various service channels which, allegedly, left the clients unable to conduct transactions in their accounts.

The plaintiff estimates damages to each class member at NIS 1,000 or higher and has set the claim amount at NIS 370 million (based on 370,000 Bank Yahav clients).

4. Further to section (12) of Note 26 to the financial statements as of December 31, 2016 ("the financial statements"), in early May 2017 another meeting was held with representatives of the US DOJ, which included presentation of major data and information items provided by the Bank to date.

At this stage there are no negotiations taking place with the US DOJ with regard to the inquiry or to its implications in terms of any arrangement and in terms of any monetary implications for the Bank Group, if any, of such an arrangement when formulated.

According to the opinion of the Bank's legal counsel, based on data in the computer- based repository which has been validated and considering arrangements made by the US DOJ with other banks with regard to investigations concerning undisclosed accounts of US taxpayers, certain data in the repository may be relevant to Bank Group exposure, should the Bank's position about these data not prevail.

Based on the aforementioned opinion, the provision with respect to this inquiry amounts to USD 44.3 million (NIS 161 million). This amount was calculated for data which may be relevant, according to opinion of the Bank's legal counsel and for components which, according to the opinion of the Bank's legal counsel, should be accounted for, as the case may be. The estimated tax amount which the US clients associated with said data ("the relevant clients") should have paid to the IRS in the USA, revenues accrued by the Bank due to banking activity of the relevant clients and the percentage of monetary assets of the relevant clients. As for data related to Mizrahi Switzerland business with US clients, the provision was calculated based on a theoretical assumption whereby Mizrahi Switzerland Bank is included under Category 2 of the Swiss Program.

Note that the Bank's legal counsel have expressed their opinion that at this stage, it is not possible to estimate the potential loss which the Bank Group may incur with respect to this inquiry, the relevant exposure amount nor the exposure range for the Bank Group. This is due, *inter alia*, to the fact that based on the professional experience of US legal counsel, such conclusions cannot be made prior to analysis of all of all data and information to be provided and because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start.

Because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start, it may transpire in future that the realized loss significantly exceeds the provision made to date.

Note 11 - Derivative instruments and hedging activities

Reported amounts (NIS in millions)

A) Activity on consolidated basis

						As of March 31, 2017
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[1]						
Forward contracts	1,632	-	-	-	-	1,632
Other option contracts:						
Options written	-	18	-	-	-	18
Swaps	-	1,314	-	-	-	1,314
Total	1,632	1,332	-	-	-	2,964
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,314	-	-	-	1,314
B. ALM derivatives[1][2]						
Forward contracts	6,095	200	95,638	-	31	101,964
Option contracts traded on stock exchange:						
Options written	-	-	350	40	-	390
Options purchased	-	-	346	40	-	386
Other option contracts:						
Options written	-	-	11,859	-	-	11,859
Options purchased	-	-	11,002	49	-	11,051
Swaps	1,738	32,828	7,611	-	-	42,177
Total	7,833	33,028	126,806	129	31	167,827
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,626	19,268	-	-	-	20,894
C. Other derivatives[1]						
Forward contracts	-	-	1,125	-	-	1,125
Option contracts traded on stock exchange:						
Options written	-	-	7,580	8,008	6,828	22,416
Options purchased	-	-	7,580	8,008	6,828	22,416
Other option contracts:						
Options written	-	50	-	50	-	100
Options purchased	-	123	-	41	-	164
Swaps	-	4	15	8,927	-	8,946
Total	-	177	16,300	25,034	13,656	55,167
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	4	-	-	-	4

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

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

	As of March 31, 2017					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	902	902
Foreign currency spot swap contracts	-	-	7,521	-	-	7,521
Total	-	-	7,521	-	902	8,423
Total stated amounts of derivative instruments	9,465	34,537	150,627	25,163	14,589	234,381
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	18	9	-	-	-	27
Negative fair value, gross	1	80	-	-	-	81
B. ALM derivatives(1)(2)						
Positive fair value, gross	349	931	2,101	16	1	3,398
Negative fair value, gross	190	1,206	2,193	-	1	3,590
C. Other derivatives(1)						
Positive fair value, gross	-	1	115	411	-	527
Negative fair value, gross	-	-	97	374	-	471
D. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	4	4
Negative fair value, gross	-	-	-	-	1	1
Total						
Positive fair value, gross(3)	367	941	2,216	427	5	3,956
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	367	941	2,216	427	5	3,956
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	183	170	1,016	202	4	1,575
Total						
Negative fair value, gross	191	1,286	2,290	374	2	4,143
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	191	1,286	2,290	374	2	4,143
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	46	283	1,615	364	1	2,309

(1) Except for credit derivatives.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Includes: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 5 million.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

						As of March 31, 2016
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[(1)]						
Forward contracts	1,851	-	-	-	-	1,851
Other option contracts:						
Options written	-	56	-	-	-	56
Swaps	-	1,572	-	-	-	1,572
Total	1,851	1,628	-	-	-	3,479
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,572	-	-	-	1,572
B. ALM derivatives[(1)(2)]						
Forward contracts	6,646	1,000	90,796	-	28	98,470
Option contracts traded on stock exchange:						
Options written	-	-	2,122	85	-	2,207
Options purchased	-	-	826	85	-	911
Other option contracts:						
Options written	-	-	12,146	-	-	12,146
Options purchased	-	-	11,946	-	-	11,946
Swaps	1,786	34,592	8,312	-	-	44,690
Total	8,432	35,592	126,148	170	28	170,370
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,517	19,447	-	-	-	20,964
C. Other derivatives[(1)]						
Forward contracts	-	-	1,527	-	-	1,527
Option contracts traded on stock exchange:						
Options written	-	-	5,059	14,963	-	20,022
Options purchased	-	-	5,059	14,963	-	20,022
Other option contracts:						
Options written	-	-	-	1	-	1
Options purchased	-	-	-	1	-	1
Swaps	-	3	29	8,629	-	8,661
Total	-	3	11,674	38,557	-	50,234
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	3	-	-	-	3

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

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

	As of March 31, 2016					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	660	660
Foreign currency spot swap contracts	-	-	15,082	-	-	15,082
Total	-	-	15,082	-	660	15,742
Total stated amounts of derivative instruments	10,283	37,223	152,904	38,727	688	239,825
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	54	-	-	-	-	54
Negative fair value, gross	1	159	-	-	-	160
B. ALM derivatives(1)(2)						
Positive fair value, gross	434	1,263	1,755	15	1	3,468
Negative fair value, gross	219	1,599	2,343	-	1	4,162
C. Other derivatives(1)						
Positive fair value, gross	-	-	77	323	-	400
Negative fair value, gross	-	-	66	488	-	554
D. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	2	2
Negative fair value, gross	-	-	-	-	2	2
Total						
Positive fair value, gross(3)	488	1,263	1,832	338	3	3,924
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	488	1,263	1,832	338	3	3,924
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	154	223	642	257	3	1,279
Total						
Negative fair value, gross	220	1,758	2,409	488	3	4,878
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	220	1,758	2,409	488	3	4,878
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	14	245	1,644	331	3	2,237

(1) Except for credit derivatives.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Includes: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 2 million.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of December 31, 2016					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives(1)						
Forward contracts	2,196	-	-	-	-	2,196
Other option contracts:						
Options written	-	19	-	-	-	19
Swaps	-	1,218	-	-	-	1,218
Total	2,196	1,237	-	-	-	3,433
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,218	-	-	-	1,218
B. ALM derivatives(1)(2)						
Forward contracts	6,756	200	103,041	-	53	110,050
Option contracts traded on stock exchange:						
Options written	-	-	4	-	-	4
Options purchased	-	-	21	-	-	21
Other option contracts:						
Options written	-	-	11,058	-	-	11,058
Options purchased	-	-	10,251	-	-	10,251
Swaps	1,810	31,906	8,256	-	-	41,972
Total	8,566	32,106	132,631	-	53	173,356
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,647	17,889				19,536
C. Other derivatives(1)						
Forward contracts	-	-	1,148	-	-	1,148
Option contracts traded on stock exchange:						
Options written	-	-	6,590	14,194	2	20,786
Options purchased	-	-	6,590	14,194	2	20,786
Other option contracts:						
Options written	-	-	-	41	-	41
Options purchased	-	200	-	27	-	227
Swaps	-	4	14	9,200	-	9,218
Total	-	204	14,342	37,656	4	52,206
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	4	-	-	-	4

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

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of December 31, 2016					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	882	882
Foreign currency spot swap contracts	-	-	4,024	-	-	4,024
Total	-	-	4,024	-	882	4,906
Total stated amounts of derivative instruments	10,762	33,547	150,997	37,656	939	233,901
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	34	8	-	-	-	42
Negative fair value, gross	3	89	-	-	-	92
B. ALM derivatives(1)(2)						
Positive fair value, gross	349	1,016	1,486	-	3	2,854
Negative fair value, gross	198	1,298	1,310	-	3	2,809
C. Other derivatives(1)						
Positive fair value, gross	-	-	86	606	-	692
Negative fair value, gross	-	2	83	579	-	664
D. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	4	4
Negative fair value, gross	-	-	-	-	1	1
Total						
Positive fair value, gross(3)	383	1,024	1,572	606	7	3,592
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	383	1,024	1,572	606	7	3,592
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	123	154	769	294	6	1,346
Total						
Negative fair value, gross	201	1,389	1,393	579	4	3,566
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	201	1,389	1,393	579	4	3,566
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	13	231	894	564	3	1,705

(1) Except for credit derivatives.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Includes: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 8 million.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

B) Credit risk on derivative instruments according to counter- party to the contract - Consolidated

						As of March 31, 2017
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(1)]	**184**	**2,523**	**7**	**17**	**1,225**	**3,956**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,664)	-	-	(45)	(1,709)
Mitigation of credit risk with respect to cash collateral received	-	(580)	-	(12)	-	(592)
Net amount of assets with respect to derivative instruments	184	279	7	5	1,180	1,655
Off- balance sheet credit risk on derivative instruments[(3)]	289	1,021	209	-	1,418	2,937
Mitigation of off- balance sheet credit risk	-	(494)	-	-	(125)	(619)
Net off- balance sheet credit risk with respect to derivative instruments	289	527	209	-	1,293	2,318
Total credit risk on derivative instruments	473	806	216	5	2,473	3,973
Carrying amount of liabilities with respect to derivative instruments	**180**	**2,104**	**7**	**-**	**1,852**	**4,143**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,664)	-	-	(45)	(1,709)
Pledged cash collateral	-	(251)	-	-	(11)	(262)
Net amount of liabilities with respect to derivative instruments	180	189	7	-	1,796	2,172

						As of March 31, 2016
Carrying amount of assets with respect to derivative instruments [(2)]	**166**	**2,671**	**30**	**-**	**1,057**	**3,924**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(2,127)	-	-	(64)	(2,191)
Mitigation of credit risk with respect to cash collateral received	-	(209)	-	-	(32)	(241)
Net amount of assets with respect to derivative instruments	166	335	30	-	961	1,492
Off- balance sheet credit risk on derivative instruments[(3)]	-	1,406	146	-	1,157	2,709
Mitigation of off- balance sheet credit risk	-	(657)	-	-	(81)	(738)
Net off- balance sheet credit risk with respect to derivative instruments	-	749	146	-	1,076	1,971
Total credit risk on derivative instruments	166	1,084	176	-	2,037	3,463
Carrying amount of liabilities with respect to derivative instruments	**215**	**2,817**	**-**	**8**	**1,838**	**4,878**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(2,127)	-	-	(64)	(2,191)
Pledged cash collateral	-	(516)	-	-	-	(516)
Net amount of liabilities with respect to derivative instruments	215	174	-	8	1,774	2,171

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 5 million.

(2) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 2 million.

(3) The difference, if positive, between the total amount with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

B) Credit risk on financial derivatives according to counter- party to the contract - Consolidated - continued

						As of December 31, 2016
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(1)]	**215**	**2,264**	**14**	**-**	**1,099**	**3,592**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,634)	-	-	(44)	(1,678)
Mitigation of credit risk with respect to cash collateral received	-	(500)	-	-	(38)	(538)
Net amount of assets with respect to derivative instruments	215	130	14	-	1,017	1,376
Off- balance sheet credit risk on derivative instruments[(2)]	145	1,353	152	-	965	2,615
Mitigation of off- balance sheet credit risk	-	(547)	-	-	(134)	(681)
Net off- balance sheet credit risk with respect to derivative instruments	145	806	152	-	831	1,934
Total credit risk on derivative instruments	360	936	166	-	1,848	3,310
Carrying amount of liabilities with respect to derivative instruments	**215**	**2,115**	**14**	**29**	**1,193**	**3,566**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,634)	-	-	(44)	(1,678)
Pledged cash collateral	-	(295)	-	(23)	-	(318)
Net amount of liabilities with respect to derivative instruments	215	186	14	6	1,149	1,570

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 8 million.

(2) The difference, if positive, between the total amount with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

In the three- month period ended March 31, 2017, the Bank recognized credit losses with respect to derivative instruments, amounting to NIS 4 million (in the three- month period ended March 31, 2016 the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments amounting to NIS 3 million and in all of 2016, the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments amounting to NIS 14 million).

