

Condensed Financial Statements as of September 30, 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 September 30, 2017

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Condensed Report of the Board of Directors and Management on Financial Statements as of September 30, 2017

Introduction

The Board of Directors of Mizrahi Tefahot Bank, at its meeting held on November 13, 2017, resolved to approve and publish the Report of the Board of Directors and Management, the Risks Management Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of September 30, 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 condensed 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 these financial statements as of December 31, 2016 and Note 1 to these condensed financial statements).

In conformity with the reporting structure stipulated by the Supervisor of Banks, additional information to these financial statements is provided 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), as well as information on 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 anticipated would not materialize, in whole or in part.

Overview, targets and strategy

This chapter describes major developments in the Bank Group, its operating segments for the first nine months 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 September 30, 2017 NIS in millions	For the quarter ended June 30, 2017 NIS in millions	For the quarter ended March 31, 2017 NIS in millions	For the quarter ended December 31, 2016 NIS in millions	For the quarter ended September 30, 2016 NIS in millions	For the quarter ended June 30, 2016 NIS in millions	For the quarter ended March 31, 2016 NIS in millions
Statement of profit and loss - highlights							
Interest revenues, net	⁽²⁾ 1,011	1,173	1,027	948	1,056	1,014	760
Non-interest financing revenues (expenses)	61	21	(1)	119	40	69	67
Commissions and other revenues	374	365	369	370	380	363	454
Total revenues	1,446	1,559	1,395	1,437	1,476	1,446	1,281
Expenses with respect to credit losses	41	42	49	81	59	57	3
Operating and other expenses	972	877	823	869	815	836	779
Of which: Payroll and associated expenses	⁽³⁾ 650	568	498	566	508	520	477
Pre-tax profit	433	640	523	487	602	553	499
Provision for taxes on profit	161	231	192	212	218	200	203
Net profit⁽¹⁾	⁽⁴⁾261	400	321	265	373	340	288

	For the nine months ended September 30, 2017 NIS in millions	For the nine months ended September 30, 2016 NIS in millions	For the year ended December 31, 2016 NIS in millions
Statement of profit and loss - highlights			
Interest revenues, net	3,211	2,830	3,778
Non-interest financing revenues	81	176	295
Commissions and other revenues	1,108	1,197	1,567
Total revenues	4,400	4,203	5,640
Expenses with respect to credit losses	132	119	200
Operating and other expenses	2,672	2,430	3,299
Of which: Payroll and associated expenses	⁽³⁾ 1,716	1,505	2,071
Pre-tax profit	1,596	1,654	2,141
Provision for taxes on profit	584	621	833
Net profit⁽¹⁾	⁽⁵⁾982	1,001	1,266

- (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) Expenses in respect of the negative known CPI of 0.5% resulted in a decrease in net interest revenues in the third quarter of 2017, by NIS 62 million. For more information see under "Development in financing revenues from current operations" below.
- (3) Expenses in respect of the memorandum of understandings with the Employee Association resulted in increase in payroll expenses in the third quarter of 2017, by NIS 160 million. For more information see chapter "Significant Events in the Bank Group's Business".
- (4) Expenses in respect of the memorandum of understanding with the Employee Association and in respect of the negative known CPI resulted in decrease in net profit in the third quarter of 2017, by NIS 144 million.
- (5) Expenses in respect of the memorandum of understanding with the Employee Association resulted in decrease in net profit in the first nine months of 2017, by NIS 104 million.

Financial results of the Bank Group in the third quarter of 2017 include several significant effects as follows:

- On August 16, 2017, management and the Employee Association reached a memorandum of understandings with regard to the payroll agreement for 2016-2021⁽¹⁾.
These understandings include, *inter alia*: Agreement on maintaining calm labor relations during the term of the agreement, fixed and differential pay increases to employees and persistence and engagement bonuses, which also refer to employee engagement in case of merger of the Bank with another bank, reducing the seniority pay increase, voluntary retirement plan and other understandings⁽¹⁾.
The effect of the memorandum of understandings in the reported periods on payroll expenses is an increase in expenses by NIS 160 million and on net profit - a decrease by NIS 104 million.
- The known CPI in the previous quarter amounted to a negative reading of 0.5%, compared with a positive known CPI of 0.4% in the corresponding quarter last year.
The effect of the negative known CPI alone in this quarter resulted in an expense amounting to NIS 62 million (NIS 40 million in net profit terms), see below for analysis of the development of financing revenues from current operations.

Therefore,

Net profit for the Group in the third quarter of 2017 amounted to NIS 261 million (the total aforementioned effects reduced net profit by NIS 144 million). This profit reflects annualized return on equity at 8.0%.

In the corresponding quarter last year, net profit amounted to NIS 373 million (reflecting a return on equity of 12.4%).

Net profit for the Group in the first nine months of 2017 amounted to NIS 982 million (the effect of the aforementioned memorandum of understandings reduced the Group's net profit by NIS 104 million), compared with NIS 1,001 million in the corresponding period last year. This reflects annualized return on equity of 10.1%, compared to 11.0% in the corresponding period last year and 10.2% for all of 2016.

According to the Bank's current dividends policy, dividends of 30% would be distributed with respect to earnings of this quarter (NIS 78.3 million). For more information see chapter "Dividends", on page 38.

Further to the foregoing, below is a summary of effects on Group profit in the first nine months of 2017 compared to the corresponding period last year:

- Total revenues in the first nine months of 2017 increased by 4.7% over the corresponding period last year.
For more information about the effect of the Consumer Price Index and other non-linear effects on financing revenues, including the effect of the negative known CPI of 0.5% in this quarter, compared with a positive known CPI of 0.4% in the corresponding quarter last year, see 'Analysis of development in financing revenues from current operations' below.
See also detailed explanation of the change in commissions and other revenues below.
- Increase in operating and other expenses:
In the first nine months of 2017, operating and other expenses increased by 10.0% compared to the corresponding period last year.

(1) For more information see chapter "Significant Events in the Bank Group's Business" below.

	As of September 30, 2017 NIS in millions	As of June 30, 2017 NIS in millions	As of March 31, 2017 NIS in millions	As of December 31, 2016 NIS in millions	As of September 30, 2016 NIS in millions	As of June 30, 2016 NIS in millions	As of March 31, 2016 NIS in millions
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Balance sheet - key items

Balance sheet total	239,578	235,056	234,071	230,455	225,520	217,758	216,809
Loans to the public, net	178,621	177,133	173,068	171,341	168,620	165,515	162,073
Cash and deposits with banks	42,578	39,146	41,683	41,725	40,753	36,842	38,193
Securities	10,938	10,560	11,791	10,262	9,407	8,419	9,013
Buildings and equipment	1,359	1,391	1,550	1,585	1,537	1,545	1,546
Deposits from the public	184,221	180,680	180,722	178,252	173,748	169,621	165,001
Debentures and subordinated notes	29,129	27,851	26,924	27,034	27,253	24,337	26,859
Deposits from banks	1,462	1,454	1,474	1,537	1,255	1,183	1,416
Shareholders' equity ⁽¹⁾	13,399	13,276	13,015	12,714	12,726	12,384	12,098

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

- Total assets as of September 30, 2017 amounted to NIS 239.6 billion, an increase by NIS 14.1 billion (or 6.2%) compared to September 30, 2016 (an increase by NIS 9.1 billion compared to the end of 2016).
- Loans to the public, net as of September 30, 2017 amounted to NIS 178.6 billion, an increase by NIS 10.0 billion (or 5.9%) compared to September 30, 2016 (an increase by NIS 7.3 billion compared to the end of 2016).
- Deposits from the public as of September 30, 2017 amounted to NIS 184.2 billion, an increase by NIS 10.5 billion (or 6.0%) compared to September 30, 2016 (an increase by NIS 6.0 billion compared to the end of 2016).
- Debentures and subordinated notes as of September 30, 2017 amounted to NIS 29.1 billion, an increase by NIS 1.9 billion (or 6.9%) compared to September 30, 2016 (an increase by NIS 2.1 billion compared to the end of 2016).
During the most recent quarter, the Bank issued debentures amounting to a significant NIS 3.5 billion. For more information see chapter "Developments in financing sources" below.
- Shareholder equity as of September 30, 2017 amounted to NIS 13.4 billion, an increase by NIS 0.7 billion (or 5.3%) compared to September 30, 2016 (an increase by NIS 0.7 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 September 30, 2017	For the quarter ended June 30, 2017	For the quarter ended March 31, 2017	For the quarter ended December 31, 2016	For the quarter ended September 30, 2016	For the quarter ended June 30, 2016	For the quarter ended March 31, 2016
Key performance benchmarks							
Net profit return on equity ⁽¹⁾⁽²⁾	8.0	12.7	10.4	8.6	12.4	11.6	10.0
Net profit return on risk assets ⁽²⁾⁽³⁾	0.76	1.19	0.97	0.80	1.13	1.05	0.89
Deposits from the public to loans to the public, net	103.1	102.0	104.4	104.0	103.0	102.5	101.8
Ratio of Tier I capital to risk elements	10.16	10.15	10.12	10.10	9.85	9.72	9.65
Total ratio of capital to risk elements	13.48	13.42	13.44	13.80	13.52	13.23	13.20
Leverage ratio ⁽⁴⁾	5.36	5.42	5.27	5.27	5.31	5.33	5.23
(Quarterly) liquidity coverage ratio ⁽⁵⁾	117	122	118	117	105	99	97
Cost - income ratio ⁽⁶⁾	67.2	56.3	59.0	60.5	55.2	57.8	60.8
Basic earnings per share (in NIS)	1.12	1.72	1.38	1.14	1.61	1.47	1.24
Key credit quality benchmarks							
Ratio of provision for credit losses to total loans to the public	0.81	0.82	0.84	0.83	0.83	0.84	0.84
Ratio of impaired debts or debts in arrears 90 days or longer to total loans to the public	0.97	0.89	0.95	0.95	0.94	1.11	1.09
Expenses with respect to credit losses to loans to the public, net for the period ⁽²⁾	0.09	0.09	0.12	0.19	0.14	0.14	0.01
Of which:							
With respect to commercial loans other than housing loans	0.24	0.20	0.35	0.53	0.37	0.34	0.09
Housing loans	0.02	0.04	0.00	0.02	0.02	0.04	(0.03)
Additional information							
Share price (in NIS) at end of the quarter	63.33	63.50	61.44	56.35	47.65	44.40	44.07
Dividends per share (in Agorot) ⁽⁷⁾	51.6	41.5	17.1	24.1	22.0	18.6	15.5

The following financial ratios were affected by the memorandum of understandings with the Employee Association and by the negative known CPI for the third quarter of 2017:

- Net profit return on equity in the third quarter of 2017 was 8.0% (expenses with respect to the memorandum of understandings and the negative known CPI resulted in a decrease of 4.6% (absolute) in this return), compared to 12.4% in the corresponding period last the third and compared to 10.2% for all of 2016.
- Net profit return on risk assets in the third quarter of 2017 was 0.76% (expenses with respect to the memorandum of understandings and the negative known index resulted in a decrease of 0.42% (absolute)).
- Cost-income ratio for the third quarter of 2017 was 67.2% (expenses with respect to the memorandum of understandings and the negative known CPI resulted in an increase by 13.4% (absolute) in the cost-income ratio).

Furthermore,

- Credit quality benchmarks show low credit losses and indicate a high-quality credit portfolio.
- The leverage ratio decreased in the most recent quarter to 5.36%, due *inter alia* to the significant debenture issue amounting to NIS 3.5 billion. For more information see chapter "Developments in financing sources" below.

	For the nine months ended September 30, 2017 NIS in millions	For the nine months ended September 30, 2016 NIS in millions	For the year ended December 31, 2016 NIS in millions
Key performance benchmarks (in %)			
Net profit return on equity ⁽¹⁾⁽²⁾	10.1	11.0	10.2
Net profit return on risk assets ⁽²⁾⁽³⁾	0.97	1.02	0.97
Cost - income ratio ⁽⁶⁾	60.7	57.8	58.5
Basic earnings per share (in NIS)	4.23	4.32	5.46
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period ⁽²⁾	0.10	0.09	0.12
Of which:			
With respect to commercial loans other than housing loans	0.26	0.26	0.33
Housing loans	0.02	0.01	0.01
Additional information			
Dividends per share (in Agorot) ⁽⁷⁾	110.2	56.1	80.3

(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.

(7) The dividend rate is calculated based on the actual dividend amount actually distributed in the reported quarter.

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.

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 and AML 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.

On June 19, 2017, the Bank's Board of Directors resolved to take action in order to locate, in as much as possible, the Bank's headquarters units in a single site, in Lod and instructed Bank management to take the required action to make this happen. In this regard, Netzivim Assets and Equipment Ltd., a wholly-owned subsidiary of the Bank, signed an agreement to purchase land in the Lod Industrial Zone, adjacent to the Bank's existing building. The plan, including planning, construction and relocation, should take several years. For more information see chapter "Significant Events in the Bank Group's Business" below and Note 9M to the financial statements.

Other than that, since publication of the annual financial statements as of December 31, 2016, there were no changes to the Bank's 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.
- On September 18, 2017, the Board of Directors of the Bank decided to cancel 2,500,000 million shares of NIS 0.1 par value each of the Bank's issued share capital acquired by the Bank which constitute dormant shares that do not confer any rights in the Bank. Accordingly, on September 25, 2017, the dormant shares were canceled in the Bank's records. Cancellation of the dormant shares does not affect shareholder equity attributed to Bank shareholders, non-controlling interest nor supervisory capital for the Bank .

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 25.6 billion in total par value (as of December 31, 2016: NIS 23.5 billion), of which NIS 0.5 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, Tefahot Issue issued debentures (Series 40 and 41) by way of extension of outstanding series, with total par value of NIS 2,579 million, for consideration of NIS 2,703 million.

On September 28, 2017, Tefahot Issuance issued debentures (Series 42) by way of extension of an outstanding series, as well as debentures (Series 45 and 46) first offered to the public, with total par value of NIS 3,529 million, for consideration of NIS 3,527 million.

Complex capital instruments

The revalued balance of the complex capital instruments, including contingent subordinated CoCo notes, as of September 30, 2017 was NIS 2.9 billion (of which NIS 0.9 billion in contingent subordinated CoCo notes), compared to NIS 2.8 billion as of December 31, 2016 (of which NIS 0.8 billion in contingent subordinated CoCo notes). See Note 9 to the financial statements for details.

For more information about issue of subordinated notes by Bank Yahav, see Note 9.O to the financial statements.

Significant developments in management of business operations

Discussions of an outline in principle for a transaction to acquire Bank Igud Le-Israel

On July 31, the Bank announced it was in discussions of potentially formulating an outline in principle for a transaction (hereinafter: "the transaction") to acquire all of the issued share capital of Bank Igud Le-Israel Ltd. (hereinafter: "Bank Igud"), including shares of the controlling shareholders of Bank Igud and shares held by another group (hereinafter jointly: "the controlling shareholders of Bank Igud") at the price per share on the Tel Aviv Stock Exchange Ltd. (hereinafter: "the stock exchange"), not to exceed 60% of shareholder equity in Bank Igud accounts against allocation of shares in the Bank's share capital, to shareholders of Bank Igud, in order to merge Bank Igud with and into the Bank.

At this stage, all relevant tests for conducting this transaction have yet to be completed.

Legal review is also under way with regard to implications of a contract for the transaction as to restrictions applicable on controlling shareholders of the Bank, in conformity with the Competition Enhancement and Concentration Reduction Act, 2013, including with regard to transitional provisions of this Act.

A contract for this transaction, should it materialize, is subject to approval by the competent organs of the Bank. Moreover, should the transaction be agreed, it would be subject to approvals and consents by regulatory authorities and third parties as required by law. Consequently, it is uncertain whether the parties will reach agreement on terms and conditions of the transaction or whether negotiations between the parties will result in signing or whether the required approvals and consents would be granted or whether the transaction would close.

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

Sale of assets and liabilities in mortgage portfolio

On March 28, 2017, the Bank and institutional investors signed an agreement for sale of 80% of assets and liabilities in a housing loan portfolio valued in total at NIS 912 million. The loan portfolio consists of housing loans extended by the Bank from January 01, 2013 through June 30, 2014. The loan portfolio sold includes loans with LTV ratios ranging below 60%.

On September 26, 2017, the Bank and institutional investors signed an agreement for sale of 80% of assets and liabilities in a housing loan portfolio valued in total at NIS 683 million. The loan portfolio consists of housing loans extended by the Bank from July 01, 2014 through October 31, 2015. The loan portfolio sold includes loans with an LTV ratio of up to 60% (in total, the two housing loan portfolios sold in 2017 amount to NIS 1,595 million).

In the two aforementioned transactions, the remainder of this loan portfolio is retained by the Bank, so that rights of the buyer and those of the Bank shall have equal precedence (*pari passu*).

According to management agreements signed by the parties, the Bank will manage and operate, on behalf of the buyer, the portion of the loan portfolio acquired - in the same manner and based on the same rules

used by the Bank to manage and operate its own housing loans, including the portion of the loan portfolio retained by the Bank.

Significant developments in human resources and administration

Developments in labor relations

For more information about developments in labor relations, see chapter "Significant events in the Bank Group's business" below.

Developments in logistics, administration and streamlining

For more information about sale and lease-back of the interest in the building currently housing offices of the Bank headquarters, see the chapter "Significant events in the Bank Group's business" below, as well as Note 9N to the financial statements.

Streamlining program at Bank Yahav

On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program and reduction of real estate areas. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive.

Pursuant to the retirement program, early retirement of Bank Yahav employees would be authorized subject to criteria set forth in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 36 million before tax (NIS 23 million after tax).

As directed by the Bank of Israel, supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis over a five-year period. See Note 8 to the financial statements for additional information.

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 transitioned to the new core banking system. 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 2017, Bank Yahav follows the work plan in order to complete development according to the schedule agreed during system development - and make additional developments as planned.

Developments in international geographic deployment

At end of March 2017, the Bank discontinued operations of its representative office in Uruguay, informed the local regulator and received the latter's approval.

Other matters

Stock options to officers and other managers at the Bank and subsidiaries thereof

On August 31, 2017, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option offering to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 16 to the financial statements for additional information.

Corporate social responsibility

In August 2017, the Bank issued its 2016 Corporate Social Responsibility Report.

The Bank's Corporate Social Responsibility Report is available on its website:

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

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.I, 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

Significant Events in the Bank Group's Business

Plan to relocate Bank headquarters units

On June 19, 2017, the Bank's Board of Directors resolved to take action in order to locate, in as much as possible, the Bank's headquarters units in a single site, in Lod and instructed Bank management to take the required action to make this happen (hereinafter: "the plan"). In this regard, Netzivim Assets and Equipment Ltd. (hereinafter: "the Company"), a wholly-owned subsidiary of the Bank, signed an agreement to purchase land in Lod Industrial Zone, adjacent to the Bank's existing building. The plan, including planning, construction and relocation, should take several years.

On June 28, the Bank closed on contracting (through the company) whereby:

- The company would sell to the buyer its interest in the building located at 7 Jabotinsky Street, Ramat Gan, which currently houses offices of the Bank headquarters, for NIS 278 million plus VAT.
- The company would lease the property from the buyer for an 8-year term and may extend the lease term for additional periods not to exceed 24 years in total.

For more information about this contract, its effect on the financial statements and capital relief authorized by the Supervisor of Banks with regard to streamlining in the real estate sector, see Note 9 to the financial statements.

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

Developments in labor relations

In late 2015, an economic arbitration process ("arbitration") was launched between the Bank and the Mizrahi Tefahot Employees Union ("the employees union"), to discuss the demands made by the employees union for 2005-2015.

In 2016, an attempt was made to refer the discussion of employees union demands to a mediation framework, however this attempt was un-successful and in late 2016, the issue was once again being discussed in arbitration.

Management believes, based on the opinion of legal counsel, that exposure with respect to this arbitration cannot be estimated.

Concurrently with the arbitration, in recent months there have been negotiations taking place to renew the payroll agreement between Bank management and the employees union for 2016-2020.

On June 13, 2017, the Employees union declared a labor dispute.

On June 25, 2017, Bank management and the employees union jointly announced they would negotiate in order to reach agreement by the end of July 2017. These negotiations did not result in a comprehensive payroll agreement for the aforementioned years.

On August 1, 2017, the Employees union announced a strike by Bank employees represented by the employee union, starting on August 2, 2017.

During the strike, the Bank provided regular services in as much as possible.

On August 16, 2017, the Bank announced that management and the employee union have reached understandings and consequently, the employees terminated the strike. According to the announcement, the parties would continue to hold discussions through September 12, 2017, in order to reach agreements which would allow them to sign a collective bargaining agreement. At this stage, the deadline for reaching an agreement was extended and the parties continue to negotiate.

Furthermore, should agreement be reached which would allow for signing of a collective bargaining agreement, such signature is subject to approval by the Bank Board of Directors and subject to recommendation by the Remuneration Committee. Below are the key understandings reached:

- The comprehensive agreement between the parties, should it be signed, would apply to the years 2016-2021.
- During this period, fixed pay increases and differential pay increases would be given. The seniority increase to be given to employees hired by the Bank as from signing the agreement would be lower than the current one.
- A bonus would be given contingent on Bank performance (return on equity), including a gradual increase based on achievement of the strategic plan targets.
- Employees would receive a special perseverance and engagement bonus, equal to two 13th monthly salaries (based on the value as of the agreement signing date), payable in four installments of one-half salary each annually in 2018 through 2021.
- Full and complete labor relations would be maintained throughout the term of the agreement.
- Bank employees would be engaged and would assist in successful completion of moves to acquire and/or merge another bank, other than the four major banks, at no additional cost to the Bank.
- The voluntary retirement plan approved by the Bank Board of Directors on December 27, 2016 would be implemented (Immediate Report dated December 27, 2016, reference: 2016-01-092211).

In accordance with the memorandum of understandings reached with the Employee Association, , expenses amounting to NIS 160 million were recorded on the financial statements for the third quarter of 2017 (effect on net profit of NIS 104 million).

For more information about the effect of the understandings reached on the actuarial liability for salary payments, see Note 8, section 3. to the financial statements.

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

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 letter 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 Bank of Israel letter, see Note 9.M to the financial statements.
For more information about the effect of these directives on the Bank, see the Bank's plan to relocate its headquarters units above, as well as Note 9.M to the financial statements.
For more information about the effect of these directives on Bank Yahav, see "Streamlining plan at Bank Yahav" above.

Developments in the Israeli economy and in the global economy in the first nine months of 2017

Israeli economy

Real Developments

In the first half of 2017, GDP grew at an annualized 2.1%, compared to 4.6% in the corresponding period of 2016 and 4.0% in all of 2016. The GDP growth rate was more moderate due to the following effects: More moderate growth in current private consumption; significant decline in consumption of durable goods, after previous periods saw excessive growth rate in this area, due to increased purchasing of vehicles following changes to green taxation rules; more moderate growth in investments in the economy and in exports of goods and services.

According to Bank of Israel estimates, the labor market is nearly at full employment. The average unemployment rate in the first nine months of 2017 was 4.2%, compared to 4.8% in the previous year. The employment rate decreased slightly to 64.0%.

Inflation and exchange rates

In the first nine months of 2017, the Consumer Price Index rose by 0.3%, after being unchanged in the corresponding period last year. The CPI was mainly affected by higher housing prices (rental), by higher prices of education, culture and entertainment and by higher prices of fruits and vegetables. Conversely, the CPI was negatively affected by lower prices of clothing and footwear, and by lower prices of transportation and communications. In the twelve months ended September 2017, the CPI increased by 0.1%..

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

	September 30, 2017	December 31, 2016	Change in %
Exchange rate of:			
USD (in NIS)	3.529	3.845	(8.2)
EUR (in NIS)	4.157	4.044	2.8

On November 08, 2017, the USD/NIS exchange rate was 3.513 - a 0.5% revaluation compared to September 30, 2017. The EUR/NIS exchange rate on this date was 4.070 - a revaluation by 2.1% since September 30, 2017.

Monetary policy

In the first nine months of 2017, the Bank of Israel interest rate remained unchanged at 0.1%. 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.

Fiscal policy

In January-September 2017, the government budget recorded a NIS 5.0 billion cumulative deficit, compared to a NIS 6.2 billion cumulative budget deficit in the corresponding period last year. The deficit rate in relation to the GDP for the 12 months ended in September 2017 was 1.9%, similar to 2.1% for all of 2016. Note that the deficit target for 2017 is 2.3%.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first eight months of 2017 demand for new apartments (apartments sold and apartments constructed not for sale) was 28.1 thousand apartments, a decrease by 16% over the corresponding period last year and an increase by 20% over the corresponding period in 2015. The decrease compared to the corresponding period last year, is due, *inter alia*, to a decrease in demand for apartments from investors. In the first nine months of 2017, housing loans given to the public amounted to NIS 40.1 billion, compared to NIS 46.9 billion in the corresponding period last year and NIS 49.4 billion in the corresponding period in 2015 - a decrease by 14.5% and 18.8%, respectively.

According to data from the Central Bureau of Statistics, owned housing prices, in terms of trailing twelve months ended August 2017, increased by 4.2%, compared to 6.7% in 2016 and to 7.8% in 2015.

Capital market

Trading in global equity markets in the third quarter of 2017 continued to be positive, spearheaded by stock exchanges in the USA. This was in contrast to a moderate decline in the Israeli equity market, which remained unchanged.

The following are changes in key equity indices in Israel (in %):

	2017 First nine months	2017 Third Quarter	2017 Second Quarter	2017 First Quarter
CPI				
Tel-Aviv 35	(3.4)	(0.9)	2.6	(5.0)
Tel-Aviv 125	0.8	0.3	3.0	(2.4)
Tel-Aviv 90	15.9	2.6	4.1	8.4

Average daily trading volume in equities and convertible securities in the third quarter of 2017 was NIS 1.30 billion, compared to a NIS 1.41 billion daily average for the second quarter and a NIS 1.65 billion daily average for the first quarter, in which trading volumes were higher due to changes made to composition of equity indices.

The following are changes in key debenture indices in Israel (in %):

	2017 First nine months	2017 Third Quarter	2017 Second Quarter	2017 First Quarter
CPI				
General debentures	3.3	1.5	1.1	0.6
CPI-indexed Government debentures	1.9	1.7	0.8	(0.6)
Non-linked Government debentures	2.9	1.5	0.7	0.6
Tel Bond 20	5.3	1.9	1.7	1.6
Tel Bond 40	3.0	0.9	1.5	0.7

Global economy

The US economy's growth rate accelerated in the third quarter of 2017 to an annualized 3.0%, similar to 3.1% in the previous quarter and to 1.5% in 2016. In the first nine months of this year, industrial output and retail commerce benchmarks were higher and the purchasing manager index continued to indicate economic expansion. The labor market showed positive trends: The average number of jobs added in the US economy was mostly higher than expected and unemployment continued to decline, along with a slight increase in the participation rate in the labor market. The growth rate of real wages accelerated towards the end of the third quarter. Following the positive labor market data, the Fed raised its interest rate in June by 0.25%, to 1.0%-1.25%.

The annualized GDP growth rate in the Euro Zone in the second quarter of 2017 was 2.3%, compared to 2.0% in the first quarter of this year and to 1.8% in 2016. In the first three quarters of 2017, the growth rate of the industrial output and retail trade benchmarks improved somewhat. The purchasing manager index continues to indicate economic growth; the business confidence index is at the highest level since early 2011; and the economic sentiment and consumer confidence indices are at their highest level since the early 2000s. Unemployment continued to decline, albeit at a moderate pace.

In the third quarter of 2017, GDP in China grew at an annualized 6.8%, similar to 6.9% in the previous two quarters and compared to 6.7% for all of 2016. The industrial output benchmark and the retail commerce index showed some improvement.

The US election outcome, positive macro-economic indicators and absence of investment alternatives pushed equity indexes around the world higher.

The following are changes in key equity indices world-wide (in %):

CPI	2017 First nine months	2017 Third Quarter	2017 Second Quarter	2017 First Quarter
Dow Jones	13.4	5.0	3.3	4.5
S&P 500	12.5	4.0	2.6	5.5
NASDAQ 100	22.9	5.9	3.9	11.8
DAX	11.7	4.1	1.0	7.2
FTSE 100	3.2	0.8	(0.1)	2.5
CAC	9.6	4.1	-	5.4
Nikkei	6.5	1.6	5.9	(1.1)

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.

There were no material loss events in the first nine months of 2017.

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 8, section 3, to Note 10.B.2.I. and to Note 10.B.3.(a-d) to the financial statements, with regard to contingent liabilities at the Bank, including lawsuits filed against the Bank and 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 dividend distribution with respect to earnings of the third 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.

See Note 1 to the financial statements for additional information.

Other than the foregoing, in the first nine months 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.

Material developments in revenues, expenses and other comprehensive income

Financial results of the Bank Group in the third quarter of 2017 include several significant effects as follows:

- On August 16, 2017, management and the Employee Association reached a memorandum of understandings with regard to the payroll agreement for 2016-2021⁽¹⁾. These understandings include, *inter alia*: Agreement on maintaining calm labor relations during the term of the agreement, fixed and differential pay increases to employees and persistence and engagement bonuses, which also refer to employee engagement in case of merger of the Bank with another bank, reducing the seniority pay increase, voluntary retirement plan and other understandings⁽¹⁾.
The effect of the memorandum of understandings in the reported periods on payroll expenses is an increase in expenses by NIS 160 million and on net profit - a decrease by NIS 104 million.
- The known CPI in the previous quarter amounted to a negative reading of 0.5%, compared with a positive known CPI of 0.4% in the corresponding quarter last year.
The effect of the negative known CPI alone in this quarter resulted in an expense amounting to NIS 62 million (NIS 40 million in net profit terms), see "analysis of the development of financing revenues from current operations" below .

Therefore,

Net profit for the Group in the third quarter of 2017 amounted to NIS 261 million (the total aforementioned effects reduced net profit by NIS 144 million).

In the corresponding quarter last year, net profit amounted to NIS 373 million.

Net profit for the Group in the first nine months of 2017 amounted to NIS 982 million (expenses with respect to the aforementioned memorandum of understandings reduced the Group's net profit by NIS 104 million). In the first nine months of 2016, the net profit amounted to NIS 1,001 million.

(1) For more information see chapter "Significant Events in the Bank Group's Business" above.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues⁽¹⁾ from current operations in the third quarter of 2017 amounted to NIS 1,105 million, as described below, compared to NIS 990 million in the corresponding period last year, an increase by 11.6%.

Net interest revenues and non-interest financing revenues from current operations in the first nine months of 2017 amounted to NIS 3,223 million, as described below, compared to NIS 2,858 million in the corresponding period last year, an increase by 12.8%.

Net interest revenues and non-interest financing revenues in the third quarter of 2017 amounted to NIS 1,072 million, as described on these financial statements, compared to NIS 1,096 million in the corresponding period last year, a decrease by 2.2%, affected by the negative known CPI of 0.5% compared to a positive known CPI reading of 0.4%.

Net interest revenues and non-interest financing revenues in the third quarter of 2017 amounted to NIS 3,292 million, as described on these financial statements, compared to NIS 3,006 million in the corresponding period last year, an increase by 9.5%.

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

	2017 Third Quarter	2017 Second Quarter	2017 First Quarter	2016 Fourth Quarter	2016 Third Quarter	2016 Second Quarter	2016 First Quarter	Change in % Third quarter of 2017 to third quarter of 2016
Interest revenues, net	1,011	1,173	1,027	948	1,056	1,014	760	
Non-interest financing revenues (expenses) ⁽¹⁾	61	21	(1)	119	40	69	67	
Total financing revenues	1,072	1,194	1,026	1,067	1,096	1,083	827	(2.2)
Less:								
Effect of CPI	(62)	105	(21)	(29)	43	57	(119)	
Revenues from collection of interest on problematic debts	11	9	13	7	13	10	10	
Gain from realized debentures and from debentures held for trade, net	16	18	7	1	20	23	31	
Effect of accounting treatment of derivatives at fair value and others ⁽²⁾	2	(9)	(20)	70	30	47	(17)	
Total effects other than current operations	(33)	123	(21)	49	106	137	(95)	
Total financing revenues from current operations	1,105	1,071	1,047	1,018	990	946	922	11.6

	First nine months 2017	First nine months 2016	First nine months Change in %
Total financing revenues	3,292	3,006	9.5
Less: Total effects other than current operations	69	148	-
Total financing revenues from current operations	3,223	2,858	12.8

(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 the accounting treatment of derivatives at fair value is due to the difference between the 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 third quarter and in the first nine months of 2017, revenues decreased by NIS 11 million and NIS 60 million, respectively, 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):

Operating segment	First nine months 2017	First nine months 2016	First nine months Change amount	First nine months Change rate (In %)
Individuals:				
Households - housing loans	956	811	145	17.9
Households - other	844	746	98	13.1
Private banking	43	37	6	16.2
Total - individuals	1,843	1,594	249	15.6
Business operations:				
Small and micro businesses	654	594	60	10.1
Medium businesses	153	138	15	10.9
Large businesses	344	339	5	1.5
Institutional investors	84	74	10	13.5
Total - business operations	1,235	1,145	90	7.9
Financial management	92	144	(52)	(36.1)
Total activity in Israel	3,170	2,883	287	10.0
Overseas operations	122	123	(1)	(0.8)
Total	3,292	3,006	286	9.5

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the 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):

Linkage segment	Third Quarter 2017	Third Quarter 2016	Third Quarter Change in %	First nine months 2017	First nine months 2016	First nine months Change in %
Israeli currency - non-linked	152,657	140,555	8.6	152,728	135,288	12.9
Israeli currency - linked to the CPI	51,722	50,557	2.3	50,849	51,179	(0.6)
Foreign currency (including Israeli currency linked to foreign currency)	13,517	11,549	17.0	12,481	12,072	3.4
Total	217,896	202,661	7.5	216,058	198,539	8.8

Change in average balances of interest-bearing assets in the various segments is primarily due to growth in loans to the public, primarily in the NIS-denominated segment. The increase in average foreign currency balances is due to the increase in cash balances and deposits in foreign currency, as part of management of Bank assets and liabilities. This increase causes a decrease in the financial margin, as presented in the "interest differentials" table below.

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:

Linkage segments	Third Quarter 2017	Third Quarter 2016	First nine months 2017	First nine months 2016
Israeli currency - non-linked	1.96	2.08	1.95	2.03
Israeli currency - linked to the CPI	0.89	0.67	0.83	0.48
Foreign currency	1.22	1.38	1.49	1.26
Total	1.62	1.71	1.64	1.57

(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 non-linked NIS-denominated segment - the lower interest margin is primarily due to the decrease in early repayment commissions.

In the CPI-linked NIS-denominated segment - the higher interest spread is due to the continued improvement in interest margins and to the lower average cost of CPI-linked sources.

In the foreign currency segment - the lower interest spread in the third quarter is due to the higher FED interest rate. In view of the structure of sources and uses at the Bank, corresponding revenues are included in derivatives operations, so that in total there is no decrease in the overall interest spread in foreign currency. The overall interest spread in the third quarter was affected by the negative known CPI in this quarter.

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 41 million in the third quarter of 2017, or an annualized rate of 0.09% of total loans to the public, net, compared with NIS 59 million in the corresponding period last year - an annualized rate of 0.14% of total loans to the public, net in the corresponding period last year - a decrease by NIS 18 million in total.

Expenses with respect to credit losses for the Group in the first nine months of 2017 amounted to NIS 132 million. An annualized rate of 0.10% of total loans to the public, net, compared with NIS 119 million, or an annualized rate of 0.09% of total loans to the public, net in the corresponding period last year - for an increase by NIS 13 million in total.