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

C) Maturity dates - stated amounts: year- end balances - Consolidated

					As of March 31, 2017
	Up to three months	3 months to 1 year	1- 5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	599	2,274	5,695	897	9,465
Other	2,046	6,171	17,927	8,393	34,537
Currency contracts	97,900	40,650	10,332	1,745	150,627
Contracts for shares	17,828	7,240	95	-	25,163
Commodities and other contracts	13,670	225	297	397	14,589
Total	132,043	56,560	34,346	11,432	234,381

					As of March 31, 2016
Interest contracts:					
NIS - CPI	411	3,454	6,088	330	10,283
Other	2,346	8,110	16,442	10,325	37,223
Currency contracts	104,555	36,389	9,077	2,883	152,904
Contracts for shares	33,247	5,470	10	-	38,727
Commodities and other contracts	19	9	444	216	688
Total	140,578	53,432	32,061	13,754	239,825

					As of December 31, 2016
Interest contracts:					
NIS - CPI	2,052	1,386	6,458	866	10,762
Other	2,808	5,055	17,150	8,534	33,547
Currency contracts	92,907	46,200	9,704	2,186	150,997
Contracts for shares	28,755	8,757	144	-	37,656
Commodities and other contracts	45	229	243	422	939
Total	126,567	61,627	33,699	12,008	233,901

Note 12 - Operating Segments

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for clients.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include - in Note 12 to the financial statements - disclosure with regard to "Operating segments in conformity with management approach".

An operating segment in conformity with management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with management approach" but nevertheless, there are some differences in client attribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "management approach", as noted above.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for other than individuals (including business operating segments, institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals - housing loans and others", in conformity with definitions of credit risk classification by economic sector.

Definitions of supervisory operating segments are as follows:

Households - individuals, other than private banking clients, as noted below.

Private banking - individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses - businesses with turnover amounting up to NIS 50 million.

Medium businesses - businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses - businesses with turnover higher than NIS 250 million

Institutional investors - Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

Financial management - includes trading operations, asset and liability management and non-banking investments.

Trade operations - Investment in securities held for trade, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management - including investment in debentures available for sale and in debentures held to maturity, hedging using derivatives, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

Note 12 - Operating Segments - Continued

Real investments - Investment in shares available for sale and in associates of businesses.

Other financial management operations - management, operation, trust and custody services for banks, sale and management of loan portfolios.

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Exceptions for classification of business clients by turnover

According to the Bank of Israel Q&A File, the Bank classified business clients to operating segments other than by turnover, in the following cases:

- When the Bank has no information about the revenues of a business client and client indebtedness is smaller than NIS 80 thousand, the client is classified to the appropriate supervisory operating segment based on the client's total financial assets with the Bank.
  Such classification would be in accordance with the aforementioned categories for revenues, with total financial assets multiplied by 10 for the purpose of such classification.
- When the Bank is of the opinion that the volume of revenues of a business client are not indicative of their total operations and the client's total assets on the balance sheet exceed NIS 100 million, the Bank classifies such client to the Large Businesses segment. Such classification is used, for example, in the real estate sector. When total assets on the balance sheet amount to less than NIS 100 million and the revenues are not indicative, as noted above, the client is typically classified as follows:
  Small and micro businesses - total assets on client balance sheet amount up to NIS 50 million.
  Medium businesses - businesses where total assets on the client balance sheet amount to between NIS 50 million and NIS 215 million.
  Large business es- businesses where total assets on the client balance sheet exceeds NIS 215 million.

The main products offered by the Bank’s different operating segments are:

- **Banking and finance** - an array of banking services offered to private and corporate clients, including management of checking accounts, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivative instruments, including trading in currencies and interest rates, etc.
- **Capital market** - security transactions for clients on stock exchanges in Israel and overseas, provident fund operating services and mutual fund distribution (management of provident funds and mutual funds until sold) which are among investment tracks available to Bank clients.
- **Credit cards** - A set of financial products and banking services given in conjunction with credit cards issued to Bank clients by credit card companies in Israel.
- **Mortgages** - Housing loans secured by charges on a residence, out of the Bank’s funds and within the framework of government aid programs.
- **Construction and real estate** - banking operations vis- à- vis companies in the real estate sector, as well as unique banking services for the real estate sector, including the financing of real estate products by the closed financing method.

Note 12 - Operating Segments - Continued

The principles used in assigning balances, revenues and expenses to clients in the system are as follows:

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, expense set at cost of capital raised (transfer cost) is attributed to clients, against an inter-segment credit to the Financial Management segment. Each segment is also charged any excess premium inherent in the cost of raising qualified equity instruments for capital adequacy. This is based on the capital attributed for segment operations. For deposits, revenue set at cost of capital raised is attributed to clients, against an inter- segment debit to the Financial Management segment. Transfer prices for loans and deposits are similar. Each of the segments is credited for capital attributed to operations there of, against a debit to the Financial Management segment. Capital consumption is measured by the average risk- free assets managed by the segment.
- When calculating risk assets attributed to each segment, any off- balance sheet credit exposures are "converted" to credit equivalent using coefficients specified in directives on measurement of capital adequacy.
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Gains arising from changes to fair value of derivatives is attributed to Financial Management.
- Gains and losses from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to clients on behalf of whom they were made.
- Commissions and other revenues are specifically attributed to clients.
- Payroll expenses, building maintenance and other expenses specifically attributed to Bank branches are attributed to branch clients using loading factors which reflect the client operations and the number of transactions in their account. Later on, an additional (inter- segment) settlement takes place, which attributes some of the direct expenses of the branch to clients in non- retail operating segments.
  Intersegment settlement reflects the fact that branches also serve non- retail clients. This settlement is presented under inter- segment expenses / revenues in the Note.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases which take into account the ratio of the expense for the segment.
  Certain headquarters expenses may sometimes be attributed to a specific operating segment and may sometimes be attributed based on the current estimate of resources allocated to each operating segment.
- When headquarters expenses may not be attributed, they are assigned by weighted business and IT transactions, as noted above In this regard, IT expenses directly associated with specific operating segments are attributed to these segments and other IT expenses are assigned to operating segments based on headcount.
- Provision for tax on operating profit is attributed to clients, is9 pro- rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets- under- management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

Note 12 - Operating Segments - Continued
Supervisory operating segments
For the three months ended March 31, 2017 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	647	214	6	861	-	215
Interest expenses from externals	-	84	-	84	23	12
Interest revenues, net from externals	647	130	6	777	(23)	203
Interest revenues, net - inter- segment	(342)	164	(1)	(178)	37	2
Total interest revenues, net	305	294	5	599	14	205
Total non- interest financing revenues	-	-	-	-	-	-
Total commissions and other revenues	37	134	34	171	2	80
Total non- interest revenues	37	134	34	171	2	80
Total revenues	342	428	39	770	16	285
Expenses with respect to credit losses	-	24	-	24	-	32
Operating and other expenses to externals	129	376	5	505	12	151
Operating and other expenses - inter- segment	-	1	-	1	-	(1)
Total operating and other expenses	129	377	5	506	12	150
Pre- tax profit	213	27	34	240	4	103
Provision for taxes on profit	78	10	12	88	1	38
After- tax profit	135	17	22	152	3	65
Share of banking corporation in earnings of associates	-	-	-	-	-	-
Net profit before attribution to non- controlling interests	135	17	22	152	3	65
Net profit attributed to non- controlling interests	-	(9)	-	(9)	-	-
Net profit attributable to shareholders of the banking corporation	135	8	22	143	3	65
Average balance of assets	115,665	33,362	3,427	149,027	72	15,356
Of which: Investments in associates	-	-	-	-	-	-
Average balance of loans to the public	115,665	18,754	3,411	134,419	72	15,356
Balance of loans to the public at end of reported period	115,996	19,285	3,821	135,281	99	15,894
Balance of impaired debts	37	66	-	103	-	304
Balance of debt in arrears 90 days or longer	900	25	-	925	-	38
Average balance of liabilities	-	76,204	3,427	76,204	11,080	17,022
Of which: Average balance of deposits from the public	-	71,924	-	71,924	11,072	17,022
Balance of deposits from the public at end of reported period	-	72,500	-	72,500	11,211	17,288
Average balance of risk assets (1)	63,684	16,971	1,647	80,655	33	14,164
Balance of risk assets at end of reported period(1)	64,121	17,049	1,680	81,170	43	14,365
Average balance of assets under management(2)	6,706	39,408	-	46,114	2,347	13,716
Composition of interest revenues, net:						
Margin from credit granting operations	297	199	5	496	-	184
Margin from activities of receiving deposits	-	93	-	93	14	18
Other	8	2	-	10	-	3
Total interest revenues, net	305	294	5	599	14	205

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).
(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.

Medium businesses	Large businesses	Institutional investors	Segment Financial management	Total Operations in Israel	Operations overseas Total Operations overseas	Total
50	135	11	31	1,303	53	1,356
6	25	70	97	317	12	329
44	110	(59)	(66)	986	41	1,027
4	(1)	86	53	3	(3)	-
48	109	27	(13)	989	38	1,027
-	-	-	(3)	(3)	2	(1)
15	31	19	41	359	10	369
15	31	19	38	356	12	368
63	140	46	25	1,345	50	1,395
(3)	(2)	(2)	(1)	48	1	49
23	35	34	44	804	19	823
-	-	1	(1)	-	-	-
23	35	35	43	804	19	823
43	107	13	(17)	493	30	523
16	39	5	(6)	181	11	192
27	68	8	(11)	312	19	331
-	-	-	(1)	(1)	-	(1)
27	68	8	(12)	311	19	330
-	-	-	-	(9)	-	(9)
27	68	8	(12)	302	19	321
4,920	13,549	3,111	32,683	218,718	10,794	229,512
-	-	-	34	34	-	34
4,920	13,140	2,983	-	170,890	3,080	173,970
4,992	12,542	2,561	-	171,369	3,164	174,533
64	196	-	-	667	1	668
12	10	-	-	985	-	985
7,074	28,273	37,573	30,058	207,284	8,722	216,006
7,068	28,263	37,573	-	172,922	5,352	178,274
6,799	28,706	38,759	-	175,263	5,459	180,722
6,004	20,369	3,035	5,124	129,384	3,459	132,843
6,088	20,391	3,228	4,972	130,257	3,526	133,783
3,725	25,717	149,084	11,520	252,223	-	252,223
40	93	10	-	823	26	849
6	14	16	-	161	3	164
2	2	1	(13)	5	9	14
48	109	27	(13)	989	38	1,027

Note 12 - Operating Segments - Continued
Supervisory operating segments
For the three months ended March 31, 2016 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	234	182	6	416	-	202
Interest expenses from externals	-	24	-	24	12	5
Interest revenues, net from externals	234	158	6	392	(12)	197
Interest revenues, net - inter- segment	23	98	(1)	121	23	(8)
Total interest revenues, net	257	256	5	513	11	189
Total non- interest financing revenues	-	-	-	-	-	-
Total commissions and other revenues	39	130	34	169	4	77
Total non- interest revenues	39	130	34	169	4	77
Total revenues	296	386	39	682	15	266
Expenses with respect to credit losses	(9)	12	-	3	-	24
Operating and other expenses to externals	114	364	7	478	9	148
Operating and other expenses - inter- segment	-	(27)	(2)	(27)	2	(15)
Total operating and other expenses	114	337	5	451	11	133
Pre- tax profit	191	37	34	228	4	109
Provision for taxes on profit	78	15	14	93	2	44
After- tax profit	113	22	20	135	2	65
Share of banking corporation in earnings of associates	-	-	-	-	-	-
Net profit before attribution to non- controlling interests	113	22	20	135	2	65
Net profit attributed to non- controlling interests	-	(8)	-	(8)	-	-
Net profit attributable to shareholders of the banking corporation	113	14	20	127	2	65
Average balance of assets	106,969	31,876	3,222	138,845	223	14,469
Of which: Investments in associates	-	-	-	-	-	-
Average balance of loans to the public	106,969	17,208	3,222	124,177	66	14,469
Balance of loans to the public at end of reported period	108,027	17,278	3,248	125,305	61	14,577
Balance of impaired debts	27	79	-	106	-	282
Balance of debt in arrears 90 days or longer	863	33	-	896	-	37
Average balance of liabilities	-	70,418	3,222	70,418	10,507	13,802
Of which: Average balance of deposits from the public	-	67,196	-	67,196	10,353	13,802
Balance of deposits from the public at end of reported period	-	67,678	-	67,678	10,618	13,671
Average balance of risk assets (1)	59,163	15,292	1,552	74,455	24	12,625
Balance of risk assets at end of reported period(1)	59,564	15,491	1,553	75,055	17	13,083
Average balance of assets under management(2)	5,835	37,594	-	43,429	1,706	14,007
Composition of interest revenues, net:						
Margin from credit granting operations	252	175	5	427	-	174
Margin from activities of receiving deposits	-	81	-	81	11	12
Other	5	-	-	5	-	3
Total interest revenues, net	257	256	5	513	11	189

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).
(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.
(3) Includes capital gains under Other Revenues amounting to NIS 78 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