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

	Third Quarter 2017	Third Quarter 2016	First nine months 2017	First nine months 2016
Provision for credit losses on individual basis (including accounting write-offs)	34	(7)	74	83
Provision for credit losses on Group basis:				
By extent of arrears	2	(2)	1	(18)
Other	5	68	57	54
Total expenses with respect to credit losses	41	59	132	119
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	0.09%	0.14%	0.10%	0.09%
Of which: With respect to commercial loans other than housing loans	0.24%	0.37%	0.26%	0.26%
Of which: With respect to housing loans	0.02%	0.02%	0.02%	0.01%

The provision for credit losses on an individual basis in the third quarter of 2016 was impacted by significant collection of previously written-off client debt.

The provision for credit losses by extent of arrears in the first nine months of 2016 was affected by significant arrears collection from clients, primarily in the first quarter of 2016.

Changes in the other group-based provision are explained by the difference in the range of years for the past loss rate used to calculate the provision for the year. This is in accordance with directives of the Supervisor of Banks. For all of 2017, the historical 7-year range was used in calculating the provision.

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

Operating segment	Third Quarter 2017	Third Quarter 2016	First nine months 2017	First nine months 2016
Individuals:				
Households - housing loans	6	7	18	8
Households - other	32	24	92	60
Private banking	-	1	1	1
Total - individuals	38	32	111	69
Business operations:				
Small and micro businesses	37	33	107	96
Medium businesses	(2)	1	(16)	(1)
Large businesses	(23)	(6)	(53)	(43)
Institutional investors	(9)	(1)	(19)	2
Total - business operations	3	27	19	54
Financial management	-	(1)	-	(2)
Total activity in Israel	41	58	130	121
Overseas operations	-	1	2	(2)
Total	41	59	132	119

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the 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 "Credit risk" below and the detailed Risks Management Report on the Bank website.

Non-interest revenues amounted to NIS 435 million in the third quarter of 2017, compared with NIS 420 million in the corresponding period last the third - an increase by NIS 15 million.

Non-Interest revenues in the first nine months of 2017 amounted to NIS 1,189 million, compared to NIS 1,373 million in the corresponding period last year, a decrease by NIS 184 million. See explanation below.

Non-interest financing expenses in the third quarter of 2017 amounted to NIS 61 million, compared to NIS 40 million in the corresponding period last year.

Non-interest financing revenues in the first nine months of 2017 amounted to NIS 81 million, compared to NIS 176 million in the corresponding period last year.

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. See analysis of financing revenues from current operations above.

Commission revenues in the third quarter of 2017, amounted to NIS 346 million compared with NIS 360 million in the corresponding period last year - a decrease by NIS 14 million.

Commission revenues in the first nine months of 2017, amounted to NIS 1,056 million compared with NIS 1,077 million in the corresponding period last year - a decrease by NIS 21 million.

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 third quarter of 2017, amounted to NIS 28 million compared with NIS 20 million in the corresponding period last year - an increase by NIS 8 million.

Other revenues in the first nine months of 2017, amounted to NIS 52 million compared with NIS 120 million in the corresponding period last year - a decrease by NIS 68 million. For the first nine months of the year, this includes capital gains amounting to NIS 17 million before tax, from realization of assets in conjunction with asset reorganization and improvements to the Bank's branch network, compared to NIS 87 million in the corresponding period last year.

Operating and other expenses in the third quarter of 2017, amounted to NIS 972 million compared with NIS 815 million in the corresponding period last year - an increase by NIS 157 million.

Operating and other expenses in the first nine months of 2017, amounted to NIS 2,672 million compared with NIS 2,430 million in the corresponding period last year - an increase by NIS 242 million.

Operating and other expenses in the third quarter and in the first nine months of 2017 include expenses with respect to the memorandum of understandings agreed with the Employee Association⁽¹⁾, amounting to NIS 160 million (NIS 104 million after tax).

Furthermore, operating and other expenses in the third quarter and in the first nine months of 2017 were affected by higher expenses in respect of the implementation of a new core banking **system** at Bank Yahav as from January 1, 2017.

See also detailed explanation below, by operating expense component.

Payroll and associated expenses in the third quarter of 2017 amounted to NIS 650 million, compared with NIS 508 million in the corresponding period last year, an increase by NIS 142 million, which includes, as noted above, expenses with respect to the memorandum of understandings agreed with the Employee Association in the amount of NIS 160 million.

Payroll and associated expenses in the first nine months of 2017 amounted to NIS 1,716 million, compared with NIS 1,505 million in the corresponding period last year, an increase by NIS 211 million, which includes, in addition to current increase in payroll and expenses in respect of the aforesaid memorandum of understandings, also expenses in respect of deployment of the new core banking system at Bank Yahav as from January 1, 2017.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 187 million in the third quarter of 2017, compared with NIS 177 million in the corresponding period last year - an increase by NIS 10 million.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 554 million in the first nine months of 2017, compared with NIS 522 million in the corresponding period last year - an increase by NIS 32 million.

The increase, other than current growth in this item, is primarily due to deployment of a new core banking system at Bank Yahav as from January 1, 2017.

Other expenses in the third quarter of 2017, amounted to NIS 135 million compared with NIS 130 million in the corresponding period last year - an increase by NIS 5 million.

Other expenses in the first nine months of 2017 amounted to NIS 402 million, compared to NIS 403 million in the corresponding period last year, a decrease by NIS 1 million.

Cost-Income ratio information is as follows⁽³⁾ (in percent):

	2017 Third Quarter	2017 Second Quarter	2017 First Quarter	2016 Fourth Quarter	2016 Third Quarter	2016 Second Quarter	2016 First Quarter
Cost-income ratio	⁽¹⁾ 67.2	56.3	59.0	60.5	55.2	57.8	60.8

(1) Expenses in respect of the memorandum of understanding with the Employee Association and in respect of the negative known CPI resulted in an increase in the cost-income ratio in the third quarter of 2017, by 13.4% (absolute).

	First nine months 2017	First nine months 2016	Annual 2016
Cost-income ratio	⁽²⁾ 60.7	57.8	58.5

(2) Expenses in respect of the memorandum of understanding with the Employee Association resulted in an increase in the cost-income ratio in the first nine months of 2017, by 3.6% (absolute).

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

(1) For more information see chapter "Significant Events in the Bank Group's Business".

Pre-tax profit for the Group in the third quarter of 2017 amounted to NIS 433 million, compared to NIS 602 million in the corresponding period last year, a decrease by NIS 169 million.

Pre-tax profit for the Group in the first nine months of 2017 amounted to NIS 1,596 million, compared to NIS 1,654 million in the corresponding period last year, a decrease by NIS 58 million. See detailed explanation above.

The provision for taxes in the third quarter of 2017 amounted to NIS 161 million, compared to NIS 218 million in the corresponding period last the third - a decrease by NIS 57 million.

The provision for taxes in the first nine months of 2017 amounted to NIS 584 million, compared to NIS 621 million in the corresponding period last year, a decrease by NIS 37 million. The rate of provision for taxes on pre-tax profit in the first nine months of 2017 was 36.6% - compared to 37.5% in the corresponding period last year.

The provision for taxes on profit in the first nine months 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 the third quarter and in the first nine months of 2017, 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.

Furthermore, the provision for taxes was affected by the decrease in the statutory tax rate applicable to the Bank.

Bank share of after-tax profit of associated companies - in the third quarter of 2017 there was no profit with respect to associated companies, compared to profit of NIS 1 million with respect to associates in the corresponding period last year.

In the first nine months of 2017, no profits were recorded in respect of affiliated companies, compared with the same period last year, in which profits of NIS 1 million were recorded in respect of affiliated companies.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the third quarter of 2017 amounted to NIS 11 million, compared to NIS 12 million 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 nine months of 2017 amounted to NIS 30 million, compared to NIS 33 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the third quarter of 2017 amounted to NIS 261 million, compared to NIS 373 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the first nine months of 2017 amounted to NIS 982 million, compared to NIS 1,001 million in the corresponding period last year.

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 third quarter and in the first nine months of 2017, other comprehensive income attributable to shareholders of the Bank decreased by NIS 41 million and NIS 49 million, respectively, compared to the corresponding periods last year. The change is primarily due to adjustments in respect of employee benefits and to adjustments in respect of 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⁽³⁾ on equity⁽⁴⁾ and ratio of Tier I capital⁽⁵⁾ to risk elements liquidity coverage ratio⁽⁶⁾ and leverage ratio at the end of the quarter⁽⁷⁾ (in %):

	2017	2017	2017	2016	2016	2016	2016
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	⁽¹⁾ 8.0	12.7	10.4	8.6	12.4	11.6	10.0
Ratio of Tier I capital to risk elements at end of quarter	10.16	10.15	10.12	10.10	9.85	9.72	9.65
(Quarterly) liquidity coverage ratio	117	122	118	117	105	99	97
Leverage ratio at end of quarter	5.36	5.42	5.27	5.27	5.31	5.33	5.23

(1) Expenses in respect of the memorandum of understanding with the Employee Association and in respect of the negative known CPI resulted in a decrease in the rate of return in the third quarter of 2017, by 4.6% (absolute).

	First nine months	First nine months	All of
	2017	2016	2016
Net return on equity	⁽²⁾ 10.1	11.0	10.2

(2) Expenses in respect of the memorandum of understandings with the Employee Association resulted in a decrease in the cost-income ratio in the first nine months of 2017, by 1.1% (absolute).

(3) Annualized return.

(4) 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 gain/loss from adjustment to fair value of debentures held for trading as well as gain/loss from debentures available for sale.

(5) For more information about Proper Banking Conduct of Directive 329 concerning "Restrictions on provision of housing loans" on Tier I capital as from January 1, 2015, see Note 9D to the financial statements.

(6) 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.

(7) 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):

	Third Quarter	Third Quarter	First nine months	First nine months	All of
	2017	2016	2017	2016	2016
Basic earnings per share	1.12	1.61	4.23	4.32	5.46
Diluted earnings per share	1.11	1.61	4.20	4.32	5.46
Dividends per share (in Agorot)	51.63	21.99	110.24	56.10	80.26

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:

	September 30, 2017	September 30, 2016	December 31, 2016	Change in % over September 30, 2016	Change in % over December 31, 2016
Balance sheet total	239,578	225,520	230,455	6.2	4.0
Cash and deposits with banks	42,578	40,753	41,725	4.5	2.0
Loans to the public, net	178,621	168,620	171,341	5.9	4.2
Securities	10,938	9,407	10,262	16.3	6.6
Buildings and equipment	1,359	1,537	1,585	(11.6)	(14.3)
Deposits from the public	184,221	173,748	178,252	6.0	3.3
Deposits from banks	1,462	1,255	1,537	16.5	(4.9)
Debentures and subordinated notes	29,129	27,253	27,034	6.9	7.7
Shareholders' equity	13,399	12,726	12,714	5.3	5.4

Cash and deposits with banks - the balance of cash and deposits with banks increased in the first nine months of 2017 by NIS 0.9 billion. The increase in cash balance is part of on-going management of Bank liquidity.

Loans to the public, net - The ratio of loans to the public, net to total assets on the consolidated balance sheet as of September 30, 2017 was 75%, compared to 74% at the end of 2016. Loans to the public, net for the Group in the first nine months of 2017 increased by NIS 7.3 billion, or 4.2%.

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 Report on the Bank website.

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

	September 30, 2017	September 30, 2016	December 31, 2016	Change in % over September 30, 2016	Change in % over December 31, 2016
Israeli currency					
Non-linked	118,592	107,786	111,144	10.0	6.7
CPI-linked	49,950	49,821	49,369	0.3	1.2
Foreign currency and foreign currency linked	10,079	11,013	10,828	(8.5)	(6.9)
Total	178,621	168,620	171,341	5.9	4.2

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

	September 30, 2017	September 30, 2016	December 31, 2016	Change in % over September 30, 2016	Change in % over December 31, 2016
Individuals:					
Households - housing loans	118,685	112,273	114,076	5.7	4.0
Households - other	19,415	18,144	18,595	7.0	4.4
Private banking	96	97	81	(1.0)	18.5
Total - individuals	138,196	130,514	132,752	5.9	4.1
Business operations:					
Small and micro businesses	16,114	14,764	15,122	9.1	6.6
Medium businesses	5,642	4,887	4,785	15.4	17.9
Large businesses	14,383	13,788	13,925	4.3	3.3
Institutional investors	1,065	1,280	1,534	(16.8)	(30.6)
Total - business operations	37,204	34,719	35,366	7.2	5.2
Overseas operations	3,221	3,387	3,223	(4.9)	(0.1)
Total	178,621	168,620	171,341	5.9	4.2

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the 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 losses:

Reported amounts (NIS in millions)	As of September 30, 2017 Credit risk ⁽¹⁾ On balance sheet	As of September 30, 2017 Credit risk ⁽¹⁾ Off balance sheet	As of September 30, 2017 Credit risk ⁽¹⁾ Total	As of September 30, 2016 Credit risk ⁽¹⁾ On balance sheet	As of September 30, 2016 Credit risk ⁽¹⁾ Off balance sheet	As of September 30, 2016 Credit risk ⁽¹⁾ Total	As of December 31, 2016 Credit risk ⁽¹⁾ On balance sheet	As of December 31, 2016 Credit risk ⁽¹⁾ Off balance sheet	As of December 31, 2016 Credit risk ⁽¹⁾ Total
1. Problematic credit risk									
Impaired credit risk	639	194	833	683	193	876	681	212	893
Inferior credit risk	298	-	298	110	-	110	428	-	428
Credit risk under special supervision ⁽²⁾	1,680	48	1,728	1,358	233	1,591	1,381	229	1,610
Total troubled credit risk	2,617	242	2,859	2,151	426	2,577	2,490	441	2,931
Of which: Non-impaired debts in arrears 90 days or longer ⁽²⁾	1,114			909			958		
2. Non-performing assets ⁽³⁾									
	614			653			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 1,024 million (as of September 30, 2016: NIS 827 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, derivatives 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 September 30, 2017 amounted to NIS 234 billion, compared to NIS 227 billion as of December 31, 2016, an increase by 3.1%.

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

	September 30, 2017	September 30, 2016	December 31, 2016	Change in % over September 30, 2016	Change in % over December 31, 2016
Off balance sheet financial instruments other than derivatives⁽¹⁾:					
Unutilized debitory account and other credit facilities in accounts on demand ⁽¹⁾	17,952	17,691	16,688	1.5	7.6
Guarantees to home buyers	11,393	12,678	12,461	(10.1)	(8.6)
Irrevocable commitments for loans approved but not yet granted	11,593	11,661	10,651	(0.6)	8.8
Unutilized revolving credit card facilities	6,745	7,378	7,559	(8.6)	(10.8)
Commitments to issue guarantees	6,435	5,567	5,797	15.6	11.0
Guarantees and other liabilities	5,367	4,772	4,869	12.5	10.2
Loan guarantees	2,243	2,540	2,606	(11.7)	(13.9)
Documentary credit	199	495	384	(59.8)	(48.2)
Financial derivatives⁽²⁾:					
Total par value of financial derivatives (On-balance sheet) assets with respect to derivatives	227,453	215,845	233,901	5.4	(2.8)
(On-balance sheet) liabilities with respect to derivatives	3,808	3,267	3,584	16.3	6.3
(On-balance sheet) liabilities with respect to derivatives	3,293	3,520	3,566	(6.4)	(7.7)

(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 by NIS 0.7 billion in the first half of 2017 and increased by NIS 1.5 billion compared to the corresponding period last year. The increase in the balance of investment in securities is in the framework of asset and liability management of the Bank.

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

September 30, 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	3,255	3,255	82	-	3,337
Securities available for sale	7,503	7,498	⁽²⁾ 39	⁽²⁾ (34)	7,503
Securities held for trade	180	180	-	-	180
Total securities	10,938	10,933	121	(34)	11,020

September 30, 2016

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized d gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value ⁽¹⁾
Securities held to maturity	3,225	3,225	90	-	3,315
Securities available for sale	5,952	5,925	⁽²⁾ 42	⁽²⁾ (15)	5,952
Securities held for trade	230	230	-	-	230
Total securities	9,407	9,380	132	(15)	9,497

December 31, 2016

	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	3,236	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	⁽³⁾ 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".

(3) Charged to statement of profit and loss but not yet realized.

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

	September 30, 2017	September 30, 2016	December 31, 2016	Change in % over September 30, 2016	Change in % over December 31, 2016
Israeli currency					
Non-linked	4,051	5,138	5,981	(21.2)	(32.3)
CPI-linked	692	204	146	-	-
Foreign currency and foreign currency linked	6,103	3,956	4,035	54.3	51.3
Non-monetary items	92	109	100	(15.6)	(8.0)
Total	10,938	9,407	10,262	16.3	6.6

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

	Carrying amount as of September 30, 2017	Carrying amount as of September 30, 2016	Carrying amount as of December 31, 2016
Government debentures:			
Government of Israel		7,850	8,247
Government of USA		2,961	983
South Korea Government		-	38
Total government debentures		10,811	9,268
Debentures of banks in developed nations:			
UK		-	-
USA		18	-
Other		-	19
Total debentures of banks in developed nations		18	19
Corporate debentures (composition by economic sector):			
Public and community services		10	11
Financial services		7	8
Total corporate debentures		17	19
Shares		92	102
Total securities		10,938	9,407

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

Buildings and equipment - The balance of buildings and equipment increased in the first nine months of 2017 by NIS 226 million. The decrease is due to sale of interest in the headquarters building in Ramat Gan. For more information see chapter "Significant Events in the Bank Group's Business" above and Note 9 to the financial statements.

Deposits from the public - these account for 77% of total consolidated balance sheet as of September 30, 2017, similar to their weight at the end of 2016. In the first nine months of 2017, deposits from the public with the Bank Group increased by NIS 6.0 billion, or 3.3% (increase by 6.0% over the corresponding period last year).

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

	September 30, 2017	September 30, 2016	December 31, 2016	Change in % over September 30, 2016	Change in % over December 31, 2016
Israeli currency					
Non-linked	133,345	121,456	122,611	9.8	8.8
CPI-linked	15,770	17,153	17,039	(8.1)	(7.4)
Foreign currency and foreign currency linked	35,106	35,139	38,602	(0.1)	(9.1)
Total	184,221	173,748	178,252	6.0	3.3

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

	September 30, 2017	September 30, 2016	December 31, 2016	Change in % over September 30, 2016	Change in % over December 31, 2016
Individuals:					
Households - other	74,786	70,327	71,334	6.3	4.8
Private banking	12,032	10,666	11,167	12.8	7.7
Total - individuals	86,818	80,993	82,501	7.2	5.2
Business operations:					
Small and micro businesses	20,010	15,301	15,738	30.8	27.1
Medium businesses	6,609	7,058	7,378	(6.4)	(10.4)
Large businesses	26,250	29,958	32,101	(12.4)	(18.2)
Institutional investors	39,404	35,496	35,285	11.0	11.7
Total - business operations	92,273	87,813	90,502	5.1	2.0
Overseas operations	5,130	4,942	5,249	3.8	(2.3)
Total	184,221	173,748	178,252	6.0	3.3

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

	September 30, 2017	September 30, 2016	December 31, 2016
Maximum deposit			
Up to 1	62,846	59,621	59,606
Over 1 to 10	40,670	38,094	38,805
Over 10 to 100	26,761	23,889	25,042
Over 100 to 500	22,589	27,426	24,120
Above 500	31,355	24,718	30,679
Total	184,221	173,748	178,252

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 September 30, 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 September 30, 2017 amounted to NIS 29.1 billion, compared to NIS 27.0 billion as of December 31, 2016, an increase by 7.7%, due to significant debentures issue amounting to NIS 3.5 billion in the most recent quarter. See also chapter "Developments in financing sources" above.

Capital, capital adequacy and leverage

Shareholder equity attributable to shareholders of the Bank - Shareholder equity attributable to equity holders of the Bank as of September 30, 2017 amounted to NIS 13.4 billion, compared to NIS 12.7 billion as of December 31, 2016 and NIS 12.4 billion as of September 30, 2016, an increase by 5.4% and 5.3%, respectively.

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

	September 30, 2017	September 30, 2016	December 31, 2016
Share capital and premium ⁽¹⁾	2,176	2,224	2,239
Capital reserve from benefit from share-based payment transactions	52	72	58
Treasury shares	-	(76)	(76)
Total cumulative other loss ⁽²⁾⁽³⁾	(364)	(95)	(317)
Retained earnings ⁽⁴⁾	11,535	10,601	10,810
Total	13,399	12,726	12,714

(1) For more information about share issuance, see condensed 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 September 30, 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's 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 balance sheet total for the Group as of September 30, 2017 was 5.59% compared to 5.52% as of December 31, 2016 and 5.64% as of September 30, 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.

Capital is composed of two tiers: Tier I capital (including Tier I capital and Tier I additional capital) and Tier II capital.

Tier I capital primarily consists of equity attributable to shareholders of the Bank (accounting equity on the books) and non-controlling interest, which is the primary component for loss absorption.

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of September 30, 2017, the Bank had no equity instruments included in additional Tier I capital.

Tier II capital consists of the group-based provision for credit losses and CoCo (Contingent Convertible) capital instruments, which include a provision for absorbing loss of principal when the Tier I Capital ratio drops below the specified quantitative trigger level, or upon receiving notice from the Supervisor of Banks, whereby activating the provision for absorbing loss of principal is required to ensure stability of the banking corporation (a Bank "non existence" event).

Subordinated notes, recognized as Tier II capital instruments under the previous directives, no longer qualify as supervisory capital under the current directives (primarily due to lacking loss absorption provisions) and are amortized over the term of the transitional provisions.

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

	September 30, 2017	September 30, 2016	December 31, 2016
Capital for purpose of calculating minimum capital ratio			
Tier I shareholders' equity	14,055	13,136	13,318
Tier I capital	14,055	13,136	13,318
Tier II capital	4,603	4,893	4,888
Total capital	18,658	18,029	18,206
Weighted risk asset balances			
Credit risk	128,818	124,385	122,605
Market risks	1,213	985	1,184
Operating risk	8,332	7,979	8,113
Total weighted risk asset balances	138,363	133,349	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 capital 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 capital 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 9.86% and 13.36%, respectively. See Note 9 to the financial statements for additional information.

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

	September 30, 2017	September 30, 2016	December 31, 2016
Ratio of Tier I capital to risk elements	10.16	9.85	10.10
Ratio of total capital to risk elements	13.48	13.52	13.80
Minimum Tier I capital ratio required by Supervisor of Banks	9.86	9.64	9.76
Total minimum capital ratio required by the directives of the Supervisor of Banks	13.36	13.14	13.26

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

Exposure group	September 30, 2017 Weighted risk asset balances	September 30, 2017 Capital requirement ⁽¹⁾	September 30, 2016 Weighted risk asset balances	September 30, 2016 Capital requirement ⁽²⁾	December 31, 2016 Weighted risk asset balances	December 31, 2016 Capital requirement ⁽³⁾
Sovereign debts	749	100	529	70	549	73
Public sector entity debts	821	110	563	74	640	85
Banking corporation debts	909	121	809	106	770	101
Corporate debts	37,253	4,977	38,336	5,037	35,119	4,657
Debts secured by commercial real estate	2,185	292	2,290	301	2,312	307
Retail exposure to individuals	13,604	1,817	12,826	1,685	13,180	1,748
Loans to small businesses	6,769	904	6,261	823	6,307	836
Residential mortgages	61,396	8,203	57,606	7,570	58,597	7,770
Other assets	4,543	607	4,570	600	4,495	596
Total	128,229	17,131	123,790	16,266	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):

	September 30, 2017 Weighted risk asset balances	September 30, 2017 Capital requirement ⁽¹⁾	September 30, 2016 Weighted risk asset balances	September 30, 2016 Capital requirement ⁽²⁾	December 31, 2016 Weighted risk asset balances	December 31, 2016 Capital requirement ⁽³⁾
Market risk	1,213	162	985	130	1,184	157
CVA risk with respect to derivatives ⁽⁴⁾	589	79	595	78	636	84
Operating Risk ⁽⁵⁾	8,332	1,113	7,979	1,049	8,113	1,076
Total	10,134	1,354	9,559	1,257	9,933	1,317
Total risk assets	138,363	18,485	133,349	17,523	131,902	17,490

(1) The capital requirement was calculated at 13.36% of risk asset balances.

(2) The capital requirement was calculated at 13.14% 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.

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.

Below is the Bank's leverage ratio (in %):

	2017 Third Quarter	2017 Second Quarter	2017 First Quarter	2016 Fourth Quarter	2016 Third Quarter	2016 Second Quarter	2016 First Quarter
Leverage ratio ⁽¹⁾	⁽²⁾ 5.36	5.42	5.27	5.27	5.31	5.33	5.23

(1) The minimum leverage ratio required by the Supervisor of Banks is 5%.

(2) The leverage ratio decreased in the most recent quarter to 5.36%, due *inter alia* to the significant debenture issue amounting to NIS 3.5 billion. For more information see chapter "Developments in financing sources" above.

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 outline of the dividends policies.

The Bank's Board of Directors will monitor execution of the new strategic plan in order to consider the possibility of 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 28, 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 and prior to the resolution effective as from November 21, 2016, as noted above, 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 (Agorot)	Dividends as percent of profit	Total dividends paid (NIS in millions)
May 18, 2015	June 14, 2015	15.84	15%	36.6
August 16, 2015	September 17, 2015	21.35	15%	49.5
Total dividends distributed in 2015				86.1
February 24, 2016	March 21, 2016	15.52	15%	36.0
May 18, 2016	June 21, 2016	18.62	15%	43.2
August 10, 2016	September 11, 2016	21.99	15%	51.0
November 14, 2016	December 12, 2016	24.12	15%	56.0
Total dividends distributed in 2016				186.2
March 20, 2017	April 26, 2017	17.12	15%	39.8
May 15, 2017	June 20, 2017	41.45	30%	96.3
August 28, 2017	September 26, 2017	51.63	30%	120.0
Total dividends distributed in 2017				256.1

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

On November 13, 2017, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 78.3 million, or 30% of earnings in the third quarter of 2017, in conformity with the aforementioned revised dividend policy.

The dividends amount is 336.7% of issued share capital, i.e. NIS 0.3367 per NIS 0.1 par value share. The effective date for dividends payment is November 26, 2017 and the payment date is December 10, 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):

	September 30, 2017	September 30, 2016	December 31, 2016	Change in % over September 30, 2016	Change in % over December 31, 2016
Securities ⁽¹⁾	217,521	217,567	217,310	-	0.1
Assets of provident funds for which the Group provides operating services	76,192	75,276	75,515	1.2	0.9
Assets held in trust by the Bank Group	77,275	71,131	71,564	8.6	8.0
Assets of mutual funds for which the Bank provides operating services	16,240	14,002	13,896	16.0	16.9
Other assets under management ⁽²⁾	11,640	11,115	11,055	4.7	5.3

(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.

(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, in 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 the "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 "the 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 the "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 the "management approach")
- Financial results of the segment (using the "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 2016 financial statements.

Financial Information by Supervisory Operating Segments:

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

	Net profit First nine months 2017	Net profit First nine months 2016	Share of total net profit (in %) First nine months 2017	Share of total net profit (in %) First nine months 2016
Individuals:				
Households - housing loans	369	340	36.7	33.8
Households - other	⁽¹⁾ (1)	(4)	-	-
Private banking	7	6	0.7	0.6
Total - individuals	375	342	37.4	34.4
Business operations:				
Small and micro businesses	195	206	19.4	20.5
Medium businesses	94	75	9.3	7.5
Large businesses	252	260	25.1	25.9
Institutional investors	29	11	2.9	1.1
Total - business operations	570	552	56.7	54.9
Financial management	(23)	51	-	5.1
Total activity in Israel	922	945	94.0	94.4
Overseas operations	60	56	6.0	5.6
Total	⁽¹⁾982	1,001	100.0	100.0

- (1) Expenses in respect of the memorandum of understanding with the Employee Association resulted in decrease in net profit for the Bank in the first nine months of 2017, by NIS 104 million. Net profit in the Household - Other segment includes the segment share of expenses in respect of the memorandum of understandings with the Employee Association.

For more information about operating results in conformity with the 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 the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "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 the "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 nine months ended September 30 2017	For the nine months ended September 30 2017	For the nine months ended September 30 2017	For the nine months ended September 30 2016	For the nine months ended September 30 2016	For the nine months ended September 30 2016
	NIS in millions Other	NIS in millions Housing loans	NIS in millions Total	NIS in millions Other	NIS in millions Housing loans	NIS in millions Total
Profit and profitability						
Total interest revenues, net	844	956	1,800	746	811	1,557
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	390	112	502	388	112	500
Total revenues	1,234	1,068	2,302	1,134	923	2,057
Expenses with respect to credit losses	92	18	110	60	8	68
Operating and other expenses	(1)1,122	468	1,590	1,045	370	1,415
Profit before provision for taxes	20	582	602	29	545	574
Provision for taxes	7	213	220	11	205	216
After-tax profit	13	369	382	18	340	358
Net profit:						
Attributable to non-controlling interests	(14)	-	(14)	(22)	-	(22)
Attributable to shareholders of the banking corporation	(1)(1)	369	368	(4)	340	336
Balance sheet - key items:						
Loans to the public (end balance)	19,644	119,310	138,954	18,355	112,884	131,239
Loans to the public, net (end balance)	19,415	118,685	138,100	18,144	112,273	130,417
Deposits from the public (end balance)	74,786	-	74,786	70,327	-	70,327
Average balance of loans to the public	18,658	117,317	135,975	17,652	109,584	127,236
Average balance of deposits from the public	73,039	-	73,039	68,666	-	68,666
Average balance of risk assets	17,100	64,626	81,726	15,696	60,250	75,946
Credit margins and deposit margins:						
Margin from credit granting operations	553	924	1,477	512	789	1,301
Margin from activities of receiving deposits	289	-	289	233	-	233
Other	2	32	34	1	22	23
Total interest revenues, net	844	956	1,800	746	811	1,557

(1) Net profit and operating and other expenses include attribution of the *pro-rata* share of the segment in expenses in respect of the memorandum of understandings with the Employee Association. For more information about the memorandum of understandings reached between management and the Employee Association, see chapter "Significant Events in the Bank Group's Business" and Note 8 to the financial statements.

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2017 amounted to NIS 368 million, compared to NIS 336 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 nine months of 2017 amounted to NIS 369 million, compared to NIS 340 million in the corresponding period last year. Interest revenues, net amounted to NIS 956 million, compared to NIS 811 million in the corresponding period last year - an increase by 17.9%, attributed to increase in lending and in lending margin. In the current period, expenses with respect to credit losses amounted to expenses of NIS 18 million, compared to a provision of NIS 8 million in the corresponding period last year. The provision for credit losses by extent of arrears in the first nine months of 2016 was affected by significant arrears collection from clients. Operating expenses amounted to NIS 468 million, compared to NIS 370 million in the corresponding period last year - an increase by 26.5%, compared to an increase by 15.7% in total revenues.

The increase in operating expenses is due to the memorandum of understandings reached with the Employee Association, which increased payroll and associated expenses attributed to the segment. For more information see chapter "Significant Events in the Bank Group's Business".

Contribution of households - other operations (other than housing loans) in the first nine months of 2017 amounted to a loss of NIS 1 million, compared to a loss of NIS 4 million in the corresponding period last year - primarily due to higher group-based provision for individuals and higher operating expenses, as explained below. Interest revenues, net increased by NIS 98 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 amounted to NIS 390 million, compared to NIS 388 million in the corresponding period last year.

Expenses with respect to credit losses increased by NIS 32 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 1,122 million, compared to NIS 1,045 million in the corresponding period last year, an increase by 7.4%. This is due to the memorandum of understandings reached with the Employee Association, which increased payroll and associated expenses attributed to the segment, and due to expenses with respect to deployment of a new core banking system at Bank Yahav as from January 1, 2017. See also chapter "Explanation and analysis of results and business standing".

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.

Operating results in the household segment

	For the three months ended September 30 2017 NIS in millions Other	For the three months ended September 30 2017 NIS in millions Housing loans	For the three months ended September 30 2017 NIS in millions Total	For the three months ended September 30 2016 NIS in millions Other	For the three months ended September 30 2016 NIS in millions Housing loans	For the three months ended September 30 2016 NIS in millions Total
Profit and profitability						
Total interest revenues, net	291	333	624	255	284	539
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	115	51	166	126	38	164
Total revenues	406	384	790	381	322	703
Expenses with respect to credit losses	32	6	38	24	7	31
Operating and other expenses	361	205	566	333	143	476
Profit before provision for taxes	13	173	186	24	172	196
Provision for taxes	5	64	69	9	62	71
After-tax profit	8	109	117	15	110	125
Net profit:						-
Attributable to non-controlling interests	(6)	-	(6)	(8)	-	(8)
Attributable to shareholders of the banking corporation	(1)2	109	111	7	110	117
Balance sheet - key items:						
Loans to the public (end balance)	19,644	119,310	138,954	18,355	112,884	131,239
Loans to the public, net (end balance)	19,415	118,685	138,100	18,144	112,273	130,417
Deposits from the public (end balance)	74,786	-	74,786	70,327	-	70,327
Average balance of loans to the public	19,058	118,763	137,821	18,310	112,286	130,596
Average balance of deposits from the public	74,221	-	74,221	70,314	-	70,314
Average balance of risk assets	17,230	65,569	82,799	16,100	61,338	77,438
Credit margins and deposit margins:						
Margin from credit granting operations	188	323	511	171	277	448
Margin from activities of receiving deposits	103	-	103	83	-	83
Other	-	10	10	1	7	8
Total interest revenues, net	291	333	624	255	284	539

(1) Net profit and operating and other expenses include attribution of the *pro-rata* share of the segment in expenses in respect of the memorandum of understandings with the Employee Association. For more information about the memorandum of understandings reached between management and the Employee Association, see chapter "Significant Events in the Bank Group's Business" and Note 8 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 the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "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 the "management approach" is NIS 2.5 million, lower than the supervisory definition.
- The private banking segment according to the 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 nine months ended September 30, 2017 NIS in millions	For the nine months ended September 30, 2016 NIS in millions	For the three months ended September 30, 2017 NIS in millions	For the three months ended September 30, 2016 NIS in millions
Profit and profitability				
Total interest revenues, net	43	37	14	12
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	7	8	2	1
Total revenues	50	45	16	13
Expenses with respect to credit losses	1	1	-	1
Operating and other expenses	38	34	13	11
Profit before provision for taxes	11	10	3	1
Provision for taxes	4	4	1	-
Net profit	7	6	2	1
Balance sheet - key items:				
Loans to the public (end balance)	97	98	97	98
Loans to the public, net (end balance)	96	97	96	97
Deposits from the public (end balance)	12,032	10,666	12,032	10,666
Average balance of loans to the public	77	71	89	75
Average balance of deposits from the public	11,371	10,508	11,809	10,554
Average balance of risk assets	27	28	20	32
Credit margins and deposit margins:				
Margin from credit granting operations	1	1	1	-
Margin from activities of receiving deposits	42	36	13	12
Other	-	-	-	-
Total interest revenues, net	43	37	14	12

Contribution of the private banking segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2017 amounted to NIS 7 million, compared to NIS 6 million in the corresponding period last year.

Total interest revenues, net increased by NIS 6 million, due to increase in deposits from the public. Commissions and other revenues, as well as 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 the management approach and the supervisory definition

- Business clients with liquid assets in excess of NIS 8 million are attributed to the private banking segment according to the 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 the 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 nine months ended September 30, 2017 NIS in millions	For the nine months ended September 30, 2016 NIS in millions	For the three months ended September 30, 2017 NIS in millions	For the three months ended September 30, 2016 NIS in millions
Profit and profitability				
Total interest revenues, net	654	594	230	207
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	249	247	86	88
Total revenues	903	841	316	295
Expenses with respect to credit losses	107	96	37	33
Operating and other expenses	487	414	178	142
Profit before provision for taxes	309	331	101	120
Provision for taxes	113	124	38	43
Net profit	196	207	63	77
Balance sheet - key items:				
Loans to the public (end balance)	16,428	15,019	16,428	15,019
Loans to the public, net (end balance)	16,114	14,764	16,114	14,764
Deposits from the public (end balance)	20,010	15,301	20,010	15,301
Average balance of loans to the public	15,943	14,693	16,579	14,907
Average balance of deposits from the public	18,383	14,555	19,521	15,367
Average balance of risk assets	14,714	13,191	15,262	13,758
Credit margins and deposit margins:				
Margin from credit granting operations	577	540	199	186
Margin from activities of receiving deposits	64	40	25	15
Other	13	14	6	6
Total interest revenues, net	654	594	230	207

Contribution of the small and micro business segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2017 amounted to NIS 196 million, compared to NIS 207 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 654 million, compared to NIS 594 million in the corresponding period last year - an increase by 10.1%, primarily due to increase in lending and deposit business.

Commissions and other revenues amounted to NIS 249 million, compared to NIS 247 million in the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 107 million, compared to NIS 96 million in the corresponding period last year - an increase due to higher loans to the public.

Operating expenses amounted to NIS 487 million, compared with NIS 414 million in the corresponding period last year, an increase by NIS 73 million, primarily due to the memorandum of understandings reached with the Employee Association, which increased payroll and associated expenses attributed to the segment. For more information see chapter "Significant Events in the Bank Group's Business".

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 the management approach and the supervisory definition

- The commercial banking segment, according to the 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 the 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 the 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 nine months ended September 30, 2017 NIS in millions	For the nine months ended September 30, 2016 NIS in millions	For the three months ended September 30, 2017 NIS in millions	For the three months ended September 30, 2016 NIS in millions
Profit and profitability				
Total interest revenues, net	153	138	54	48
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	57	48	22	16
Total revenues	210	186	76	64
Reduced expenses with respect to credit losses	(16)	(1)	(2)	1
Operating and other expenses	77	67	30	24
Profit before provision for taxes	149	120	48	39
Provision for taxes	55	45	18	14
Net profit	94	75	30	25
Balance sheet - key items:				
Loans to the public (end balance)	5,714	4,966	5,714	4,966
Loans to the public, net (end balance)	5,642	4,887	5,642	4,887
Deposits from the public (end balance)	6,609	7,058	6,609	7,058
Average balance of loans to the public	5,480	4,827	5,886	4,829
Average balance of deposits from the public	7,070	6,333	7,392	6,849
Average balance of risk assets	6,351	6,402	6,699	6,692
Credit margins and deposit margins:				
Margin from credit granting operations	129	119	47	40
Margin from activities of receiving deposits	19	17	6	7
Other	5	2	1	1
Total interest revenues, net	153	138	54	48

Contribution of the medium business segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2017 amounted to NIS 94 million, compared to NIS 75 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net increased by NIS 15 million, primarily due to increase in credit and deposit volumes in this segment.

Commission and other revenues increased by NIS 9 million compared to the corresponding period last year. Expenses with respect to credit losses amounted to a decrease in provision of NIS 16 million, compared to a decrease in provision of NIS 1 million in the corresponding period last year.

The change in provision is due to the effect of debt collection from several individual clients previously written off.

Operating expenses amounted to NIS 77 million, compared to NIS 67 million in the corresponding period last year - an increase by NIS 10 million, in line with growth of business.

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 the management approach and the 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 the management approach) whose turnover is below NIS 250 million are classified to the medium business segment using the supervisory approach.
- Institutional investors served, under the management approach, by business banking are presented as a separate segment under supervisory operating segments.

Operating results of large business segment

	For the nine months ended September 30, 2017 NIS in millions	For the nine months ended September 30, 2016 NIS in millions	For the three months ended September 30, 2017 NIS in millions	For the three months ended September 30, 2016 NIS in millions
Profit and profitability				
Total interest revenues, net	344	339	110	112
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	112	129	37	41
Total revenues	456	468	147	153
Reduced expenses with respect to credit losses	(53)	(43)	(23)	(6)
Operating and other expenses	112	95	43	30
Profit before provision for taxes	397	416	127	129
Provision for taxes	145	156	47	47
Net profit	252	260	80	82
Balance sheet - key items:				
Loans to the public (end balance)	14,564	13,966	14,564	13,966
Loans to the public, net (end balance)	14,383	13,788	14,383	13,788
Deposits from the public (end balance)	26,250	29,958	26,250	29,958
Average balance of loans to the public	14,687	14,098	13,961	14,416
Average balance of deposits from the public	27,595	28,133	25,609	28,231
Average balance of risk assets	20,902	23,710	20,918	22,812
Credit margins and deposit margins:				
Margin from credit granting operations	294	291	97	99
Margin from activities of receiving deposits	42	42	13	13
Other	8	6	-	-
Total interest revenues, net	344	339	110	112

Contribution of the large business segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2017 amounted to NIS 252 million, compared to NIS 260 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Total interest revenues, net amounted to NIS 344 million, compared to NIS 339 million in the corresponding period last year, due to the higher lending 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 significant debt collection from clients previously written off and 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 amounted to NIS 112 million, compared with NIS 95 million in the corresponding period last year, an increase by NIS 17 million, primarily due to the memorandum of understandings reached with the Employee Association, which increased payroll and associated expenses attributed to the segment. For more information see chapter "Significant Events in the Bank Group's Business".

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 the management approach and the supervisory definition

Under the management approach, institutional investors are administered by the 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 nine months ended September 30, 2017 NIS in millions	For the nine months ended September 30, 2016 NIS in millions	For the three months ended September 30, 2017 NIS in millions	For the three months ended September 30, 2016 NIS in millions
Profit and profitability				
Total interest revenues, net	84	73	30	25
Non-interest financing revenues	-	1	-	-
Commissions and other revenues	38	41	11	14
Total revenues	122	115	41	39
Expenses (reduced expenses) with respect to credit losses	(19)	2	(9)	(1)
Operating and other expenses	95	96	32	34
Profit before provision for taxes	46	17	18	6
Provision for taxes	17	6	7	2
Net profit	29	11	11	4
Balance sheet - key items:				
Loans to the public (end balance)	1,079	1,321	1,079	1,321
Loans to the public, net (end balance)	1,065	1,280	1,065	1,280
Deposits from the public (end balance)	39,404	35,496	39,404	35,496
Average balance of loans to the public	1,508	1,650	1,384	1,566
Average balance of deposits from the public	38,543	34,686	40,395	35,588
Average balance of risk assets	2,365	2,611	2,212	2,508
Credit margins and deposit margins:				
Margin from credit granting operations	25	29	8	10
Margin from activities of receiving deposits	57	44	21	15
Other	2	-	1	-
Total interest revenues, net	84	73	30	25

Contribution of the institutional investor segment (in conformity with supervisory definitions) to Group profit in the first half of 2017 amounted to NIS 29 million, compared to NIS 11 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 84 million, compared to NIS 73 million in the corresponding period last year - an increase by NIS 11 million, primarily due to increase in total deposits.

Expenses with respect to credit losses amounted to a reduction in revenues of NIS 19 million, compared to expenses of NIS 2 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 associated companies of businesses.

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

Differences between the management approach and the supervisory definition

Under the management approach, institutional investors are administered 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 nine months ended September 30, 2017 NIS in millions	For the nine months ended September 30, 2016 NIS in millions	For the three months ended September 30, 2017 NIS in millions	For the three months ended September 30, 2016 NIS in millions
Profit and profitability				
Total interest revenues (expenses), net	16	(26)	(93)	70
Non-interest financing revenues	76	170	60	39
Commissions and other revenues	115	202	41	49
Total revenues	207	346	8	158
Reduced expenses with respect to credit losses	-	(2)	-	(1)
Operating and other expenses	219	252	91	80
Profit before provision for taxes	(12)	96	(83)	79
Provision for taxes	(4)	36	(31)	29
After-tax profit	(8)	60	(52)	50
Share of banking corporation in earnings of associate companies	-	1	-	1
Net profit before attribution to non-controlling interests	(8)	61	(52)	51
Net profit attributed to non-controlling interests	(15)	(10)	(5)	(4)
Net profit attributable to shareholders of the banking corporation	(23)	51	(57)	47
Balance sheet - key items:				
Average balance of risk assets	5,716	5,448	6,308	5,584
Credit margins and deposit margins:				
Margin from credit granting operations	-	-	-	-
Margin from activities of receiving deposits	-	-	-	-
Other	16	(26)	(93)	70
Total interest expenses, net	16	(26)	(93)	70

Contribution of the financial management segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2017 amounted to a loss of NIS 23 million, compared to a profit of NIS 51 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) decreased by NIS 52 million compared to the corresponding period last year, primarily due to fair value and other effects. 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 115 million, compared to NIS 302 million in the corresponding period last year. For the first nine months of the year, this includes capital gains amounting to NIS 17 million before tax, from realization of assets in conjunction with asset reorganization and improvements to the Bank's branch network, compared to NIS 87 million in the corresponding period last year.

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 the management approach and the supervisory definition

Business and individual clients at overseas branches classified into the various operating segments in conformity with the 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 the management approach are managed by the various operating segments - mostly private and business banking.

Operating results of overseas operations

	For the nine months ended September 30, 2017 NIS in millions	For the nine months ended September 30, 2016 NIS in millions	For the three months ended September 30, 2017 NIS in millions	For the three months ended September 30, 2016 NIS in millions
Profit and profitability				
Total interest revenues, net	117	118	42	43
Non-interest financing revenues	5	5	1	1
Commissions and other revenues	28	22	9	7
Total revenues	150	145	52	51
Expenses with respect to credit losses	2	(2)	-	1
Operating and other expenses	54	57	19	18
Profit before provision for taxes	94	90	33	32
Provision for taxes	34	34	12	12
Net profit	60	56	21	20
Balance sheet - key items:				
Loans to the public (end balance)	3,250	3,415	3,250	3,415
Loans to the public, net (end balance)	3,221	3,387	3,221	3,387
Deposits from the public (end balance)	5,130	4,942	5,130	4,942
Average balance of loans to the public	3,055	3,180	3,107	3,260
Average balance of deposits from the public	5,104	4,646	5,084	4,760
Average balance of risk assets	3,499	3,645	3,537	3,670
Credit margins and deposit margins:				
Margin from credit granting operations	68	63	22	21
Margin from activities of receiving deposits	10	10	4	4
Other	39	45	16	18
Total interest revenues, net	117	118	42	43

Contribution of overseas operations to Group profit in the first nine months of 2017 amounted to NIS 60 million, compared to NIS 56 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net, amounted to NIS 117 million, compared to NIS 118 million in the corresponding period last year.

Commission revenues from current operations increased by NIS 6 million. In the current period, a provision for credit losses was recorded, amounting to NIS 2 million, compared to a decrease in provision of NIS 2 million in the corresponding period last year.

Operating expenses decreased by NIS 3 million compared to the corresponding period last year.

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 nine months of 2017 amounted to NIS 88 million, compared with NIS 99 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.

Excluding the aforementioned effect of exchange rate differences, the contribution of investees amounted to NIS 105 million, similar to 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 nine of 2017 amounted to NIS 30 million compared to NIS 33 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first nine months of 2017 was 6.6% on annualized basis, compared to 7.6% in the corresponding period last year. Bank Yahav's balance sheet total as of September 30, 2017 amounted to NIS 24,758 million, compared to NIS 23,854 million as of December 31, 2016 - an increase by NIS 904 million, or 3.8%. Net loans to the public as of September 30, 2017 amounted to NIS 9,359 million, compared to NIS 8,931 million as of December 31, 2016 - an increase by NIS 428 million, or 4.8%. Net deposits from the public as of September 30, 2017 amounted to NIS 20,964 million, compared to NIS 20,273 million as of December 31, 2016 - an increase by NIS 691 million, or 3.4%.

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 nine months of 2017 (excluding net financing revenues from excess cash) amounted to NIS 39 million, compared to NIS 36 million in the corresponding period last year.

Net profit return on equity in the first nine months of 2017 was 7.7%, compared to 8.1% 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 nine months of 2017 NIS 20 million, net - compared to NIS 17 million in the corresponding period last year. Of this, NIS 10 million (compared to NIS 8 million in 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 nine months of 2017 amounted to CHF 0.5 million, compared to CHF 0.7 million in the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of September 30, 2017 amounted to CHF 162 million, compared to CHF 193 million at the end of 2016.

The balance of loans to the public as of September 30, 2017 amounted to CHF 74 million, compared to CHF 69 million at end of 2016. Deposits with banks as of September 30, 2017 amounted to CHF 86 million, compared to CHF 121 million at end of 2016. Deposits from the public as of September 30, 2017 amounted to CHF 99 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.

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 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% 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's 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 September 30, 2017 amounted to NIS 89 million, compared to NIS 100 million and NIS 101 million as of September 30, 2016 and as of December 31, 2016, respectively.

Net gain from investments in non-banking corporations, after provision for impairment, amounted in the first nine months of 2017 to NIS 5 million for the Bank, compared to NIS 2 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 Management 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.

Developments in risks and risks management

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, operating and compliance 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.

The Bank maintained a low risk profile in the first nine months of 2017. In the third quarter of 2017, There were no deviations from the risk appetite specified by the Bank's Board of Directors for various risks. Risk benchmarks are within a reasonable distance from restrictions specified and in line with the strategic plan outline and with current work plans. Key financial ratios and profitability benchmarks show stable profit and capital for the Bank. The Bank has sufficient capital buffers to achieve its capital objectives under normal business conditions as well as under stress conditions.

For more information about developments in labor relations, see chapter "Significant events in the Bank Group's business" above.

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 and cyber security risks.

The Bank Group is exposed to the effect of regulatory changes and macro-economic changes in Israel and world-wide 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 and estimates risk under stress scenarios, as well.

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 and supervision of Bank compliance with the specified guidelines and risk appetite.

Bank management is committed to regular management of material risks to which the Bank is exposed and to implementation of principles stipulated by the Bank's Board of Directors for addressing such risks.

The Bank has a structured process in place for mapping and identification of risks associated with Bank operations, based on a materiality threshold, expressed in terms of Bank capital. Guidelines for handling of material risks, as identified and mapped, including risk appetite, measurement, management and mitigation of each risk, are included in special policies documents.

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 shareholder equity 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 risk management assessment 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

Stress testing is used by the Bank to estimate current risk exposure and from a forward-looking viewpoint which assumes uncertainty. Stress tests are a complementary tool for risk assessment models. The Bank has a range of calculation methodologies for conducting stress testing. The primary uses of stress testing and guidelines for setting them are included on the risk management 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 including information and cyber security etc. Stress tests strongly emphasize the Bank's mortgage portfolio, its 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, Risks 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.I, 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 risk management and the effectiveness of control circles, in coordination with the Bank's ICAAP process and results thereof, 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 nine months 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 nine months generated revenues for the Bank and the rate of problematic debt is trending downwards.

On July 6, 2017, the Supervisor of Banks sent a letter to the Bank and to the rest of the banking system, requesting credit risks analysis for the "automobile trading" sector and for consumer credit for automobile purchase, under various stress scenarios. Based on the results, the Bank is required to consider adjustments to its business operations and associated controls

The Bank's Risks Control conducted a comprehensive review of this issue, which was discussed in depth by administrative forums, including a discussion by the Board of Directors. The findings and recommendations of this review will be incorporated into the 2018 credit policy document and the business units are concurrently preparing for their implementation.

As a result of the risk analysis, there was no material effect on the group-based provision for credit losses.

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 September 30, 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 September 30, 2017 (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk ⁽¹⁾	Off balance sheet credit risk ⁽¹⁾	Total credit risk
1.	Construction and real estate	97	773	870
2.	Construction and real estate	135	640	775
3.	Construction and real estate	11	619	630
4.	Construction and real estate	262	359	621
5.	Transport and storage	603	6	609
6.	Construction and real estate	15	583	598

(1) 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 interest 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 directives 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):

Economic sector of acquired company	September 30, 2017 On-balance sheet credit risk	September 30, 2017 Off-balance sheet credit risk	September 30, 2017 Total credit risk	September 30, 2017 Individual provision for credit losses	September 30, 2016 On-balance sheet credit risk	September 30, 2016 Off-balance sheet credit risk	September 30, 2016 Total credit risk	September 30, 2016 Individual provision for credit losses	December 31, 2016 On-balance sheet credit risk	December 31, 2016 Off-balance sheet credit risk	December 31, 2016 Total credit risk	December 31, 2016 Individual provision for credit losses
Commerce	-	-	-	-	100	-	100	-	81	15	96	-
Total	-	-	-	-	100	-	100	-	81	15	96	-

Credit to leveraged companies (NIS in millions):

Economic sector of borrower	September 30, 2017 On-balance sheet credit risk	September 30, 2017 Off-balance sheet credit risk	September 30, 2017 Total credit risk	September 30, 2017 Individual provision for credit losses	September 30, 2016 On-balance sheet credit risk	September 30, 2016 Off-balance sheet credit risk	September 30, 2016 Total credit risk	September 30, 2016 Individual provision for credit losses	December 31, 2016 On-balance sheet credit risk	December 31, 2016 Off-balance sheet credit risk	December 31, 2016 Total credit risk	December 31, 2016 Individual provision for credit losses
Construction and real estate	-	-	-	-	71	190	261	-	64	210	274	-
Commerce	362	15	377	-	427	103	530	-	404	161	565	-
Financial services	182	-	182	-	19	-	19	-	309	-	309	-
Information and communications	62	90	152	-	-	95	95	-	-	95	95	-
Total	606	105	711	-	517	388	905	-	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 September 30, 2017	Total credit risk September 30, 2016	Total credit risk December 31, 2016
Problematic credit risk			
Impaired credit risk	833	876	893
Inferior credit risk	298	110	428
Credit risk under special supervision - housing	1,024	827	853
Credit risk under special supervision - other	704	764	757
Total troubled credit risk	2,859	2,577	2,931

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

	September 30, 2017	September 30, 2016	December 31, 2016
Ratio of impaired loans to the public to total loans to the public	0.4	0.4	0.4
Ratio of impaired loans to the public to total non-housing loans	1.1	1.2	1.2
Ratio of problematic loans to the public to total non-housing loans	2.6	2.3	2.8
Ratio of housing loans in arrears 90 days or longer to total loans to the public ⁽¹⁾⁽²⁾	0.6	0.5	0.5
Ratio of problematic credit risk to total credit risk with respect to the public	1.2	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):

For the three months ended September 30, 2017

	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision as of June 30, 2017	695	621	237	1,553	2	1,555
Expenses with respect to credit losses	2	6	33	41	-	41
Accounting write-offs	(41)	(2)	(45)	(88)	-	(88)
Recovery of debts written off for accounting purposes in previous years	41	-	14	55	-	55
Net accounting write-offs	-	(2)	(31)	(33)	-	(33)
Balance of provision as of September 30, 2017	697	625	239	1,561	2	1,563

For the three months ended September 30, 2016

	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision as of June 30, 2016	675	611	199	1,485	2	1,487
Expenses with respect to credit losses	20	6	34	60	(1)	59
Accounting write-offs	(44)	(6)	(36)	(86)	-	(86)
Recovery of debts written off for accounting purposes in previous years	49	-	12	61	-	61
Net accounting write-offs	5	(6)	(24)	(25)	-	(25)
Balance of provision as of September 30, 2016	700	611	209	1,520	1	1,521

For the nine months ended September 30, 2017

	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	21	18	93	132	-	132
Accounting write-offs	(195)	(8)	(104)	(307)	-	(307)
Recovery of debts written off for accounting purposes in previous years	147	-	42	189	-	189
Net accounting write-offs	(48)	(8)	(62)	(118)	-	(118)
Balance of provision as of September 30, 2017	697	625	239	1,561	2	1,563

For the nine months ended September 30, 2016

	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision as of December 31, 2015	697	614	195	1,506	3	1,509
Expenses with respect to credit losses	44	7	70	121	(2)	119
Accounting write-offs	(137)	(10)	(99)	(246)	-	(246)
Recovery of debts written off for accounting purposes in previous years	96	-	43	139	-	139
Net accounting write-offs	(41)	(10)	(56)	(107)	-	(107)
Balance of provision as of September 30, 2016	700	611	209	1,520	1	1,521

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):

	September 30, 2017	September 30, 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	0.1	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	0.1	0.1
Of which: With respect to commercial loans other than housing loans ⁽¹⁾	0.3	0.3	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 policies 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 (NIS in millions):

	As of September 30, 2017	As of September 30, 2016	As of December 31, 2016
Debts⁽¹⁾			
Checking accounts and credit cards	5,649	5,581	5,606 ⁽⁶⁾
Auto loans ⁽⁵⁾	1,912	1,775	1,883
Other loans and credit	10,929	9,709	10,076 ⁽⁶⁾
Total debt (on-balance sheet credit)	18,490	17,065	17,565
Unutilized facilities, guarantees and other commitments			
Checking account and credit cards - unutilized facilities	9,364	10,099	10,097
Guarantees	202	191	195
Other liabilities	64	78	61
Total unutilized facilities, guarantees and other commitments (off-balance sheet credit)	9,630	10,368	10,353
Total credit risk to individuals	28,120	27,433	27,918
Of which:			
Part of loans maturing in over 5 years ⁽²⁾	2,346	1,338	1,920
On-balance sheet credit over NIS 300 thousand	1,267	1,020	1,133
Financial asset portfolio and other collateral against credit risk⁽³⁾			
Financial assets portfolio	3,318	3,377	3,442
Other collateral ⁽⁴⁾	1,189	1,184	1,200
Total financial assets portfolio and other collateral against credit risk	4,507	4,561	4,642

(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.

(5) Further to the request by the Supervisor of Banks for a credit risk analysis for the "automobile trading" sector and for consumer credit for automobile purchase, under various stress scenarios. The Bank's Risks Control conducted a comprehensive review of this issue, which was discussed in depth by administrative forums, including a discussion by the Board of Directors. The findings and recommendations of this review will be incorporated into the 2018 credit policy document and the business units are concurrently preparing for their implementation. As a result of risk analysis, there was no material effect on the group-based provision for credit losses.

(6) Reclassified.

Below is information about problematic credit risk before provision for credit losses (NIS in millions):

	September 30, 2017 Credit risk ⁽¹⁾ On balance sheet	September 30, 2017 Credit risk ⁽¹⁾ Off balance sheet	September 30, 2017 Credit risk ⁽¹⁾ Total	September 30, 2016 Credit risk ⁽¹⁾ On balance sheet	September 30, 2016 Credit risk ⁽¹⁾ Off balance sheet	September 30, 2016 Credit risk ⁽¹⁾ Total	As of December 31, 2016 Credit risk ⁽¹⁾ On balance sheet	As of December 31, 2016 Credit risk ⁽¹⁾ Off balance sheet	As of December 31, 2016 Credit risk ⁽¹⁾ Total
Balance of problematic credit risk	222	3	225	184	3	187	183	3	186
Problematic credit risk rate⁽²⁾	1.20%	0.03%	0.80%	1.08%	0.03%	0.68%	1.04%	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)

	For the nine months ended September 30, ⁽¹⁾ 2017	For the nine months ended September 30, ⁽¹⁾ 2016	For the year ended December 31, 2016
Expense with respect to credit losses as percentage of total loans to the public to individuals	0.64%	0.31%	0.52%

(1) Calculated on annualized basis.

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 8% compared to September 30, 2016 and by 5% 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 half of 2017.

As of September 30, 2017:

Checking accounts and credit cards	31%
Auto loans	10%
Other loans and credit	59%

- 24% of total debt (on-balance sheet credit) as of September 30, 2017, is secured by financial assets and other collateral in the client's account (similar to rates as of September 30, 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 2017, units were established in the Business Division and in the Retail Division, 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)

September 30, 2017

	Credit risk to the public ⁽¹⁾ Credit risk On balance sheet ⁽²⁾	Credit risk to the public ⁽¹⁾ Credit risk Off balance sheet ⁽³⁾	Credit risk to the public ⁽¹⁾ Credit risk Total	Total problematic credit risk Impaired	Total problematic credit risk Other problematic ⁽⁴⁾	Balance of provision for credit losses Balance sheet credit risk	Balance of provision for credit losses Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	6,990	14,331	21,321	151	28	49	26
Commercial and industrial	3,971	787	4,758	47	25	54	2
Total secured by real estate in Israel:	10,961	15,118	26,079	198	53	103	28
Not secured by real estate in Israel	2,945	3,054	5,999	107	58	45	14
Total for construction and real estate economic sector in Israel	13,906	18,172	32,078	305	111	148	42
Of which: Designated for project assistance	7,073	13,614	20,687	11	4	57	29

September 30, 2016

	Credit risk to the public ⁽¹⁾ Credit risk On balance sheet ⁽²⁾	Credit risk to the public ⁽¹⁾ Credit risk Off balance sheet ⁽³⁾	Credit risk to the public ⁽¹⁾ Credit risk Total	Total problematic credit risk Impaired	Total problematic credit risk Other problematic ⁽⁴⁾	Balance of provision for credit losses Balance sheet credit risk	Balance of provision for credit losses Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	5,275	14,319	19,594	161	213	81	14
Commercial and industrial	3,704	849	4,553	57	5	57	2
Total secured by real estate in Israel:	8,979	15,168	24,147	218	218	138	16
Not secured by real estate in Israel	2,757	2,502	5,259	159	56	38	12
Total for construction and real estate economic sector in Israel	11,736	17,670	29,406	377	274	176	28
Of which: Designated for project assistance	5,133	13,141	18,274	27	220	25	20

December 31, 2016

	Credit risk to the public ⁽¹⁾ Credit risk On balance sheet ⁽²⁾	Credit risk to the public ⁽¹⁾ Credit risk Off balance sheet ⁽³⁾	Credit risk to the public ⁽¹⁾ Credit risk Total	Total problematic credit risk Impaired	Total problematic credit risk Other problematic ⁽⁴⁾	Balance of provision for credit losses Balance sheet credit risk	Balance of provision for credit losses Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	6,144	14,449	20,593	170	210	48	32
Commercial and industrial	3,667	977	4,644	63	8	60	4
Total secured by real estate in Israel:	9,811	15,426	25,237	233	218	108	36
Not secured by real estate in Israel	2,439	2,322	4,761	159	40	42	13
Total for construction and real estate economic sector in Israel	12,250	17,748	29,998	392	258	150	49
Of which: Designated for project assistance	5,740	13,309	19,049	78	271	48	33

(1) On- and off-balance sheet credit risk, problematic credit risk and impaired loans 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 derivatives 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):

	September 30, 2017 Credit risk ⁽¹⁾ On balance sheet	September 30, 2017 Credit risk ⁽¹⁾ Off balance sheet	September 30, 2017 Credit risk ⁽¹⁾ Total	September 30, 2016 Credit risk ⁽¹⁾ On balance sheet	September 30, 2016 Credit risk ⁽¹⁾ Off balance sheet	September 30, 2016 Credit risk ⁽¹⁾ Total	December 31, 2016 Credit risk ⁽¹⁾ On balance sheet	December 31, 2016 Credit risk ⁽¹⁾ Off balance sheet	December 31, 2016 Credit risk ⁽¹⁾ Total
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	4,844	3,096	7,940	3,122	2,326	5,448	3,860	1,074	4,934
Real estate under construction	3,864	11,395	15,259	3,632	12,438	16,070	3,870	13,832	17,702
Real estate completely constructed	2,253	627	2,880	2,224	403	2,627	2,081	520	2,601
Total credit secured by real estate in Israel	10,961	15,118	26,079	8,978	15,167	24,145	9,811	15,426	25,237
Not secured by real estate in Israel	2,945	3,054	5,999	2,758	2,503	5,261	2,439	2,322	4,761
Total credit risk for construction and real estate	13,906	18,172	32,078	11,736	17,670	29,406	12,250	17,748	29,998

(1) On- and off-balance sheet credit risk, problematic credit risk and impaired loans 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 September 30, 2017 show that 51% 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 September 30, 2017, as presented in chapter "Risks" below (Credit Risk by Economic Sector) is 13.7%.

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 9.72% (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 September 30, 2017

Reported amounts (NIS in millions)

	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Debts ⁽¹⁾	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Guarantees and other commitments on account of clients	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Total	Total credit risk Debentures ⁽⁴⁾	Total credit risk Fair value of derivatives	Total credit risk Futures transactions	Total credit risk Total	Total credit risk Credit performance rating ⁽⁵⁾	Total problematic credit risk Problematic ⁽⁶⁾	Total problematic credit risk Impaired	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Expenses with respect to credit losses	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Net accounting write-off	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Balance of provision for credit losses
Public - commercial													
Agriculture, forestry and fishing	580	204	784	-	-	-	784	769	15	2	5	1	12
Mining and excavation	307	238	545	-	22	9	576	576	-	-	(1)	-	3
Industry and production	4,974	3,383	8,357	-	70	101	8,528	8,306	222	104	17	11	98
Construction and real estate - construction ⁽⁷⁾	11,875	17,600	29,475	-	5	1	29,481	29,094	387	283	1	(4)	145
Construction and real estate - real estate operations	2,016	561	2,577	-	10	10	2,597	2,568	29	22	(67)	(53)	45
Electricity and water delivery	792	526	1,318	-	200	100	1,618	1,588	30	3	4	-	8
Commerce	7,620	2,823	10,443	-	64	61	10,568	10,104	464	167	41	75	166
Hotels, dining and food services	863	254	1,117	-	1	-	1,118	1,080	38	12	14	7	26
Transport and storage	1,710	341	2,051	-	2	6	2,059	2,030	29	11	7	6	10
Information and communications	458	573	1,031	-	1	4	1,036	1,020	16	12	1	1	7
Financial services	3,272	6,117	9,389	-	834	1,174	11,397	11,184	213	30	(21)	(16)	91
Other business services	2,560	1,065	3,625	-	3	20	3,648	3,556	92	48	17	11	47
Public and community services	1,516	376	1,892	-	50	47	1,989	1,959	30	21	3	8	3
Total commercial credit	38,543	34,061	72,604	-	1,262	1,533	75,399	73,834	1,565	715	21	47	661

	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Debts ⁽¹⁾	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Guarantees and other commitments on account of clients	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Total	Total credit risk Debentures ⁽⁴⁾	Total credit risk Fair value of derivatives	Total credit risk Futures transactions	Total credit risk Total	Total credit risk performance rating ⁽⁵⁾	Total problematic credit risk Problematic ⁽⁶⁾	Total problematic credit risk Impaired	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Expenses with respect to credit losses	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Net accounting write-off	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Balance of provision for credit losses
Private individuals - housing loans	119,310	5,683	124,993	-	-	-	124,993	123,928	1,065	41	18	8	624
Private individuals - other	18,490	9,630	28,120	-	14	80	28,214	27,751	225	73	93	62	239
Total	176,343	49,374	225,717	-	1,276	1,613	228,606	225,513	2,855	829	132	117	1,524
For borrowers' activities overseas	3,743	1,508	5,251	17	131	22	5,421	5,417	4	4	-	1	37
Total loans to the public	180,086	50,882	230,968	17	1,407	1,635	234,027	230,930	2,859	833	132	118	1,561
Banking corporations	2,396	184	2,580	18	2,401	894	5,893	5,893	-	-	-	-	2
Governments	426	-	426	10,813	-	-	11,239	11,239	-	-	-	-	-
Total credit	182,908	51,066	233,974	10,848	3,808	2,529	251,159	248,062	2,859	833	132	118	1,563

- (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 2 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 1,485 million and off-balance sheet credit risk amounting to NIS 1,515 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,616 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international reinsurers.

Credit Risk by Economic Sector - Consolidated - continued

As of September 30, 2016

Reported amounts (NIS in millions)

	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Debts ⁽¹⁾	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than Credit losses ⁽³⁾ Guarantees and other commitments on account of clients	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Total	Total credit risk Debentures ⁽⁴⁾	Total credit risk Fair value of derivatives	Total credit risk Futures transactions	Total credit risk Total	Total credit risk Credit performance rating ⁽⁵⁾	Total problematic credit risk Problematic ⁽⁶⁾	Total problematic credit risk Impaired	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Expenses with respect to credit losses	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Net accounting write-off	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Balance of provision for credit losses
Public - commercial													
Agriculture, forestry and fishing	611	289	900	-	-	-	900	886	14	9	4	1	9
Mining and excavation	311	286	597	-	20	9	626	626	-	-	(2)	-	4
Industry and production	5,013	3,031	8,044	-	61	123	8,228	8,047	181	86	14	11	90
Construction and real estate - construction ⁽⁷⁾	9,582	17,374	26,956	-	2	1	26,959	26,389	570	299	(7)	1	136
Construction and real estate - real estate operations	2,152	295	2,447	-	-	-	2,447	2,366	81	78	(8)	2	68
Electricity and water delivery	610	606	1,216	-	291	95	1,602	1,596	6	4	3	1	5
Commerce	8,015	2,363	10,378	-	41	32	10,451	9,938	514	206	28	17	171
Hotels, dining and food services	799	226	1,025	-	2	-	1,027	996	31	17	7	5	19
Transport and storage	1,057	915	1,972	-	1	3	1,976	1,952	24	13	3	1	8
Information and communications	491	597	1,088	-	4	2	1,094	1,083	11	3	(14)	1	8
Financial services	3,658 ⁽⁸⁾	6,730	10,388 ⁽⁸⁾	-	457	1,397	⁽⁸⁾ 12,242	⁽⁸⁾ 12,224	17	15	(1)	(18)	101
Other business services	2,308 ⁽⁸⁾	1,034	3,342 ⁽⁸⁾	-	6	38	⁽⁸⁾ 3,386	⁽⁸⁾ 3,327	59	24	17	9	38
Public and community services	1,393	333	1,726	-	10	43	1,779	1,755	24	18	6	4	12
Total commercial credit	36,000	34,079	70,079	-	895	1,743	72,717	71,185	1,532	772	50	35	669
Private individuals - housing loans	112,884	6,698	119,582	-	-	-	119,582	118,733	849	22	7	10	610
Private individuals - other	17,065 ⁽⁸⁾	10,368	27,433 ⁽⁸⁾	-	19	37	⁽⁸⁾ 27,489	⁽⁸⁾ 27,064	187	72	70	56	209

	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Debts ⁽¹⁾	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Guarantees and other commitments on account of clients	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Total	Total credit risk Debentures ⁽⁴⁾	Total credit risk Fair value of derivatives	Total credit risk Futures transactions	Total credit risk Total	Total credit risk Credit performance rating ⁽⁵⁾	Total problematic credit risk Problematic ⁽⁶⁾	Total problematic credit risk Impaired	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Expenses with respect to credit losses	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Net accounting write-off	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) Credit losses ⁽³⁾ Balance of provision for credit losses
Total	165,949	51,145	217,094	-	914	1,780	219,788	216,982	2,568	866	127	101	1,488
For borrowers' activities overseas	4,075	1,466	5,541	19	131	33	5,724	5,715	9	9	(6)	6	32
Total loans to the public	170,024	52,611	222,635	19	1,045	1,813	225,512	222,697	2,577	875	121	107	1,520
Banking corporations	4,151	226	4,377	19	2,221	659	7,276	7,276	-	-	(2)	-	1
Governments	353	13	366	9,276	-	-	9,642	9,642	-	-	-	-	-
Total credit	174,528	52,850	227,378	9,314	3,266	2,472	242,430	239,615	2,577	875	119	107	1,521

- (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 16 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 1,463 million and off-balance sheet credit risk amounting to NIS 1,670 million, extended to certain purchase groups which are in the process of construction.
- (8) Reclassified.