Medium businesses	Large businesses	Institutional investors	Segment Financial management	Total Operations in Israel	Operations overseas Total Operations overseas	Total
48	124	11	24	825	43	868
3	22	32	2	100	8	108
45	102	(21)	22	725	35	760
(2)	4	47	(183)	2	(2)	-
43	106	26	(161)	727	33	760
-	-	-	62	62	5	67
15	37	25	119[3]	446	8	454
15	37	25	181	508	13	521
58	143	51	20	1,235	46	1,281
(2)	(29)	7	(1)	2	1	3
8	18	21	77	759	20	779
12	17	10	1	-	-	-
20	35	31	78	759	20	779
40	137	13	(57)	474	25	499
16	56	5	(23)	193	10	203
24	81	8	(34)	281	15	296
-	-	-	-	-	-	-
24	81	8	(34)	281	15	296
-	-	-	-	(8)	-	(8)
24	81	8	(34)	273	15	288
4,790	13,491	2,384	32,422	206,624	8,939	215,563
-	-	-	36	36	-	36
4,790	13,255	2,176	-	158,933	3,038	161,971
4,861	13,293	2,141	-	160,238	3,213	163,451
62	387	9	-	846	6	852
1	-	-	-	934	-	934
6,001	26,883	34,583	32,404	194,598	8,418	203,016
6,001	26,661	34,583	-	158,596	4,423	163,019
6,182	28,167	34,054	-	160,370	4,631	165,001
6,112	24,273	3,050	5,312	125,851	3,620	129,471
6,140	23,280	2,915	5,246	125,736	3,717	129,453
3,468	18,348	139,001	25	219,984	-	219,984
38	92	11	-	742	20	762
5	14	15	-	138	4	142
-	-	-	(161)	(153)	9	(144)
43	106	26	(161)	727	33	760

Note 12 - Operating Segments - Continued
Supervisory operating segments
For the year ended December 31, 2016 (audited)

Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	2,676	806	23	3,482	1	817
Interest expenses from externals	-	378	-	378	101	45
Interest revenues, net from externals	2,676	428	23	3,104	(100)	772
Interest revenues, net - inter- segment	(1,576)	656	(5)	(920)	147	9
Total interest revenues, net	1,100	1,084	18	2,184	47	781
Total non- interest financing revenues	-	-	-	-	-	-
Total commissions and other revenues	154	523	143	677	10	313
Total non- interest revenues	154	523	143	677	10	313
Total revenues	1,254	1,607	161	2,861	57	1,094
Expenses with respect to credit losses	13	91	1	104	1	114
Operating and other expenses to externals	465	1,492	28	1,957	40	611
Operating and other expenses - inter- segment	-	(77)	(8)	(77)	5	(44)
Total operating and other expenses	465	1,415	20	1,880	45	567
Pre- tax profit	776	101	140	877	11	413
Provision for taxes on profit	302	39	54	341	4	161
After- tax profit	474	62	86	536	7	252
Share of banking corporation in earnings of associates	-	-	-	-	-	-
Net profit before attribution to non- controlling interests	474	62	86	536	7	252
Net profit attributed to non- controlling interests	-	(42)	-	(42)	-	-
Net profit attributable to shareholders of the banking corporation	474	20	86	494	7	252
Average balance of assets	110,612	32,665	3,537	143,277	113	14,772
Of which: Investments in associates	-	-	-	-	-	-
Average balance of loans to the public	110,612	17,961	3,537	128,573	73	14,772
Balance of loans to the public at end of reported period	114,691	19,140	3,731	133,831	82	15,387
Balance of impaired debts	27	70	-	97	-	312
Balance of debt in arrears 90 days or longer	853	26	-	879	-	52
Average balance of liabilities	-	72,674	3,537	72,674	10,647	14,955
Of which: Average balance of deposits from the public	-	69,137	-	69,137	10,637	14,955
Balance of deposits from the public at end of reported period	-	71,334	-	71,334	11,167	15,738
Average balance of risk assets (1)	60,850	15,935	1,642	76,785	20	13,345
Balance of risk assets at end of reported period(1)	63,247	16,892	1,615	80,139	24	13,962
Average balance of assets under management(2)	6,104	39,164	-	45,268	2,074	13,224
Composition of interest revenues, net:						
Margin from credit granting operations	1,073	760	18	1,833	1	709
Margin from activities of receiving deposits	-	322	-	322	46	54
Other	27	2	-	29	-	18
Total interest revenues, net	1,100	1,084	18	2,184	47	781

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).
(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.
(3) Includes capital gains under Other Revenues amounting to NIS 92 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

			Operations overseas	Total

Medium businesses	Large businesses	Institutional investors	Segment Financial management	Total Operations in Israel	Total Operations overseas	Total
200	499	53	64	5,116	195	5,311
25	133	308	507	1,497	36	1,533
175	366	(255)	(443)	3,619	159	3,778
12	78	362	317	5	(5)	-
187	444	107	(126)	3,624	154	3,778
-	-	-	291	291	4	295
68	147	82	239(3)	1,536	31	1,567
68	147	82	530	1,827	35	1,862
255	591	189	404	5,451	189	5,640
11	(29)	(1)	(1)	199	1	200
57	92	114	354	3,225	74	3,299
39	50	25	2	-	-	-
96	142	139	356	3,225	74	3,299
148	478	51	49	2,027	114	2,141
58	186	20	19	789	44	833
90	292	31	30	1,238	70	1,308
-	-	-	-	-	-	-
90	292	31	30	1,238	70	1,308
-	-	-	-	(42)	-	(42)
90	292	31	30	1,196	70	1,266
4,862	13,527	2,872	27,231	206,654	10,181	216,835
-	-	-	35	35	-	35
4,862	13,071	2,858	-	164,209	3,195	167,404
4,869	12,731	2,629	-	169,529	3,250	172,779
66	205	-	-	680	1	681
21	6	-	-	958	-	958
6,549	28,061	35,340	26,836	195,062	8,824	203,886
6,549	28,061	35,337	-	164,676	4,770	169,446
7,378	31,422	35,964	-	173,003	5,249	178,252
6,306	22,731	2,964	5,414	127,565	3,552	131,117
5,920	20,347	2,842	5,276	128,510	3,392	131,902
3,687	22,572	141,469	248	228,542	-	228,542
161	378	46	-	3,128	92	3,220
23	55	61	-	561	11	572
3	11	-	(126)	(65)	51	(14)
187	444	107	(126)	3,624	154	3,778

Note 12 - Operating Segments - Continued

B. Operating segments in conformity with management approach.

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments" above.

Below are the Bank's operating segments in conformity with management approach:

Household segment - under responsibility of the Retail Division. This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment - under responsibility of the Retail Division, which also serves small business clients, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking - private banking is under responsibility of the Private Banking and International Operations sector of the Finance Division. Private banking sector clients are individual clients with liquid assets (primarily short- term deposits and security investments) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking - clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 625 million, sales of NIS 30- 120 million or liquid assets of NIS 10- 40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. Criteria by which clients are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management - operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non- banking corporations, which are under the responsibility of the business division.

The major products and guidelines for attribution of balances, revenues and expenses to clients in the system to operating segments in conformity with management approach, are similar to products and guidelines according to the supervisory operating segment approach.

Note 12 - Operating Segments - Continued

Operating segments in conformity with management approach.

For the three months ended March 31, 2017 (unaudited)

Reported amounts (NIS in millions)

	Households - other	Households - mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	209	593	(4)	145	39	148	(103)	1,027
Inter- segment	141	(331)	22	13	3	51	101	-
Total interest revenues, net	350	262	18	158	42	199	(2)	1,027
Non- interest financing revenues	1	-	-	-	-	6	(8)	(1)
Commissions and other revenues	132	37	15	69	12	55	49	369
Total revenues	483	299	33	227	54	260	39	1,395
Expenses with respect to credit losses	22	-	-	32	-	(4)	(1)	49
Operating and other expenses	381	106	23	135	30	76	72	823
Pre- tax profit	80	193	10	60	24	188	(32)	523
Provision for taxes on profit	29	71	4	22	9	69	(12)	192
After- tax profit	51	122	6	38	15	119	(20)	331
Share in net profits of associates, after tax	-	-	-	-	-	-	(1)	(1)
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	51	122	6	38	15	119	(21)	330
Attributable to non-controlling interests	(9)	-	-	-	-	-	-	(9)
Net profit attributable to shareholders of the Bank	42	122	6	38	15	119	(21)	321
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.6%	8.1%	37.3%	17.8%	12.4%	15.8%	-	10.4%
Average balance of loans to the public, net	22,757	110,936	865	10,724	4,544	23,013	-	172,839
Average balance of deposits from the public	78,528	-	9,046	17,992	6,195	56,445	10,068	178,274
Average balance of assets	23,557	111,211	1,546	10,819	4,595	28,850	48,934	229,512
Average balance of risk assets (2)	19,583	61,345	719	8,963	4,993	31,447	5,793	132,843

(1) Calculated in conformity with capital attributed to this segment based on risk elements attributed there to in conformity with provisions of Basel III.

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

Note 12 - Operating Segments - Continued

Operating segments in conformity with management approach.

For the three months ended March 31, 2016 (unaudited)

Reported amounts (NIS in millions)

	Households - other	Households - mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	206	195	6	146	42	156	9	760
Inter- segment	93	20	12	-	-	20	(145)	-
Total interest revenues, net	299	215	18	146	42	176	(136)	760
Non- interest financing revenues	2	-	-	-	-	3	62	67
Commissions and other revenues	138	37	15	64	13	65	122[(3)]	454
Total revenues	439	252	33	210	55	244	48	1,281
Expenses with respect to credit losses	12	(9)	1	28	4	(32)	(1)	3
Operating and other expenses	339	89	21	123	27	76	104	779
Pre- tax profit	88	172	11	59	24	200	(55)	499
Provision for taxes on profit	36	70	4	24	10	81	(22)	203
After- tax profit	52	102	7	35	14	119	(33)	296
Share in net profits of associates, after tax	-	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	52	102	7	35	14	119	(33)	296
Attributable to non-controlling interests	(8)	-	-	-	-	-	-	(8)
Net profit attributable to shareholders of the Bank	44	102	7	35	14	119	(33)	288
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[(1)]	11.7%	7.7%	31.1%	20.2%	13.3%	14.8%	-	10.0%
Average balance of loans to the public, net	20,858	102,485	1,041	9,998	4,539	21,599	-	160,520
Average balance of deposits from the public	73,489	-	8,210	14,109	5,538	50,683	12,518	164,546
Average balance of assets	20,904	102,833	1,875	10,182	4,664	26,051	49,054	215,563
Average balance of risk assets [(2)]	18,095	57,001	888	7,481	4,914	35,931	5,161	129,471

(1) Calculated in conformity with capital attributed to this segment based on risk elements attributed there to in conformity with provisions of Basel III.

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

(3) Includes capital gains under Other Revenues amounting to NIS 78 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

Note 12 - Operating Segments - Continued

Operating segments in conformity with management approach.

For the year ended December 31, 2016 (audited)

Reported amounts (NIS in millions)

	Households - other	Households - mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	709	2,461	(5)	544	158	580	(669)	3,778
Inter- segment	582	(1,518)	78	61	6	186	605	-
Total interest revenues, net	1,291	943	73	605	164	766	(64)	3,778
Non- interest financing revenues	88	-	-	-	-	(16)	223	295
Commissions and other revenues	543	149	60	259	49	257	250[3]	1,567
Total revenues	1,922	1,092	133	864	213	1,007	409	5,640
Expenses with respect to credit losses	81	11	(2)	120	5	(14)	(1)	200
Operating and other expenses	1,422	384	95	516	118	321	443	3,299
Pre- tax profit	419	697	40	228	90	700	(33)	2,141
Provision for taxes on profit	163	271	16	89	35	272	(13)	833
After- tax profit	256	426	24	139	55	428	(20)	1,308
Share in net profits of associates, after tax	-	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	256	426	24	139	55	428	(20)	1,308
Attributable to non-controlling interests	(42)	-	-	-	-	-	-	(42)
Net profit attributable to shareholders of the Bank	214	426	24	139	55	428	(20)	1,266
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[1]	10.4%	7.2%	30.2%	17.1%	11.6%	12.9%	0.0%	10.2%
Average balance of loans to the public, net	23,695	109,878	820	10,749	4,612	21,587	-	171,341
Average balance of deposits from the public	75,583	-	8,429	15,139	5,665	54,370	10,283	169,469
Average balance of assets	22,793	106,421	1,765	10,446	4,613	27,569	43,228	216,835
Average balance of risk assets [2]	18,642	58,656	820	8,181	4,964	34,446	5,408	131,117

(1) Calculated in conformity with capital attributed to this segment based on risk elements attributed there to in conformity with provisions of Basel III.

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

(3) Includes capital gains under Other Revenues amounting to NIS 92 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

Note 12 - Operating Segments - Continued

C. Effect of attribution of expenses related to the US DOJ inquiry on operating segments

Had the expenses related to the US DOJ inquiry been attributed to the private banking segment and to overseas operations (rather than to the financial management segment, as attributed by the Bank), according to the supervisory approach, results of the private banking segment for the first quarter of 2017 would have amounted to a loss of NIS 56 million and for the first quarter of 2016, a loss amounting to NIS 7 million.

Results of the private banking segment according to the supervisory approach for 2016 would have amounted to a loss of NIS 52 million.

Results of the financial management segment according to the supervisory approach for the first quarter of 2017 would have amounted to income of NIS 47 million and for the first quarter of 2016 - a loss of NIS 19 million.

Results of the financial management segment according to the supervisory approach for 2016 would have amounted to income of NIS 89 million.

Results of overseas operations according to the supervisory approach for the first quarter of 2017 would have been unchanged and for the first quarter of 2016 - income of NIS 9 million.

Results of overseas operations according to the supervisory approach for 2016 would have been unchanged.

Results of the private banking segment according to the management approach for the first quarter of 2017 would have amounted to loss of NIS 4 million and for the first quarter of 2016, loss amounting to NIS 9 million.

Results of the private banking segment according to the management approach for 2016 would have amounted to a loss of NIS 34 million.

Results of the financial management segment according to the management approach for the first quarter of 2017 would have amounted to loss of NIS 11 million and for the first quarter of 2016, loss amounting to NIS 17 million.

Results of the private banking segment according to the management approach for 2016 would have amounted to income amounting to NIS 63 million.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Change in balance of provision for credit losses

	For the three months ended March 31, 2017					
	Provision for credit losses					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	26	-	24	50	(1)	49
Net accounting write- off[2]	(37)	(3)	(30)	(70)	-	(70)
Recovery of debts written off in previous years[2]	17	-	14	31	-	31
Net accounting write- offs	(20)	(3)	(16)	(39)	-	(39)
Balance of provision for credit losses at end of period	730	612	216	1,558	1	1,559
Of which: With respect to off balance sheet credit instruments	85	-	8	93	-	93

	For the three months ended March 31, 2016					
Balance of provision for credit losses at start of period	700	614	192	1,506	3	1,509
Expenses with respect to credit losses	-	(9)	13	4	(1)	3
Net accounting write- off[2]	(49)	(2)	(33)	(84)	-	(84)
Recovery of debts written off in previous years[2]	22	-	16	38	-	38
Net accounting write- offs	(27)	(2)	(17)	(46)	-	(46)
Balance of provision for credit losses at end of period	673	603	188	1,464	2	1,466
Of which: With respect to off balance sheet credit instruments	78	-	8	86	-	86

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Net accounting write- offs presented in the Note primarily consists of write- offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of provision for large impaired debt s will typically be subject to accounting write- off after two years. Debt measured on group basis will be subject to write- off after 150 days in arrears. This means that the Bank's collection effort may sometimes take longer than the timing for write- off according to accounting rules. Consequently, relatively high balances of "accounting write- offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated:

						March 31, 2017
						Provision for credit losses
	Loans to the public					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Recorded debt balance of debt s[1]						
reviewed on individual basis	29,964	36	553	30,553	3,087	33,640
reviewed on group basis	9,754	116,304	17,922	143,980	-	143,980
Of which: for which a provision for credit losses is assessed by extent of arrears[3]	1,053	115,650	-	116,703	-	116,703
Total debts	39,718	116,340[2]	18,475	174,533	3,087	177,620
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	537	2	20	559	1	560
reviewed on group basis	108	610	188	906	-	906
Of which: for which a provision for credit losses is assessed by extent of arrears[3]	5	610	-	615	-	615
Total provision for credit losses	645	612	208	1,465	1	1,466

						March 31, 2016
Recorded debt balance of debt s[1]						
reviewed on individual basis	29,574	27	778	30,379	4,599	34,978
reviewed on group basis	[4]9,098	108,296	[4]15,678	133,072	-	133,072
Of which: for which a provision for credit losses is assessed by extent of arrears[3]	1,130	107,716	-	108,846	-	108,846
Total debts	38,672	[2]108,323	16,456	163,451	4,599	168,050
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	509	1	18	528	2	530
reviewed on group basis	[4]86	602	[4]162	850	-	850
Of which: for which a provision for credit losses is assessed by extent of arrears[3]	4	602	-	606	-	606
Total provision for credit losses	595	603	180	1,378	2	1,380

						December 31, 2016
Recorded debt balance of debt s[1]						
reviewed on individual basis	29,972	27	725	30,724	2,839	33,563
reviewed on group basis	9,634	114,959	17,462	142,055	-	142,055
Of which: Loans for which a provision for credit losses is assessed by extent of arrears	1,243	114,373	-	115,616	-	115,616
Total debts	39,606	[2]114,986	18,187	172,779	2,839	175,618
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	518	2	7	527	2	529
reviewed on group basis	108	613	190	911	-	911
Of which: for which a provision for credit losses is assessed by extent of arrears[3]	5	613	-	618	-	618
Total provision for credit losses	626	615	197	1,438	2	1,440

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes general- purpose loans secured by a lien on a residential apartment, amounting to NIS 5,844 million (as of March 31, 2016: NIS 5,467 million, as of December 31, 2016: NIS 5,731 million).
(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 406 million (as of March 31, 2016 - NIS 376 million, as of December 31, 2016 - NIS 401 million).
(4) Reclassified.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears

	As of March 31, 2017					
		Problematic[2]			Non impaired debts - additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction[8]	10,402	43	92	10,537	13	23
Construction and real estate - real estate operations	1,921	7	70	1,998	-	6
Financial services	2,627	309	17	2,953	-	3
Commercial - other	20,276	512	383	21,171	48	96
Total commercial	35,226	871	562	36,659	61	128
Private individuals - housing loans	115,060	[7]900	36	115,996	[7]900	[6]373
Private individuals - other	18,034	113	66	18,213	24	97
Total public - activity in Israel	168,320	1,884	664	170,868	985	598
Banks in Israel	262	-	-	262	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	168,583	1,884	664	171,131	985	598
Borrower activity overseas						
Construction and real estate	1,583	-	1	1,584	-	-
Commercial - other	1,472	-	3	1,475	-	1
Total commercial	3,055	-	4	3,059	-	1
Private individuals	606	-	-	606	-	-
Total public - activity overseas	3,661	-	4	3,665	-	1
Overseas banks	2,513	-	-	2,513	-	-
Overseas governments	311	-	-	311	-	-
Total activity overseas	6,485	-	4	6,489	-	1
Total public	171,981	1,884	668	174,533	985	599
Total banks	2,775	-	-	2,775	-	-
Total governments	312	-	-	312	-	-
Total	175,068	1,884	668	177,620	985	599

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(30 Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non- impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 38 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 126 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,374 million, extended to certain purchase groups which are in the process of construction.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debts[(1)]

1.A. Credit quality and arrears - continued

					As of March 31, 2016	
		Problematic[(2)]			Non impaired debt - additional information	
	Non problematic	Non impaired	Impaired[(3)]	Total	In arrears 90 days or longer[(4)]	In arrears 30 to 89 days[(5)]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction[(8)]	8,682	71	87	8,840	8	24
Construction and real estate - real estate operations	2,069	3	125	2,197	-	51
Financial services	3,608	11	20	3,639	1	261
Commercial - other	[(9)]20,031	261	501	20,793	29	138
Total commercial	34,390	346	733	35,469	38	474
Private individuals - housing loans	107,087	[(7)]877	27	107,991	[(7)]877	[(6)]315
Private individuals - other	[(9)]15,935	106	79	16,120	19	89
Total public - activity in Israel	157,412	1,329	839	159,580	934	878
Banks in Israel	229	-	-	229	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	157,642	1,329	839	159,810	934	878
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,700	-	4	1,704	-	-
Commercial - other	1,491	2	9	1,502	-	8
Total commercial	3,191	2	13	3,206	-	8
Private individuals	665	-	-	665	-	-
Total public - activity overseas	3,856	2	13	3,871	-	8
Overseas banks	4,047	-	-	4,047	-	-
Overseas governments	322	-	-	322	-	-
Total activity overseas	8,225	2	13	8,240	-	8
Total public	161,268	1,331	852	163,451	934	886
Total banks	4,276	-	-	4,276	-	-
Total governments	323	-	-	323	-	-
Total	165,867	1,331	852	168,050	934	886

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non- impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 34 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 161 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,374 million, extended to certain purchase groups which are in the process of construction.
(9) Reclassified.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debts[(1)]

1.A. Credit quality and arrears - continued

	As of December 31, 2016					
		Problematic[(2)]			Non impaired debts - additional information	
	Non problematic	Non impaired	Impaired[(3)]	Total	In arrears 90 days or longer[(4)]	In arrears 30 to 89 days[(5)]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction[(8)]	10,006	38	106	10,150	10	18
Construction and real estate - real estate operations	2,016	2	78	2,096	-	4
Financial services	3,156	311	17	3,484	1	6
Commercial - other	19,727	490	379	20,596	68	74
Total commercial	34,905	841	580	36,326	79	102
Private individuals - housing loans	113,811	[(7)]853	27	114,691	[(7)]853	[(6)]407
Private individuals - other	17,728	115	70	17,913	26	64
Total public - activity in Israel	166,444	1,809	677	168,930	958	573
Banks in Israel	275	-	-	275	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	166,719	1,809	672	169,205	958	573
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,653	-	1	1,654	-	-
Commercial - other	1,623	-	3	1,626	-	-
Total commercial	3,276	-	4	3,280	-	-
Private individuals	569	-	-	569	-	-
Total public - activity overseas	3,845	-	4	3,849	-	-
Overseas banks	2,234	-	-	2,234	-	-
Overseas governments	330	-	-	330	-	-
Total activity overseas	6,409	-	4	6,413	-	-
Total public	170,289	1,809	681	172,779	958	573
Total banks	2,509	-	-	2,509	-	-
Total governments	330	-	-	330	-	-
Total	173,128	1,809	681	175,618	958	573

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non- impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 31 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 125 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,544 million, extended to certain purchase groups which are in the process of construction.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, *inter alia*, on the actual number of days in arrears for each debt.

Non- performing debts

Debt measured on individual basis is classified as non- performing (not accruing interest revenues) after 90 days in arrears. Debt previously restructured as problematic debt and which is again in arrears with regard to the new terms thereof - is also classified as non- performing. Debt measured on group basis is classified as non- performing (inferior) after 150 days in arrears. At that time, accounting write- off of the debt is also carried out.

Inferior debts

Debt in the individual track is classified as inferior debt accruing revenues after 60 days in arrears. Debt in the group track is classified as inferior after 90 days in arrears.

Housing loans

The state of arrears for housing loans is monitored by the extent of arrears for the loan, except for loans with no monthly or quarterly payment.

Credit risk attributes, including specific risk for housing loans, are included on the Report of the Board of Directors and Management under "Risks Overview".

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

						March 31, 2017
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	38,281	115,404	18,296	312	2,775	175,068
Problematic non- impaired debts(1)	871	900	113	-	-	1,884
Impaired debts	566	36	66	-	-	668
Total	39,718	116,340	18,475	312	2,775	177,620
						March 31, 2016
Debts in good standing	(2)37,578	107,419	(2)16,271	323	4,276	165,867
Problematic non- impaired debts(1)	348	877	106	-	-	1,331
Impaired debts	746	27	79	-	-	852
Total	38,672	108,323	16,456	323	4,276	168,050
						December 31, 2016
Debts in good standing	38,181	114,106	18,002	330	2,509	173,128
Problematic non- impaired debts(1)	841	853	115	-	-	1,809
Impaired debts	584	27	70	-	-	681
Total	39,606	114,986	18,187	330	2,509	175,618

(1) Balance sheet credit risk which is inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(2) Reclassified.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

A. Impaired debts and individual provision

					March 31, 2017
	Balance of impaired debts for which an individual provision has been made[(2)(3)]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[(2)]	Total balance of impaired debts[(2)]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	61	14	31	92	176
Construction and real estate - real estate operations	52	-	18	70	237
Financial services	9	6	8	17	35
Commercial - other	271	115	112	383	474
Total commercial	393	135	169	562	922
Private individuals - housing loans	16	2	20	36	36
Private individuals - other	21	13	45	66	69
Total public - activity in Israel	430	150	234	664	1,027
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	430	150	234	664	1,027
Borrower activity overseas					
Public - commercial					
Construction and real estate	1	-	-	1	1
Commercial - other	3	-	-	3	3
Total commercial	4	-	-	4	4
Private individuals	-	-	-	-	-
Total public - activity overseas	4	-	-	4	4
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	4	-	-	4	4
Total public	434	150	234	668	1,031
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	434	150	234	668	1,031
Of which:					
Measured at present value of cash flows	401	150	188	589	
Debts under problematic debts restructuring	121	10	28	149	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write- off, if made.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision - continued

					March 31, 2016
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	69	14	18	87	194
Construction and real estate - real estate operations	108	12	17	125	278
Financial services	11	7	9	20	59
Commercial - other	397	94	104	501	557
Total commercial	585	127	148	733	1,088
Private individuals - housing loans	10	1	17	27	27
Private individuals - other	23	12	56	79	87
Total public - activity in Israel	618	140	221	839	1,202
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	618	140	221	839	1,202
Borrower activity overseas					
Public - commercial					
Construction and real estate	4	-	-	4	6
Commercial - other	9	-	-	9	6
Total commercial	13	-	-	13	12
Private individuals	-	-	-	-	3
Total public - activity overseas	13	-	-	13	15
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	13	-	-	13	15
Total public	631	140	221	852	1,217
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	631	140	221	852	1,217
Of which:					
Measured at present value of cash flows	533	134	163	696	
Debts under problematic debts restructuring	154	19	63	217	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(3) Recorded debt balance.