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⁾ Debts ⁽¹⁾	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽³⁾ Guarantees and other commitments on account of clients	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Total	Total credit risk Debentures ⁽⁴⁾	Total credit risk Fair value of derivatives	Total credit risk Futures transactions	Total credit risk Total	Total credit risk Credit performance rating ⁽⁵⁾	Total problematic credit risk Problematic ⁽⁶⁾	Total problematic credit risk Impaired	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽³⁾ Expenses with respect to credit losses	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽³⁾ Net accounting write-off	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽³⁾ Balance of provision for credit losses
Public - commercial													
Agriculture, forestry and fishing	594	184	778	-	-	-	778	767	11	7	4	2	8
Mining and excavation	336	252	588	-	18	9	615	615	-	-	(2)	-	4
Industry and production	5,153	3,050	8,203	-	78	135	8,416	8,228	188	91	20	15	92
Construction and real estate - construction ⁽⁷⁾	10,150	17,400	27,550	-	2	1	27,553	26,984	569	314	7	11	140
Construction and real estate - real estate operations	2,096	344	2,440	-	2	3	2,445	2,364	81	78	(19)	-	59
Electricity and water delivery	524	558	1,082	-	331	95	1,508	1,503	5	3	3	2	4
Commerce	7,848	2,297	10,145	-	63	52	10,260	9,725	535	211	61	21	200
Hotels, dining and food services	807	229	1,036	-	-	-	1,036	1,011	25	11	9	7	19
Transport and storage	1,107	710	1,817	-	5	5	1,827	1,810	17	11	7	4	9
Information and communications	502	578	1,080	-	-	4	1,084	1,075	9	3	(15)	1	7
Financial services	⁽⁸⁾ 3,832	6,329	⁽⁸⁾ 10,161	-	652	1,519	⁽⁸⁾ 12,332	⁽⁸⁾ 12,003	329	17	(4)	(16)	96
Other business services	2,369	1,103	3,472	-	12	53	3,537	3,468	69	27	23	15	41
Public and community services	1,356	385	1,741	-	8	41	1,790	1,767	23	18	6	8	8
Total commercial credit	36,674	33,419	70,093	-	1,171	1,917	73,181	71,320	1,861	791	100	70	687
Private individuals - housing loans	114,691	5,659	120,350	-	-	-	120,350	119,470	880	27	13	12	614

	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Debts ⁽¹⁾	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽³⁾ Credit losses ⁽³⁾ Guarantees and other commitments on account of clients	Off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽²⁾ Total	Total credit risk Debentures ⁽⁴⁾	Total credit risk Fair value of derivatives	Total credit risk Futures transactions	Total credit risk Total	Total credit risk performance rating ⁽⁵⁾	Total problematic credit risk Problematic ⁽⁶⁾	Total problematic credit risk Impaired	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽³⁾ Credit losses ⁽³⁾ Expenses with respect to credit losses	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽³⁾ Credit losses ⁽³⁾ Net accounting write-off	Problematic off balance sheet debts ⁽¹⁾ and credit risk (other than derivatives) ⁽³⁾ Credit losses ⁽³⁾ Balance of provision for credit losses
Private individuals - other	⁽⁸⁾ 17,565	10,353	⁽⁸⁾ 27,918	-	14	37	⁽⁸⁾ 27,969	27,545 ⁽⁸⁾	186	71	92	76	208
Total	168,930	49,431	218,361	-	1,185	1,954	221,500	218,335	2,927	889	205	158	1,509
For borrowers' activities overseas	3,849	1,371	5,220	19	135	30	5,404	5,400	4	4	(4)	2	38
Total loans to the public	172,779	50,802	223,581	19	1,320	1,984	226,904	223,735	2,931	893	201	160	1,547
Banking corporations	2,509	281	2,790	19	2,264	786	5,859	5,859	-	-	(1)	-	2
Governments	330	-	330	10,133	-	-	10,463	10,463	-	-	-	-	-
Total credit	175,618	51,083	226,701	10,171	3,584	2,770	243,226	240,057	2,931	893	200	160	1,549

- (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 reinsurers.
- (8) Reclassified.

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:

September 30, 2017

Country	Balance sheet exposure ⁽²⁾ Cross-border balance sheet exposure To governments ⁽⁴⁾	Balance sheet exposure ⁽²⁾ Cross-border balance sheet exposure To banks	Balance sheet exposure ⁽²⁾ Cross-border balance sheet exposure To others	Balance sheet exposure ⁽²⁾ Balance sheet exposure of Bank affiliates in foreign country to local residents before deduction of local liabilities	Balance sheet exposure ⁽²⁾ Balance sheet exposure of Bank affiliates in foreign country to local residents Deduction with respect to local liabilities	Balance sheet exposure ⁽²⁾ Balance sheet exposure of Bank affiliates in foreign country to local residents Net balance sheet exposure after deduction of local liabilities	Balance sheet exposure ⁽²⁾ Total balance sheet exposure	Balance sheet exposure ⁽²⁾ On-balance sheet problematic credit risk	Balance sheet exposure ⁽²⁾ Impaired debts	Off-balance sheet exposure ⁽²⁾⁽³⁾⁽⁶⁾ Total off-balance sheet exposure	Off-balance sheet exposure ⁽²⁾⁽³⁾⁽⁶⁾ Of which: Off-balance sheet problematic credit risk	Cross-border balance sheet exposure Maturing in under 1 year	Cross-border balance sheet exposure Maturing in over 1 year
USA	4,288	430	1,207	389	389	-	5,925	19	-	1,370	-	1,834	4,091
UK	-	260	430	1,084	468	616	1,306	13	-	2,926	-	306	384
Others ⁽⁵⁾	47	343	3,254	-	-	-	3,644	32	-	4,270	-	1,155	2,489
Total exposure to foreign countries	4,335	1,033	4,891	1,473	857	616	10,875	64	-	8,566	-	3,295	6,964
Of which: Total exposure to LDC countries	2	-	536	-	-	-	538	5	-	153	-	132	406
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	1	44	-	-	-	45	-	-	417 ⁽⁶⁾	-	12	33

September 30, 2016

Country	Balance sheet exposure ⁽²⁾ Cross-border balance sheet exposure To governments ⁽⁴⁾	Balance sheet exposure ⁽²⁾ Cross-border balance sheet exposure To banks	Balance sheet exposure ⁽²⁾ Cross-border balance sheet exposure To others	Balance sheet exposure ⁽²⁾ Balance sheet exposure of Bank affiliates in foreign country to local residents before deduction of local liabilities	Balance sheet exposure ⁽²⁾ Balance sheet exposure of Bank affiliates in foreign country to local residents Deduction with respect to local liabilities	Balance sheet exposure ⁽²⁾ Balance sheet exposure of Bank affiliates in foreign country to local residents Net balance sheet exposure after deduction of local liabilities	Balance sheet exposure ⁽²⁾ Total balance sheet exposure	Balance sheet exposure ⁽²⁾ On-balance sheet problematic credit risk	Balance sheet exposure ⁽²⁾ Balance sheet exposure ⁽²⁾ Impaired debts	Off-balance sheet exposure ⁽²⁾⁽³⁾⁽⁶⁾ Total off-balance sheet exposure	Off-balance sheet exposure ⁽²⁾⁽³⁾⁽⁶⁾ Of which: Off-balance sheet problematic credit risk	Cross-border balance sheet exposure Maturing in under 1 year	Cross-border balance sheet exposure Maturing in over 1 year
USA	3,942	423	1,190	357	357	-	5,555	7	1	524	-	3,441	2,114
Others ⁽⁵⁾	40	440	4,068	1,054	535	519	5,067	25	1	1,932	-	1,398	3,150
Total exposure to foreign countries	3,982	863	5,258	1,411	892	519	10,622	32	2	2,456	-	4,839	5,264
Of which: Total exposure to LDC countries	2	-	515	-	-	-	517	4	-	173	-	193	324
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	53	-	-	-	55	-	-	69	-	16	39

See remarks below.

Exposure to foreign countries - consolidated⁽¹⁾ - continued

Reported amounts (NIS in millions)

December 31, 2016

Country	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Balance sheet exposure ⁽²⁾	Off-balance sheet exposure ⁽²⁾⁽³⁾⁽⁶⁾	Off-balance sheet exposure ⁽²⁾⁽³⁾⁽⁶⁾	Cross-border balance sheet exposure	Cross-border balance sheet exposure
	Cross-border balance sheet exposure To governments ⁽⁴⁾	Cross-border balance sheet exposure To banks	Cross-border balance sheet exposure To others	local residents exposure before deduction of local liabilities	local residents exposure with respect to local liabilities	local residents exposure after deduction of local liabilities	Net balance sheet exposure	Total balance sheet exposure	On-balance sheet problematic credit risk	Balance sheet exposure ⁽²⁾ 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	-	-	⁽⁶⁾ 837	-	14	39				

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:

	September 30, 2017	September 30, 2017	September 30, 2016	September 30, 2016	December 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	1,442	851	-	-	-	-

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

As of September 30, 2017, September 30, 2016 and December 31, 2016, the Bank has no balance sheet exposure to foreign countries facing liquidity issues.

- (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 5,616 million with respect to acquiring insurance from international re-insurers 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 351 million to international reinsurers from Ireland, rated A (as of December 31, 2016: NIS 767 million).

Credit exposure to foreign financial institutions

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

September 30, 2017

	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⁾
AAA to AA-	530	477	2,393	2,923	2,870
A+ to A-	357	90	4,283	4,640	4,373
BBB+ to BBB-	31	31	-	31	31
BB+ to B-	-	-	19	19	19
Lower than B-	-	-	-	-	-
Unrated	1	1	-	1	1
Total credit exposure to foreign financial institutions	919	599	6,695	7,614	7,294

September 30, 2016

	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⁾
AAA to AA-	459	425	1	460	426
A+ to A-	261	218	77	338	295
BBB+ to BBB-	17	5	-	17	5
BB+ to B-	-	-	17	17	17
Lower than B-	-	-	-	-	-
Unrated	3	3	-	3	3
Total credit exposure to foreign financial institutions	740	651	95	835	746

December 31, 2016

	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⁾
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 September 30, 2017, September 30, 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, loans to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivatives.
- (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 5,616 million as of September 30, 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 derivatives 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 derivatives 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, loans to the public, public investment in debentures and other assets with respect to derivatives. 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 leading risk benchmarks continue to remain relatively low. 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 September 2017) was 54.2% 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 nine months 2017	First nine months 2016	Rate of change In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	14,902	18,838	(20.9)
From funds of the Finance Ministry			
Directed loans	143	70	104.3
Standing loans and grants	54	97	(44.3)
Total new loans	15,099	19,005	(20.6)
Refinanced loans	1,032	1,748	(41.0)
Total loans originated	16,131	20,753	(22.3)
Number of borrowers (includes refinanced loans)	30,735	38,365	(19.9)

Below are details of various risk attributes of the housing loan portfolio⁽¹⁾ as of September 30, 2017 (NIS in millions):

		Loan age ⁽²⁾ (time elapsed since loan grant) Up to 3 months	Loan age ⁽²⁾ (time elapsed since loan grant) 3-12 months	Loan age ⁽²⁾ (time elapsed since loan grant) 1-2 years	Loan age ⁽²⁾ (time elapsed since loan grant) 2-5 years	Loan age ⁽²⁾ (time elapsed since loan grant) 5-10 years	Loan age ⁽²⁾ (time elapsed since loan grant) Over 10 years	Loan age ⁽²⁾ (time elapsed since loan grant) Total
Up to 60%	Up to 35%	2,493	8,280	11,763	20,353	15,135	4,478	62,502
	35%-50%	316	1,198	1,768	4,272	4,049	919	12,522
	50%-80%	-	-	1	554	1,364	343	2,262
	Over 80%	-	-	-	61	120	64	245
60%-75%	Up to 35%	902	3,174	7,304	12,764	6,828	1,021	31,993
	35%-50%	108	383	968	1,884	1,740	272	5,355
	50%-80%	-	-	-	126	508	106	740
	Over 80%	-	-	-	2	44	16	62
Over 75%	Up to 35%	43	122	141	492	1,786	1,184	3,768
	35%-50%	7	11	17	102	398	397	932
	50%-80%	-	-	-	4	82	129	215
	Over 80%	-	-	-	1	10	29	40
Total		3,869	13,168	21,962	40,615	32,064	8,958	120,636

	Loan age ⁽²⁾ (time elapsed since loan grant) Up to 3 months	Loan age ⁽²⁾ (time elapsed since loan grant) 3-12 months	Loan age ⁽²⁾ (time elapsed since loan grant) 1-2 years	Loan age ⁽²⁾ (time elapsed since loan grant) 2-5 years	Loan age ⁽²⁾ (time elapsed since loan grant) 5-10 years	Loan age ⁽²⁾ (time elapsed since loan grant) Over 10 years	Loan age ⁽²⁾ (time elapsed since loan grant) Total
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Of which:

Loans granted with original amount over NIS 2 million	251	846	1,204	1,941	1,416	91	5,749
Percentage of total housing loans	6.5%	6.4%	5.5%	4.8%	4.4%	1.0%	4.8%

Loans bearing variable interest:

Non-linked, at prime lending rate	950	3,146	6,022	11,505	12,489	2,245	36,357
CPI-linked ⁽³⁾	6	22	23	274	4,176	1,527	6,028
In foreign currency ⁽³⁾	127	346	407	1,389	1,363	285	3,917
Total	1,083	3,514	6,452	13,168	18,028	4,057	46,302

Non-linked loans at prime lending rate, as percentage of total housing loans	24.6%	23.9%	27.4%	28.3%	39.0%	25.1%	30.1%
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CPI-linked loans bearing variable interest as percentage of total housing loans	0.2%	0.2%	0.1%	0.7%	13.0%	17.0%	5.0%
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Loans with LTV over 75% as percentage of total housing loans	1.3%	1.0%	0.7%	1.5%	7.1%	19.4%	4.1%
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(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 September 30, 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 September 30, 2017 was 54.2%, compared to 54.9% in the corresponding period last year and to 54.7% on December 31, 2016. Out of the total loan portfolio of the Bank, amounting to NIS 120.6 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 0.3 billion, or only 0.3% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of September 30, 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%; for loans originated over 5 years ago - by 18%; for all loans in total - 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 billion is insured by credit insurance - 40.4%.

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 0.7% for loans granted 1-2 years ago, 1.0% loans granted 3-12 months ago and 1.3% for loans granted in the first nine months 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 27.2%. Some 81.3% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.5%). Some 15.7% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.7%). Some 2.7% 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 0.29% 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 10.1 billion, or only 8.4% 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 5.7 billion on September 30, 2017, or only 4.8% 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, in accordance with appendix to Proper Banking Conduct Directive 314, as of September 30, 2017 (NIS in millions):

Extent of arrears	In arrears 30 to 89 days ⁽³⁾	In arrears 90 days or longer 90 days to 6 months	In arrears 90 days or longer 6-15 months	In arrears 90 days or longer 15-33 months	In arrears 90 days or longer Over 33 months	Total over 90 days	Balance with respect to refinanced loans in arrears ⁽⁴⁾	Total
Amount in arrears	7	14	14	9	204	241	47	295
Of which: Balance of provision for interest ⁽¹⁾	-	-	-	-	106	106	6	112
Recorded debt balance	441	518	226	59	126	929	117	1,486
Balance of provision for credit losses ⁽²⁾	-	-	30	30	95	155	57	212
Debt balance, net	441	518	196	29	31	774	60	1,274

(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. Assessment of Bank exposure to interest risks in the third quarter of 2017 remains Medium. In the third quarter, risk values decreased, primarily due to issuance of a long-term CPI-linked debentures and sale of mortgage portfolios. Note that in 2017, 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. Following the updates to interest risk models, the limitations in terms of the EVE and VaR models were updated in the policy document. In the third quarter, risk values declined due to proactive steps taken by the Bank to reduce exposure.

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

	First nine months 2017	First nine months 2016	All of 2016
At end of period	435	341	386
Maximum value during period	(Apr) 781	(AUG) 364	(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 forecast 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 impact of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

September 30, 2017 - Change in fair value

	Israeli currency Non-linked	Israeli currency Linked to CPI	Foreign currency Dollar	Foreign currency Euro	Foreign currency Other	Total
2% increase	(721)	(911)	49	(33)	1	(1,615)
Decrease of 2%	1,269	1,161	(26)	38	(1)	2,441

September 30, 2016 - Change in fair value

	Israeli currency Non-linked	Israeli currency Linked to CPI	Foreign currency Dollar	Foreign currency Euro	Foreign currency Other	Total
2% increase	(1,146)	535	64	(10)	3	(554)
Decrease of 2%	1,572	(701)	(51)	12	(2)	830

December 31, 2016 - Change in fair value

	Israeli currency Non-linked	Israeli currency Linked to CPI	Foreign currency Dollar	Foreign currency Euro	Foreign currency Other	Total
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 nine months of 2017, implementing recommendations made in 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.

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

Reported amounts (NIS in millions)

	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2016	September 30, 2016	September 30, 2016	September 30, 2016	September 30, 2016	September 30, 2016
	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	Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return In %	Average effective duration ⁽²⁾ in years	Total fair value	Internal rate of return In %	Average effective duration ⁽²⁾ in years	Total fair value	Internal rate of return In %	Average effective duration ⁽²⁾ in years	
Israeli currency - non-linked																			
Financial assets, amounts receivable with respect to derivatives and to complex financial assets																			
Financial assets ⁽¹⁾	125,691	1,985	5,552	11,403	7,949	6,515	3,650	360	508	163,613	3.80	1.29	150,049	3.43	1.21	157,045	3.99	1.25	
Financial derivatives (other than options)	5,602	12,056	27,665	11,042	8,305	6,810	40	-	-	71,520		0.96	67,113		1.14	67,969		1.06	
Options (in terms of underlying asset)	509	1,430	1,417	432	179	40	-	-	-	4,007		1.36	3,176		0.48	3,466		1.56	
Total fair value	131,802	15,471	34,634	22,877	16,433	13,365	3,690	360	508	239,140		1.19	220,338		1.18	228,480		1.20	
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities																			
Financial liabilities ⁽¹⁾	80,630	12,193	20,256	18,267	10,505	6,435	863	33	-	149,182	0.96	1.12	133,540	1.07	0.95	134,532	0.93	0.90	
Financial derivatives (other than options)	17,314	25,335	17,696	10,018	8,390	6,950	-	-	-	85,703		0.92	78,066		0.97	85,522		0.90	
Options (in terms of underlying asset)	269	863	1,711	345	126	22	-	-	-	3,336		1.16	2,958		0.44	3,104		1.39	
Total fair value	98,213	38,391	39,663	28,630	19,021	13,407	863	33	-	238,221		1.05	214,564		0.95	223,158		0.91	
Financial instruments, net																			
Exposure to interest rate fluctuations in the sector	33,589	(22,920)	(5,029)	(5,753)	(2,588)	(42)	2,827	327	508	919			5,774			5,322			
Cumulative exposure in sector	33,589	10,669	5,640	(113)	(2,701)	(2,743)	84	411	919	919			5,774			5,322			

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, 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.

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

Reported amounts (NIS in millions)

	September 30, 2017 On Call to 1 month	September 30, 2017 Over 1 month to 3 months	September 30, 2017 Over 3 months to 1 year	September 30, 2017 Over 1 year to 3 years	September 30, 2017 Over 3 years to 5 years	September 30, 2017 Over 5 years to 10 years	September 30, 2017 Over 10 to 20 years	September 30, 2017 Over 20 years	September 30, 2017 Without maturity	September 30, 2017 Total fair value	September 30, 2017 Internal rate of return In %	September 30, 2017 Average effective duration ⁽²⁾ in years	September 30, 2016 Total fair value	September 30, 2016 Internal rate of return In %	September 30, 2016 Average effective duration ⁽²⁾ in years	December 31, 2016 Total fair value	December 31, 2016 Internal rate of return In %	December 31, 2016 Average effective duration ⁽²⁾ in years
Israeli currency - linked to the CPI																		
Financial assets, amounts receivable with respect to derivatives and to complex financial assets																		
Financial assets ⁽¹⁾	2,056	2,884	11,501	16,068	11,869	3,943	1,978	223	14	50,536	2.78	2.99	49,894	2.80	2.43	48,935	2.80	2.35
Financial derivatives (other than options)	110	133	556	2,087	512	392	-	-	-	3,790		2.36	3,552		2.59	3,569		2.75
Total fair value	2,166	3,017	12,057	18,155	12,381	4,335	1,978	223	14	54,326		2.95	53,446		2.44	52,504		2.38
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities																		
Financial liabilities ⁽¹⁾	307	812	5,509	13,107	9,175	6,502	2,424	-	2	37,838	1.32	3.78	40,732	1.17	3.77	40,185	1.33	3.58
Financial derivatives (other than options)	237	580	2,802	2,497	631	327	45	-	-	7,119		1.55	9,659		1.65	8,995		1.80
Total fair value	544	1,392	8,311	15,604	9,806	6,829	2,469	-	2	44,957		3.43	50,391		3.36	49,180		3.25
Financial instruments, net																		
Exposure to interest rate fluctuations in the sector	1,622	1,625	3,746	2,551	2,575	(2,494)	(491)	223	12	9,369			3,055			3,324		
Cumulative exposure in sector	1,622	3,247	6,993	9,544	12,119	9,625	9,134	9,357	9,369	9,369			3,055			3,324		

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, 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.

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

Reported amounts (NIS in millions)

	September 30, 2017 On Call to 1 month	September 30, 2017 Over 1 month to 3 months	September 30, 2017 Over 3 months to 1 year	September 30, 2017 Over 1 year to 3 years	September 30, 2017 Over 3 years to 5 years	September 30, 2017 Over 5 years to 10 years	September 30, 2017 Over 10 to 20 years	September 30, 2017 Over 20 years	September 30, 2017 Without maturity	September 30, 2017 Total fair value	September 30, 2017 Internal rate of return In %	September 30, 2017 Average effective duration ⁽²⁾ in years	September 30, 2016 Total fair value	September 30, 2016 Internal rate of return In %	September 30, 2016 Average effective duration ⁽²⁾ in years	December 31, 2016 Total fair value	December 31, 2016 Internal rate of return In %	December 31, 2016 Average effective duration ⁽²⁾ in years
Foreign currency⁽¹⁾																		
Financial assets, amounts receivable with respect to derivatives and to complex financial assets																		
Financial assets ⁽²⁾	8,377	4,794	1,175	1,370	1,386	1,567	23	-	346	19,038	1.87	0.94	19,437	1.76	1.12	17,487	1.20	1.23
Financial derivatives (other than options)	27,890	30,392	19,107	7,645	2,482	1,776	-	-	-	89,292		0.40	84,385		0.42	91,892		0.41
Options (in terms of underlying asset)	336	1,002	1,931	310	109	19	-	-	-	3,707		0.21	3,570		0.15	3,671		0.08
Total fair value	36,603	36,188	22,213	9,325	3,977	3,362	23	-	346	112,037		0.49	107,392		0.54	113,050		0.53
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities																		
Financial liabilities ⁽²⁾	19,774	7,410	8,016	607	80	122	1	-	474	36,484	1.01	0.31	36,078	0.79	0.40	39,907	0.68	0.32
Financial derivatives (other than options)	16,064	16,564	26,495	8,207	2,321	1,723	-	-	-	71,374		0.59	67,686		0.65	68,991		0.59
Options (in terms of underlying asset)	528	1,498	1,663	399	149	32	-	-	-	4,269		0.35	3,680		0.43	3,937		0.32
Total fair value	36,366	25,472	36,174	9,213	2,550	1,877	1	-	474	112,127		0.49	107,444		0.56	112,835		0.49
Financial instruments, net																		
Exposure to interest rate fluctuations in the sector																		
Cumulative exposure in sector	237	10,716	(13,961)	112	1,427	1,485	22	-	(128)	(90)			(52)			215		
	237	10,953	(3,008)	(2,896)	(1,469)	16	38	38	(90)	(90)			(52)			215		

Specific remarks:

- (1) Includes Israeli currency linked to foreign currency.
- (2) Excludes balance sheet balances of financial derivatives, 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.

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

Reported amounts (NIS in millions)

	September 30, 2017 On Call to 1 month	September 30, 2017 Over 1 month to 3 months	September 30, 2017 Over 3 months to 1 year	September 30, 2017 Over 1 year to 3 years	September 30, 2017 Over 3 years to 5 years	September 30, 2017 Over 5 years to 10 years	September 30, 2017 Over 10 to 20 years	September 30, 2017 Over 20 years	September 30, 2017 Without maturity	September 30, 2017 Total fair value	September 30, 2017 Internal rate of return In %	September 30, 2017 Average effective duration ⁽²⁾ in years	September 30, 2016 Total fair value	September 30, 2016 Internal rate of return In %	September 30, 2016 Average effective duration ⁽²⁾ in years	December 31, 2016 Total fair value	December 31, 2016 Internal rate of return In %	December 31, 2016 Average effective duration ⁽²⁾ in years
Total exposure to interest rate fluctuations																		
Financial assets, amounts receivable with respect to derivatives and to complex financial assets																		
Financial assets ⁽¹⁾	136,124	9,663	18,228	28,841	21,204	12,025	5,651	583	868	233,187	3.30	1.63	219,380	3.08	1.48	223,467	3.40	1.49
Financial derivatives (other than options)	33,602	42,581	47,328	20,774	11,299	8,978	40	-	-	164,602		0.69	155,050		0.78	163,430		0.73
Options (in terms of underlying asset)	845	2,432	3,348	742	288	59	-	-	-	7,714		0.81	6,746		0.31	7,137		0.80
Total fair value	170,571	54,676	68,904	50,357	32,791	21,062	5,691	583	868	405,503		1.23	381,176		1.20	394,034		1.16
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities																		
Financial liabilities ⁽¹⁾	100,711	20,415	33,781	31,981	19,760	13,059	3,288	33	476	223,504	1.13	1.44	210,350	1.11	1.40	214,624	1.13	1.29
Financial derivatives (other than options)	33,615	42,479	46,993	20,722	11,342	9,000	45	-	-	164,196		0.80	155,411		0.87	163,508		0.82
Options (in terms of underlying asset)	797	2,361	3,374	744	275	54	-	-	-	7,605		0.70	6,638		0.43	7,041		0.80
Total fair value	135,123	65,255	84,148	53,447	31,377	22,113	3,333	33	476	395,305		1.16	372,399		1.18	385,173		1.08
Financial instruments, net																		
Total exposure to interest rate fluctuations	35,448	(10,579)	(15,244)	(3,090)	1,414	(1,051)	2,358	550	392	10,198			8,777			8,861		
Total cumulative exposure	35,448	24,869	9,625	6,535	7,949	6,898	9,256	9,806	10,198	10,198			8,777			8,861		

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, 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.

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 Non-linked	Israeli currency Linked to CPI	Foreign currency ⁽¹⁾ Dollar	Foreign currency ⁽¹⁾ Euro	Foreign currency ⁽¹⁾ Other	Total
September 30, 2017						
Financial assets ⁽²⁾	163,613	50,536	13,981	3,060	1,997	233,187
Amounts receivable with respect to financial derivatives ⁽³⁾	75,527	3,790	76,578	11,027	5,394	172,316
Financial liabilities ⁽²⁾	(149,182)	(37,838)	(29,542)	(4,364)	(2,578)	(223,504)
Amounts payable with respect to financial derivatives ⁽³⁾	(89,039)	(7,119)	(60,990)	(9,750)	(4,903)	(171,801)
Total	919	9,369	27	(27)	(90)	10,198
December 31, 2016						
Financial assets ⁽²⁾	157,045	48,935	12,728	2,877	1,882	223,467
Amounts receivable with respect to financial derivatives ⁽³⁾	71,435	3,569	76,490	13,753	5,320	170,567
Financial liabilities ⁽²⁾	(134,532)	(40,185)	(29,860)	(7,376)	(2,671)	(214,624)
Amounts payable with respect to financial derivatives ⁽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 Non- linked	Israeli currency Linked to CPI	Israeli currency Dollar	Foreign currency ⁽¹⁾ Euro	Foreign currency ⁽¹⁾ Other	Foreign currency ⁽¹⁾ Total	Change in fair value NIS in millions	Change in fair value In %
September 30, 2017								
Change in interest rates:								
Concurrent immediate increase of 1%	1,121	9,371	(39)	(67)	(93)	10,293	95	0.9
Concurrent immediate increase of 0.1%	939	9,370	20	(31)	(90)	10,208	10	0.1
Concurrent immediate decrease of 1%	761	9,374	101	16	(87)	10,165	(33)	(0.3)
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 September 30, 2017, capital increase (erosion) (NIS in millions):

	Scenarios 10% increase	Scenarios 5% increase	Scenarios Decrease of 5%	Scenarios Decrease of 10%	Historical stress scenario ⁽¹⁾ Maximum increase	Historical stress scenario ⁽¹⁾ Maximum decrease
CPI	983.3	502.4	(563.2)	(1,126.4)	162.0	(86.9)
Dollar	(9.6)	(4.3)	5.1	14.2	(1.7)	1.3
Pound Sterling	(0.2)	(0.1)	0.1	0.4	0.0	0.2
Yen	0.8	0.1	(0.1)	(0.2)	0.1	(0.1)
Euro	(8.8)	2.3	2.4	12.1	1.3	0.5
Swiss Franc	(0.1)	0.0	0.0	(0.1)	(0.3)	(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

For more information about share price risk, see the Detailed Risks Report on the Bank website.

For 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 has defined a framework for management of operating risks, which includes a definition of corporate governance that specifies the roles and responsibilities of the lines of defense and the importance of deploying an appropriate operating risk management culture at the Bank.

The Bank actively handles operating risk in order 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 reduce expected loss due to operating risk.

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 - risk arising from failure of the Bank's IT systems as a result of deficient availability and performance of these systems, incorrect performance and lack of support by the systems for the Bank's business needs.

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 nine months 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". During the third quarter of 2017, a comprehensive internal audit on business continuity was successfully completed. As part of the annual plan for maintaining and exercising the business continuity plan, in the third quarter of 2017 the Bank continued to conduct exercises and technology tests: In addition, business continuity training courses were integrated into banking courses held at the Training Center, a process of strengthening control circles and writing complementary procedures for emergency work processes was initiated. These processes are supervised by the Business Continuity Steering Committee.

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 its

implementation, 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 2017, direct banking systems at the Bank include authentication processes and tools in conformity with Proper Banking Conduct Directive 367.

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

During the third quarter of the year, Bank Yahav received a demand for a ransom payment in return for the non-publication and sale of Bank Yahav customer data. Bank Yahav has informed the Bank of Israel and the National Cybercrime Authority of this matter and has contacted the Police Cybercrime Unit. Police operations resulted in arrest and indictment of a suspect. The Bank incurred no damage.

Information technology risk

In recent years, the risks associated with IT management have increased, due to development and deployment 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 could 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.

There were no deviations from the Board of Directors' limitations recorded in the first nine months 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 nine months 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's 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 be 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 (consolidated) liquidity coverage ratio for the third quarter of 2017 was 117%. As noted above, there were no deviations from limitations for this ratio recorded in the first nine months of 2017.

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

As of September 30, 2017, the balance of the three largest depositor groups at the Bank Group amounted to NIS 9.2 billion.

Soliciting sources and Bank liquidity status - In the first nine months 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 184.2 billion on September 30, 2017, an increase by 3.3%.

In the non-linked segment, total deposits from the public amounted to NIS 133.3 billion, an increase by 8.8% compared to end of 2016. In the CPI-linked sector, deposits from the public amounted to NIS 15.8 billion, a decrease by 7.4%, and in the foreign currency sector - to NIS 35.1 billion, a decrease by 9.1% compared to end of 2016.

Other risks

Compliance and regulatory risk

Risk description and development thereof

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 development thereof

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 impact 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"). This risk is also due to obligations stipulated by the Common Reporting Standard (CRS) issued by the OECD.

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

AML and terror financing 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 And financing terrorism-compliance with AML and terror financing provisions.

When opening an account and during normal business operations, the Bank acts to identify clients who may be exposed to giving / receiving / brokering bribes (public officials or persons related there to, clients operating with accounts of foreign public officials, clients operating in the defense industry or in arms trading and clients with significant operations with countries at risk with regard to bribery and corruption), to extend knowledge of their current / anticipated activity and to tagging them accordingly with AML monitoring codes. In appropriate cases, the Bank would also require certifications, policy documents and other supporting documents which would clarify the client policies and implementation, designed to avoid felonies of bribery and corruption. The Bank maintains a table of countries at risk with regard to bribery and corruption and acts to extend its knowledge of clients as stated above, with emphasis on their requirements for avoiding bribery and corruption and with regard to sensitive operations, such as payment of brokerage or consulting fees, use of safe deposit boxes and cash transactions in corporate or private accounts with no reasonable explanation or supporting documents.

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 extensively to implement the new directive by the required date.

AML risk remained unchanged in the first nine months of 2017. The increase in risk due to new regulations was offset by expansion of control processes, deployment and current operations at business units.

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

Reputation risk

Risk description and development thereof

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.

During the labor disruption at the Bank in the first half of August, the Bank continuously monitored the reputation benchmarks and the Reputation Committee held multiple special sessions.

During this period there was a non-significant decrease in image-related parameters among those aware of the dispute and in particular among Bank clients, with the general public's awareness of the dispute being not very high. Once the disruptions have ended, the parameters measured quickly recovered and returned to their high level.

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

Strategic risk

Risk description and development thereof

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 made in specific instances 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").

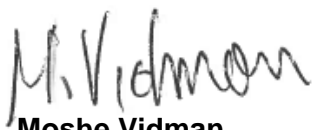
The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Regulations of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management 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 layout of the financial statements, made in 2016, in the first nine months 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 September 30, 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 September 30, 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 third 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.



Moshe Vidman

Chairman of the Board of Directors



Eldad Fresher

President & CEO

Approval date:

November 13, 2017

Ramat Gan

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 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

November 13, 2017

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 September 30, 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
November 13, 2017

(1) As defined in public reporting regulations with regard to "Report of the Board of Directors".

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 September 30, 2017, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the nine-month and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting principles 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 of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.29% of total consolidated assets as of September 30, 2017, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 9.41% and 10.68% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the nine-month and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an associated company treated according to the equity method, the investment in which amounted to NIS 19 million as of September 30, 2017. The condensed financial information for the interim periods 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

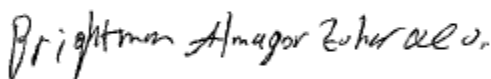
We have conducted our review in accordance with Review Standard no. 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to review of banking corporations 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 8.3, Note 10.B.2.(i) and Note 10.B.3.(a-d) with regard to contingent liabilities of the Bank, including lawsuits filed against the Bank and its subsidiary and 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.



Brightman Almagor Zohar & Co.