(4) Debt balance net of accounting write- off, if made.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision - continued

	December 31, 2016				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	61	14	45	106	185
Construction and real estate - real estate operations	55	1	23	78	242
Financial services	9	5	8	17	28
Commercial - other	[4]269	112	[4]110	379	485
Total commercial	394	132	186	580	940
Private individuals - housing loans	16	2	11	27	27
Private individuals - other	23	10	47	70	75
Total public - activity in Israel	433	144	244	677	1,042
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	433	144	244	677	1,042
Borrower activity overseas					
Public - commercial					
Construction and real estate	1	-	-	1	1
Commercial - other	3	-	-	3	3
Total commercial	4	-	-	4	4
Private individuals	-	-	-	-	-
Total public - activity overseas	4	-	-	4	4
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	4	-	-	4	4
Total public	437	144	244	681	1,046
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	437	144	244	681	1,046
Of which:					
Measured at present value of cash flows	407	144	195	602	
Debts under problematic debts restructuring	90	7	58	148	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write- off, if made.

(4) Reclassified.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

B. Average balance and interest revenues

	March 31, 2017			March 31, 2016		
	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	99	-	-	85	1	1
Construction and real estate - real estate operations	74	-	-	125	-	-
Financial services	17	-	-	18	-	-
Commercial - other	382	2	2	489	2	2
Total commercial	572	2	2	717	3	3
Private individuals - housing loans	32	-	-	26	-	-
Private individuals - other	68	1	1	80	1	1
Total public - activity in Israel	672	3	3	823	4	4
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	672	3	3	823	4	4
Borrower activity overseas						
Public - commercial						
Construction and real estate	1	-	-	5	-	-
Commercial - other	3	-	-	9	-	-
Total commercial	4	-	-	14	-	-
Private individuals	-	-	-	-	-	-
Total public - activity overseas	4	-	-	14	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	4	-	-	14	-	-
Total public	676	3	3	837	4	4
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total(4)	676	3	3	837	4	4

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Average recorded debt balance of impaired debts during reported period.

(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.

(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 16 million (as of March 31, 2016 - NIS 16 million).

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring

					March 31, 2017
					Recorded debt balance
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30- 89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	13	-	-	-	13
Construction and real estate - real estate operations	48	-	1	-	49
Financial services	3	-	-	-	3
Commercial - other	31	-	-	6	37
Total commercial	95	-	1	6	102
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	23	-	1	23	47
Total public - activity in Israel	118	-	2	29	149
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	118	-	2	29	149
Borrower activity overseas					
Public - commercial					
Construction and real estate	-	-	-	-	-
Commercial - other	-	-	-	-	-
Total commercial	-	-	-	-	-
Private individuals	-	-	-	-	-
Total public - activity overseas	-	-	-	-	-
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	-	-	-	-	-
Total public	118	-	2	29	149
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	118	-	2	29	149

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	March 31, 2016				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30- 89 days	Accruing interest revenues [2] not in arrears	Total(3)
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	20	-	-	-	20
Construction and real estate - real estate operations	101	-	-	1	102
Financial services	3	-	-	1	4
Commercial - other	32	-	-	6	38
Total commercial	156	-	-	8	164
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	22	-	1	28	51
Total public - activity in Israel	178	-	1	36	215
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	178	-	1	36	215
Borrower activity overseas					
Public - commercial					
Construction and real estate	1	-	-	1	2
Commercial - other	-	-	-	-	-
Total commercial	1	-	-	1	2
Private individuals	-	-	-	-	-
Total public - activity overseas	1	-	-	1	2
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	1	-	-	1	2
Total public	179	-	1	37	217
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	179	-	1	37	217

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	December 31, 2016				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[(2)] in arrears 90 days or longer	Accruing interest revenues[(2)], in arrears 30- 89 days	Accruing interest revenues [(2)] not in arrears	Total[(3)]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	13	-	-	-	13
Construction and real estate - real estate operations	50	-	-	1	51
Financial services	3	-	-	-	3
Commercial - other	32	-	-	2	34
Total commercial	98	-	-	3	101
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	22	-	-	24	46
Total public - activity in Israel	120	-	-	27	147
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	120	-	-	27	147
Borrower activity overseas					
Public - commercial					
Construction and real estate	-	-	-	1	1
Commercial - other	-	-	-	-	-
Total commercial	-	-	-	1	1
Private individuals	-	-	-	-	-
Total public - activity overseas	-	-	-	1	1
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	-	-	-	1	1
Total public	120	-	-	28	148
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	120	-	-	28	148

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

As of March 31, 2017, the Bank had no commitments to provide additional credit to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	Restructurings made [2]					
	March 31, 2017			March 31, 2016		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	9	1	1	5	1	1
Construction and real estate - real estate operations	2	-	-	2	-	-
Financial services	1	-	-	3	-	-
Commercial - other	42	4	4	30	4	4
Total commercial	54	5	5	40	5	5
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	199	9	9	177	9	8
Total public - activity in Israel	253	14	14	217	14	13
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	253	14	14	217	14	13
Borrower activity overseas						
Public - commercial						
Construction and real estate	-	-	-	-	-	-
Commercial - other	-	-	-	-	-	-
Total commercial	-	-	-	-	-	-
Private individuals	-	-	-	-	-	-
Total public - activity overseas	-	-	-	-	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	-	-	-	-	-	-
Total public	253	14	14	217	14	13
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	253	14	14	217	14	13

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Included under impaired debts.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	Restructurings made which are in default[2]			
		March 31, 2017		March 31, 2016
		Recorded debt balance		
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	5	-	3	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial - other	8	-	26	2
Total commercial	13	-	29	2
Private individuals - housing loans	-	-	-	-
Private individuals - other	36	1	65	2
Total public - activity in Israel	49	1	94	4
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	49	1	94	4
Borrower activity overseas				
Public - commercial				
Construction and real estate	-	-	-	-
Commercial - other	-	-	-	-
Total commercial	-	-	-	-
Private individuals	-	-	-	-
Total public - activity overseas	-	-	-	-
Overseas banks	-	-	-	-
Overseas governments	-	-	-	-
Total activity overseas	-	-	-	-
Total public	49	1	94	4
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	49	1	94	4

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt

3. Additional information about housing loans

Below is the composition of balances by loan- to- value ratio (LTV)[(1)], repayment type and interest type:

Consolidated

					March 31, 2017
				Housing loan balance	Off- balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	73,612	2,644	47,454	3,772
	Over 60%	42,512	464	28,059	1,455
Junior lien or no lien		216	3	159	1,247
Total		116,340	3,111	75,672	6,474
	March 31, 2016				
Senior lien: LTV ratio	Up to 60%	67,082	2,249	44,294	4,243
	Over 60%	41,126	441	28,021	2,217
Junior lien or no lien		115	2	89	1,483
Total		108,323	2,692	72,404	7,943
	December 31, 2016				
Senior lien: LTV ratio	Up to 60%	72,138	2,499	46,751	3,621
	Over 60%	42,672	470	28,299	1,446
Junior lien or no lien		176	2	133	1,083
Total		114,986	2,971	75,183	6,150

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

C. Information about purchase and sale of debts

	For the three months ended March 31, 2017				For the three months ended March 31, 2016			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	90	-	128	218	-	-	-	-
Loans sold	161	730	-	891	503	-	-	503

D. Off- balance sheet financial instruments

Contractual balances or their denominated amounts at the end of the year

	March 31,		December 31,	March 31,		December 31,
	2017	2016	2016	2017	2016	2016
	Balance[1]			Provision for credit losses		
	(unaudited)		(audited)	(unaudited)		(audited)
Transactions in which the balance represents a credit risk:						
- Unutilized debitory account and other credit facilities in accounts available on demand	17,922	17,045	16,688	20	29	26
- Guarantees to home buyers	12,318	12,361	12,461	8	6	7
- Irrevocable commitments for loans approved but not yet granted	11,501	12,971	10,651	14	3	13
- Unutilized revolving credit card facilities	7,579	8,047	7,559	4	5	7
- Commitments to issue guarantees	6,499	4,849	5,797	4	1	4
- Guarantees and other liabilities[3]	5,153	4,559	4,869	23	15	22
- Loan guarantees	2,048	2,308	2,606	19	26	29
- Documentary credit	389	488	384	1	1	1

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 59 million. (as of March 31, 2016 and December 31, 2016 - NIS 112 million and NIS 38 million, respectively).
For more information see Note 26.C.2. and Note 27.B. to Financial Statements as of December 31, 2016.

Note 14 - Assets and Liabilities by Linkage Basis

As of March 31, 2017

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	38,681	121	2,450	182	249	-	41,683
Securities	5,993	773	4,417	515	-	93	11,791
Securities loaned or acquired in conjunction with resale agreements	40	6	-	-	-	-	46
Loans to the public, net[3]	113,615	49,387	6,614	1,802	1,650	-	173,068
Loans to Governments	-	-	132	180	-	-	312
Investments in associates	35	-	-	-	-	(2)	33
Buildings and equipment	-	-	-	-	-	1,550	1,550
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	3,083	348	389	93	38	-	3,951
Other assets	1,003	405	66	15	16	45	1,550
Total assets	162,450	51,040	14,068	2,787	1,953	1,773	234,071
Liabilities							
Deposits from the public	127,550	17,538	28,208	4,897	2,529	-	180,722
Deposits from banks	251	17	1,118	63	25	-	1,474
Deposits from the Government	26	3	27	-	-	-	56
Debentures and subordinated notes	5,690	21,234	-	-	-	-	26,924
Liabilities with respect to derivative instruments	3,328	159	487	140	29	-	4,143
Other liabilities	5,633	1,013	254	11	40	167	7,118
Total liabilities	142,478	39,964	30,094	5,111	2,623	167	220,437
Difference	19,972	11,076	(16,026)	(2,324)	(670)	1,606	13,634
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	1,612	(1,612)	-	-	-	-	-
Non- hedging derivative instruments:							
Derivative instruments (other than options)	(16,581)	(2,436)	16,284	2,149	584	-	-
Net in- the- money options (in terms of underlying asset)	22	-	(247)	265	(40)	-	-
Net out- of- the- money options (in terms of underlying asset)	(36)	-	123	(94)	7	-	-
Total	4,989	7,028	134	(4)	(119)	1,606	13,634
Net in- the- money options (capitalized par value)	(471)	-	(304)	802	(27)	-	-
Net out- of- the- money options (capitalized par value)	1,130	-	(655)	(442)	(33)	-	-

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non- monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro- rata* from the different linkage bases.

Note 14 - Assets and Liabilities by Linkage Basis - Continued

As of March 31, 2016

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-	
	Non- linked	CPI- linked	US dollars	Euro	Other currencies	monetary items[2]	Total
Assets							
Cash and deposits with banks	33,685	120	3,856	288	244	-	38,193
Securities	5,473	130	2,370	940	0	100	9,013
Securities loaned or acquired in conjunction with resale agreements	78	73	-	-	-	-	151
Loans to the public, net[3]	99,891	51,054	7,319	2,009	1,800	-	162,073
Loans to Governments	-	-	157	166	-	-	323
Investments in associates	35	-	-	-	-	1	36
Buildings and equipment	-	-	-	-	-	1,546	1,546
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	3,052	325	291	173	81	-	3,922
Other assets	1,054	294	47	1	26	43	1,465
Total assets	143,268	51,996	14,040	3,577	2,151	1,777	216,809
Liabilities							
Deposits from the public	112,071	16,996	27,318	6,019	2,597	-	165,001
Deposits from banks	400	274	592	127	23	-	1,416
Deposits from the Government	18	8	29	-	-	-	55
Debentures and subordinated notes	5,685	21,174	-	-	-	-	26,859
Liabilities with respect to derivative instruments	3,680	168	544	428	58	-	4,878
Other liabilities	4,599	841	246	31	31	180	5,928
Total liabilities	126,453	39,461	28,729	6,605	2,709	180	204,137
Difference	16,815	12,535	(14,689)	(3,028)	(558)	1,597	12,672
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	1,792	(1,792)	-	-	-	-	-
Non- hedging derivative instruments:							
Derivative instruments (other than options)	(13,140)	(4,215)	13,883	3,114	358	-	-
Net in- the- money options (in terms of underlying asset)	(849)	-	778	(33)	104	-	-
Net out- of- the- money options (in terms of underlying asset)	(219)	-	256	(35)	(2)	-	-
Total	4,399	6,528	228	18	(98)	1,597	12,672
Net in- the- money options (capitalized par value)	(184)	-	584	(308)	(92)	-	-
Net out- of- the- money options (capitalized par value)	(118)	-	369	(272)	21	-	-

(1) Includes linked to foreign currency.

(2) Includes derivative instruments whose base relates to a non- monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro- rata from the different linkage bases.

Note 14 - Assets and Liabilities by Linkage Basis - Continued

As of December 31, 2016

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	39,128	121	1,865	331	280	-	41,725
Securities	5,981	146	3,516	499	20	100	10,262
Securities loaned or acquired in conjunction with resale agreements	9	-	-	-	-	-	9
Loans to the public, net[3]	111,144	49,369	7,394	1,862	1,572	-	171,341
Loans to Governments	-	-	139	191	-	-	330
Investments in associates	35	-	-	-	-	(1)	34
Buildings and equipment	-	-	-	-	-	1,585	1,585
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	2,031	333	1,051	146	23	-	3,584
Other assets	989	383	68	1	13	44	1,498
Total assets	159,317	50,352	14,033	3,030	1,908	1,815	230,455
Liabilities							
Deposits from the public	122,611	17,039	28,804	7,180	2,618	-	178,252
Deposits from banks	160	265	899	195	18	-	1,537
Deposits from the Government	20	3	27	-	-	-	50
Debentures and subordinated notes	5,656	21,378	-	-	-	-	27,034
Liabilities with respect to derivative instruments	2,113	168	1,105	160	20	-	3,566
Other liabilities	5,207	1,030	255	9	36	155	6,692
Total liabilities	135,767	39,883	31,090	7,544	2,692	155	217,131
Difference	23,550	10,469	(17,057)	(4,514)	(784)	1,660	13,324
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,159	(2,159)	-	-	-	-	-
Non- hedging derivative instruments:							
Derivative instruments (other than options)	(19,238)	(3,431)	17,656	4,405	608	-	-
Net in- the- money options (in terms of underlying asset)	152	-	(388)	208	28	-	-
Net out- of- the- money options (in terms of underlying asset)	115	-	(47)	(87)	19	-	-
Total	6,738	4,879	164	12	(129)	1,660	13,324
Net in- the- money options (capitalized par value)	(1,212)	-	608	518	86	-	-
Net out- of- the- money options (capitalized par value)	1,323	-	(638)	(615)	(70)	-	-

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non- monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro- rata* from the different linkage bases.

Note 15 - Balances and Estimates of Fair Value of Financial Instruments

Reported amounts (NIS in millions)

1) Information on the fair value of financial instruments is presented below:

A. Fair value balances

					As of March 31, 2017 (unaudited)
	Book balance				Fair value
		Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	41,683	6,838	33,610	1,258	41,706
Securities[(3)]	11,791	8,517	3,259	91	11,867
Securities loaned or purchased in resale agreements	46	46	-	-	46
Loans to the public, net	173,068	400	10,323	[(5)]161,778	172,501
Loans to Governments	312	-	-	304	304
Investments in associates	35	-	-	35	35
Assets with respect to derivative instruments	3,951	274	2,646	[(2)]1,031	3,951
Other financial assets	470	121	-	349	470
Total financial assets	[(4)]231,356	16,196	49,838	164,846	230,880
Financial liabilities					
Deposits from the public	180,722	400	44,668	137,633	182,701
Deposits from banks	1,474	-	363	1,176	1,539
Deposits from the Government	56	-	-	61	61
Debentures and subordinated notes	26,924	26,069	-	1,582	27,651
Liabilities with respect to derivative instruments	4,143	260	2,446	[(2)]1,437	4,143
Other financial liabilities	5,339	508	3,995	836	5,339
Total financial liabilities	[(4)]218,658	27,237	51,472	142,725	221,434

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non- observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For details of the carrying amount and fair value of securities, see Note 5.

(4) Includes assets and liabilities amounting to NIS 61,862 million and NIS 49,072 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non- recurring basis, see B.- D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 5 million.

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances - Continued

	As of March 31, 2016 (unaudited)				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	38,193	7,635	29,235	1,323	38,193
Securities(3)	9,013	6,007	2,928	172	9,107
Securities loaned or purchased in resale agreements	151	151	-	-	151
Loans to the public, net	162,073	403	10,840	(5)150,675	161,918
Loans to Governments	323	-	-	323	323
Investments in associates	35	-	-	35	35
Assets with respect to derivative instruments	3,922	324	1,669	(2)1,929	3,922
Other financial assets	448	69	-	379	448
Total financial assets	(4)214,158	14,589	44,672	154,836	214,097
Financial liabilities					
Deposits from the public	165,001	403	41,704	125,135	167,242
Deposits from banks	1,416	-	439	985	1,424
Deposits from the Government	55	-	-	62	62
Debentures and subordinated notes	26,859	26,325	-	1,459	27,784
Liabilities with respect to derivative instruments	4,878	342	1,967	(2)2,569	4,878
Other financial liabilities	4,503	150	3,531	822	4,503
Total financial liabilities	(4)202,712	27,220	47,641	131,032	205,893

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non- observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 53,864 million and NIS 46,907 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non- recurring basis, see B.- D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 2 million.

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances - Continued

					December 31, 2016
	Book balance				Fair value
		Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	41,725	6,704	33,804	1,203	41,711
Securities(3)	10,262	7,805	2,434	98	10,337
Securities loaned or purchased in resale agreements	9	9	-	-	9
Loans to the public, net	171,341	331	10,432	(5)160,002	170,765
Loans to Governments	330	-	-	330	330
Investments in associates	35	-	-	35	35
Assets with respect to derivative instruments	3,584	343	1,524	(2)1,717	3,584
Other financial assets	380	-	-	380	380
Total financial assets	(4)227,666	15,192	48,194	163,765	227,151
		-			
Financial liabilities					
Deposits from the public	178,252	331	44,708	135,246	180,285
Deposits from banks	1,537	-	322	1,284	1,606
Deposits from the Government	50	-	-	55	55
Debentures and subordinated notes	27,034	26,043	-	1,617	27,660
Liabilities with respect to derivative instruments	3,566	343	1,385	(2)1,838	3,566
Other financial liabilities	5,019	205	3,715	1,098	5,018
Total financial liabilities	(4)215,458	26,922	50,130	141,138	218,190

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non- observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 60,183 million and NIS 50,468 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non- recurring basis, see B.- D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 8 million.

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

			As of March 31, 2017 (unaudited)	
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non- observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures:				
of Government of Israel	3,362	3,223	-	6,585
Of foreign governments	1,625	-	-	1,625
Of banks and financial institutions overseas	-	18	-	18
Of others overseas	-	18	-	18
Shares	2	-	-	2
Securities held for trading:				
Debentures of the Government of Israel	202	-	-	202
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	253	114	367
Other	-	916	25	941
Currency contracts	96	1,474	646	2,216
Contracts for shares	178	3	241	422
Commodities and other contracts	-	-	5	5
Other	-	-	5	5
Total assets	5,465	5,905	1,036	12,406
Liabilities				
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	110	81	191
Other	-	1,236	50	1,286
Currency contracts	98	1,100	1,092	2,290
Contracts for shares	162	-	212	374
Commodities and other contracts	-	-	2	2
Total liabilities	260	2,446	1,437	4,143

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued

1. On recurring basis

	As of March 31, 2016 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non- observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures:				
of Government of Israel	1,972	2,890	-	4,862
Of foreign governments	207	-	-	207
Of banks and financial institutions overseas	-	19	75	94
Of others overseas	-	19	-	19
Shares	3	-	-	3
Securities held for trading:				
Debentures of the Government of Israel	510	-	-	510
Securities loaned or purchased in resale agreements	151	-	-	151
Credit with respect to loans to clients	403	-	-	403
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	211	277	488
Other	-	626	637	1,263
Currency contracts	83	832	917	1,832
Contracts for shares	241	-	95	336
Commodities and other contracts	-	-	3	3
Other financial assets	69	-	-	69
Other	-	-	2	2
Total assets	3,639	4,597	2,006	10,242
Liabilities				
Deposits with respect to borrowing from clients	403	-	-	403
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	154	66	220
Other	-	947	811	1,758
Currency contracts	116	866	1,427	2,409
Contracts for shares	226	-	262	488
Commodities and other contracts	-	-	3	3
Other financial liabilities	150	-	-	150
Total liabilities	895	1,967	2,569	5,431

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

1. On recurring basis

			As of December 31, 2016 (audited)	
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non- observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures:				
of Government of Israel	2,606	2,396	-	5,002
Of foreign governments	1,538	-	-	1,538
Of banks and financial institutions overseas	-	19	-	19
Of others overseas	-	19	-	19
Shares	2	-	-	2
Securities held for trading:				-
Debentures of the Government of Israel	348	-	-	348
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	178	205	383
Other	-	507	517	1,024
Currency contracts	75	837	660	1,572
Contracts for shares	268	2	328	598
Commodities and other contracts	-	-	7	7
Other	-	-	8	8
Total assets	4,837	3,958	1,725	10,520
Liabilities				
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	137	64	201
Other	-	720	669	1,389
Currency contracts	75	528	790	1,393
Contracts for shares	268	-	311	579
Commodities and other contracts	-	-	4	4
Total liabilities	343	1,385	1,838	3,566

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

2. On non- recurring basis

	As of March 31, 2017 (unaudited)				For the three months ended March 31, 2017
	Fair value				Gain (loss)
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	
Impaired credit whose collection is contingent on collateral	-	-	79	79	-

	As of March 31, 2016 (unaudited)				For the three months ended March 31, 2016
Impaired credit whose collection is contingent on collateral	-	33	117	150	(1)

	December 31, 2016				For the year ended December 31, 2016
Impaired credit whose collection is contingent on collateral	-	-	79	79	19

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non- observed data.

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended March 31, 2017 (unaudited)								
		Realized / unrealized gain s(losses) included, net[(1)]							
	Fair value as of January 1, 2017	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	Transfer to level 3	Fair value as of March 31, 2017	Unrealized gain s(losses) with respect to instruments held as of March 31, 2017
Assets									
Assets with respect to derivative instruments[(2)(3)]									
Interest contracts:									
NIS / CPI	205	(56)	-	1	-	(42)	6	114	93
Other	517	(486)	-	-	-	(6)	-	25	138
Currency contracts	660	74	-	342	-	(430)	-	646	483
Contracts for shares	328	(52)	-	27	-	(62)	-	241	-
Commodities and other contracts	7	-	-	-	-	(2)	-	5	-
Other	8	-	-	-	-	(3)	-	5	-
Total assets	1,725	(520)	-	370	-	(545)	6	1,036	714
Liabilities									
Liabilities with respect to derivative instruments[(2)(3)]									
Interest contracts:									
NIS / CPI	64	(31)	-	1	-	-	47	81	(51)
Other	669	(609)	-	-	-	(10)	-	50	240
Currency contracts	790	282	-	335	-	(315)	-	1,092	970
Contracts for shares	311	(57)	-	19	-	(61)	-	212	-
Commodities and other contracts	4	-	-	-	-	(2)	-	2	1
Other	-	-	-	-	-	-	-	-	-
Total liabilities	1,838	(415)	-	355	-	(388)	47	1,437	1,160

(1) Realized gains (loss) included on the statement of profit and loss under "Non- interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available- for- Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non- interest financing revenues".

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 - Continued:

	For the three months ended March 31, 2016 (unaudited)								
		Realized / unrealized gains(losses) included, net[1]							
	Fair value as of January 1, 2016	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	Transfer to level 3	Fair value as of March 31, 2016	Unrealized gains(losses) with respect to instruments held as of March 31, 2016
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	196	(121)	-	-	-	-	-	75	(121)
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	125	48	-	-	-	(5)	109	277	221
Other	68	568	-	1	-	-	-	637	496
Currency contracts	462	249	-	565	-	(359)	-	917	556
Contracts for shares	69	15	-	33	-	(22)	-	95	-
Commodities and other contracts	1	2	-	-	-	-	-	3	1
Other	3	(1)	-	-	-	-	-	2	-
Total assets	924	760	-	599	-	(386)	109	2,006	1,153
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	18	6	-	1	-	-	41	66	62
Other	120	689	-	2	-	-	-	811	676
Currency contracts	502	47	-	1,019	-	(141)	-	1,427	821
Contracts for shares	178	76	-	36	-	(28)	-	262	-
Commodities and other contracts	-	2	-	1	-	-	-	3	1
Total liabilities	818	820	-	1,059	-	(169)	41	2,569	1,560

(1) Realized gains (losses) included in the statement of profit and loss under "Non- interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available- for- Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non- interest financing revenues".

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 - Continued:

	For the year ended December 31, 2016								
		Realized / unrealized gain s(losses) included, net[(1)]							
	Fair value as of December 31, 2015	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	Transfer to level 3	Fair value as of December 31, 2016	Unrealized gain s(losses) with respect to instruments held as of December 31, 2016
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	196	(196)	-	-	-	-	-	-	(196)
Assets with respect to derivative instruments[(2)(3)]									
Interest contracts:									
NIS / CPI	125	15	-	-	-	(76)	141	205	235
Other	68	461	-	2	-	(14)	-	517	559
Currency contracts	462	87	-	1,472	-	(1,361)	-	660	416
Contracts for shares	69	161	-	185	-	(87)	-	328	-
Commodities and other contracts	1	5	-	3	-	(2)	-	7	1
Other	3	5	-	-	-	-	-	8	-
Total assets	924	538	-	1,662	-	(1,540)	141	1,725	1,015
Liabilities									
Liabilities with respect to derivative instruments[(2)(3)]									
Interest contracts:									
NIS / CPI	18	1	-	4	-	(7)	48	64	68
Other	120	560	-	4	-	(15)	-	669	799
Currency contracts	502	141	-	1,930	-	(1,783)	-	790	802
Contracts for shares	178	205	-	198	-	(270)	-	311	-
Commodities and other contracts	-	2	-	4	-	(2)	-	4	1
Other	-	3	-	1	-	(4)	-	-	-
Total liabilities	818	912	-	2,141	-	(2,081)	48	1,838	1,670

(1) Realized gains (loss) included on the statement of profit and loss under "Non- interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available- for- Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non- interest financing revenues".