Member of Deloitte Touche Tohmatsu Limited

Certified Public Accountants

Tel Aviv,

November 13, 2017

Condensed Statements Financial

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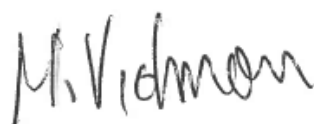
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Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended September 30, 2017 (unaudited)	For the three months ended September 30, 2016 (unaudited)	For the nine months ended September 30, 2017 (unaudited)	For the nine months ended September 30, 2016 (unaudited)	For the year ended December 31, 2016 (audited)
Interest revenues	2	1,300	1,601	4,571	4,057	5,311
Interest expenses	2	289	545	1,360	1,227	1,533
Interest revenues, net		1,011	1,056	3,211	2,830	3,778
Expenses with respect to credit losses	6,13	41	59	132	119	200
Interest revenues, net after expenses with respect to credit losses		970	997	3,079	2,711	3,578
Non-interest revenues						
Non-interest financing revenues	3	61	40	81	176	295
Commissions		346	360	1,056	1,077	1,433
Other revenues		28	20	52	120	134
Total non-interest revenues		435	420	1,189	1,373	1,862
Operating and other expenses						
Payroll and associated expenses		650	508	1,716	1,505	2,071
Maintenance and depreciation of buildings and equipment		187	177	554	522	693
Other expenses		135	130	402	403	535
Total operating and other expenses		972	815	2,672	2,430	3,299
Pre-tax profit		433	602	1,596	1,654	2,141
Provision for taxes on profit		161	218	584	621	833
After-tax profit		272	384	1,012	1,033	1,308
Share in profits of associated companies, after tax effect		-	1	-	1	-
Net profit:						
Before attribution to non-controlling interests		272	385	1,012	1,034	1,308
Attributable to non-controlling interests		(11)	(12)	(30)	(33)	(42)
Attributable to shareholders of the Bank		261	373	982	1,001	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:
November 13, 2017
Ramat Gan

Condensed consolidated statement of profit and loss - Continued

(Reported amounts)

	For the three months ended September 30, 2017 (unaudited)	For the three months ended September 30, 2016 (unaudited)	For the nine months ended September 30, 2017 (unaudited)	For the nine months ended September 30, 2016 (unaudited)	For the year ended December 31, 2016 (audited)
Earnings per share⁽¹⁾					
Basic earnings per share (in NIS)					
Net profit attributable to shareholders of the Bank	1.12	1.61	4.23	4.32	5.46
Diluted earnings per share (in NIS)					
Net profit attributable to shareholders of the Bank	1.11	1.61	4.20	4.32	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)

	For the three months ended September 30, 2017 (unaudited)	For the three months ended September 30, 2016 (unaudited)	For the nine months ended September 30, 2017 (unaudited)	For the nine months ended September 30, 2016 (unaudited)	For the year ended December 31, 2016 (audited)
Net profit:					
Before attribution to non-controlling interests	272	385	1,012	1,034	1,308
Attributable to non-controlling interests	(11)	(12)	(30)	(33)	(42)
Net profit attributable to shareholders of the Bank	261	373	982	1,001	1,266
Other comprehensive income (loss) before taxes					
Adjustments for presentation of available-for-sale securities at fair value, net	5	11	49	43	(26)
Adjustments from translation of financial statements of investments in associated companies ⁽¹⁾	(1)	-	(2)	-	1
Net gains (losses) with respect to cash flows hedging	-	2	-	(5)	(9)
Adjustment of liabilities with respect to employee benefits ⁽²⁾	⁽⁴⁾ (47)	12	⁽⁴⁾ (139)	(33)	⁽³⁾ (294)
Total other comprehensive income (loss), before tax	(43)	25	(92)	5	(328)
Related tax effect	17	(8)	32	(4)	108
Other comprehensive income (loss) after taxes⁽⁵⁾					
Other comprehensive income (loss), before attribution to non-controlling interest	(26)	17	(60)	1	⁽³⁾ (220)
Less other comprehensive income (loss) attributable to non-controlling interest	1	(1)	13	1	-
Other comprehensive income (loss) attributable to equity holders of the Bank, after taxes	(25)	16	(47)	2	(220)
Comprehensive income:					
Before attribution to non-controlling interests	246	402	952	1,035	1,088
Attributable to non-controlling interests	(10)	(13)	(17)	(32)	(42)
Comprehensive income attributable to shareholders of the Bank	236	389	935	1,003	1,046

(1) Adjustments from translation of financial statements of associated companies.

(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 program, amounting to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity.

(4) Includes : The effect of update to cost of salary assumption and update to the remuneration increase rate in the second quarter of 2017, on the actuarial liability in respect of employee rights at the Bank, amounting to NIS 69 million, net of taxes, as well as the effect of the streamlining plan at Bank Yahav on Bank shareholders' equity amounting to NIS 11 million. See Note 8 to the financial statements for additional information.

(5) 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)

	Note	As of September 30, 2017 (unaudited)	As of September 30, 2016 (unaudited)	As of December 31 2016 (audited)
Assets				
Cash and deposits with banks		42,578	40,753	41,725
Securities ⁽¹⁾⁽²⁾	5	10,938	9,407	10,262
Securities loaned or acquired in resale agreements		2	16	9
Loans to the public	6,13	180,086	170,024	172,779
Provision for credit losses	6,13	(1,465)	(1,404)	(1,438)
Loans to the public, net		178,621	168,620	171,341
Loans to Governments		426	353	330
Investments in associated companies		33	34	34
Buildings and equipment		1,359	1,537	1,585
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	11	3,808	3,267	3,584
Other assets		1,726	1,446	1,498
Total assets		239,578	225,520	230,455
Liabilities and Equity				
Deposits from the public	7	184,221	173,748	178,252
Deposits from banks		1,462	1,255	1,537
Deposits from the Government		60	53	50
Debentures and subordinated notes		29,129	27,253	27,034
Liabilities with respect to derivatives	11	3,293	3,520	3,566
Other liabilities ⁽³⁾		7,387	6,365	6,692
Total liabilities		225,552	212,194	217,131
Shareholders' equity attributable to shareholders of the Bank		13,399	12,726	12,714
Non-controlling interest		627	600	610
Total equity		14,026	13,326	13,324
Total liabilities and equity		239,578	225,520	230,455

(1) Of which: NIS 7,594 million at fair value on consolidated basis (September 30, 2016 - NIS 6,083 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 96 million (on September 30, 2016 - NIS 116 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 September 30, 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	Cumulative other comprehensive income (loss) ⁽³⁾	Retained earnings ⁽⁴⁾	Total shareholder equity	Non-controlling interest	Total equity
Balance as of June 30, 2017	2,249	48	(76)	2,221	(339)	11,394	13,276	617	13,893
Net income for the period	-	-	-	-	-	261	261	11	272
Dividends paid	-	-	-	-	-	(120)	(120)	-	(120)
Benefit from share-based payment transactions	-	7	-	7	-	-	7	-	7
Related tax effect	-	-	-	-	-	-	-	-	-
Realization of share-based payment transactions ⁽²⁾	3	(3)	-	-	-	-	-	-	-
Cancellation of treasury shares ⁽⁵⁾	(76)	-	76	-	-	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-	(25)	-	(25)	(1)	(26)
Balance as of September 30, 2017	2,176	52	-	2,228	(364)	11,535	13,399	627	14,026

For the three months ended September 30, 2016 (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	Cumulative other comprehensive income (loss) ⁽³⁾	Retained earnings ⁽⁴⁾	Total shareholder equity	Non-controlling interest	Total equity
Balance as of June 30, 2016	2,224	68	(76)	2,216	(111)	10,279	12,384	587	12,971
Net income for the period	-	-	-	-	-	373	373	12	385
Dividends paid	-	-	-	-	-	(51)	(51)	-	(51)
Benefit from share-based payment transactions	-	4	-	4	-	-	4	-	4
Related tax effect	-	-	-	-	-	-	-	-	-
Realization of share-based payment transactions ⁽²⁾	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-	16	-	16	1	17
Balance as of September 30, 2016	2,224	72	(76)	2,220	-	-	-	-	-

- (1) Share premium generated prior to March 31, 1986.
- (2) In the third quarter of 2017, the Bank issued 123,844 ordinary NIS 0.1 par value shares for exercise of options pursuant to the Employee Stock Option Plan (in the third quarter of 2016, the Bank issued 1,028 ordinary NIS 0.1 par value shares to the Bank President & CEO, for exercise of options pursuant to the Employee Stock Option Plan).
- (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 September 18, 2017, the Board of Directors of the Bank decided to cancel 2.5 million shares of NIS 0.1 par value each of the Bank's issued share capital acquired by the Bank which constitute dormant shares that do not confer any rights in the Bank. Accordingly, on September 25, 2017, the dormant shares were canceled in the Bank's records.
- (6) On November 13, 2017, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 78 million, or 30% of earnings in the third quarter of 2017. According to accounting rules, this amount will be deducted from retained earnings in the fourth quarter of 2017.

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

Condensed Statement of Changes in Shareholders' Equity - Continued

For the nine months ended September 30, 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	Cumulative other comprehensive income (loss) ⁽³⁾	Retained earnings ⁽⁴⁾	Total shareholder equity	Non-controlling interest	Total equity
Balance as of December 31, 2016	2,239	58	(76)	2,221	(317)	10,810	12,714	610	13,324
Net income for the period	-	-	-	-	-	982	982	30	1,012
Dividends paid ⁽⁵⁾	-	-	-	-	-	(256)	(256)	-	(256)
Benefit from share-based payment transactions	-	6	-	6	-	-	6	-	6
Related tax effect	-	-	-	-	-	-	-	-	-
Realization of share-based payment transactions ⁽²⁾	13	(13)	-	-	-	-	-	-	-
Cancellation of treasury shares ⁽⁸⁾	(76)	-	76	-	-	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-	⁽⁶⁾ (47)	-	(47)	(13)	(60)
Balance as of September 30, 2017	2,176	51	-	2,227	(364)	11,536	13,399	627	14,026

For the nine months ended September 30, 2016 (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	Cumulative other comprehensive income (loss) ⁽³⁾	Retained earnings ⁽⁴⁾	Total shareholder equity	Non-controlling interest	Total equity
Balance as of December 31, 2015	2,222	68	(76)	2,214	(97)	9,730	11,847	568	12,415
Net income for the period	-	-	-	-	-	1,001	1,001	33	1,034
Dividends paid	-	-	-	-	-	(130)	(130)	-	(130)
Benefit from share-based payment transactions	-	7	-	7	-	-	7	-	7
Related tax effect	-	(1)	-	(1)	-	-	(1)	-	(1)
Realization of share-based payment transactions ⁽²⁾	2	(2)	-	-	-	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-	2	-	2	(1)	1
Balance as of September 30, 2016	2,224	72	(76)	2,220	(95)	10,601	12,726	600	13,326

For the year ended December 31, 2016 (audited)

	Share capital and premium ⁽¹⁾	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss) ⁽³⁾	Retained earnings ⁽⁴⁾	Total shareholder equity	Non-controlling interest	Total equity
Balance as of December 31, 2015	2,222	68	(76)	2,214	(97)	9,730	11,847	568	12,415
Net income for the period	-	-	-	-	-	1,266	1,266	42	1,308
Dividends paid	-	-	-	-	-	(186)	(186)	-	(186)
Benefit from share-based payment transactions	-	8	-	8	-	-	8	-	8
Related tax effect	-	(1)	-	(1)	-	-	(1)	-	(1)
Realization of share-based payment transactions ⁽²⁾	17	(17)	-	-	-	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-	⁽⁷⁾ (220)	-	(220)	-	(220)
Balance as of December 31, 2016	2,239	58	(76)	2,221	(317)	10,810	12,714	610	13,324

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

(2) In the first nine months of 2017, the Bank issued 419,484 ordinary NIS 0.1 par value shares (in the first nine months of 2016, the Bank issued 46,091 ordinary NIS 0.1 par value shares) for exercise of options pursuant to the Employee Stock Option Plan. The Bank also issued 9,137 ordinary NIS 0.1 par value shares to the Bank President & CEO (in the first nine months of 2016, the Bank issued 31,065 ordinary NIS 0.1 par value shares to the Bank President & CEO).

In 2016, the Bank issued 157,119 ordinary NIS 0.1 par value shares for exercise of options pursuant to the Employee Stock Option Plan, and issued 31,065 ordinary NIS 0.1 par value shares to the Bank President & CEO.

(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 November 13, 2017, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 78 million, or 30% of earnings in the third quarter of 2017. According to accounting rules, this amount will be deducted from retained earnings in the fourth quarter of 2017.

(6) Includes : The effect of update to cost of salary assumption and update to the remuneration increase rate in the second quarter of 2017, on the actuarial liability in respect of employee rights at the Bank, amounting to NIS 69 million, net of taxes, as well as the effect of the streamlining plan at Bank Yahav on Bank shareholders' equity amounting to NIS 11 million. See Note 8 to the financial statements for additional information.

(7) Includes cost of revision of actuarial liability, amounting to NIS 286 million, with respect to employee retirement program. See also Notes 22 and 25 to the financial statements as of December 31, 2016.

(8) On September 18, 2017, the Board of Directors of the Bank decided to cancel 2.5 million shares of NIS 0.1 par value each of the Bank's issued share capital acquired by the Bank which constitute dormant shares that do not confer any rights in the Bank. Accordingly, on September 25, 2017, the dormant shares were canceled in the Bank's records.

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

Condensed statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended September 30, 2017 (unaudited)	For the three months ended September 30, 2016 (unaudited)	For the nine months ended September 30, 2017 (unaudited)	For the nine months ended September 30, 2016 (unaudited)	For the year ended December 31, 2016 (audited)
Cash flows provided by current operations					
Net profit	272	385	1,012	1,034	1,308
Adjustments					
Share of the Bank in undistributed earnings of associated companies	-	(1)	-	(1)	-
Depreciation of buildings and equipment	65	53	187	162	223
Expenses with respect to credit losses	41	59	132	119	200
Gain from sale of securities available for sale	(22)	(9)	(47)	(61)	(61)
Realized and unrealized gain from adjustment to fair value of securities held for trading	1	(11)	-	(13)	(14)
Gain from sale of buildings and equipment	(21)	(9)	(21)	(87)	(92)
Expenses arising from share-based payment transactions	7	4	6	7	8
Deferred taxes, net	18	(24)	(36)	(22)	(3)
Change in employee provisions and liabilities	15	(1)	21	16	4
Effect of changes in exchange rate on cash balances	(42)	179	75	244	195
Proceeds from sale of loan portfolios	-	1	(1)	(45)	(45)
Net change in current assets					
Deposits with banks	(459)	37	(405)	(435)	(50)
Loans to the public	(2,020)	(4,002)	(8,397)	(11,864)	(14,670)
Loans to Governments	(114)	10	(96)	(37)	(14)
Securities loaned or acquired in resale agreements	4	30	7	55	62
Assets with respect to derivatives	576	195	(224)	255	(66)
Securities held for trade	(32)	1	168	5	(112)
Other assets, net	335	51	(91)	624	613
Net change in current liabilities					
Deposits from banks	8	72	(75)	89	371
Deposits from the public	3,541	4,127	5,969	11,368	15,872
Deposits from the Government	3	-	10	(5)	(8)
Liabilities with respect to derivatives	(800)	(267)	(273)	(114)	(68)
Other liabilities	282	555	373	505	576
Accrual differences included with investment and financing operations	(28)	71	(43)	(112)	110
Net cash provided by current operations	1,630	1,506	(1,749)	1,687	4,339

Condensed statement of cash flows - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30, 2017 (unaudited)	For the three months ended September 30, 2016 (unaudited)	For the nine months ended September 30, 2017 (unaudited)	For the nine months ended September 30, 2016 (unaudited)	For the year ended December 31, 2016 (audited)
Cash flows provided by investment activities					
Acquisition of debentures held to maturity	-	-	(111)	-	-
Acquisition of securities available for sale	(1,499)	(1,263)	(4,323)	(4,785)	(6,902)
Proceeds from sale of securities available for sale	1,209	331	3,236	7,084	7,546
Proceeds from redemption of securities available for sale	-	-	404	189	1,083
Proceeds from sale of loan portfolios	535	812	1,453	2,342	2,662
Purchase of loan portfolios	(55)	-	(453)	-	(265)
Acquisition of buildings and equipment	(48)	(45)	(141)	(138)	(245)
Proceeds from sale of buildings and equipment	3	16	281	116	125
Proceeds from realized investment in associates	-	2	-	3	2
Net cash provided by investment activities	145	(147)	346	4,811	4,006
Cash flows provided by financing activities					
Issuance of debentures and subordinated notes	3,527	3,235	6,230	6,539	6,318
Redemption of debentures and subordinated notes	(2,251)	(416)	(4,048)	(2,834)	(3,096)
Dividends paid to shareholders	(120)	(51)	(256)	(130)	(186)
Net cash provided by financing activities	1,156	2,768	1,926	3,575	3,036
Increase (decrease) in cash	2,931	4,127	523	10,073	11,381
Cash balance at beginning of year	38,970	36,190	41,495	30,309	30,309
Effect of changes in exchange rate on cash balances	42	(179)	(75)	(244)	(195)
Cash balance at end of year	41,943	40,138	41,943	40,138	41,495
Interest and taxes paid / received					
Interest received	1,434	1,546	4,835	3,810	5,204
Interest paid	601	555	1,445	1,455	1,676
Dividends received	5	10	11	13	35
Income taxes received	-	6	64	81	81
Income taxes paid	163	156	438	516	800
Appendix A - Non-cash Transactions					
Acquisition of buildings and equipment	3	7	3	7	13
Sale of buildings and equipment	32	-	32	-	-

Note 1 - Reporting Principles and Accounting Policies

A. Overview

On November 13, 2017, the Bank Board of Directors authorized publication of these condensed financial statements as of September 30, 2017.

The condensed financial statements 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 01, 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
3. Updates to standards concerning share-based payment.
4. Update to Q&A file concerning implementation of Public Reporting Regulations with regard to impaired debt, credit risk and provision for credit losses - as from July 1, 2017.
5. Relief with regard to capital adequacy with respect to implementation of a real estate streamlining program. For more information about directives by the Supervisor of Banks with regard to the Bank's contracting the sale and lease-back of interest in the headquarters building in Ramat Gan in the second quarter of 2017, see Note 9 "Capital adequacy, liquidity and leverage".

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".

Note 1 - Reporting Principles and Accounting Policies - continued

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 740-10-50-15d and section 740-10-50-15A of the codification.

The provisions listed in the circular would apply as from January 01, 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.

The following are the major changes due to implementation of the directives and clarifications in the memo:

- 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.

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 apply as from January 1, 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.

3. Updates to standards concerning share-based payment

On March 30, 2016, the US Financial Accounting Standards Board ("FASB") issued update 2016-09, which is a revision of ASC 718 concerning "Share-based Payment" (hereinafter: "the Amendment").

Note 1 - Reporting Principles and Accounting Policies - continued

According to the revision:

- All tax effects associated with share-based payment transactions should be recognized upon discharge (or expiration) through profit and loss. Prior to the Revision, excess tax benefits in excess of the expense recognized on the statement of profit and loss (known as "windfall") would be recognized in equity and any tax benefit shortfalls lower than the expense recognized on the statement of profit and loss (known as "shortfall") would be recognized in equity, up to elimination of any previous balances from excess tax benefits. In absence of such windfall, any shortfall would be recognized on the statement of profit and loss. The Revision is expected to increase volatility in income tax expenses.
This change should be applied prospectively.
- Excess tax benefits would be recognized when they occur, unlike the current provisions of US GAAP, whereby recognition of these tax benefits was postponed until such date when they would have reduced taxable income. This change will be applied retroactively and the cumulative effect would be charged to the opening balance of retained earnings.
- All cash flows associated with taxes with respect to share-based payment are classified under current operations on the statement of cash flows.
- Regarding the effect of forfeitures on recognition of expenses in respect of share-based payment awards, the Bank recognizes the effect of these forfeitures only when they occur. In accordance with provisions of the Standard, an alternative policy of estimating such forfeitures may be chosen. Any change in accounting policy on this matter would be applied retroactively with the cumulative effect charged to the opening balance of retained earnings.

These revised standard came into effect on January 1, 2017.

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

4. 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 Regulations with regard to impaired debts, credit risk and provision for credit losses

The file includes clarifications with regard to definition of primary repayment source, with regard to classification of problematic debt and clarification of the treatment of leveraged loans. The key 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, refinancing and equity issuance. Clarification was given whereby debt refinancing, 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 a problematic loan.
 - A low ratio of debt to company valuation is not sufficient for avoiding classification as a problematic 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 apply as from July 1, 2017.

Application of these clarifications to Q&A does not materially impact the 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".
- US GAAP with regard to topic 835-20 of the codification "Interest capitalization".
- US GAAP with regard to topic 460 of the codification "Guarantees".

The provisions stipulated by the circular would apply as from January 01, 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. Share-based payment

In May 2017, the US Financial Accounting Standards Board ("FASB") issued Revision 2017-09, amending topic 718 of the codification with regard to the scope of changes to terms (hereinafter: "the Amendment").

The revision is designed to clarify when it is required to treat changes to terms of share-based payment award as a modification.

Note 1 - Reporting Principles and Accounting Policies - continued

According to the revision, modification accounting should be applied with respect to changes to the plan, unless the fair value, vesting conditions or classification of the award (as capital or liability award) are the same before and after the modification.

However, companies should continue to apply modification accounting for changes made due to:

- Laws or regulations; or
- New standards with regard to: Revenue recognition, leases or credit losses.

Furthermore, disclosures are still required for significant changes to terms of a share-based payment award as well as assessment of tax implications, even if such change does not result in modification accounting being applied.

These changes will apply as from December 15, 2017.

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

4. Limit on sector indebtedness

On July 10, 2017, the Supervisor of Banks published a memo regarding sector indebtedness limit, including changes to Proper Banking Conduct Directives 314 and 315.

The major changes to Proper Banking Conduct Directives according to this memo are as follows:

- Setting a category of sector indebtedness limit, whereby indebtedness for a specific sector may not exceed 20% of total indebtedness to the public and, in some cases, not to exceed 22%.
- The additional provision and general provision mechanism has been rescinded.
- When setting the provision for credit losses, the risk with respect to credit for which no current financial statements are available should be weighted.

These changes will apply as from January 1, 2018.

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

5. Derivatives and hedge accounting

In August 2017, the US Financial Accounting Standards Board ("FASB") published revision 2017-12 regarding focused improvements to the accounting treatment of hedge transactions, which constitutes an amendment to Section 815 of the Codification of Derivatives and Hedge Accounting (hereinafter: "the Amendment").

The Revision updates the presentation and disclosure requirements as well as the manner in which hedge effectiveness is assessed. Furthermore, the Revision expands the ability of companies to hedge financial and non-financial risk components, so that more hedges may qualify for hedge accounting.

Moreover, the Revision is designed to more closely align the implementation of hedge accounting with enterprise risks management strategies, to simplify the application of hedge accounting and to increase transparency with regard to the scope and results of hedging programs.

The provisions will apply to public entities in the United States from December 15, 2018 onwards. Earlier application is permitted.

The Bank is reviewing the effect of the Revision on its financial statements, if any.

Note 1 - Reporting Principles and Accounting Policies - continued

6. Updated standards regarding impairment of goodwill

In January 2017, the US Financial Accounting Standards Board ("FASB") issued amendment 2017-04 which is a revision of ASC 350 concerning "Intangible assets - Goodwill and other" (hereinafter: "the Amendment").

According to the Amendment, application of the two-stage test for impairment of goodwill is not required, i.e. it is not necessary to calculate the fair value of goodwill. According to the Amendment, a two-stage test should be applied for each reporting unit, whereby impairment of goodwill is to be recognized in the amount of the difference between the fair value of the reported unit and its carrying amount, until the amount of goodwill allocated to the unit equals zero.

Furthermore, when measuring the impairment loss, the effect of taxes on income due to goodwill that is deductible, on the carrying amount of the reporting unit, if applicable.

Furthermore, disclosure should be made of the amount of goodwill allocated to each reporting unit for which the carrying amount of net assets is zero or negative.

The provisions will apply to public entities in the United States from December 15, 2019 onwards. Earlier application is permitted.

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

Note 2 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended September 30, 2017 (unaudited)	For the three months ended September 30, 2016 (unaudited)	For the nine months ended September 30, 2017 (unaudited)	For the nine months ended September 30, 2016 (unaudited)	For the year ended December 31, 2016 (audited)
A. Interest revenues⁽¹⁾					
From loans to the public	1,235	1,556	4,390	3,938	5,157
From loans to Governments	3	2	9	8	10
From deposits with the Bank of Israel and from cash	22	13	56	34	46
From deposits with banks	6	2	11	4	5
From securities loaned or acquired in resale agreements	-	-	-	-	-
From debentures	34	28	105	73	93
Total interest revenues	1,300	1,601	4,571	4,057	5,311
B. Interest expenses					
On deposits from the public	233	349	909	829	1,045
On deposits from governments	-	-	-	1	2
On deposits from banks	3	4	9	8	12
On debentures and subordinated notes	53	191	440	387	472
On other liabilities	-	1	2	2	2
Total interest expenses	289	545	1,360	1,227	1,533
Total interest revenues, net	1,011	1,056	3,211	2,830	3,778
C. Details of net effect of hedging derivatives on interest revenues					
	2	3	(6)	(49)	(24)
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	12	10	34	31	40
Available for sale	21	16	68	36	49
Held for trading	1	2	3	6	4
Total included under interest revenues	34	28	105	73	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 September 30, 2017 (unaudited)	For the three months ended September 30, 2016 (unaudited)	For the nine months ended September 30, 2017 (unaudited)	For the nine months ended September 30, 2016 (unaudited)	For the year ended December 31, 2016 (audited)
A. Non-interest financing revenues (expenses) with respect to non-trade operations					
1. From activity in derivatives					
Non-effective element of hedging ratios ⁽¹⁾	-	-	-	3	8
Net revenues (expenses) with respect to ALM derivatives ⁽²⁾	312	(308)	(898)	⁽³⁾ (345)	⁽³⁾ (181)
Total from activity in derivatives	312	(308)	(898)	(342)	(173)
2. From investment in debentures					
Gains on sale of debentures available for sale	17	9	41	61	58
Total from investment in debentures	17	9	41	61	58
3. Exchange rate differences, net	(279)	329	914	412	364
4. Gain from investment in shares					
Gains on sale of available-for-sale shares	5	-	6	-	3
Dividends from available-for-sale shares	-	-	5	3	3
Total from investment in shares	5	-	11	3	6
5. Net gain with respect to loans sold	-	(1)	1	45	45
Total non-interest financing revenues with respect to non-trade operations	55	29	69	179	300

Note 3 - Non-interest financing revenues - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30, 2017 (unaudited)	For the three months ended September 30, 2016 (unaudited)	For the nine months ended September 30, 2017 (unaudited)	For the nine months ended September 30, 2016 ⁽³⁾ (unaudited)	For the year ended December 31, 2016 ⁽³⁾ (audited)
B. Non-interest financing revenues (expenses) with respect to trading operations⁽¹⁾					
Net revenues (expenses) with respect to other derivatives	7	-	12	(16)	(19)
Realized gains (losses) from adjustment to fair value of debentures held for trade, net	(1)	1	-	5	(1)
Unrealized gains (losses) from adjustment to fair value of debentures held for trade, net	-	10	-	8	15
Total from trading operations⁽²⁾	6	11	12	(3)	(5)
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	-	1	2	-	(3)
Foreign currency exposure	3	13	8	1	2
Exposure to shares	1	1	2	2	1
Exposure to commodities and others	2	(4)	-	(6)	(5)
Total	6	11	12	(3)	(5)

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

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

(3) Reclassified.

For the year ended December 31, 2016 (audited)

	Other comprehensive income (loss), before attribution to non-controlling interest	Other comprehensive income (loss), before attribution to non-controlling interest	Other comprehensive income (loss), before attribution to non-controlling interest	Other comprehensive income (loss), before attribution to non-controlling interest	Other comprehensive income (loss), before attribution to non-controlling interest	Other comprehensive income (loss), before attribution to non-controlling interest	Other comprehensive income (loss), before attribution to non-controlling interest	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			
Balance as of December 31, 2015	(12)	-	14	(104)	(102)	(5)	(97)	
Net change in the period	(17)	1	(5)	⁽²⁾ (199)	(220)	-	(220)	
Balance as of December 31, 2016	(29)	1	9	(303)	(322)	(5)	(317)	

- (1) Foreign currency translation adjustments 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 program, amounting to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to shareholders' equity.
- (3) Includes: The effect of update to cost of salary assumption and update to the remuneration increase rate in the second quarter of 2017, on the actuarial liability in respect of employee rights at the Bank, amounting to NIS 69 million, net of taxes, as well as the effect of the streamlining plan at Bank Yahav on Bank shareholders' equity amounting to NIS 11 million. See Note 8 to the financial statements for additional information.

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 September 30 2017 Before tax	For the three months ended September 30 2017 Tax effect	For the three months ended September 30 2017 After tax	For the three months ended September 30 2016 Before tax	For the three months ended September 30 2016 Tax effect	For the three months ended September 30 2016 After tax	For the nine months ended September 30 2017 Before tax	For the nine months ended September 30 2017 Tax effect	For the nine months ended September 30 2017 After tax	For the nine months ended September 30 2016 Before tax	For the nine months ended September 30 2016 Tax effect	For the nine months ended September 30 2016 After tax	For the year ended December 31, 2016 Before tax	For the year ended December 31, 2016 Tax effect	For the year ended December 31, 2016 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	22	(6)	16	43	(15)	28	90	(31)	59	161	(58)	103	32	(11)	21
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss ⁽¹⁾	(17)	6	(11)	(32)	11	(21)	(41)	14	(27)	(118)	42	(76)	(58)	20	(38)
Net change in the period	5	-	5	11	(4)	7	49	(17)	32	43	(16)	27	(26)	9	(17)
Translation adjustments															
Adjustments from translation of financial statements ⁽²⁾	(1)	-	(1)	-	-	-	(2)	-	(2)	-	-	-	1	-	1
Net change in the period	(1)	-	(1)	-	-	-	(2)	-	(2)	-	-	-	1	-	1
Cash flows hedges															
Net gains (losses) with respect to cash flows hedging	-	-	-	2	-	2	-	-	-	(5)	2	(3)	(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	-	-	-	2	-	2	-	-	-	(5)	2	(3)	(9)	4	(5)

	For the three months ended September 30 2017	For the three months ended September 30 2017	For the three months ended September 30 2017	For the three months ended September 30 2016	For the three months ended September 30 2016	For the three months ended September 30 2016	For the nine months ended September 30 2017	For the nine months ended September 30 2017	For the nine months ended September 30 2017	For the nine months ended September 30 2016	For the nine months ended September 30 2016	For the nine months ended September 30 2016	For the year ended December 31, 2016	For the year ended December 31, 2016	For the year ended December 31, 2016
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Employee benefits															
Net actuarial gain (loss) for the period	(50)	18	(32)	9	(4)	5	(147)	52	⁽⁵⁾ (95)	(40)	10	(30)	⁽⁴⁾ (303)	98	(205)
Net losses reclassified to the statement of profit and loss	3	(1)	2	3	-	3	8	(3)	5	7	-	7	9	(3)	6
Net change in the period	(47)	17	(30)	12	(4)	8	(139)	49	(90)	(33)	10	(23)	(294)	95	(199)
Total net change in the period	(43)	17	(26)	25	(8)	17	(92)	32	(60)	5	(4)	1	(328)	108	(220)
Total net change in the period attributable to non-controlling interests	1	-	1	(1)	-	(1)	18	(5)	13	2	(1)	1	-	-	-
Total net change in the period attributable to shareholders of the Bank	(42)	17	(25)	24	(8)	16	(74)	27	(47)	7	(5)	2	(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 adjustments 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 program, amounting to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to shareholders' equity.

(5) Includes: The effect of update to cost of salary assumption and update to the remuneration increase rate in the second quarter of 2017, on the actuarial liability in respect of employee rights at the Bank, amounting to NIS 69 million, net of taxes, as well as the effect of the streamlining plan at Bank Yahav on Bank shareholders' equity amounting to NIS 11 million. See Note 8 to the financial statements for additional information.

Note 5 - Securities

As of September 30, 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	3,255	3,255	82	-	3,337
Total debentures held to maturity	3,255	3,255	82	-	3,337

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income Gains	Cumulative other comprehensive income Losses	Fair value ⁽¹⁾
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel ⁽²⁾	4,415	4,385	39	(9)	4,415
Of foreign governments ⁽²⁾⁽⁵⁾	2,961	2,985	-	(24)	2,961
Of foreign financial institutions	18	18	-	-	18
Of others overseas	17	18	-	(1)	17
Total debentures available for sale	7,411	7,406	39	(34)	7,411
Shares ⁽³⁾	92	92	-	-	92
Total securities available for sale	7,503	7,498	⁽⁴⁾ 39	⁽⁴⁾ (34)	7,503

	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	180	180	-	-	180
Total securities held for trade	180	180	-	-	180
Total securities	10,938	10,933	121	(34)	11,020

- (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 405 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 89 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
As of September 30, 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	3,225	3,225	90	-	3,315
Total debentures held to maturity	3,225	3,225	90	-	3,315

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income Gains	Cumulative other comprehensive income Losses	Fair value ⁽¹⁾
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel ⁽²⁾	4,791	4,767	39	(15)	4,791
Of foreign governments ⁽²⁾⁽⁵⁾	1,021	1,018	3	-	1,021
Of foreign financial institutions	19	19	-	-	19
Of others overseas	19	19	-	-	19
Total debentures available for sale	5,850	5,823	42	(15)	5,850
Shares ⁽³⁾	102	102	-	-	102
Total securities available for sale	5,952	5,925	(4)42	(4)(15)	5,952

	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	230	230	-	-	230
Total securities held for trade	230	230	-	-	230
Total securities	9,407	9,380	132	(15)	9,497

(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 469 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 99 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

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 Gains	Cumulative other comprehensive income Losses	Fair value ⁽¹⁾
(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⁾⁽⁶⁾	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	(5)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) Charged to statement of profit and loss but not yet realized.

(6) 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 September 30, 2017

	Less than 12 months Fair value ⁽¹⁾	Less than 12 months Unrealized losses 0%-20%	Less than 12 months Unrealized losses 20%-40%	Less than 12 months Total	12 months or more Fair value ⁽¹⁾	12 months or more Unrealized losses 0%-20%	12 months or more Unrealized losses 20%-40%	12 months or more Total
Debentures -								
of Government of Israel	1,297	9	-	9	-	-	-	-
Of foreign governments	1,056	24	-	24	-	-	-	-
Of others overseas	-	-	-	-	10	1	-	1
Total securities available for sale	2,353	33	-	33	10	1	-	1

As of September 30, 2016

	Less than 12 months Fair value ⁽¹⁾	Less than 12 months Unrealized losses 0%-20%	Less than 12 months Unrealized losses 20%-40%	Less than 12 months Total	12 months or more Fair value ⁽¹⁾	12 months or more Unrealized losses 0%-20%	12 months or more Unrealized losses 20%-40%	12 months or more Total
Debentures -								
of Government of Israel	392	2	-	2	332	13	-	13
Total securities available for sale	392	2	-	2	332	13	-	13

As of December 31, 2016

	Less than 12 months Fair value ⁽¹⁾	Less than 12 months Unrealized losses 0%-20%	Less than 12 months Unrealized losses 20%-40%	Less than 12 months Total	12 months or more Fair value ⁽¹⁾	12 months or more Unrealized losses 0%-20%	12 months or more Unrealized losses 20%-40%	12 months or more Total
Debentures -								
of Government of Israel	3,971	34	-	34	184	1	-	1
Of foreign governments	1,245	40	-	40	-	-	-	-
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 September 30, 2017, September 30, 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

September 30, 2017						
	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
Recorded debt balance of debts ⁽¹⁾						
reviewed on individual basis	32,085	41	794	32,920	2,822	35,742
reviewed on group basis	9,593	119,629	17,944	147,166	-	147,166
Of which: By extent of arrears ⁽³⁾	1,178	118,870	-	120,048	-	120,048
Total debts	41,678	(2)119,670	18,738	180,086	2,822	182,908
Of which:						
Impaired debts under restructuring	91	-	50	141	-	141
Other impaired debts	433	41	24	498	-	498
Total impaired debts	524	41	74	639	-	639
Debts in arrears 90 days or longer	65	1,024	25	1,114	-	1,114
Other problematic debts	739	-	125	864	-	864
Total problematic debts	1,328	1,065	224	2,617	-	2,617
Provision for credit losses with respect to debts ⁽¹⁾						
reviewed on individual basis	483	4	25	512	2	514
reviewed on group basis	127	621	205	953	-	953
Of which: Provision by extent of arrears ⁽³⁾	5	621	-	626	-	626
Total provision for credit losses	610	625	230	1,465	2	1,467
Of which: With respect to impaired debts	102	4	14	120	-	120
September 30, 2016						
	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
Recorded debt balance of debts ⁽¹⁾						
reviewed on individual basis	29,480	22	726	30,228	4,504	34,732
reviewed on group basis	(4)9,979	113,174	(4)16,643	139,796	-	139,796
Of which: By extent of arrears ⁽³⁾	1,178	112,599	-	113,777	-	113,777
Total debts	39,459	(2)113,196	17,369	170,024	4,504	174,528
Of which:						
Impaired debts under restructuring	109	-	51	160	-	160
Other impaired debts	479	22	22	523	-	523
Total impaired debts	588	22	73	683	-	683
Debts in arrears 90 days or longer	59	827	23	909	-	909
Other problematic debts	472	-	87	559	-	559
Total problematic debts	1,119	849	183	2,151	-	2,151
Provision for credit losses with respect to debts ⁽¹⁾						
reviewed on individual basis	505	1	21	527	1	528
reviewed on group basis	88	610	179	877	-	877
Of which: Provision by extent of arrears ⁽³⁾	5	610	-	615	-	615
Total provision for credit losses	593	611	200	1,404	1	1,405
Of which: With respect to impaired debts	99	1	11	111	-	111

(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 6,085 million (as of September 30, 2016 - NIS 5,652 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 418 million (as of September 30, 2016: NIS 394 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 debts ⁽¹⁾						
reviewed on individual basis	29,972	27	725	30,724	2,839	33,563
reviewed on group basis	⁽⁴⁾ 9,982	114,959	⁽⁴⁾ 17,114	142,055	-	142,055
Of which: By extent of arrears ⁽³⁾	1,243	114,373	-	115,616	-	115,616
Total debts	39,954	⁽²⁾ 114,986	17,839	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.