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

D. Additional information about non- observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of March 31, 2017	Valuation technique	Non- observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	58	Cash flows discounting	Inflationary expectations	(0.02%)- 0.02%	(0.01%)
Contracts for shares	5	Options pricing model	Standard deviation for shares	165.11%- 165.11%	165.11%
Other	973	Cash flows discounting	Counter- party credit quality	0.30% - 3.10%	1.72%
Liabilities with respect to derivative instruments:					
Interest contracts - NIS CPI	59	Cash flows discounting	Inflationary expectations	(0.02%)- 0.02%	(0.01%)
Other	1,378	Cash flows discounting	Counter- party credit quality	0.30% - 3.10%	1.92%

	Fair value as of March 31, 2016	Valuation technique	Non- observed data	Range	Weighted average
Securities available for sale:					
CLN	75	Cash flows discounting	Probability of default	0.64%- 1.387%	1.33%
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	136	Cash flows discounting	Inflationary expectations	(0.09%)- (0.08%)	0.01%
Contracts for shares	2	Options pricing model	Standard deviation for shares	59.60% - 149.26%	119.00%
Other	1,793	Cash flows discounting	Counter- party credit quality	0.30% - 3.10%	1.93%
Liabilities with respect to derivative instruments:					
Interest contracts - NIS CPI	8	Cash flows discounting	Inflationary expectations	(0.09%)- (0.08%)	1.48%
Other	2,561	Cash flows discounting	Counter- party credit quality	0.30% - 3.10%	1.93%

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

D. Additional information about non- observed significant data and valuation techniques used in fair value measurement of items classified at Level 3: (continued)

	Fair value as of December 31, 2016	Valuation technique	Non- observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	85	Cash flows discounting	Inflationary expectations	0.29% - 1.16%	0.53%
Contracts for shares	2	Options pricing model	Standard deviation for shares	71.84% - 71.84%	71.84%
Other	1,638	Cash flows discounting	Counter- party credit quality	0.30% - 3.30%	2.04%
Liabilities with respect to derivative instruments:					
Interest contracts - NIS CPI	20	Cash flows discounting	Inflationary expectations	0.29% - 1.16%	0.47%
Other	1,818	Cash flows discounting	Counter- party credit quality	0.30% - 3.30%	2.08%

Note 15 - Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 and Level 3 to Level 1 during the reported period.

F. Election of fair value option

Due to election of the fair value option, the Bank treats investments in certain debentures at fair value, charging the changes to profit and loss and classifies them under the portfolio held for trading - even though they had not been purchased for this purpose.

Election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of March 31, 2017, December 31, 2016 and March 31, 2016, the Bank did not select the fair value option.

Note 16 - Events after the balance sheet date

- On April 2, 2017, after the balance sheet date, Mizrahi Tefahot Issuance issued debentures (Series 40 and 41) by way of expansion of outstanding series, with total par value of NIS 2,579 million, for consideration of NIS 2,703 million.

- On May 15, 2017, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 96.3 million, or 30% of earnings in the first quarter of 2017.
  The dividends amount is 414.6% of issued share capital, i.e. NIS 41.46 per NIS 0.1 par value share. The effective date for dividends payment is June 4, 2017 and the payment date is June 20, 2017. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount would be deducted from retained earnings in the second quarter of 2017.

Corporate governance, other information about the Bank and its management

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Corporate governance

Board of Directors and management

Board of Directors

During the first quarter of 2017, the Bank Board of Directors held 7 plenary meetings. During this period there were also 22 meetings of Board committees and one Board member workshop.

The Board of Directors, at its meeting on January 2, 2017, resolved to appoint Mr. Joseph Shachak member of the Risks Management Committee.

Members of Bank management and senior officers

In the first quarter of 2017 there were no changes to members of Bank management and senior officers.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2016 annual report. No material changes occurred in these details during the reported period.

Transactions with controlling shareholders and related parties

Transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

The Dodd-Frank Wall Street Reform and Consumer Protection Act and the European Market Infrastructure Regulation (EMIR).

In 2012, rules were published governing application of the Dodd Frank Wall Street Reform and Consumer Protection Act, enacted in the USA in 2010 (hereinafter: "the Dodd Frank reform").

The reform is designed, *inter alia*, to mitigate credit risk in trading on the OTC derivatives market, systemic risk arising there and increase transparency of this market.

The reform stipulates, inter alia, that transactions are to be settled by a central clearing house to consist of large, major banks which would guarantee each party's compliance with their obligations, binding procedures concerning collateral are to be specified, and all swap transactions made are to be reported to central information repositories, which would store this information and make it accessible to all market players.

Concurrently with the Dodd Frank reform, a similar reform was launched in Europe - European Market Infrastructure Regulation ("EMIR").

The EMIR reform, similar to the Dodd Frank reform, calls for central settlement, mandatory collateral requirements and reporting of executed transactions to designated data repositories.

The rules stipulated by the Dodd-Frank and EMIR reforms also apply to non-US and non-European entities conducting transactions (of certain volumes specified in these reforms) with US or European entities. The Bank applies the relevant directives in conformity with schedules stipulated by the reforms.

The Dodd-Frank and EMIR reforms stipulate new rules for margins, as well (Variation Margin and Initial Margin) for transactions which would not be settled, designed to align conduct rules for the derivatives market for supervision by the relevant regulator. Provisions with regard to Variation Margin became effective for entities such as the Bank as from March 1, 2017. The Bank is preparing to implement the regulation and is taking action to align its operating agreements involving derivatives with relevant foreign entities (ISDA agreements and CSA annex) to legislative requirements.

Increased Competition and Reduced Concentration in Israeli Banking Act (Legislation Amendments), 2017

For more information about the Increased Competition and Reduced Concentration in Israeli Banking Act and its impact, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2016 annual report.

Prohibition of Money Laundering Act (Amendment no. 16) - amendment of definition of Controlling Shareholder

As part of legislative amendments designed for implementation of international agreements on information exchange and improved transparency of legal entities, the definition of Controlling Shareholder in the Prohibition of Money Laundering Act, 2000 was amended. Highlights of the new definition, effective as from February 4, 2017, are as follows: Controlling Shareholder is an individual capable of (directly or indirectly) directing operations of the corporation and/or an individual holding 25% or more of any particular type of means of control (the definition of Means of Control was also expanded in this Amendment). In absence of such individual, the senior officers are to be classified as Controlling Shareholders: CEO and Chairman of the Board of Directors for a corporation and equivalent officers of other entities. The Amendment is designed to align the definition specified in the Prohibition of Money Laundering Act with the definition required by the FATCA agreement.

Financial Services Supervision Act (Regulated Financial Services), 2016

The Act, made public on August 1, 2016, is designed to govern the non-banking credit market, to generate fair, transparent competition in this area, which had been gray and exposed in part - and to allow consumers to have confidence in non-banking credit providers. The Act will become effective on June 1, 2017.

"Credit service providers" would be required to hold a license (contingent on minimum capital and review of good conduct) and, in absence of such license, would be subject to penalties. Financial entities subject to licensing by other legislation are, naturally, exempt. The Bank may refuse account management to anyone required by law to hold a license who would fail to present such license. The Act shall apply, *inter alia*, to the following: Currency and check discounting services, loans, transfers and management of financial assets (cash / virtual currency / checks / notes / exchange notes etc.) and imposes consumer obligations on service providers. A new regulator was created for such supervision: The Supervisor of Financial Service Providers (the Supervisor of the Capital Market at the Ministry of Finance).

Application of this Act has no impact on the Bank's financial statements.

Amendment 19 to the Sale Law (Apartments) (Securing Investments of Home Buyers), 1974

On March 30, 2017, Amendment 19 to the Sale Law (Apartments) (Securing Investments of Home Buyers), 1974 was made public, which covers two issues:

1. Exempting the apartment seller from providing collateral to the buyer with respect to the VAT portion of the buyer payment, where the collateral issued to the buyer is a Sale Law guarantee or a Sale Law insurance policy:

   Prior to the amendment, the law stipulated that an apartment seller must provide to the apartment buyer collateral of one of the types listed in the law for the entire payment made by the buyer to the seller with regard to consideration for the apartment.

   The amendment exempts the seller from providing collateral with respect to the VAT portion of the buyer payment, where the collateral provided is a bank guarantee or an insurance policy.

   The law stipulates that reimbursement of the VAT component of the buyer payment to the buyer, in case of default by the seller, pursuant to one of the causes listed in the law, would be secured and carried out by a fund to be created for this purpose at the Ministry of Finance, which would be responsible for reimbursement of this component to the buyer should any of the causes listed in the law materialize.

   The effective start date for these provisions is 15 days after notice has been made public of the creation of such fund.

   Such notice was made public on April 30, 2017 and the effective start date is, therefore, May 15, 2017.

2. Expansion of definition of "Corporation providing financial assistance" to insurance companies:

   Prior to the amendment, the law defined a "Corporation providing financial assistance" as a banking corporation only and, consequently, the obligations of such a corporation, specified in the law, only applied to banks.

   This amendment to the law expands the definition of "Corporation providing financial assistance" to also include insurance companies and the obligations imposed by law on a banking corporation providing financial assistance were also, accordingly, applied to insurance companies providing financing for construction projects using the financial assistance method, as defined by law.

   Scope: The aforementioned part of the amendment would apply to construction projects whose financing agreements were signed as from the publication date of the law (March 30, 2017).

Application of the amendment has no impact on the Bank's financial statements.

Restructuring of the Stock Exchange

On April 6, 2017, the Securities Act (Amendment No. 63), 2017 was officially published, concerning restructuring of the Stock Exchange.

The Act puts in place the legal infrastructure for separation of ownership of the Tel Aviv Stock Exchange and the rights of Stock Exchange members to use its services, while removing the existing requirement for the Stock Exchange to distribute its earnings. The Act also stipulates restrictions on holding of shares of the Stock Exchange, requiring Stock Exchange members and banking corporations other than Stock Exchange members to sell any means of control they hold in excess of 5%. The Act further stipulates arrangements for allocation of share capital of the Stock Exchange among members thereof and sale of holdings in excess of 5%. At first, the Tel Aviv Stock Exchange is required to formulate a proposal for the manner of allocation of equity interest among members thereof and to file a motion asking the Court to order convening of General Meetings in order to approve the proposal.

The effective start date of the Act is three months after being officially published, with transitional provisions stipulated with regard to some of the requirements therein.

On May 11, 2017, a petition was filed with the Supreme Court against multiple defendants, including the Bank, seeking rescinding of the Act, in whole or in part.

In this petition, claims were made against allocation of Stock Exchange shares to current Stock Exchange members, including the Bank. The Bank is reviewing this petition and the effect of the Act on its financial statements.

Supervisor of Banks

Circulars and Public Reporting Regulations

Debt collection proceedings

On February 1, 2017, the Bank of Israel issued Proper Banking Conduct Directive 450 "Debt collection proceedings", designed to govern the actions to be taken in order to increase fairness and transparency in debt collection from clients who fail to repay their loan on time and when handling debt collection prior to and during any legal proceedings. The effective start date of this directive is one year after its issue date. The Bank is preparing to implement this directive.

Prohibition of money laundering

On March 6, 2017, the Bank of Israel issued a revision and expansion of Proper Banking Conduct Directive 411 "AML and Terror Financing Risk Management", which integrates supervisory circulars and letters on this matter issued since the most recent extensive revision of this directive. The directive was expanded and compiled as a risks management directive, including identification, assessment and operative mitigation steps. The effective start dates for revisions to this directive is January 1, 2018. The Bank is preparing to implement this directive.

Streamlining operations of the banking system in Israel

On January 12, 2016, the Supervisor of Banks issued a letter with regard to streamlining operations of the banking system in Israel. According to the letter, the bank's Board of Directors should set a multi-annual streamlining plan.

In order to promote implementation of the plan, the Supervisor authorized relief with regard to capital adequacy - spreading the effect of the decrease in supervisory capital over five years.

For more information about the streamlining plan approved by the Bank Board of Directors on December 27, 2016, see Notes 22 and 25 to the 2016 financial statements.

On April 9, 2017, the Supervisor of Banks issued a draft continuation letter with regard to "Streamlining operations of the banking system in Israel - streamlining in the real estate sector".

In this letter, the Supervisor of Banks clarifies that, in addition to capital relief with regard to streamlining of labor costs, relief would also be provided for reduction of cost of real estate and maintenance of headquarters units and management, including geographic relocation.

The Supervisor would allow banks relief with regard to capital adequacy due to implementation of a real estate streamlining plan, subject to all of the following conditions:

- Presentation of a streamlining plan to include reference to the following aspects:
  - Relocation of bank headquarters units and management.
  - Economic feasibility and long-term cost savings.
  - The plan provides a response to needs of the corporation and in line with the bank's current strategic plan.
- Real commitment to carry out the streamlining plan - e.g. by presenting binding contracts for relocation of headquarters units and management.
- Specified, reasonable schedule including interim targets - schedule for setting the new location, relocation dates etc.

Relief with regard to capital adequacy would apply to capital gain generated by sale of real estate and the amount of direct costs incurred due to implementation of the streamlining plan (the Supervisor's directive with regard to sale and re-lease of the Bank headquarters is to postpone gain).

The effect of the relief (with respect to amounts recognized in profit and loss over the plan term) would be amortized over the term of the streamlining plan.

Validity of the letter dated January 12, 2016 was extended by a further 18 months, through June 30, 2018, to allow banks to carry out real estate streamlining and to expand their staff streamlining plan.

The Bank is reviewing the effect of adopting this draft on its financial statements.

Bank's credit rating

On January 4, 2017, Standard & Poor's Ma'alot (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook.

The rating of subordinated notes issued by Tefahot Issuance is one rank below the issuer rating, i.e. rated ilAA+. These subordinated notes qualify as Tier II capital under transitional provisions of Basel III.

The subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, are rated ilA+.