(4) Reclassified.

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

B. Change in balance of provision for credit losses

For the three months ended September 30, 2017

	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
Balance of provision for credit losses at start of period	695	621	237	1,553	2	1,555
Expenses with respect to credit losses	2	6	33	41	-	41
Net accounting write-off ⁽¹⁾	(41)	(2)	(45)	(88)	-	(88)
Recovery of debts written off in previous years ⁽¹⁾	41	-	14	55	-	55
Net accounting write-offs	-	(2)	(31)	(33)	-	(33)
Balance of provision for credit losses at end of period	697	625	239	1,561	2	1,563
Of which: With respect to off balance sheet credit instruments	87	-	9	96	-	96

For the three months ended September 30, 2016

	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
Balance of provision for credit losses at start of period	675	611	199	1,485	2	1,487
Expenses with respect to credit losses	20	6	34	60	(1)	59
Net accounting write-off ⁽¹⁾	(44)	(6)	(36)	(86)	-	(86)
Recovery of debts written off in previous years ⁽¹⁾	49	-	12	61	-	61
Net accounting write-offs	5	(6)	(24)	(25)	-	(25)
Balance of provision for credit losses at end of period	700	611	209	1,520	1	1,521
Of which: With respect to off balance sheet credit instruments	107	-	9	116	-	116

For the nine months ended September 30, 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	21	18	93	132	-	132
Net accounting write-off ⁽¹⁾	(195)	(8)	(104)	(307)	-	(307)
Recovery of debts written off in previous years ⁽¹⁾	147	-	42	189	-	189
Net accounting write-offs	(48)	(8)	(62)	(118)	-	(118)
Balance of provision for credit losses at end of period	697	625	239	1,561	2	1,563
Of which: With respect to off balance sheet credit instruments	87	-	9	96	-	96

For the nine months ended September 30, 2016

	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
Balance of provision for credit losses at start of period	697	614	195	1,506	3	1,509
Expenses with respect to credit losses	44	7	70	121	(2)	119
Net accounting write-off ⁽¹⁾	(137)	(10)	(99)	(246)	-	(246)
Recovery of debts written off in previous years ⁽¹⁾	96	-	43	139	-	139
Net accounting write-offs	(41)	(10)	(56)	(107)	-	(107)
Balance of provision for credit losses at end of period	700	611	209	1,520	1	1,521
Of which: With respect to off balance sheet credit instruments	107	-	9	116	-	116

(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 a 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

	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)	December 31, 2016 (audited)
In Israel			
On-call			
Non interest-bearing	42,208	38,921	40,470
Interest-bearing	20,998	⁽²⁾ 17,303	18,935
Total on-call	63,206	56,224	59,405
Term deposits	115,885	⁽²⁾ 112,582	113,598
Total deposits in Israel⁽¹⁾	179,091	168,806	173,003
Outside of Israel			
On-call			
Non interest-bearing	559	647	694
Interest-bearing	5	6	7
Total on-call	564	653	701
Term deposits	4,566	4,289	4,548
Total deposits overseas	5,130	4,942	5,249
Total deposits from the public	184,221	173,748	178,252

(1) Of which:

Deposits from individuals	86,818	80,993	82,501
Deposits from institutional investors	39,404	35,496	35,964
Deposits from corporations and others	52,869	52,317	54,538

(2) The balance of daily deposits (PAHAK) amounting to NIS 8.7 billion, was reclassified.

B. Deposits from the public by size

	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)	December 31, 2016 (audited)
Maximum deposit			
Up to 1	62,846	59,621	59,606
Over 1 to 10	40,670	38,094	38,805
Over 10 to 100	26,761	23,889	25,042
Over 100 to 500	22,589	27,426	24,120
Above 500	31,355	24,718	30,679
Total	184,221	173,748	178,252

Note 8 - Employee Rights

Description of benefits

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. Developments in labor relations

In late 2015, an economic arbitration process ("arbitration") was launched between the Bank and the Mizrahi Tefahot Employees Union ("the employees union"), to discuss the demands made by the employee union for 2005-2015.

In 2016, an attempt was made to refer the discussion of employees union demands to a mediation framework, however this attempt was un-successful and in late 2016, the issue was once again being discussed in arbitration.

Management believes, based on the opinion of legal counsel, that exposure with respect to this arbitration cannot be estimated.

Concurrently with the arbitration, in recent months there have been negotiations taking place to renew the payroll agreement between Bank management and the employees union for 2016-2020.

On June 13, 2017, the employees union declared a labor dispute.

On June 25, 2017, Bank management and the employees union jointly announced they would negotiate in order to reach agreement by the end of July 2017. These negotiations did not result in a comprehensive payroll agreement for the aforementioned years.

On August 1, 2017, the employees union announced a strike by Bank employees represented by the employees union, starting on August 2, 2017.

During the strike, the Bank provided regular services in as much as possible.

On August 16, 2017, the Bank announced that management and the employees union have reached understandings and consequently, the employees terminated the strike. According to the announcement, the parties would continue to hold discussions through September 12, 2017, in order to reach agreements which would allow them to sign a collective bargaining agreement. At this stage, the deadline for reaching an agreement was extended and the parties continue to negotiate.

In accordance with the memorandum of understandings reached with the Employees Association, , expenses amounting to NIS 160 million were recorded on the financial statements for the third quarter of 2017 (effect on net profit of NIS 104 million).

Furthermore, in respect of the understandings reached, the balance of the actuarial liability on the financial statements for the second quarter of 2017 increased by NIS 106 million.

Note 8 - Employee Rights- continued

4. Streamlining program at Bank Yahav

On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program and reduction of real estate areas. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive.

Pursuant to the retirement program, early retirement would be allowed subject to criteria stated in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav were revised to NIS 36 million before tax (NIS 23 million after tax).

As directed by the Bank of Israel, supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis over a five-year period.

5. 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 September 30 2017 NIS in millions	For the three months ended September 30 2016 NIS in millions	For the three months ended September 30 2017 NIS in millions	For the three months ended September 30 2016 NIS in millions	For the year ended December 31, 2016 NIS in millions
Cost of service ⁽¹⁾	12	7	35	20	26
Cost of interest ⁽²⁾	12	8	33	23	31
Expected return on plan assets ⁽³⁾	(1)	(1)	(3)	(3)	(4)
Deduction of non-allowed amounts: Net actuarial loss ⁽⁴⁾	4	3	9	7	9
Total benefit cost, net	27	17	74	47	62
Total expense with respect to defined- contribution pension	30	29	88	86	114
Total expenses included in payroll and associated expenses	57	46	162	133	176

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

	Forecast For ⁽⁵⁾ 2017 (unaudited)	Actual deposits For the three months ended September 30 2017 (unaudited)	Actual deposits For the three months ended September 30 2016 (unaudited)	Actual deposits For the nine months ended September 30 2017 (unaudited)	Actual deposits For the nine months ended September 30 2016 (unaudited)	For the year ended December 31, 2016 (audited)
	1	2	2	5	5	6
Deposits	1	2	2	5	5	6

(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"

	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)	December 31, 2016 (audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I shareholders' equity	14,055	13,136	13,318
Tier I capital	14,055	13,136	13,318
Tier II capital	4,603	4,893	4,888
Total capital	18,658	18,029	18,206
B. Weighted risk asset balances			
Credit risk	128,818	124,385	122,605
Market risks	1,213	985	1,184
Operating risk	8,332	7,979	8,113
Total weighted risk asset balances⁽¹⁾	138,363	133,349	131,902
	September 30, 2017 (unaudited) In %	September 30, 2016 (unaudited) In %	December 31, 2016 (audited) In %
C. Ratio of capital to risk elements			
Bank data:			
Ratio of Tier I capital to risk elements	10.16	9.85	10.10
Ratio of Tier I capital to risk elements	10.16	9.85	10.10
Ratio of total capital to risk elements	13.48	13.52	13.80
Minimum Tier I capital ratio required by Supervisor of Banks ⁽²⁾	9.86	9.64	9.76
Total minimum capital ratio required by the Supervisor of Banks ⁽²⁾	13.36	13.14	13.26
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Ratio of Tier I capital to risk elements	9.34	9.67	9.41
Ratio of Tier I capital to risk elements	9.34	9.67	9.41
Ratio of total capital to risk elements	13.53	14.06	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	12.50	12.50	12.50

(1) Of the total weighted balance of risk assets, NIS 322 million was deducted due to adjustments with respect to the streamlining plan (on December 31, 2016: NIS 230 million).

(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.

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

	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)	December 31, 2016 (audited)
3. Capital components for calculation of capital ratio (on consolidated basis)			
A. Tier I capital			
Shareholders' equity	14,026	13,326	13,324
Differences between shareholder equity and Tier I capital	(164)	(86)	(91)
Total Tier I capital before regulatory adjustments and deductions	13,862	13,240	13,233
Regulatory adjustments and deductions:			
Goodwill	(87)	(87)	(87)
Regulatory adjustments and other deductions	(15)	(17)	(16)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining program - Tier I capital	(102)	(104)	(103)
Total adjustments with respect to the streamlining program ⁽¹⁾	295	-	188
Total Tier I capital after regulatory adjustments and deductions	14,055	13,136	13,318
B. Tier II capital			
Tier II capital: Instruments, before deductions	3,160	3,493	3,491
Tier II capital: Provisions, before deductions	1,443	1,400	1,397
Total Tier II capital, before deductions	4,603	4,893	4,888
Deductions:			
Total deductions - Tier II capital	-	-	-
Total Tier II capital	4,603	4,893	4,888

4. Effect of transitional provisions on Tier I capital ratio (for details see sections K and M below):

Ratio of capital to risk elements (in percentage)

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 programs ⁽²⁾	9.86	9.72	9.83
Effect of transition provisions, before effect of adjustments with respect to the streamlining programs	0.06	0.13	0.13
Effect of adjustments with respect to the streamlining programs	0.24	-	0.14
Ratio of Tier I capital to risk elements before application of transitional provisions	10.16	9.85	10.10

(1) Of which, NIS 218 million is in respect of the streamlining plan with regard to employees and NIS 77 million in respect of the streamlining plan with regard to real estate (as of December 31, 2016: NIS 188 million in respect of the streamlining plan with regard to employees).

For more information about relief concerning capital adequacy with respect to streamlining programs concerning employees and real estate, see Note 9.K. and Note 9.M.

(2) Before effect of transitional provisions concerning 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"

	September 30, 2017 (unaudited) In %	September 30, 2016 (unaudited) In %	December 31, 2016 (audited) In %
1. Consolidated data			
Liquidity coverage ratio ⁽¹⁾	117	105	117
Minimum liquidity coverage ratio required by the Supervisor of Banks ⁽²⁾	100	80	80
2. Bank data			
Liquidity coverage ratio ⁽¹⁾	117	105	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 ⁽¹⁾	298	343	286
Minimum liquidity coverage ratio required by the Supervisor of Banks ⁽²⁾	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"

	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)	December 31, 2016 (audited)
1. Consolidated data			
Tier I capital ⁽¹⁾	14,055	13,136	13,318
Total exposure	261,982	247,564	252,489
	September 30, 2017 (unaudited) In %	September 30, 2016 (unaudited)	December 31, 2016 (audited)
Leverage ratio	5.36	5.31	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	5.03	4.95	5.00
Minimum leverage ratio required by the Supervisor of Banks ⁽²⁾	4.70	4.70	4.70

(1) For effect of transition provisions and effect of adjustments with respect to the streamlining program, 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.

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

D. 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%.

This requirement was gradually implemented through January 1, 2017.

The minimum Tier I capital 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 9.86% and 13.36%, respectively.

This target may change based on actual data for the housing loan portfolio and for total risk assets.

E. 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.

F. 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.

G. 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.

H. 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.

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

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 risks 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.

On June 9, 2016, the Supervisor of Banks issued a letter, whereby the provisions of the circular would apply as from January 1, 2017 and whereby the Tel Aviv Stock Exchange may be treated as a Qualified Counter-Party through June 30, 2017, even prior to being deemed qualified.

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.

On June 29, 2017, ISA issued a notice with regard to implementation of guidelines for international standards for financial market infrastructure by the stock exchange clearinghouses, in conformity with guidelines issued by the Bank of International Settlements (BIS) and by the International Organization of Securities Commissions (IOSCO).

Given the notice issued by ISA, on July 2, 2017 the Supervisor of Banks authorized classification of the Stock Exchange clearinghouse and of the MAOF clearinghouse as qualified central counter-parties for calculation of capital requirements with respect to exposure to central counter-parties.

The Bank is applying this directive.

- I. 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 capital 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 capital ratio exceed the minimum required ratio, the Bank may announce a write-off of principal, in whole or in part.

Standard & Poor's Ma'alot rated the contingent subordinated notes iIAA-.

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.

See section N. below for more information about further funding raised by Bank Yahav in August 2017.

- J. 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.

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

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 will monitor execution of the new strategic plan in order to consider the possibility of 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.

- K. On December 27, 2016, the Bank's Board of Directors approved the streamlining program 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 program, 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 program approved by the Bank's Board of Directors on December 27, 2016, see Notes 22 and 25 to the 2016 financial statements.

- L. 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 by 0.25% in the Bank's Tier I capital ratio.

- M. Relief with regard to capital adequacy with respect to implementation of a real estate streamlining plan.

On January 12, 2016, the Supervisor of Banks issued a letter with regard to streamlining operations of the banking system in Israel. According to this letter, the Board of Directors of the banking corporation should set a multi-year streamlining plan. A banking corporation which is compliant with conditions listed in the letter would receive relief, whereby they may allocate the effect of such plan over 5 years, in a straight line, for calculation of capital adequacy. As noted on the financial statements as of December 31, 2016, in Notes 22 and 25, the Bank implemented on December 27, 2016 a streamlining program with regard to early retirement of employees as well as allocation of capital relief, such that supervisory capital used to calculate capital adequacy would be adjusted (increased) and the effect of streamlining on capital would be attributed on a straight line as from 2017 over a 5-year period.

On June 13, 2017, the Supervisor of Banks issued another letter, encouraging banking institutions to review, in addition to streamlining of payroll expenses, the optional reduction of the cost of real estate and maintenance of headquarters units and management, including through re-evaluation of their geographic location.

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

According to this letter, the Supervisor of Banks would allow banking corporations to apply similar relief to the foregoing with regard to capital adequacy for implementation of a real estate streamlining program, subject to the following conditions:

- The plan includes relocation of the corporation's headquarters units and management.
- The plan is economically viable and expected to achieve long-term cost savings.
- The plan provides a response to current and expected needs of the banking corporation over the time frame of its strategic plan.

On June 19, 2017, the Bank's Board of Directors approved a plan to relocate operations of Bank headquarters units to one central site in Lod and directed Bank management to take the required actions to this end. This is further to contracting the purchase of land in Lod Industrial Zone, adjacent to the existing building in Lod.

The plan, including planning, construction and relocation, should take several years.

On June 28, 2017, the Bank closed (through its subsidiary Netzivim Assets and Equipment Ltd.) the sale of its interest in the headquarters building in Ramat Gan and concurrently leased back the building for a period of 8 years (hereinafter: "the streamlining period"). The Bank may extend the lease for additional terms.

On July 12, 2017, the Bank applied to the Supervisor of Banks for the capital relief.

In conformity with the requirements stated by the Supervisor of Banks in the letter, the Bank presented the following:

- Plan for relocation of headquarters units and management to Lod.
- Economic viability of the plan.
- Firm commitment to carry out the streamlining program.

As directed by the Supervisor of Banks, the capital gain would be recognized over the lease term, in conformity with existing US standards for sale and lease-back transactions (section 840-40-25-2 of topic 840-40 of the codification concerning "Sale and lease-back transactions"). On July 20, 2017, the Supervisor of Banks allowed the Bank to recognize the capital gain (of NIS 83 million) generated by sale of the headquarters building in Ramat Gan as regulatory capital. The capital relief is to be amortized over the term of the streamlining program.

- N. On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program and reduction of real estate areas. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive. Pursuant to the retirement program, early retirement of Bank Yahav employees would be authorized subject to criteria set forth in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 36 million before tax (NIS 23 million after tax). As directed by the Bank of Israel, supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis over a five-year period.
- O. In August 2017, Bank Yahav issued contingent subordinated notes (Contingent Convertibles - CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 120 million. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

Note 10 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)	December 31, 2016 (audited)
Obligations with respect to:			
Long-term leases ⁽¹⁾⁽³⁾	2,489	799	⁽²⁾ 2,401
Computerization and software service contracts	261	267	233
Acquisition and renovation of buildings	8	7	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):

	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)	December 31, 2016 (audited)
First year	140	68	162
Second year	176	65	155
Third year	174	61	153
Fourth year	165	56	145
Fifth year	164	52	143
Sixth year and thereafter	1,670	497	1,643
Total	2,489	799	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.

(3) For more information about sale and lease-back of the Bank's interest in the headquarters building in Ramat Gan, see Note 9M.

B. Contingent liabilities and other special commitments

- 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.
- 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:

Note 10 - Contingent Liabilities and Special Commitments - continued

- 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 thereafter, in an attempt to reach 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 B. 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 concerning the settlement agreement took place. On March 28, 2017, a hearing took place with regard to the settlement agreement and in particular, concerning the issue of Court action and its scope. On June 12, 2017, the parties filed the draft settlement agreement with the Court, asking for the Court's assistance in the matter of the aforementioned Court action. On June 15, 2017, another hearing on this disagreement took place.

In accordance with the Court ruling of July 4, 2017, on August 13, 2017, the parties submitted the final agreed version of the settlement agreement.

On November 7, 2017, the parties submitted to the Court the signed settlement agreement and its appendices with the application for approval.

- B) 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 section A. above and in section C. below and on January 4, 2016, a resolution was issued to refer the above claim for hearing by the same party as the above claims.

Note 10 - Contingent Liabilities and Special Commitments - continued

This motion, along with the motion for the lawsuit in section A. above, are in negotiations of a settlement agreement, as set forth in section A. above.

- C) 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 thereafter, in an attempt to reach an agreed arrangement. On January 6, 2016, the Bank filed a motion seeking a preliminary ruling on its claim with regard to the statute of limitations with regard to the cause of claim of alleged class members and/or of most of them. The plaintiff's response was filed on January 26, 2016 and the Bank's response was filed on February 1, 2016. On February 14, 2016, a resolution was handed down whereby, *inter alia*, the claim with regard to the statute of limitations would be adjudicated at the end of the process. 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 and the parties were instructed to file their claims with regard to the issue of the statute of limitations. 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. Further to the Court resolutions dated March 7, 2017 and June 13, 2017, the Bank filed additional claims with regard to the statute of limitations; a resolution is still pending. The position of the Attorney General with regard to the settlement was submitted on July 30 and on September 17, 2017, the Bank filed its response to the the Attorney General's position, and the plaintiff filed their response to the Attorney General's position. On October 2, 2017, a hearing was held with regard to the Attorney General's position and a resolution has yet to be handed down.
- D) In September 2011, a claim and motion for class action status was filed with the Central District Court against the Bank, Bank Leumi Lelsrael Ltd. and Bank HaPoalim Ltd., for alleged unlawful charging of compounded interest, in contravention of statutes and agreements, on housing loans - including targeted loans, eligibility loans and additional loans, excluding standing loans. The total claim amount against the banks was NIS 927 million. The Bank's share of this claim amounts to NIS 364 million. In May 2012, the Bank filed its response to this claim, claiming *inter alia* that it was unfounded, that the Bank acted in accordance with statutory provisions and did not charge any compounded interest in the manner in which banks in general and the Bank, in particular, acted. The position of the Supervisor of Banks, which supports the banks' position, was also filed in this case.

Note 10 - Contingent Liabilities and Special Commitments - continued

In July 2013, an evidentiary hearing took place and the experts on behalf of the parties were questioned. The plaintiffs filed their summation. In September 2014, the Bank filed its summation and in December 2014, the plaintiffs filed their summary responses.

On August 16, 2015 a verdict was issued, rejecting the motion for class action status.

On December 7, 2015, the parties appealed the verdict to the Supreme Court. The parties filed their summations and response summations.

On September 25, 2017, the Supreme Court postponed the appeal hearing to March 14, 2018.

- E) 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 hearing 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.

Note 10 - Contingent Liabilities and Special Commitments - continued

- F) 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. On May 14, 2017, the Court issued a verdict confirming the plaintiff's withdrawal of the motion.

- G) 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.

On April 21, 2017, the parties signed an agreement which, inter alia, withdrew the claim filed against the Bank.

Note 10 - Contingent Liabilities and Special Commitments - continued

- H) 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. A pre-trial hearing took place on March 29, 2016 and 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 the Court's decision on the motion is still pending.

- I) 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".

Note 10 - Contingent Liabilities and Special Commitments - continued

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, evidentiary hearings were scheduled for June 11, 2017.

In June 2017, evidentiary hearings took place, including testimony from the then Supervisor of Banks on the relevant dates; deadlines were set for the parties to file their summations. Consequently, the plaintiff filed their summation on August 30, 2017.

On September 1, 2017, a mutually-agreed application was submitted to the Court, to reject the request for approval with no expenses awarded. On September 17, the Court ruled that the parties must act in accordance with provisions of section 18(c) of the Class Action Law. With regard to this ruling, a consensual motion was submitted for reconsideration, which motion was rejected.

See also section 4 with regard to inquiry by the US Department of Justice concerning Bank Group business with its US clients.

- J) 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. The parties are in negotiations to reach an agreement.
- K) 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 Lelsrael 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.

Note 10 - Contingent Liabilities and Special Commitments - continued

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. On May 10, 2017, another pre-trial hearing took place where the parties informed the Court that they had not reached understandings. On May 24, 2017, the plaintiffs filed data obtained from the Bank of Israel about the banks in 2009 and thereafter, the respondents filed their own updated data. Dates for evidentiary hearings were set for November 6, 2017, and oral summaries were scheduled for November 30, 2017.

- L) In February 2016, a claim and application for class action status was filed with the Tel Aviv District Court against the Bank and against Bank HaPoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd. (hereinafter: "the defendants"). The plaintiff set the claim amount for all defendant Banks, jointly and severally, at NIS 219 million. The motion concerns alleged discrimination in providing service to student groups by age, allegedly in violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000 (hereinafter: "the Non-Discrimination Act") and the Banking Act (Customer Service), 1981 (hereinafter: "the Banking Act").

According to the plaintiffs, this is a general policy of all defendants, which seeks to exclude the "non-young" population from student benefit plans and/or from being able to open an account with the terms and conditions of a student account, by setting an age cap for receiving student benefits. The plaintiff asks, in conformity with the Class Actions Law, for the claim to be filed on behalf of all students discriminated against due to their age, by comparison to younger students, who were precluded from receiving student benefits from the defendants in the past seven years (for causes pursuant to the Banking Act (Customer Service), 1981 or as from July 15, 2014 (pursuant to the amendment to the Non-Discrimination Act). The Bank filed its response to the motion on September 13, 2016 and the plaintiff has filed their response to this response. On October 27, 2016, the plaintiff filed its response to the Bank's response to the motion. On January 25, 2017, a preliminary hearing was held on the motion for approval. An evidentiary hearing set for September 2017 was canceled after the parties concluded a written agreement. The plaintiff filed their summation on October 26, 2017.

- M) 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 overcharging 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. Given the plaintiff's notice of their intention to file a motion to consolidate the hearing of this motion with a hearing of 5 other motions for class action status in lawsuits filed on the same matter, on June 22, 2017 the Bank filed a petition with the Court seeking a stay of proceedings in this lawsuit, including preliminary discovery proceedings, pending a ruling by the Supreme Court on the motion for consolidation. On June 28, 2017, a motion was filed with the Supreme Court for consolidation of the hearing of this lawsuit with the five other motions; the Bank filed its response on July 10, 2017; on July 20, 2017 the Court rejected the motion to consolidate all of these lawsuits. As directed by the Supreme Court, a motion was filed to consolidate the hearing of the motions for approval to the District Court, which is scheduled for hearing on January 30, 2018.

Note 10 - Contingent Liabilities and Special Commitments - continued

- 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, which was accepted. A motion to appeal the resolution has been filed and was rejected by the Supreme Court ruling of October 2, 2017; the date for depositing a guarantee to secure the respondents' expenses, was set for November 2, 2017.

The deposit was not made by the plaintiff by the deadline specified in the Supreme Court resolution. Therefore, on November 5, 2017, the respondent banks filed a motion to reject the motion for approval, and on November 7, 2017, the Court ordered the motion for approval to be rejected.

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 72 million.

3. Motions for class action status and a motion for approval of a derivative claim 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.

Note 10 - Contingent Liabilities and Special Commitments - continued

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.

On April 12, 2017, the Court directed the Attorney General to inform the Court in 45 days' time of their intention to join the proceeding. On April 12, 2017, the Court directed the Attorney General to inform the Court of their intention to join the proceeding. On August 3, 2017, the Attorney General submitted a notice on behalf thereof, regarding their appearance in the discovery process, to which they attached their position. On September 10, 2017, the Bank and the other respondents filed their responses to the Attorney General's position.

On September 19, the Court approved a procedural arrangement reached by the parties in the case, whereby the hearing of this case will be suspended at this stage, subject to the respondents reporting to the Court and to the plaintiff as from December 31, 2017, once every 90 days, of the inquiry by the US DOJ.

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.

Note 10 - Contingent Liabilities and Special Commitments - continued

The Bank's response was filed on April 23, 2017 and the plaintiff's response was filed on May 21, 2017. On July 03, 2017, a pre-trial hearing took place after which the plaintiff was allowed to amend their motion and to file it no later than October 15, 2017. On September 3, 2017, an amended motion was filed; the Bank must file their amended response to the motion for approval no later than December 3, 2017; another pre-trial hearing was scheduled for December 24, 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).

On August 21, 2017, Bank Yahav filed its response to the request for approval. On September 24, 2017 a verdict was issued, confirming the plaintiff's withdrawal of their claim and the motion for class action status rejected.

- D) In November 2017, a claim and motion for class action status were filed with the District Court Center-Lod against the Bank, in the amount of NIS 437.3 million alleging charging of excess interest on housing loans, due to reduction of the loan component based on the prime lending rate which is allegedly misleading and lacking proper disclosure.

According to the plaintiffs, the Bank refrained from providing its customers with a housing loan, in which the loan component based on the prime lending rate is the maximum permitted by Bank of Israel directives (33.3%), in order to increase the amount which the Bank may provide in supplementary, much costlier loans.

The plaintiffs note that they do not deny or challenge the fact that the Bank has discretion in granting housing loans and the approved composition of the loan, but rather the manner in which the Bank exercises its discretion and its extended fiduciary, trust and disclosure duties.

4. Further to section (12) of Note 26 to the financial statements as of December 31, 2016, section 4 of Note 10 to the financial statements as of March 31, 2017 and section 4 of Note 10 to the financial statements as of June 30, 2017 (the "Financial Statements"), in late September and mid-October, the Bank received letters from the United States Department of Justice, asking the Bank to provide additional data and information relating to the Bank business with US clients and requesting the Bank to update certain data regarding the accounts of US clients for the remainder of the period through October 2017. The Bank is reviewing what is required in order to respond to these requests and is acting to provide the information requested in these letters.

Recently, preliminary discussions took place with the US DOJ, but in view of the requests for additional information, negotiations have yet to start regarding aspects of any settlement, including the financial implications on the Bank Group, if any, of such settlement.

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.

Note 10 - Contingent Liabilities and Special Commitments - continued

Based on the aforementioned opinion, the provision with respect to this inquiry amounts to USD 44.3 million (NIS 156 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.

In view of the foregoing, it is possible that in the future the realized loss may turn out to be significantly higher than the amount of the provision recorded to date.

Note 11 - Derivatives and hedging activities

Reported amounts (NIS in millions)

A) Activity on consolidated basis

As of September 30, 2017

	Interest contracts NIS - CPI	Interest contracts Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivatives						
A. Hedging derivatives⁽¹⁾						
Forward contracts	1,382	-	-	-	-	1,382
Other option contracts:						
Options written	-	18	-	-	-	18
Swaps	-	1,042	-	-	-	1,042
Total	1,382	1,060	-	-	-	2,442
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,060	-	-	-	1,060
B. ALM derivatives⁽¹⁾⁽²⁾						
Forward contracts	5,847	-	102,550	-	38	108,435
Option contracts traded on stock exchange:						
Options written	-	-	80	-	-	80
Options purchased	-	-	201	-	-	201
Other option contracts:						
Options written	-	-	10,996	-	-	10,996
Options purchased	-	-	10,568	-	-	10,568
Swaps	2,237	33,935	7,803	-	-	43,975
Total	8,084	33,935	132,198	-	38	174,255
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	2,125	20,765	-	-	-	22,890
C. Other derivatives⁽¹⁾						
Forward contracts	-	-	1,138	-	-	1,138
Option contracts traded on stock exchange:						
Options written	-	-	4,901	8,292	5,190	18,383
Options purchased	-	-	4,901	8,292	5,190	18,383
Other option contracts:						
Options written	-	-	-	38	-	38
Options purchased	-	70	-	42	-	112
Swaps	-	4	8	5,117	-	5,129
Total	-	74	10,948	21,781	10,380	43,183
Includes interest rate swaps on which the Bank agreed to pay an 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 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

As of September 30, 2017

	Interest contracts NIS - CPI	Interest contracts 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	-	-	-	-	680	680
Foreign currency spot swap contracts	-	-	6,893	-	-	6,893
Total	-	-	6,893	-	680	7,573
Total stated amounts of derivatives	9,466	35,069	150,039	21,781	11,098	227,453
2. Gross fair value of derivatives						
A. Hedging derivatives⁽¹⁾						
Positive fair value, gross	18	7	-	-	-	25
Negative fair value, gross	2	65	-	-	-	67
B. ALM derivatives⁽¹⁾⁽²⁾						
Positive fair value, gross	347	904	2,143	-	1	3,395
Negative fair value, gross	181	1,175	1,530	-	1	2,887
C. Other derivatives⁽¹⁾						
Positive fair value, gross	-	1	80	308	-	389
Negative fair value, gross	-	-	50	287	-	337
D. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	4	4
Negative fair value, gross	-	-	-	-	2	2
Total						
Positive fair value, gross ⁽³⁾	365	912	2,223	308	5	3,813
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivatives	365	912	2,223	308	5	3,813
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	184	167	1,066	147	5	1,569
Total						
Negative fair value, gross	183	1,240	1,580	287	3	3,293
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivatives	183	1,240	1,580	287	3	3,293
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	45	279	1,040	262	2	1,628

(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 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

As of September 30, 2016

	Interest contracts NIS - CPI	Interest contracts Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivatives						
A. Hedging derivatives⁽¹⁾						
Forward contracts	2,402	-	-	-	-	2,402
Other option contracts:						
Options written	-	19	-	-	-	19
Swaps	-	1,362	-	-	-	1,362
Total	2,402	1,381	-	-	-	3,783
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,362	-	-	-	1,362
B. ALM derivatives⁽¹⁾⁽²⁾						
Forward contracts	7,236	1,000	93,079	-	51	101,366
Option contracts traded on stock exchange:						
Options written	-	-	780	-	-	780
Options purchased	-	-	639	-	-	639
Other option contracts:						
Options written	-	-	10,110	-	-	10,110
Options purchased	-	-	9,133	-	-	9,133
Swaps	1,743	31,461	8,180	-	-	41,384
Total	8,979	32,461	121,921	-	51	163,412
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,472	16,910	-	-	-	18,382
C. Other derivatives⁽¹⁾						
Forward contracts	-	-	1,288	-	-	1,288
Option contracts traded on stock exchange:						
Options written	-	-	4,420	11,648	-	16,068
Options purchased	-	-	4,420	11,648	-	16,068
Other option contracts:						
Options written	-	50	-	36	-	86
Options purchased	-	150	-	23	-	173
Swaps	-	-	27	8,303	-	8,330
Total	-	200	10,155	31,658	-	42,013
Includes interest rate swaps on which the Bank agreed to pay an interest rate	-	-	-	-	-	-

(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 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

As of September 30, 2016

	Interest contracts NIS - CPI	Interest contracts 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	-	-	-	-	666	666
Foreign currency spot swap contracts	-	-	5,971	-	-	5,971
Total	-	-	5,971	-	666	6,637
Total stated amounts of derivatives	11,381	34,042	138,047	31,658	717	215,845

2. Gross fair value of derivatives

A. Hedging derivatives⁽¹⁾

Positive fair value, gross	37	-	-	-	-	37
Negative fair value, gross	5	117	-	-	-	122

B. ALM derivatives⁽¹⁾⁽²⁾

Positive fair value, gross	390	1,177	1,296	-	1	2,864
Negative fair value, gross	206	1,476	1,251	-	1	2,934

C. Other derivatives⁽¹⁾

Positive fair value, gross	-	-	68	300	-	368
Negative fair value, gross	-	-	59	402	-	461

D. Credit derivatives

Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	4	4

Total

Positive fair value, gross ⁽³⁾	427	1,177	1,364	300	1	3,269
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivatives	427	1,177	1,364	300	1	3,269
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	126	192	502	215	1	1,036
Total						
Negative fair value, gross	211	1,593	1,310	402	5	3,521
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivatives	211	1,593	1,310	402	5	3,521
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	13	208	1,010	324	4	1,559

(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 fair value, gross of assets with respect to embedded derivatives amounting to NIS 2 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 1 million.

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

As of December 31, 2016

	Interest contracts NIS - CPI	Interest contracts Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivatives						
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 an 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 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

As of December 31, 2016

	Interest contracts NIS - CPI	Interest contracts 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 derivatives	10,762	33,547	150,997	37,656	939	233,901
2. Gross fair value of derivatives						
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 derivatives	383	1,024	1,572	606	7	3,592
Of which: Carrying amount of assets with respect to derivatives 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 derivatives	201	1,389	1,393	579	4	3,566
Of which: Carrying amount of liabilities with respect to derivatives 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 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

B) Credit risk on derivatives according to counter-party to the contract - Consolidated

As of September 30, 2017

	Stock exchanges	Banks	Dealers / brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives⁽¹⁾	90	2,401	13	41	1,268	3,813
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,586)	-	-	(98)	(1,684)
Mitigation of credit risk with respect to cash collateral received	-	(594)	-	(41)	(270)	(905)
Net amount of assets with respect to derivatives	90	221	13	-	900	1,224
Off-balance sheet credit risk on derivatives ⁽³⁾	165	1,395	101	-	900	2,561
Mitigation of off-balance sheet credit risk	-	(501)	-	-	(102)	(603)
Net off-balance sheet credit risk with respect to derivatives	165	894	101	-	798	1,958
Total credit risk on derivatives	255	1,115	114	-	1,698	3,182
Carrying amount of liabilities with respect to derivatives	90	2,052	13	-	1,138	3,293
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,586)	-	-	(98)	(1,684)
Pledged cash collateral	-	(308)	-	-	-	(308)
Net amount of liabilities with respect to derivatives	90	158	13	-	1,040	1,301

As of September 30, 2016

	Stock exchanges	Banks	Dealers / brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives⁽²⁾	154	2,221	30	1	863	3,269
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,710)	-	-	(11)	(1,721)
Mitigation of credit risk with respect to cash collateral received	-	(414)	-	-	(37)	(451)
Net amount of assets with respect to derivatives	154	97	30	1	815	1,097
Off-balance sheet credit risk on derivatives ⁽³⁾	-	1,265	236	-	1,052	2,553
Mitigation of off-balance sheet credit risk	-	(592)	-	-	(56)	(648)
Net off-balance sheet credit risk with respect to derivatives	-	673	236	-	996	1,905
Total credit risk on derivatives	154	770	266	1	1,811	3,002
Carrying amount of liabilities with respect to derivatives⁽⁴⁾	199	2,125	-	10	1,187	3,521
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,710)	-	-	(11)	(1,721)
Pledged cash collateral	-	(269)	-	(9)	-	(278)
Net amount of liabilities with respect to derivatives	199	146	-	1	1,176	1,522

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 5 million.

(2) Includes positive fair value, gross, of embedded derivatives amounting to NIS 2 million.

(3) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives 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 derivatives of the borrower.

(4) Includes negative fair value, gross, of embedded derivatives amounting to NIS 1 million.

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

B) Credit risk with respect to 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 derivatives⁽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 derivatives	215	130	14	-	1,017	1,376
Off-balance sheet credit risk on derivatives ⁽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 derivatives	145	806	152	-	831	1,934
Total credit risk on derivatives	360	936	166	-	1,848	3,310
Carrying amount of liabilities with respect to derivatives	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 derivatives	215	186	14	6	1,149	1,570

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 8 million.

(2) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives 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 derivatives of the borrower.

Fair value data includes revenues from decrease in credit losses in respect of derivative instruments, amounting to NIS 2 million and NIS 11 million for the periods ended September 30, 2017 and 2016, respectively (for all of 2016: NIS 14 million).

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

C) Maturity dates - stated amounts: year-end balances - Consolidated

As of September 30, 2017

	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	1,056	3,207	4,379	824	9,466
Other	4,216	5,378	17,752	7,723	35,069
Currency contracts	92,411	45,887	10,492	1,249	150,039
Contracts for shares	18,219	3,283	279	-	21,781
Commodities and other contracts	10,485	21	238	354	11,098
Total	126,387	57,776	33,140	10,150	227,453

As of September 30, 2016

	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	1,246	2,735	6,911	489	11,381
Other	1,709	6,900	16,451	8,982	34,042
Currency contracts	89,672	37,095	8,913	2,367	138,047
Contracts for shares	25,023	6,583	52	-	31,658
Commodities and other contracts	29	113	103	472	717
Total	117,679	53,426	32,430	12,310	215,845

As of December 31, 2016

	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
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 the management approach".

An operating segment in conformity with the 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 the 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 "the 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.

Note 12 - Operating Segments - continued

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.

Real investments - Investment in shares available for sale and in associated companies 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.

Note 12 - Operating Segments - continued

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 derivatives, 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 - All financial products and banking services provided 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.

The principles used in assigning balances, revenues and expenses to clients in the system are as follows:

Interest revenues from credit and interest expenses on deposits are directly attributed to the client. For credit, expense set at original 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 the original 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 its operations 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.

Note 12 - Operating Segments - continued

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, is 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.

	Operations in Israel Households	Operations in Israel Housing loans	Operations in Israel Of which: Credit cards	Operations in Israel Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Management Segment	Operations in Israel Total - operations in Israel	Operations overseas Total - operations overseas	Total
Balance of deposits from the public at end of reported period	-	74,786	-	74,786	12,032	20,010	6,609	26,250	39,404	-	179,091	5,130	184,221
Average balance of risk assets ⁽¹⁾	64,626	17,100	1,614	81,726	27	14,714	6,351	20,902	2,365	5,716	131,801	3,499	135,300
Balance of risk assets at end of reported period ⁽¹⁾	66,020	17,352	1,581	83,372	19	15,394	6,966	20,679	2,167	6,217	134,814	3,549	138,363
Average balance of assets under management ⁽²⁾	6,932	41,962	-	48,894	2,404	15,186	4,500	26,919	149,344	12,023	259,270	-	259,270
Composition of interest revenues, net:													
Margin from credit granting operations	924	553	21	1,477	1	577	129	294	25	-	2,503	68	2,571
Margin from activities of receiving deposits	-	289	-	289	42	64	19	42	57	-	513	10	523
Other	32	2	-	34	-	13	5	8	2	16	78	39	117
Total interest revenues, net	956	844	21	1,800	43	654	153	344	84	16	3,094	117	3,211

(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.

	Operations in Israel Households	Operations in Israel Housing loans	Operations in Israel Of which: Credit cards	Operations in Israel Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Management Segment	Operations in Israel Total - operations in Israel	Operations overseas Total - operations overseas	Total
Of which: Average balance of deposits from the public	-	68,666	-	68,666	10,508	14,555	6,333	28,133	34,686	-	162,881	4,646	167,527
Balance of deposits from the public at end of reported period	-	70,327	-	70,327	10,666	15,301	7,058	29,958	35,496	-	168,806	4,942	173,748
Average balance of risk assets ⁽¹⁾	60,250	15,696	1,586	75,946	28	13,191	6,402	23,710	2,611	5,448	127,336	3,645	130,981
Balance of risk assets at end of reported period ⁽¹⁾	62,037	16,454	1,671	78,491	34	13,970	6,948	21,947	2,515	5,732	129,637	3,712	133,349
Average balance of assets under management ⁽²⁾	5,924	38,672	-	44,596	2,103	13,456	3,741	21,593	140,874	105	226,468	-	226,468
Composition of interest revenues, net:													
Margin from credit granting operations	789	512	21	1,301	1	540	119	291	29	-	2,281	63	2,344
Margin from activities of receiving deposits	-	233	-	233	36	40	17	42	44	-	412	10	422
Other	22	1	-	23	-	14	2	6	-	(26)	19	45	64
Total interest revenues, net	811	746	21	1,557	37	594	138	339	73	(26)	2,712	118	2,830

(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.

(4) Reclassified. This reclassification is primarily due to Bank Yahav operations, mainly presented under the Household segment. After reclassification, Bank Yahav operations are also presented under Financial Management.

Note 12 - Operating Segments - continued
Supervisory operating segments
For the three months ended September 30, 2017 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel Households	Operations in Israel Housing loans	Operations in Israel Others	Operations in Israel Of which: Credit cards	Operations in Israel Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Management Segment	Operations in Israel Total - operations in Israel	Operations overseas Total - operations overseas	Total
Interest revenues from externals	568	207	9	775	-	225	62	116	11	49	1,238	62	1,300	
Interest expenses from externals	-	77	-	77	26	15	4	37	60	57	276	13	289	
Interest revenues, net from externals	568	130	9	698	(26)	210	58	79	(49)	(8)	962	49	1,011	
Interest revenues, net - inter-segment	(235)	161	(2)	(74)	40	20	(4)	31	79	(85)	7	(7)	-	
Total interest revenues, net	333	291	7	624	14	230	54	110	30	(93)	969	42	1,011	
Total non-interest financing revenues	-	-	-	-	-	-	-	-	-	60	60	1	61	
Total commissions and other revenues	51	115	31	166	2	86	22	37	11	41	365	9	374	
Total non-interest revenues	51	115	31	166	2	86	22	37	11	101	425	10	435	
Total revenues	384	406	38	790	16	316	76	147	41	8	1,394	52	1,446	
Expenses with respect to credit losses	6	32	-	38	-	37	(2)	(23)	(9)	-	41	-	41	
Operating and other expenses to externals	205	360	5	565	12	178	30	43	34	91	953	19	972	
Operating and other expenses - inter-segment	-	1	-	1	1	-	-	-	(2)	-	-	-	-	
Total operating and other expenses	205	361	5	566	13	178	30	43	32	91	953	19	972	
Pre-tax profit	173	13	33	186	3	101	48	127	18	(83)	400	33	433	
Provision for taxes on profit	64	5	12	69	1	38	18	47	7	(31)	149	12	161	
After-tax profit	109	8	21	117	2	63	30	80	11	(52)	251	21	272	
Share of banking corporation in earnings of associate companies	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net profit before attribution to non-controlling interests	109	8	21	117	2	63	30	80	11	(52)	251	21	272	
Net profit attributed to non-controlling interests	-	(6)	(1)	(6)	-	-	-	-	-	(5)	(11)	-	(11)	
Net profit attributable to shareholders of the banking corporation	109	2	20	111	2	63	30	80	11	(57)	240	21	261	
Average balance of assets	118,763	19,058	4,063	137,821	89	16,579	5,886	14,187	1,384	50,042	225,988	10,803	236,791	
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-	36	36	-	36	
Average balance of loans to the public	118,763	19,058	4,063	137,821	89	16,579	5,886	13,961	1,384	-	175,720	3,107	178,827	
Balance of loans to the public at end of reported period	119,310	19,644	3,575	138,954	97	16,428	5,714	14,564	1,079	-	176,836	3,250	180,086	
Balance of impaired debts	41	73	-	114	-	370	54	100	-	-	638	1	639	
Balance of debt in arrears 90 days or longer	1,024	25	-	1,049	-	56	9	-	-	-	1,114	-	1,114	
Average balance of liabilities	-	74,221	4,063	74,221	11,809	19,521	7,392	25,609	40,395	34,558	213,505	9,361	222,866	

	Operations in Israel Households	Operations in Israel Housing loans	Operations in Israel Of which: Credit cards	Operations in Israel Of which: Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Management Segment	Operations in Israel Total - operations in Israel	Operations overseas Total - operations overseas	Total
Of which: Average balance of deposits from the public	-	74,221	-	74,221	11,809	19,521	7,392	25,609	40,395	-	178,947	5,084	184,031
Balance of deposits from the public at end of reported period	-	74,786	-	74,786	12,032	20,010	6,609	26,250	39,404	-	179,091	5,130	184,221
Average balance of risk assets ⁽¹⁾	65,569	17,230	1,581	82,799	20	15,262	6,699	20,918	2,212	6,308	134,218	3,537	137,755
Balance of risk assets at end of reported period ⁽¹⁾	66,020	17,352	1,581	83,372	19	15,394	6,966	20,679	2,167	6,217	134,814	3,549	138,363
Average balance of assets under management ⁽²⁾	7,040	46,538	46,538	53,578	2,340	18,122	4,484	26,795	147,186	12,285	264,790	-	264,790
Composition of interest revenues, net:													
Margin from credit granting operations	323	188	7	511	1	199	47	97	8	-	863	22	885
Margin from activities of receiving deposits	-	103	-	103	13	25	6	13	21	-	181	4	185
Other	10	-	-	10	-	6	1	-	1	(93)	(75)	16	(59)
Total interest revenues, net	333	291	7	624	14	230	54	110	30	(93)	969	42	1,011

(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.

Note 12 - Operating Segments - continued
Supervisory operating segments
For the three months ended September 30, 2016 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel Households	Operations in Israel Housing loans	Operations in Israel Of which: Credit cards	Operations in Israel Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Management Segment	Operations in Israel Total - operations in Israel	Operations overseas Total - operations overseas	Total
Interest revenues from externals	911	206	9	1,117	-	208	45	150	14	12	1,546	55	1,601
Interest expenses from externals	-	137	-	137	32	17	9	34	102	204	535	10	545
Interest revenues, net from externals	911	69	9	980	(32)	191	36	116	(88)	(192)	1,011	45	1,056
Interest revenues, net - inter-segment	(627)	186	(1)	(441)	44	16	12	(4)	113	262	2	(2)	-
Total interest revenues, net	284	255	8	539	12	207	48	112	25	70	1,013	43	1,056
Total non-interest financing revenues	-	-	-	-	-	-	-	-	-	39	39	1	40
Total commissions and other revenues	38	126	(4)	164	1	88	16	41	14	49	373	7	380
Total non-interest revenues	38	126	(4)	164	1	88	16	41	14	88	412	8	420
Total revenues	322	381	4	703	13	295	64	153	39	158	1,425	51	1,476
Expenses with respect to credit losses	7	24	-	31	1	33	1	(6)	(1)	(1)	58	1	59
Operating and other expenses to externals	143	356	3	499	10	156	9	14	29	80	797	18	815
Operating and other expenses - inter-segment	-	(23)	-	(23)	1	(14)	15	16	5	-	-	-	-
Total operating and other expenses	143	333	3	476	11	142	24	30	34	80	797	18	815
Pre-tax profit	172	24	1	196	1	120	39	129	6	79	570	32	602
Provision for taxes on profit	62	9	-	71	-	43	14	47	2	29	206	12	218
After-tax profit	110	15	1	125	1	77	25	82	4	50	364	20	384
Share of banking corporation in earnings of associate companies	-	-	-	-	-	-	-	-	-	1	1	-	1
Net profit before attribution to non-controlling interests	110	15	1	125	1	77	25	82	4	51	365	20	385
Net profit attributed to non-controlling interests	-	(8)	-	(8)	-	-	-	-	-	(4)	(12)	-	(12)
Net profit attributable to shareholders of the banking corporation	110	7	1	117	1	77	25	82	4	47	353	20	373
Average balance of assets	112,286	18,310	3,763	130,596	75	14,907	4,829	14,416	1,566	40,108	206,497	10,692	217,189
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-	39	39	-	39
Average balance of loans to the public	112,286	18,310	3,186	130,596	75	14,907	4,829	14,416	1,566	-	166,389	3,260	169,649
Balance of loans to the public at end of reported period	112,884	18,355	3,472	131,239	98	15,019	4,966	13,966	1,321	-	166,609	3,415	170,024
Balance of impaired debts	22	77	-	99	-	297	69	203	9	-	677	6	683
Balance of debt in arrears 90 days or longer	827	23	-	850	-	51	-	8	-	-	909	-	909
Average balance of liabilities	-	70,314	3,763	70,314	10,554	15,367	6,849	28,231	35,588	33,865	200,768	9,158	209,926

	Operations in Israel Households	Operations in Israel Others	Operations in Israel Of which: Credit cards	Operations in Israel Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Management Segment	Operations in Israel Total - operations in Israel	Operations overseas Total - operations overseas	Total
Of which: Average balance of deposits from the public	-	70,314	-	70,314	10,554	15,367	6,849	28,231	35,588	-	166,903	4,760	171,663
Balance of deposits from the public at end of reported period	-	70,327	-	70,327	10,666	15,301	7,058	29,958	35,496	-	168,806	4,942	173,748
Average balance of risk assets ⁽¹⁾	61,338	16,100	1,620	77,438	32	13,758	6,692	22,812	2,508	5,584	128,824	3,670	132,494
Balance of risk assets at end of reported period ⁽¹⁾	62,037	16,454	1,671	78,491	34	13,970	6,948	21,947	2,515	5,732	129,637	3,712	133,349
Average balance of assets under management ⁽²⁾	6,250	39,930	-	46,180	2,593	12,780	3,843	24,891	143,218	265	233,770	-	233,770
Composition of interest revenues, net:													
Margin from credit granting operations	277	171	8	448	-	186	40	99	10	-	783	21	804
Margin from activities of receiving deposits	-	83	-	83	12	15	7	13	15	-	145	4	149
Other	7	1	-	8	-	6	1	-	-	70	85	18	103
Total interest revenues, net	284	255	8	539	12	207	48	112	25	70	1,013	43	1,056

(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.

(4) Reclassified. This reclassification is primarily due to Bank Yahav operations, mainly presented under the Household segment. After reclassification, Bank Yahav operations are also presented under Financial Management.

	Operations in Israel	Operations in Israel	Operations in Israel	Operations in Israel	Operations in Israel	Operations in Israel	Operations in Israel	Operations in Israel	Operations in Israel	Operations in Israel	Operations in Israel	Operations in Israel	Operations overseas	
	Households	Israel	Of which:	Israel	Private	Small and	Israel	Israel	Israel	Israel	Financial	Total -	Total -	
	loans	Others	Credit cards	Total	banking	micro	Medium	Large	Institutional	investors	Segment	operations in	operations	Total
						businesses	businesses	businesses				Israel	overseas	
Average balance of risk assets ⁽¹⁾	60,850	15,935	1,642	76,785	27	13,345	6,306	23,131	2,564	5,414	127,572	3,594	131,166	
Balance of risk assets at end of reported period ⁽¹⁾	63,247	16,892	1,615	80,139	24	13,963	5,920	20,813	2,375	5,277	128,511	3,391	131,902	
Average balance of assets under management ⁽²⁾	6,104	39,164	-	45,268	2,074	13,224	3,687	22,572	141,469	248	228,542	-	228,542	
Composition of interest revenues, net:														
Margin from credit granting operations	1,073	705	27	1,778	1	709	161	387	37	-	3,073	92	3,165	
Margin from activities of receiving deposits	-	329	-	329	46	54	23	57	59	-	568	11	579	
Other	27	2	-	29	-	18	3	11	-	(78)	(17)	51	34	
Total interest revenues, net	1,100	1,036	27	2,136	47	781	187	455	96	(78)	3,624	154	3,778	

(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.

(4) Reclassified. This reclassification is primarily due to Bank Yahav operations, mainly presented under the Household segment. After reclassification, Bank Yahav operations are also presented under Financial Management.

Note 12 - Operating Segments - continued

B. Operating segments in conformity with the 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 derivatives, 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 the 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 6-25 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 the 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 the management approach.
For the nine months ended September 30, 2016 (unaudited)

Reported amounts (NIS in millions)

	Households - other ⁽⁴⁾	Households - mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	392	1,920	(1)	415	121	457	(474)	2,830
Inter-segment	510	(1,226)	56	47	5	122	486	-
Total interest revenues, net	902	694	55	462	126	579	12	2,830
Non-interest financing revenues	2	-	1	1	-	12	160	176
Commissions and other revenues	402	111	44	204	37	193	⁽³⁾ 206	1,197
Total revenues	1,306	805	100	667	163	784	378	4,203
Expenses with respect to credit losses	61	7	-	90	4	(41)	(2)	119
Operating and other expenses	1,023	281	68	395	86	238	339	2,430
Pre-tax profit	222	517	32	182	73	587	41	1,654
Provision for taxes on profit	83	194	12	68	27	220	17	621
After-tax profit	139	323	20	114	46	367	24	1,033
Share in net profits of associated companies, after tax	-	-	-	-	-	-	1	1
Net profit:								
Before attribution to non-controlling interests	139	323	20	114	46	367	25	1,034
Attributable to non-controlling interests	(22)	-	-	(1)	-	-	(10)	(33)
Net profit attributable to shareholders of the Bank	117	323	20	113	46	367	15	1,001
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity) ⁽¹⁾	11.5%	7.6%	33.8%	18.8%	12.8%	14.3%	4.7%	11.0%
Average balance of loans to the public, net	21,368	105,031	1,049	10,590	4,538	22,284	-	164,860
Average balance of deposits from the public	74,293	-	7,288	15,340	5,654	54,426	10,501	167,502
Average balance of assets	21,222	105,324	1,812	10,735	4,600	27,415	43,155	214,263
Average balance of risk assets ⁽²⁾	18,455	58,067	832	8,018	4,953	35,320	5,336	130,981

(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.

(4) Reclassified. This reclassification is primarily due to Bank Yahav operations, mainly presented under the Household segment. After reclassification, Bank Yahav operations are also presented under Financial Management.

Note 12 - Operating Segments - continued
Operating segments in conformity with the management approach.
For the three months ended September 30, 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	169	509	(2)	157	41	148	(11)	1,011
Inter-segment	181	(225)	22	23	7	71	(79)	-
Total interest revenues, net	350	284	20	180	48	219	(90)	1,011
Non-interest financing revenues	1	-	-	1	-	5	54	61
Commissions and other revenues	130	36	14	73	13	48	60	374
Total revenues	481	320	34	254	61	272	24	1,446
Expenses with respect to credit losses	35	7	1	34	(2)	(34)	-	41
Operating and other expenses	420	153	22	154	36	91	96	972
Pre-tax profit	26	160	11	66	27	215	(72)	433
Provision for taxes on profit	10	59	4	25	10	80	(27)	161
After-tax profit	16	101	7	41	17	135	(45)	272
Share in net profits of associated companies, after tax	-	-	-	-	-	-	-	-
Net profit:								
Before attribution to non-controlling interests	16	101	7	41	17	135	(45)	272
Attributable to non-controlling interests	(6)	-	-	-	-	-	(5)	(11)
Net profit attributable to shareholders of the Bank	10	101	7	41	17	135	(50)	261
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity) ⁽¹⁾	2.3%	6.5%	56.7%	18.1%	13.3%	17.4%	-	8.0%

(1) Calculated in conformity with capital attributed to this segment based on risk elements attributed there to in conformity with provisions of Basel III.

Note 12 - Operating Segments - continued
Operating segments in conformity with the management approach.
For the three months ended September 30, 2016 (unaudited)

Reported amounts (NIS in millions)

	Households - other ⁽²⁾	Households - mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	108	850	(3)	134	56	162	(251)	1,056
Inter-segment	203	(606)	22	24	(13)	37	333	-
Total interest revenues, net	311	244	19	158	43	199	82	1,056
Non-interest financing revenues	1	-	-	1	-	7	31	40
Commissions and other revenues	131	37	14	71	11	63	53	380
Total revenues	443	281	33	230	54	269	166	1,476
Expenses with respect to credit losses								
	29	7	(1)	29	(2)	(2)	(1)	59
Operating and other expenses	340	95	24	134	30	81	111	815
Pre-tax profit	74	179	10	67	26	190	56	602
Provision for taxes on profit	27	65	4	24	9	69	20	218
After-tax profit	47	114	6	43	17	121	36	384
Share in net profits of associated companies, after tax								
	-	-	-	-	-	-	1	1
Net profit:								
Before attribution to non-controlling interests	47	114	6	43	17	121	37	385
Attributable to non-controlling interests	(8)	-	-	-	-	-	(4)	(12)
Net profit attributable to shareholders of the Bank	39	114	6	43	17	121	33	373
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity) ⁽¹⁾								
	12.8%	8.1%	35.2%	20.4%	14.6%	15.0%	31.8%	12.4%

(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) Reclassified. This reclassification is primarily due to Bank Yahav operations, mainly presented under the Household segment. After reclassification, Bank Yahav operations are also presented under Financial Management.

Note 12 - Operating Segments - continued

Operating segments in conformity with the management approach.

For the year ended December 31, 2016 (audited)

Reported amounts (NIS in millions)

	Households - other ⁽⁴⁾	Households - mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	557	2,461	(5)	560	158	580	(533)	3,778
Inter-segment	495	(1,518)	78	61	6	186	692	-
Total interest revenues, net	1,052	943	73	621	164	766	159	3,778
Non-interest financing revenues	3	-	1	2	5	21	263	295
Commissions and other revenues	536	149	60	266	49	257	⁽³⁾ 250	1,567
Total revenues	1,591	1,092	134	889	218	1,044	672	5,640
Expenses with respect to credit losses	81	11	(2)	120	5	(14)	(1)	200
Operating and other expenses	1,365	486	91	509	110	305	433	3,299
Pre-tax profit	145	595	45	260	103	753	240	2,141
Provision for taxes on profit	56	231	18	101	40	293	94	833
After-tax profit	89	364	27	159	63	460	146	1,308
Share in net profits of associated companies, after tax	-	-	-	-	-	-	-	-
Net profit:								
Before attribution to non-controlling interests	89	364	27	159	63	460	146	1,308
Attributable to non-controlling interests	(27)	-	-	(1)	-	-	(14)	(42)
Net profit attributable to shareholders of the Bank	62	364	27	158	63	460	132	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%	-	10.2%
Average balance of loans to the public, net	21,572	106,108	1,003	10,690	4,549	22,380	-	166,302
Average balance of deposits from the public	74,941	-	7,472	15,781	5,665	55,327	10,283	169,469
Average balance of assets	22,412	106,420	1,766	10,829	4,613	27,570	43,229	216,839
Average balance of risk assets ⁽²⁾	18,642	58,656	820	8,181	4,964	34,446	5,457	131,166

(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.

(4) Reclassified. This reclassification is primarily due to Bank Yahav operations, mainly presented under the Household segment. After reclassification, Bank Yahav operations are also presented under Financial Management.

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, the results of the private banking segment for third quarter and for the first nine months of 2017 would have amounted to gain of NIS 1 million and loss of NIS 11 million, respectively. Results of the private banking segment for the third quarter and first nine months of 2016 would have amounted to a loss of NIS 13 million and NIS 47 million, respectively.

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 third quarter and first nine months of 2017 would have amounted to loss of NIS 56 million and NIS 5 million, respectively. Results of the financial management segment for the third quarter and first nine months of 2016 would have amounted to a profit of NIS 61 million and NIS 104 million, respectively.

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 would have been unchanged for all periods in 2017 and in 2016.

Results of the private banking segment according to the management approach for the third quarter and first nine months of 2017 would have amounted to a gain of NIS 6 million and NIS 2 million, respectively. Results of the private banking segment for the third quarter and first nine months of 2016 would have amounted to a loss of NIS 8 million and NIS 34 million, respectively.

Results of the private banking segment according to the management approach for 2016 would have amounted to a loss of NIS 33 million.

Results of the financial management segment according to the management approach for the third quarter and first nine months of 2017 would have amounted to a profit of NIS 49 million and NIS 11 million, respectively. Results of the financial management segment for the third quarter and first nine months of 2016 would have amounted to a profit of NIS 47 million and NIS 69 million, respectively.

Results of the financial management segment according to the management approach for 2016 would have amounted to income amounting to NIS 87 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 September 30, 2017 - Provision for credit losses

	Commer- cial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	695	621	237	1,553	2	1,555
Expenses with respect to credit losses	2	6	33	41	-	41
Net accounting write-off ⁽²⁾	(41)	(2)	(45)	(88)	-	(88)
Recovery of debts written off in previous years ⁽²⁾	41	-	14	55	-	55
Net accounting write-offs	-	(2)	(31)	(33)	-	(33)
Balance of provision for credit losses at end of period	697	625	239	1,561	2	1,563
Of which: With respect to off balance sheet credit instruments	87	-	9	96	-	96

For the three months ended September 30, 2016 - Provision for credit losses

	Commer- cial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	675	611	199	1,485	2	1,487
Expenses with respect to credit losses	20	6	34	60	(1)	59
Net accounting write-off ⁽²⁾	(44)	(6)	(36)	(86)	-	(86)
Recovery of debts written off in previous years ⁽²⁾	49	-	12	61	-	61
Net accounting write-offs	5	(6)	(24)	(25)	-	(25)
Balance of provision for credit losses at end of period	700	611	209	1,520	1	1,521
Of which: With respect to off balance sheet credit instruments	107	-	9	116	-	116

For the nine months ended September 30, 2017 - Provision for credit losses

	Commer- cial	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	21	18	93	132	-	132
Net accounting write-off ⁽²⁾	(195)	(8)	(104)	(307)	-	(307)
Recovery of debts written off in previous years ⁽²⁾	147	-	42	189	-	189
Net accounting write-offs	(48)	(8)	(62)	(118)	-	(118)
Balance of provision for credit losses at end of period	697	625	239	1,561	2	1,563
Of which: With respect to off balance sheet credit instruments	87	-	9	96	-	96

For the nine months ended September 30, 2016 - Provision for credit losses

	Commer- cial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	697	614	195	1,506	3	1,509
Expenses with respect to credit losses	44	7	70	121	(2)	119
Net accounting write-off ⁽²⁾	(137)	(10)	(99)	(246)	-	(246)
Recovery of debts written off in previous years ⁽²⁾	96	-	43	139	-	139
Net accounting write-offs	(41)	(10)	(56)	(107)	-	(107)
Balance of provision for credit losses at end of period	700	611	209	1,520	1	1,521
Of which: With respect to off balance sheet credit instruments	107	-	9	116	-	116

- (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 debts will typically be subject to accounting write-off after two years. Debt measured on a 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 debts⁽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:

September 30, 2017 - Provision for credit losses

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Recorded debt balance of debt s ⁽¹⁾						
reviewed on individual basis	32,085	41	794	32,920	2,822	35,742
reviewed on group basis	9,593	119,629	17,944	147,166	-	147,166
Of which: for which a provision for credit losses is assessed by extent of arrears ⁽³⁾	1,178	118,870	-	120,048	-	120,048
Total debts	41,678	(2)119,670	18,738	180,086	2,822	182,908
Provision for credit losses with respect to debts ⁽¹⁾						
reviewed on individual basis	483	4	25	512	2	514
reviewed on group basis	127	621	205	953	-	953
Of which: for which a provision for credit losses is assessed by extent of arrears ⁽³⁾	5	621	-	626	-	626
Total provision for credit losses	610	625	230	1,465	2	1,467

September 30, 2016 - Provision for credit losses

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Recorded debt balance of debt s ⁽¹⁾						
reviewed on individual basis	29,480	22	726	30,228	4,504	34,732
reviewed on group basis	(4)9,979	113,174	(4)16,643	139,796	-	139,796
Of which: for which a provision for credit losses is assessed by extent of arrears ⁽³⁾	1,178	112,599	-	113,777	-	113,777
Total debts	39,459	113,196 ⁽²⁾	17,369	170,024	4,504	174,528
Provision for credit losses with respect to debts ⁽¹⁾						
reviewed on individual basis	505	1	21	527	1	528
reviewed on group basis	88	610	179	877	-	877
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	593	611	200	1,404	1	1,405

December 31, 2016 - Provision for credit losses

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Recorded debt balance of debts ⁽¹⁾ reviewed on individual basis	29,972	27	725	30,724	2,839	33,563
reviewed on group basis	⁽⁴⁾ 9,982	114,959	⁽⁴⁾ 17,114	142,055	-	142,055
Of which: the provision for credit losses is assessed by extent of arrears	1,243	114,373	-	115,616	-	115,616
Total debts	39,954	114,986⁽²⁾	17,839	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 6,085 million (as of September 30, 2016: NIS 5,652 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 418 million (as of September 30, 2016 - NIS 394 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 September 30, 2017

	Non problematic	Problematic ⁽²⁾ Non impaired	Problematic ⁽²⁾ Impaired ⁽³⁾	Total	Non impaired debts - additional information In arrears 90 days or longer ⁽⁴⁾	Non impaired debts - additional information In arrears 30 to 89 days ⁽⁵⁾
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction ⁽⁸⁾	11,699	79	97	11,875	27	43
Construction and real estate - real estate operations	1,987	7	22	2,016	-	10
Financial services	3,059	185	28	3,272	1	4
Commercial - other	20,473	533	374	21,380	37	102
Total commercial	37,218	804	521	38,543	65	159
Private individuals - housing loans	118,245	⁽⁷⁾ 1,024	41	119,310	⁽⁷⁾ 1,024	⁽⁶⁾ 441
Private individuals - other	18,267	150	73	18,490	25	73
Total public - activity in Israel	173,730	1,978	635	176,343	1,114	673
Banks in Israel	190	-	-	190	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	173,920	1,978	635	176,533	1,114	673
Borrower activity overseas						
Construction and real estate	1,606	-	-	1,606	-	-
Commercial - other	1,526	-	3	1,529	-	-
Total commercial	3,132	-	3	3,135	-	-
Private individuals	607	-	1	608	-	-
Total public - activity overseas	3,739	-	4	3,743	-	-
Overseas banks	2,206	-	-	2,206	-	-
Overseas governments	426	-	-	426	-	-
Total activity overseas	6,371	-	4	6,375	-	-
Total public	177,469	1,978	639	180,086	1,114	673
Total banks	2,396	-	-	2,396	-	-
Total governments	426	-	-	426	-	-
Total	180,291	1,978	639	182,908	1,114	673

(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 53 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 107 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 1,485 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 December 31, 2016

	Non problematic	Problematic ⁽²⁾ Non impaired	Problematic ⁽²⁾ Impaired ⁽³⁾	Total	Non impaired debts - additional information In arrears 90 days or longer ⁽⁴⁾	Non impaired debts - additional information 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	⁽⁹⁾ 3,504	311	17	⁽⁹⁾ 3,832	1	6
Commercial - other	19,727	490	379	20,596	68	74
Total commercial	35,253	841	580	36,674	79	102
Private individuals - housing loans	113,811	⁽⁷⁾ 853	27	114,691	⁽⁷⁾ 853	⁽⁶⁾ 407
Private individuals - other	⁽⁹⁾ 17,380	115	70	⁽⁹⁾ 17,565	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	677	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.

(9) Reclassified.