The negotiable contingent subordinated notes (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAA-.

On June 30, 2015, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 and raised the outlook from Negative to Stable.

Operating segments

For more information about supervisory operating segments, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2016 annual report.

Addendums to condensed quarterly financial statements

Addendum I - Revenue and Expense Rates - of the Bank and its Subsidiaries(1)

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	Average balance(2)	interest revenues	Revenue rate	Average balance(2)	interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public (3)						
In Israel	167,894	(7)1,265	3.05	156,053	805(7)	2.08
Outside of Israel	3,079	36	4.76	3,038	34	4.55
Total	170,973	1,301	3.08	159,091	839	2.13
Loans to the Government						
In Israel	186	1	2.17	162	1	2.49
Outside of Israel	133	2	6.15	160	-	-
Total	319	3	3.82	322	1	1.25
Deposits with banks						
In Israel	869	2	0.92	1,692	-	-
Outside of Israel	342	1	1.17	312	1	1.29
Total	1,211	3	0.99	2,004	1	0.20
Deposits with central banks						
In Israel	33,842	8	0.09	28,560	6	0.08
Outside of Israel	4,466	9	0.81	3,085	3	0.39
Total	38,308	17	0.18	31,645	9	0.11
Securities loaned or purchased in resale agreements						
In Israel	76	-	-	81	-	-
Outside of Israel	-	-	-	-	-	-
Total	76	-	-	81	-	-
Debentures held to maturity and available for sale (4)						
In Israel	9,440	27	1.15	7,976	12	0.60
Outside of Israel	1,080	4	1.49	1,084	4	1.48
Total	10,520	31	1.18	9,060	16	0.71
Debentures held for trading(5)						
In Israel	246	1	1.64	381	2	2.12
Outside of Israel	-	-	-	-	-	-
Total	246	1	1.64	381	2	2.12
Total interest-bearing assets	221,653	1,356	2.47	202,584	868	1.72
Receivables for credit card operations	2,997			3,101		
Other non-interest bearing assets(6)	4,862			9,878		
Total assets	229,512			215,563		
Total interest-bearing assets attributable to operations outside of Israel	9,100	52	2.31	7,679	42	2.21

See remarks below.

Interest Revenue and Expense Rates - of the Bank and its Subsidiaries[1] - continued

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	19,187	(2)	(0.04)	6,946	(3)	(0.17)
Term deposits	113,858	219	0.77	117,733	111	0.38
Outside of Israel						
On-call	676	-	-	586	-	-
Term deposits	4,677	10	0.86	3,218	7	0.87
Total	138,398	227	0.66	128,483	115	0.36
Deposits from the Government						
In Israel	49	-	-	56	-	-
Outside of Israel	-	-	-	-	-	-
Total	49	-	-	56	-	-
Deposits from banks						
In Israel	1,543	3	0.78	1,563	1	0.26
Outside of Israel	6	-	-	6	-	-
Total	1,549	3	0.78	1,569	1	0.26
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	-	-	-	-	-	-
Debentures and subordinated notes						
In Israel	26,970	98	1.46	24,217	(8)	(0.13)
Outside of Israel	-	-	-	-	-	-
Total	26,970	98	1.46	24,217	(8)	(0.13)
Other liabilities						
In Israel	121	1	3.35	108	-	-
Outside of Israel	-	-	-	-	-	-
Total	121	1	3.35	108	-	-
Total interest-bearing liabilities	167,087	329	0.79	154,433	108	0.28
Non-interest bearing deposits from the public	39,876			34,041		
Payables for credit card transactions	2,997			3,101		
Other non-interest bearing liabilities[8]	6,046			11,441		
Total liabilities	216,006			203,016		
Total equity resources	13,506			12,547		
Total liabilities and equity resources	229,512			215,563		
Interest margin			1.68			1.44
Net return[9] on interest-bearing assets						
In Israel	212,553	985	1.87	194,905	725	1.50
Outside of Israel	9,100	42	1.86	7,679	35	1.84
Total	221,653	1,027	1.87	202,584	760	1.51
Total interest-bearing liabilities attributable to operations outside of Israel	5,359	10	0.75	3,810	7	0.74

See remarks below.

Interest Revenue and Expense Rates - of the Bank and its Subsidiaries[(1)] - continued

Reported amounts (NIS in millions)

C. Average balances and interest rates - additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	Average balance[(2)]	Interest revenues (expenses)	Revenue rate (expense)	Average balance[(2)]	Interest revenues (expenses)	Revenue rate (expense)
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	150,790	982	2.63	130,422	853	2.64
Total interest-bearing liabilities	104,723	(159)	(0.61)	95,614	(141)	(0.59)
Interest margin			2.02			2.05
Israeli currency - linked to the CPI						
Total interest-bearing assets	49,792	241	1.95	52,029	(99)	(0.76)
Total interest-bearing liabilities	38,605	(120)	(1.25)	36,264	92	1.01
Interest margin			0.70			0.25
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	11,971	81	2.73	12,454	72	2.33
Total interest-bearing liabilities	18,400	(40)	(0.87)	18,745	(52)	(1.11)
Interest margin			1.86			1.22
Total - operations in Israel						
Total interest-bearing assets	212,553	1,304	2.48	194,905	826	1.71
Total interest-bearing liabilities	161,728	(319)	(0.79)	150,623	(101)	(0.27)
Interest margin			1.69			1.44

See remarks below.

Interest Revenue and Expense Rates - of the Bank and its Subsidiaries[(1)] - continued

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	For the three months ended March 31, 2017 - compared to the three months ended March 31, 2016		
	Increase (decrease) due to change[(10)]		
	Quantity	Price	Net change
Interest-bearing assets			
Loans to the public			
In Israel	89	371	460
Outside of Israel	-	2	2
Total	89	373	462
Other interest-bearing assets			
In Israel	5	13	18
Outside of Israel	4	4	8
Total	9	17	26
Total interest revenues	98	390	488
Interest-bearing liabilities			
Deposits from the public			
In Israel	14	95	109
Outside of Israel	3	-	3
Total	17	95	112
Other interest-bearing liabilities			
In Israel	10	99	109
Outside of Israel	-	-	-
Total	10	99	109
Total interest expenses	27	194	221

(1) Information in these tables is after effect of hedging financial derivative instruments.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment - based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of debentures available for sale, for the three-month periods ended March 31, 2017 and March 31, 2016, we deducted the average balance of unrealized gain from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (39) million and NIS 1 million, respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended March 31, 2017 and March 31, 2016, we deducted / added the average balance of unrealized gain / loss from adjustment to fair value of debentures held for trading, amounting to NIS (1) million and NIS (10) million.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 60 million and NIS 78 million included under interest revenues for the three-month periods ended March 31, 2017 and March 31, 2016, respectively.
(8) Includes derivative instruments.
(9) Net return - net interest revenues divided into total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Glossary and index of terms included on the financial statements

Below is a summary of terms included on the financial statements and and index for these terms:

1. Terms with regard to risks management at the Bank and to capital adequacy

Term	Explanation	Location on the financial statements
Basel II	A framework for assessment of capital adequacy and risks management, published in its final version by the Basel Committee on Bank Supervision in 2006.	Chapter "Risks Overview" of the Report of the Board of Directors and Management
Basel III	A framework for assessment of capital adequacy and risks management, initially published by the Basel Committee on Bank Supervision in 2010.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements Chapter "Corporate governance, other information about the Bank and its management"
Counter-party credit risk	The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management. Term included in Notes to the financial statements
Credit Valuation Adjustment risk (CVA)	CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss due to mark-to-market with respect to expected counter-party risk for OTC derivatives. This means - loss due to impairment of fair value of derivatives, due to an increase in counter-party credit risk (such as: lower rating).	Chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Economic value approach - EVE - Economic Value of Equity	The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.	Chapter "Risks Overview" of the Report of the Board of Directors and Management
ICAAP - Internal Capital Adequacy Assessment Process	Internal process for assessment of overall capital adequacy at the Bank. This process includes, *inter alia*, setting capital targets, capital planning processes and review of capital status under various stress scenarios. This process is part of Pillar 2 of the Basel II directive.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Loan to Value (LTV) ratio	The ratio between the approved facility when extended and the asset value.	Chapter "Risks Overview" of the Report of the Board of Directors and Management Term included in Notes to the financial statements

Term	Explanation	Location on the financial statements
Minimum capital ratio	This ratio reflects the minimum supervisory capital requirement which the Bank is required to maintain in conformity with Proper Banking Conduct Directive 201.	Chapter "Overview, targets and strategy" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Pillar 2	The second pillar of the Basel II project, refers to the Supervisory Review Process. This part consists of the following basic principles: • The Bank shall conduct the ICAAP process, as defined above. • The Supervisor shall conduct a process to assess the ICAAP process conducted by the Bank, to review the Bank's capacity to monitor and achieve supervisory capital ratios. • The Bank is expected to operate above the specified minimum capital ratios.	Chapter "Risks Overview" of the Report of the Board of Directors and Management
Pillar 3	The third pillar of the Basel II project, designed to promote market discipline by developing a set of disclosure requirements, which would allow market participants to assess the capital, risk exposure and risk assessment processes - and use these to assess the Bank's capital adequacy.	Chapter "Risks Overview" of the Report of the Board of Directors and Management
Risk assets	These consist of credit risk, operating risk and market risk, calculated using the standard approach as stated in Proper Banking Conduct Directives 201-211.	This term appears multiple times.
Risk profile	Assessment of the aggregate risk inherent in exposures and business operations of the Bank at a certain point in time.	Chapter "Risks Overview" of the Report of the Board of Directors and Management
Risks Document	A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The Risks Document is compiled and sent to the Board of Directors quarterly.	Chapter "Risks Overview" of the Report of the Board of Directors and Management
Standard approach	An approach used to calculate the required capital with respect to credit risk, market risk or operating risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks.	Chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Stress tests	A title for various methods used to assess the financial standing of a banking corporation under a scenario.	Chapter "Risks Overview" of the Report of the Board of Directors and Management

Term	Explanation	Location on the financial statements
Supervisory capital (total capital)	Supervisory capital consists of two tiers: - Tier I equity , which includes Tier I shareholders' equity and additional Tier I equity. - Tier II equity. As defined in Proper Banking Conduct Directive 202 "Measurement and capital adequacy - supervisory capital".	Chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management Term included in Notes to the financial statements Chapter "Corporate governance, other information about the Bank and its management"
VaR	A model used to estimate overall exposure to diverse market risk factors. The VaR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.	Chapter "Risks Overview" of the Report of the Board of Directors and Management

2. Terms with regard to banking and finance

Term	Meaning	Report chapter
Asset and Liability Management (ALM)	A technique applied by organizations to align the composition of assets and liabilities in order to ensure an adequate return on equity. This means management of risks arising from gaps between the composition of assets and liabilities, at the business level. This includes processes for management of market and liquidity risks, setting shadow pricing etc.	Chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Average effective duration	The average term to maturity of debentures. Measured in years, by weighting principal and interest payments for the debenture over its term to final maturity. The average effective duration of a debenture reflects the financial instrument's sensitivity to changes in interest rates. Average effective duration is calculated as the ratio between the weighted average debenture payouts to its price.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management
Credit control	A review process designed to assess performance of the team involved in extending credit and the overall status of the credit portfolio. This process is retroactively conducted by the Bank's Credit Control Department; the review includes a review of rating reliability and appropriateness of classification and provision.	Chapter "Risks Overview" of the Report of the Board of Directors and Management

Term	Meaning	Report chapter
Debt under restructuring	Problematic debt under restructuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).	Term included in Notes to the financial statements
Debt under special supervision	Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Derivatives	A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.	This term appears multiple times.
Impaired debt	Debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Banking Conduct Directive 314 on problematic debts as housing loans.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Inferior debt	Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Minimum liquidity coverage ratio	The ratio of liquidity cushion to net forecasted cash outflows for the next month, under various scenarios.	Chapter "Risks Overview" of the Report of the Board of Directors and Management Term included in Notes to the financial statements

Term	Meaning	Report chapter
Negotiable portfolio	The Bank's negotiable portfolio includes the portfolios managed as market maker in the trading room, as well as portfolios of securities held for trade and transactions in derivatives conducted as part of a specific market strategy, managed by Financial Management under specific limitations on exposure and profitability.	Chapter "Risks Overview" of the Report of the Board of Directors and Management
OTC - Over the Counter	Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.	Term included in Notes to the financial statements Chapter "Corporate governance, other information about the Bank and its management"
Problematic debts	Debt classified under one of the following negative classifications: special supervision, inferior or impaired.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements

3. Terms with regard to regulatory directives

Term	Meaning	Report chapter
FATCA - Foreign Accounts Tax Compliance Act	The US Foreign Accounts Tax Compliance Act stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).	Chapter "Risks Overview" of the Report of the Board of Directors and Management Chapter "Corporate governance, other information about the Bank and its management"
LCR - Liquidity Coverage Ratio	Liquidity Coverage Ratio is defines as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.	Chapter "Risks Overview" in the Report of the Board of Directors and Management

4. Other terms

Term	Meaning	Report chapter
Corporate governance	The ensemble of relations between management, the Board of Directors, shareholders and interested parties which form the structure used to determine Bank objectives and the means to achieve and to monitor these objectives. Corporate governance also supports definition of roles and responsibilities as well as the decision-making process.	Chapter "Corporate governance, other information about the Bank and its management"

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