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:

September 30, 2017 - Credit segment

Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	40,350	118,605	18,514	426	2,396	180,291
Problematic non-impaired debts ⁽¹⁾	804	1,024	150	-	-	1,978
Impaired debts	524	41	74	-	-	639
Total	41,678	119,670	18,738	426	2,396	182,908

September 30, 2016 - Credit segment

Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	⁽²⁾ 38,340	112,347	⁽²⁾ 17,186	353	4,151	172,377
Problematic non-impaired debts ⁽¹⁾	531	827	110	-	-	1,468
Impaired debts	588	22	73	-	-	683
Total	39,459	113,196	17,369	353	4,151	174,528

December 31, 2016 - Credit segment

Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	⁽²⁾ 38,529	114,106	⁽²⁾ 17,654	330	2,509	173,128
Problematic non-impaired debts ⁽¹⁾	841	853	115	-	-	1,809
Impaired debts	584	27	70	-	-	681
Total	39,954	114,986	17,839	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

September 30, 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	70	16	27	97	178
Construction and real estate - real estate operations	8	-	14	22	53
Financial services	21	6	7	28	35
Commercial - other	221	80	153	374	470
Total commercial	320	102	201	521	736
Private individuals - housing loans	12	4	29	41	41
Private individuals - other	28	14	45	73	74
Total public - activity in Israel	360	120	275	635	851
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	360	120	275	635	851
Borrower activity overseas					
Public - commercial					
Construction and real estate	-	-	-	-	-
Commercial - other	3	-	-	3	3
Total commercial	3	-	-	3	3
Private individuals	-	-	1	1	2
Total public - activity overseas	3	-	1	4	5
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	3	-	1	4	5
Total public	363	120	276	639	856
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	363	120	276	639	856
Of which:					
Measured at present value of cash flows	354	120	263	617	
Debts under problematic debts restructuring	63	15	78	141	

(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

September 30, 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	89	12	21	110	227
Construction and real estate - real estate operations	58	-	20	78	238
Financial services	8	7	7	15	26
Commercial - other	254	80	122	376	475
Total commercial	409	99	170	579	966
Private individuals - housing loans	5	1	17	22	22
Private individuals - other	23	11	50	73	81
Total public - activity in Israel	437	111	237	674	1,069
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	437	111	237	674	1,069
Borrower activity overseas					
Public - commercial					
Construction and real estate	4	-	-	4	6
Commercial - other	5	-	-	5	9
Total commercial	9	-	-	9	15
Private individuals	-	-	-	-	3
Total public - activity overseas	9	-	-	9	18
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	9	-	-	9	18
Total public	446	111	237	683	1,087
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	446	111	237	683	1,087
Of which:					
Measured at present value of cash flows	359	111	188	547	
Debts under problematic debts restructuring	102	8	58	160	

(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

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	269 ⁽⁴⁾	112	110 ⁽⁴⁾	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

	For the three months ended September 30, 2017	For the three months ended September 30, 2017	For the three months ended September 30, 2017	For the three months ended September 30, 2016	For the three months ended September 30, 2016	For the three months ended September 30, 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	95	1	1	89	-	-
Construction and real estate - real estate operations	21	1	1	126	-	-
Financial services	30	-	-	18	1	1
Commercial - other	353	3	2	518	4	4
Total commercial	499	5	4	751	5	5
Private individuals - housing loans	33	-	-	31	-	-
Private individuals - other	71	1	-	77	1	1
Total public - activity in Israel	603	6	4	859	6	6
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	603	6	4	859	6	6
Borrower activity overseas						
Public - commercial						
Construction and real estate	2	-	-	4	-	-
Commercial - other	3	-	-	7	-	-
Total commercial	5	-	-	11	-	-
Private individuals	-	-	-	-	-	-
Total public - activity overseas	5	-	-	11	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	5	-	-	11	-	-
Total public	608	6	4	870	6	6
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total⁽⁴⁾	608	6	4	870	6	6

(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 debts accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 15 million (as of September 30, 2016 - NIS 11 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

B. Average balance and interest revenues

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2017	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016	For the nine months ended September 30, 2016	For the nine months ended September 30, 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	97	2	2	96	3	3
Construction and real estate - real estate operations	48	2	2	153	-	-
Financial services	24	-	-	31	1	1
Commercial - other	367	7	6	389	8	8
Total commercial	536	11	10	669	12	12
Private individuals - housing loans	32	-	-	15	-	-
Private individuals - other	69	2	1	76	2	2
Total public - activity in Israel	637	13	11	760	14	14
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	637	13	11	760	14	14
Borrower activity overseas						
Public - commercial						
Construction and real estate	2	-	-	4	-	-
Commercial - other	3	-	-	6	-	-
Total commercial	5	-	-	10	-	-
Private individuals	-	-	-	-	-	-
Total public - activity overseas	5	-	-	10	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	5	-	-	10	-	-
Total public	642	13	11	770	14	14
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total⁽⁴⁾	642	13	11	770	14	14

(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 debts accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 47 million (as of September 30, 2016 - NIS 39 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

September 30, 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	16	-	-	-	16
Construction and real estate - real estate operations	1	-	-	1	2
Financial services	3	-	-	-	3
Commercial - other	69	-	-	1	70
Total commercial	89	-	-	2	91
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	27	-	1	22	50
Total public - activity in Israel	116	-	1	24	141
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	116	-	1	24	141
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	116	-	1	24	141
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	116	-	1	24	141

(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. Debts ⁽¹⁾

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

September 30, 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	21	-	-	-	21
Construction and real estate - real estate operations	50	-	-	1	51
Financial services	3	-	-	-	3
Commercial - other	32	-	-	-	32
Total commercial	106	-	-	1	107
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	23	-	1	27	51
Total public - activity in Israel	129	-	1	28	158
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	129	-	1	28	158
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	130	-	1	29	160
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	130	-	1	29	160

(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. Debts⁽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 September 30, 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. Debts⁽¹⁾

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	Restructurings made ⁽²⁾ For the three months ended September 30, 2017 Number of contracts	Restructurings made ⁽²⁾ For the three months ended September 30, 2017 Recorded debt balance before restructuring	Restructurings made ⁽²⁾ For the three months ended September 30, 2017 Recorded debt balance after restructuring	Restructurings made ⁽²⁾ For the three months ended September 30, 2016 Number of contracts	Restructurings made ⁽²⁾ For the three months ended September 30, 2016 Recorded debt balance before restructuring	Restructurings made ⁽²⁾ For the three months ended September 30, 2016 Recorded debt balance after restructuring
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	9	3	4	2	-	-
Construction and real estate - real estate operations	1	-	-	-	-	-
Financial services	-	-	-	1	-	-
Commercial - other	53	5	4	26	4	4
Total commercial	63	8	8	29	4	4
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	107	5	6	106	4	3
Total public - activity in Israel	170	13	14	135	8	7
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	170	13	14	135	8	7
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	170	13	14	135	8	7
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	170	13	14	135	8	7

(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. Debts ⁽¹⁾

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2017	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016	For the nine months ended September 30, 2016	For the nine months ended September 30, 2016
	Restructurings made ⁽²⁾	Restructurings made ⁽²⁾	Restructurings made ⁽²⁾	Restructurings made ⁽²⁾	Restructurings made ⁽²⁾	Restructurings made ⁽²⁾
	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Recorded debt balance after restructuring	Recorded debt balance before restructuring	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	Number of contracts			Number of contracts		
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	30	8	8	13	2	2
Construction and real estate - real estate operations	6	1	-	2	-	-
Financial services	1	-	-	7	1	-
Commercial - other	162	108	51	91	12	12
Total commercial	199	117	59	113	15	14
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	445	20	20	376	16	14
Total public - activity in Israel	644	137	79	489	31	28
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	644	137	79	489	31	28
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	644	137	79	489	31	28
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	644	137	79	489	31	28

(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. Debts ⁽¹⁾

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	Restructurings made which are in default ⁽²⁾ For the three months ended September 30, 2017 Recorded debt balance Number of contracts	Restructurings made which are in default ⁽²⁾ For the three months ended September 30, 2017 Recorded debt balance Recorded debt balance	Restructurings made which are in default ⁽²⁾ For the three months ended September 30, 2016 Recorded debt balance Number of contracts	Restructurings made which are in default ⁽²⁾ For the three months ended September 30, 2016 Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	-	-	1	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial - other	12	1	6	-
Total commercial	12	1	7	-
Private individuals - housing loans	-	-	-	-
Private individuals - other	25	-	10	-
Total public - activity in Israel	37	1	17	-
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	37	1	17	-
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	37	1	17	-
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	37	1	17	-

(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. Debts ⁽¹⁾

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	Restructurings made which are in default ⁽²⁾ For the nine months ended September 30, 2017 Recorded debt balance Number of contracts	Restructurings made which are in default ⁽²⁾ For the nine months ended September 30, 2017 Recorded debt balance Recorded debt balance	Restructurings made which are in default ⁽²⁾ For the nine months ended September 30, 2016 Recorded debt balance Number of contracts	Restructurings made which are in default ⁽²⁾ For the nine months ended September 30, 2016 Recorded debt balance Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	5	-	4	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial - other	20	1	37	4
Total commercial	25	1	41	4
Private individuals - housing loans	-	-	-	-
Private individuals - other	67	1	85	2
Total public - activity in Israel	92	2	126	6
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	92	2	126	6
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	92	2	126	6
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	92	2	126	6

(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. Debts

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

September 30, 2017

	Housing loan balance	Housing loan balance Total	Housing loan balance Of which: Bullet / balloon	Housing loan balance Of which: Variable interest	Off-balance sheet credit risk Total
Senior lien: LTV ratio	Up to 60%	76,918	2,850	49,522	3,656
	Over 60%	42,503	494	27,897	1,460
Junior lien or no lien		249	2	181	1,093
Total		119,670	3,346	77,600	6,209

September 30, 2016

	Housing loan balance	Housing loan balance Total	Housing loan balance Of which: Bullet / balloon	Housing loan balance Of which: Variable interest	Off-balance sheet credit risk Total
Senior lien: LTV ratio	Up to 60%	70,374	2,454	45,785	4,121
	Over 60%	42,665	462	28,489	1,818
Junior lien or no lien		157	2	120	1,270
Total		113,196	2,918	74,394	7,209

December 31, 2016

	Housing loan balance	Housing loan balance Total	Housing loan balance Of which: Bullet / balloon	Housing loan balance Of which: Variable interest	Off-balance sheet credit risk Total
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 September 30, 2017 Commercial	For the three months ended September 30, 2017 Housing	For the three months ended September 30, 2017 Other	For the three months ended September 30, 2017 Total	For the three months ended September 30, 2016 Commercial	For the three months ended September 30, 2016 Housing	For the three months ended September 30, 2016 Other	For the three months ended September 30, 2016 Total
Loans acquired	-	-	55	55	-	-	85	85
Loans sold	-	546	-	546	113	725	-	838

	For the nine months ended September 30, 2017 Commercial	For the nine months ended September 30, 2017 Housing	For the nine months ended September 30, 2017 Other	For the nine months ended September 30, 2017 Total	For the nine months ended September 30, 2016 Commercial	For the nine months ended September 30, 2016 Housing	For the nine months ended September 30, 2016 Other	For the nine months ended September 30, 2016 Total
Loans acquired	90	-	363	453	-	-	85	85
Loans sold	187	1,276	-	1,463	898	1,431	-	2,329

D. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at the end of the year

	September 30, 2017 Balance ⁽¹⁾ (unaudited)	September 30, 2016 Balance ⁽¹⁾ (unaudited)	December 31, 2016 Balance ⁽¹⁾ (audited)	September 30, 2017 Provision for credit losses (unaudited)	September 30, 2016 Provision for credit losses (unaudited)	December 31, 2016 Provision for credit losses (audited)
Transactions in which the balance represents a credit risk:						
- Utilized debit account and other credit facilities in accounts available on demand	17,952	17,691	16,688	23	33	26
- Guarantees to home buyers	11,393	12,678	12,461	6	6	7
- Irrevocable commitments for loans approved but not yet granted	11,593	11,661	10,651	14	11	13
- Utilized revolving credit card facilities	6,745	7,378	7,559	4	7	7
- Commitments to issue guarantees	6,435	5,567	5,797	4	3	4
- Guarantees and other liabilities ⁽²⁾	5,367	4,772	4,869	23	25	22
- Loan guarantees	2,243	2,540	2,606	21	29	29
- Documentary credit	199	495	384	1	2	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 48 million. (as of September 30, 2016 and December 31, 2016 - NIS 66 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 September 30, 2017

Reported amounts (NIS in millions)

	Israeli currency Non-linked	Israeli currency CPI- linked	In foreign currency ⁽¹⁾ US dollars	In foreign currency ⁽¹⁾ Euro	In foreign currency ⁽¹⁾ Other currencies	Non- monetary items ⁽²⁾	Total
Assets							
Cash and deposits with banks	39,892	122	1,955	273	336	-	42,578
Securities	4,051	692	5,728	375	-	92	10,938
Securities loaned or acquired in conjunction with resale agreements	2	-	-	-	-	-	2
Loans to the public, net ⁽³⁾	118,592	49,950	6,257	2,207	1,615	-	178,621
Loans to Governments	-	-	207	191	28	-	426
Investments in associated companies	35	-	-	-	-	(2)	33
Buildings and equipment	-	-	-	-	-	1,359	1,359
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,824	381	307	240	56	-	3,808
Other assets	1,194	430	21	20	18	43	1,726
Total assets	166,590	51,575	14,475	3,306	2,053	1,579	239,578
Liabilities							
Deposits from the public	133,345	15,770	28,336	4,282	2,488	-	184,221
Deposits from banks	273	11	1,056	74	48	-	1,462
Deposits from the Government	33	2	25	-	-	-	60
Debentures and subordinated notes	8,277	20,852	-	-	-	-	29,129
Liabilities with respect to derivatives	2,392	124	440	304	33	-	3,293
Other liabilities	5,775	1,153	232	11	42	174	7,387
Total liabilities	150,095	37,912	30,089	4,671	2,611	174	225,552
Difference	16,495	13,663	(15,614)	(1,365)	(558)	1,405	14,026
Impact of hedging derivatives:							
Derivatives (other than options)	1,363	(1,363)	-	-	-	-	-
Non-hedging derivatives:							
Derivatives (other than options)	(15,935)	(2,223)	16,150	1,517	491	-	-
Net in-the-money options (in terms of underlying asset)	697	-	(638)	(45)	(14)	-	-
Net out-of-the-money options (in terms of underlying asset)	(133)	-	284	(116)	(35)	-	-
Total	2,487	10,077	182	(9)	(116)	1,405	14,026
Net in-the-money options (capitalized par value)	(631)	-	109	526	(4)	-	-
Net out-of-the-money options (capitalized par value)	639	-	(258)	(410)	29	-	-

(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 September 30, 2016

Reported amounts (NIS in millions)

	Israeli currency Non-linked	Israeli currency CPI- linked	In foreign currency ⁽¹⁾ US dollars	In foreign currency ⁽¹⁾ Euro	In foreign currency ⁽¹⁾ Other currencies	Non- monetary items ⁽²⁾	Total
Assets							
Cash and deposits with banks	36,498	121	3,651	196	287	-	40,753
Securities	5,138	204	3,536	399	21	109	9,407
Securities loaned or acquired in conjunction with resale agreements	16	-	-	-	-	-	16
Loans to the public, net ⁽³⁾	107,786	49,821	7,393	1,971	1,649	-	168,620
Loans to Governments	-	-	147	206	-	-	353
Investments in associated companies	34	-	-	-	-	-	34
Buildings and equipment	-	-	-	-	-	1,537	1,537
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,619	278	307	19	44	-	3,267
Other assets	969	300	118	16	1	42	1,446
Total assets	153,060	50,724	15,152	2,807	2,002	1,775	225,520
Liabilities							
Deposits from the public	121,456	17,153	26,839	5,649	2,651	-	173,748
Deposits from banks	258	265	635	88	9	-	1,255
Deposits from the Government	20	5	28	-	-	-	53
Debentures and subordinated notes	5,610	21,643	-	-	-	-	27,253
Liabilities with respect to derivatives	2,664	186	424	217	29	-	3,520
Other liabilities	5,153	759	235	9	42	167	6,365
Total liabilities	135,161	40,011	28,161	5,963	2,731	167	212,194
Difference	17,899	10,713	(13,009)	(3,156)	(729)	1,608	13,326
Impact of hedging derivatives:							
Derivatives (other than options)	2,360	(2,360)	-	-	-	-	-
Non-hedging derivatives:							
Derivatives (other than options)	(12,721)	(3,839)	13,114	2,861	585	-	-
Net in-the-money options (in terms of underlying asset)	(307)	-	(37)	337	7	-	-
Net out-of-the-money options (in terms of underlying asset)	(22)	-	52	(27)	(3)	-	-
Total	7,209	4,514	120	15	(140)	1,608	13,326
Net in-the-money options (capitalized par value)	(530)	-	268	259	3	-	-
Net out-of-the-money options (capitalized par value)	1,041	-	(482)	(639)	80	-	-

(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 December 31, 2016

Reported amounts (NIS in millions)

	Israeli currency Non-linked	Israeli currency CPI- linked	In foreign currency ⁽¹⁾ US dollars	In foreign currency ⁽¹⁾ Euro	In foreign currency ⁽¹⁾ 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 associated companies	35	-	-	-	-	(1)	34
Buildings and equipment	-	-	-	-	-	1,585	1,585
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	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 derivatives	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 derivatives:							
Derivatives (other than options)	2,159	(2,159)	-	-	-	-	-
Non-hedging derivatives:							
Derivatives (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 September 30, 2017 (unaudited) - Fair value

	Book balance	Fair value Level 1 ⁽¹⁾	Fair value Level 2 ⁽¹⁾	Fair value Level 3 ⁽¹⁾	Fair value Total
Financial assets					
Cash and deposits with banks	42,578	6,530	34,868	1,165	42,563
Securities ⁽³⁾	10,938	7,819	3,115	86	11,020
Securities loaned or acquired in resale agreements	2	2	-	-	2
Loans to the public, net	178,621	354	9,936	⁽⁵⁾ 168,274	178,564
Loans to Governments	426	-	-	417	417
Investments in associated companies	33	-	-	36	36
Assets with respect to derivatives	3,808	148	2,723	⁽²⁾ 937	3,808
Other financial assets	676	14	-	663	677
Total financial assets	⁽⁴⁾ 237,082	14,867	50,642	171,578	237,087
Financial liabilities					
Deposits from the public	184,221	354	49,207	136,717	186,278
Deposits from banks	1,462	-	445	1,082	1,527
Deposits from the Government	60	-	-	64	64
Debentures and subordinated notes	29,129	28,463	-	1,451	29,914
Liabilities with respect to derivatives	3,293	148	2,208	⁽²⁾ 937	3,293
Other financial liabilities	5,721	401	3,831	1,489	5,721
Total financial liabilities	⁽⁴⁾ 223,886	29,366	55,691	141,740	226,797

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurements using other significant observed data. Level 3 - Fair value measurements 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 62,105 million and NIS 50,212 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 September 30, 2016 (unaudited)

	Book balance	Fair value Level 1 ⁽¹⁾	Fair value Level 2 ⁽¹⁾	Fair value Level 3 ⁽¹⁾	Fair value Total
Financial assets					
Cash and deposits with banks	40,753	8,239	31,378	1,121	40,738
Securities ⁽³⁾	9,407	6,521	2,877	99	9,497
Securities loaned or acquired in resale agreements	16	16	-	-	16
Loans to the public, net	168,620	288	⁽⁵⁾ 10,386	⁽⁵⁾ 157,696	168,370
Loans to Governments	353	-	-	353	353
Investments in associated companies	34	-	-	34	34
Assets with respect to derivatives	3,267	254	⁽²⁾ 1,370	⁽²⁾ 1,643	3,267
Other financial assets	481	-	-	481	481
Total financial assets	⁽⁴⁾ 222,931	15,318	46,011	161,427	222,756
Financial liabilities					
Deposits from the public	173,748	288	44,671	130,992	175,951
Deposits from banks	1,255	-	227	1,104	1,331
Deposits from the Government	53	-	-	58	58
Debentures and subordinated notes	27,253	26,351	-	1,676	28,027
Liabilities with respect to derivatives	3,520	268	1,447	⁽²⁾ 1,805	3,520
Other financial liabilities	4,984	215	3,864	904	4,983
Total financial liabilities	⁽⁴⁾ 210,813	27,122	50,209	136,539	213,870

(1) Level 1 - Fair value measurements using quoted prices on an active market. Level 2 - Fair value measurements using other significant observed data. Level 3 - Fair value measurements 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 57,788 million and NIS 48,000 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) Includes embedded derivatives in loans to the public, net and in deposits from the public, amounting to NIS 2 million and NIS 1 million, respectively.

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⁾	Fair value Level 2 ⁽¹⁾	Fair value Level 3 ⁽¹⁾	Fair value 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 acquired 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 associated companies	35	-	-	35	35
Assets with respect to derivatives	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 derivatives	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 measurements using other significant observed data. Level 3 - Fair value measurements 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 September 30, 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	1,335	3,080	-	4,415
Of foreign governments	2,961	-	-	2,961
Of banks and financial institutions overseas	-	18	-	18
Of others overseas	-	17	-	17
Shares	3	-	-	3
Securities held for trade:				
Debentures of the Government of Israel	180	-	-	180
Securities loaned or purchased in resale agreements				
	2	-	-	2
Credit with respect to loans to clients				
	354	-	-	354
Assets with respect to derivatives⁽¹⁾				
Interest contracts:				
NIS / CPI	-	249	116	365
Other	-	892	20	912
Currency contracts	48	1,487	688	2,223
Contracts for shares	100	95	108	303
Commodities and other contracts	-	-	5	5
Other	-	-	5	5
Total assets	4,983	5,838	942	11,763
Liabilities				
Deposits with respect to borrowing from clients				
	354	-	-	354
Liabilities with respect to derivatives⁽¹⁾				
Interest contracts:				
NIS / CPI	-	108	75	183
Other	-	1,199	41	1,240
Currency contracts	47	829	704	1,580
Contracts for shares	101	72	114	287
Commodities and other contracts	-	-	3	3
Other financial liabilities	401	-	-	401
Total liabilities	903	2,208	937	4,048

(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 September 30, 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	1,952	2,839	-	4,791
Of foreign governments	1,021	-	-	1,021
Of banks and financial institutions overseas	-	19	-	19
Of others overseas	-	19	-	19
Shares	3	-	-	3
Securities held for trade:				
Debentures of the Government of Israel	230	-	-	230
Securities loaned or acquired in resale agreements				
	16	-	-	16
Credit with respect to loans to clients				
	288	-	-	288
Assets with respect to derivatives⁽¹⁾				
Interest contracts:				
NIS / CPI	-	201	226	427
Other	-	569	608	1,177
Currency contracts	61	598	705	1,364
Contracts for shares	193	2	103	298
Commodities and other contracts	-	-	1	1
Other financial assets	-	-	2	2
Total assets	3,764	4,247	1,645	9,656
Liabilities				
Deposits with respect to borrowing from clients				
	288	-	-	288
Liabilities with respect to derivatives⁽¹⁾				
Interest contracts:				
NIS / CPI	-	147	64	211
Other	-	840	754	1,594
Currency contracts	75	460	775	1,310
Contracts for shares	193	-	207	400
Commodities and other contracts	-	-	5	5
Other financial liabilities	215	-	-	215
Total liabilities	771	1,447	1,805	4,023

(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 trade:				
Debentures of the Government of Israel	348	-	-	348
Securities loaned or purchased in resale agreements				
	9	-	-	9
Credit with respect to loans to clients				
	331	-	-	331
Assets with respect to derivatives⁽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	5,177	3,958	1,725	10,860
Liabilities				
Deposits with respect to borrowing from clients				
	331	-	-	331
Liabilities with respect to derivatives⁽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
Other financial liabilities	205	-	-	205
Total liabilities	879	1,385	1,838	4,102

(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 September 30, 2017 (unaudited) - Fair value Level 1 ⁽¹⁾	As of September 30, 2017 (unaudited) - Fair value Level 2 ⁽¹⁾	As of September 30, 2017 (unaudited) - Fair value Level 3 ⁽¹⁾	As of September 30, 2017 (unaudited) - Fair value Total	For the three months ended September 30, 2017 Gain (loss)	For the nine months ended September 30, 2017 Gain (loss)
Impaired credit whose collection is contingent on collateral	-	-	22	22	23	68

	As of September 30, 2016 (unaudited) - Fair value Level 1 ⁽¹⁾	As of September 30, 2016 (unaudited) - Fair value Level 2 ⁽¹⁾	As of September 30, 2016 (unaudited) - Fair value Level 3 ⁽¹⁾	As of September 30, 2016 (unaudited) - Fair value Total	For the three months ended September 30, 2016 Gain (loss)	For the nine months ended September 30, 2016 Gain (loss)
Impaired credit whose collection is contingent on collateral	-	-	136	136	11	11

	December 31, 2016 Fair value Level 1 ⁽¹⁾	December 31, 2016 Fair value Level 2 ⁽¹⁾	December 31, 2016 Fair value Level 3 ⁽¹⁾	December 31, 2016 Fair value Total	For the year ended December 31, 2016 Gain (loss)
Impaired credit whose collection is contingent on collateral	-	-	79	79	19

(1) Level 1 - Fair value measurements using quoted prices on an active market. Level 2 - Fair value measurements using other significant observed data. Level 3 - Fair value measurements 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 September 30, 2017 (unaudited)

	Fair value as of June 30, 2017	Realized / unrealized gains (losses) included, net ⁽¹⁾ In statement of profit and loss	Realized / unrealized gains (losses) included, net ⁽¹⁾ In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2017	Unrealized gains(losses) with respect to instruments held as of September 30, 2017
Assets									
Assets with respect to derivatives⁽²⁾⁽³⁾									
Interest contracts:									
NIS / CPI	100	13	-	-	-	(8)	11	116	99
Other	26	(3)	-	-	-	(3)	-	20	56
Currency contracts	903	(13)	-	219	-	(421)	-	688	434
Contracts for shares	111	(5)	-	22	-	(20)	-	108	-
Commodities and other contracts	7	(1)	-	-	-	(1)	-	5	-
Other	7	-	-	-	-	(2)	-	5	-
Total assets	1,154	(9)	-	241	-	(455)	11	942	589
Liabilities									
Liabilities with respect to derivatives⁽²⁾⁽³⁾									
Interest contracts:									
NIS / CPI	80	(10)	-	-	-	-	5	75	17
Other	46	(1)	-	-	-	(4)	-	41	64
Currency contracts	1,076	(65)	-	194	-	(501)	-	704	466
Contracts for shares	76	69	-	26	-	(57)	-	114	-
Commodities and other contracts	3	2	-	-	-	(2)	-	3	-
Total liabilities	1,281	(5)	-	220	-	(564)	5	937	547

(1) Realized gains (losses) 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 September 30, 2016 (unaudited)

	Fair value as of June 30, 2016	Realized / unrealized gains (losses) included, net ⁽¹⁾ In statement of profit and loss	Realized / unrealized gains (losses) included, net ⁽¹⁾ In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2016	Unrealized gains(losses) with respect to instruments held as of September 30, 2016
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	78	(78)	-	-	-	-	-	-	(196)
Assets with respect to derivatives⁽²⁾⁽³⁾									
Interest contracts:									
NIS / CPI	249	(16)	-	-	-	(7)	-	226	259
Other	641	(34)	-	1	-	-	-	608	668
Currency contracts	716	152	-	212	-	(375)	-	705	502
Contracts for shares	90	16	-	14	-	(17)	-	103	-
Commodities and other contracts	3	(2)	-	1	-	(1)	-	1	1
Other	2	-	-	-	-	-	-	2	-
Total assets	1,779	38	-	228	-	(400)	-	1,645	1,234
Liabilities									
Liabilities with respect to derivatives⁽²⁾⁽³⁾									
Interest contracts:									
NIS / CPI	73	(4)	-	-	-	(5)	-	64	76
Other	782	(27)	-	1	-	(2)	-	754	893
Currency contracts	732	(7)	-	345	-	(295)	-	775	591
Contracts for shares	196	12	-	15	-	(16)	-	207	-
Commodities and other contracts	4	1	-	1	-	(1)	-	5	1
Other	3	-	-	1	-	(3)	-	1	-
Total liabilities	1,790	(25)	-	363	-	(322)	-	1,806	1,561

(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:

For the nine months ended September 30, 2017 (unaudited)

	Fair value as of January 01, 2017	Realized / unrealized gains (losses) included, net ⁽¹⁾ In statement of profit and loss	Realized / unrealized gains (losses) included, net ⁽¹⁾ In statement of comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2017	Unrealized gains(losses) with respect to instruments held as of September 30, 2017
Assets									
Assets with respect to derivatives⁽²⁾⁽³⁾									
Interest contracts:									
NIS / CPI	205	(59)	-	1	-	(55)	24	116	99
Other	517	(488)	-	-	-	(9)	-	20	56
Currency contracts	660	266	-	910	-	(1,148)	-	688	434
Contracts for shares	328	(154)	-	73	-	(139)	-	108	-
Commodities and other contracts	7	1	-	-	-	(3)	-	5	-
Other	8	-	-	2	-	(5)	-	5	-
Total assets	1,725	(434)	-	986	-	(1,359)	24	942	589
Liabilities									
Liabilities with respect to derivatives⁽²⁾⁽³⁾									
Interest contracts:									
NIS / CPI	64	(31)	-	2	-	(19)	59	75	17
Other	669	(612)	-	1	-	(17)	-	41	64
Currency contracts	790	388	-	901	-	(1,375)	-	704	466
Contracts for shares	311	(92)	-	48	-	(153)	-	114	-
Commodities and other contracts	4	3	-	-	-	(4)	-	3	-
Total liabilities	1,838	(344)	-	952	-	(1,568)	59	937	547

(1) Realized gains (losses) 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 nine months ended September 30, 2016 (unaudited)

	Fair value as of January 01, 2016	Realized / unrealized gains (losses) included, net ⁽¹⁾ In statement of profit and loss	Realized / unrealized gains (losses) included, net ⁽¹⁾ In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2016	Unrealized gains(losses) with respect to instruments held as of September 30, 2016
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	196	(196)	-	-	-	-	-	-	(196)
Assets with respect to derivatives⁽²⁾⁽³⁾									
Interest contracts:									
NIS / CPI	125	5	-	-	-	(17)	113	226	259
Other	68	545	-	2	-	(7)	-	608	668
Currency contracts	462	211	-	1,168	-	(1,136)	-	705	502
Contracts for shares	69	27	-	76	-	(69)	-	103	-
Commodities and other contracts	1	-	-	2	-	(2)	-	1	1
Other	3	(1)	-	-	-	-	-	2	-
Total assets	924	591	-	1,248	-	(1,231)	113	1,645	1,234
Liabilities									
Liabilities with respect to derivatives⁽²⁾⁽³⁾									
Interest contracts:									
NIS / CPI	18	1	-	4	-	(6)	47	64	76
Other	120	638	-	3	-	(7)	-	754	893
Currency contracts	502	(26)	-	1,652	-	(1,353)	-	775	591
Contracts for shares	178	88	-	89	-	(148)	-	207	-
Commodities and other contracts	-	4	-	3	-	(2)	-	5	1
Other	-	3	-	1	-	(3)	-	1	-
Total liabilities	818	708	-	1,752	-	(1,519)	47	1,806	1,561

(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

	Fair value as of December 31, 2015	Realized / unrealized gains (losses) included, net ⁽¹⁾ In statement of profit and loss	Realized / unrealized gains (losses) included, net ⁽¹⁾ In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of December 31, 2016	Unrealized gains(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 derivatives⁽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 derivatives⁽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 (losses) 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 September 30, 2017	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivatives:					
Interest contracts - NIS CPI	67	Cash flows discounting	Inflationary expectations	0.11% - 0.10%	0.10%
Contracts for shares	83	Options pricing model	Standard deviation per share	38.41% - 38.41%	38.41%
Other	792	Cash flows discounting	Counter-party credit quality	0.30% - 3.10%	1.38%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	70	Cash flows discounting	Inflationary expectations	0.10% - 0.10%	0.10%
Other	867	Cash flows discounting	Counter-party credit quality	0.30% - 3.10%	1.89%

	Fair value as of September 30, 2016	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivatives:					
Interest contracts - NIS CPI	106	Cash flows discounting	Inflationary expectations	0.24% - 0.25%	0.24%
Contracts for shares	2	Options pricing model	Standard deviation per share	55.69% - 55.69%	55.7%
Other	1,537	Cash flows discounting	Counter-party credit quality	0.30% - 3.30%	2.00%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	29	Cash flows discounting	Inflationary expectations	0.24% - 0.24%	0.24%
Other	1,777	Cash flows discounting	Counter-party credit quality	0.30% - 3.30%	2.10%

	Fair value as of December 31, 2016	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivatives:					
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 per share	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 derivatives:					
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 September 30, 2017, December 31, 2016 and September 30, 2016, the Bank did not select the fair value option.

Note 16 - Other matters

- A. On August 31, 2017, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 12, 2017, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Furthermore, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Act, all as set forth in a report issued by the Bank on August 31, 2017, reference 2017-01-088584 (hereinafter: "the outline report"). (In addition, stock option reserves were approved to be issued in two additional annual lots for 2018 and 2019, in addition to those allocated in 2017, which issue would be subject to the required approvals from the Remuneration Committee and the Board of Directors in due course).

As resolved by the Board of Directors on August 31, the following option plans were approved:

- Option plan A - up to 572,985 options A to be awarded to up to seven Bank officers who are not gatekeepers, exercisable for up to 572,985 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B - up to 254,076 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 254,076 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C - up to 180,353 options C to be awarded to up to four key Bank employees and up to thirteen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 180,353 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D - up to 978,796 options D to be awarded to up to sixty-nine managers employed by the Bank subject to individual employment contracts and up to thirty-one other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 978,796 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E - up to 1,365,244 options E to be awarded to up to two hundred sixty-seven managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,365,244 Bank ordinary shares of NIS 0.1 par value each.

The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms and conditions of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is but theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms and conditions of each plan - but only the number of shares reflecting the monetary benefit inherent in those options, based, *inter alia*, on the closing price cap of NIS 90 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date. Also note that the number of exercise shares for each plan is subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

The options to be issued in the name of the Trustee on behalf of each officer, pursuant to option plans A,B or C would be in three equal lots, which may be exercised as from April 1, 2019, April 1, 2020 and April 1, 2021 and would expire eighteen months after said date.

All options issued pursuant to option plans D and E may be exercised in a single lot from the 2nd to the 5th anniversaries of the issue date.

An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

Return on equity for the bonus year shall be at least 9%;

Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel regulations.

Note 16 - Other matters - continued

In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B to be issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in the annual lot for 2017 would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion.
- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report. The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans. The exercise price for each option to be issued pursuant to any of the plans is NIS 64.65 plus CPI linkage differentials, from the known CPI upon approval of option issuance to offerees by the Board of Directors to the known CPI upon the option exercise date by the offeree. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the offeree would not be required to pay the exercise price - which would only serve to determine the monetary benefit amount and the number of exercise shares actually issued to the offeree.

For calculation of fair value as of approval of the option award by the Board of Directors, as noted above, the terms of the option plans and the data and assumptions as listed in the outline report were taken into account.

Based on the aforementioned assumptions, as stated in the outline report, the fair value of each option awarded pursuant to each of the option plans, as of the approval date of option issuance by the Board of Directors, is as follows:

- Options A - NIS 7.33;
- Options B - NIS 7.36;
- Options C - NIS 7.22;
- Options D and E - NIS 8.63.

The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 28 million.

The theoretical lot value will be recognized on Bank accounts over the vesting period, i.e. from the third quarter of 2017 through the end of the year.

The options would be allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. Therefore, the Bank would not be liable for payroll tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned options.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit) are described in an Immediate Report dated August 31, 2017, reference 2017-01-088584. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Note 16 - Other matters - continued

- B. On September 18, 2017, the Board of Directors of the Bank decided to cancel 2,500,000 shares of NIS 0.1 par value each of the Bank's issued share capital acquired by the Bank which constitute dormant shares that do not confer any rights in the Bank. Accordingly, on September 25, 2017, the dormant shares were canceled in the Bank's records. Cancellation of the dormant shares does not affect shareholder equity attributed to Bank shareholders, non-controlling interest nor supervisory capital for the Bank .

Note 17 - Events after the balance sheet date

On November 13, 2017, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 78.3 million, 30% of earnings in the third quarter of 2017.

The dividend's amount is 336.7% of issued share capital, i.e. NIS 0.3367 per NIS 0.1 par value share. The effective date for dividends payment is November 26, 2017 and the payment date is December 10, 2017. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount will be deducted from retained earnings in the fourth 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 nine months of 2017, the Bank's Board of Directors held 16 plenary meetings. During this period there were also 49 meetings of Board committees and 3 Board member workshops.

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 nine months 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.

Fixed assets and installations

For more information about the Bank of Israel's letter on streamlining, including reduction of real estate cost and maintenance costs of the headquarters units, as well as sale and lease back of interest in the building where Bank headquarters offices are currently located, as well as the Bank's plan to relocate its headquarters units, see Note 9M to the financial statements.

Human Resources

For more information about the memorandum of understanding between reached by management and by the employee union with regard to the wage agreement for 2016-2021, see chapter "Significant Events in the Bank Group's Business" in the Report of the Board of Directors and Management.

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. Indeed, provisions with regard to Variation Margin became effective for entities such as the Bank as from March 1, 2017. However, an extension has been granted through September 1, 2017. The Bank continues to prepare 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.

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 and an extension was granted until September 1, 2017. The Bank applies the relevant provisions to it and has adapted the activity agreements in derivatives (ISDA agreements and the CSA appendix) with the entities relevant to the 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 individuals, 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. The Bank is applying this new definition.

Financial Services Supervision Act (Regulated Financial Services), 2016

The Act became effective on June 1, 2017. The Act 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.

According to the Act, as from June 1, 2017 it is not permitted to engage in Israel in "extending credit" (which is very widely defined) without a valid license, contingent on minimum capital, verification of good standing and supervision by the Supervisor of Capital Market, Insurance and Savings. As from June 1, 2018, it would not be permitted to engage in Israel in "provision of service in financial assets" without an appropriate license. 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. Currently, Bank clients that provide discounting and lending services are subject to licensing pursuant to the new Act and the Bank has contacted the relevant clients, requiring them to present their license or, alternatively, to certify that they do not extend credit.

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:

- 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 (hereinafter: "the Fund"), which would be liable for reimbursing this component to the buyer in case of materialization of any of the causes listed in the law; this reimbursement would be done through the lending banks, requiring various reports upon demand from the Funds, from the assisting banks with regard to projects which are subject to this amendment to the law.

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 14, 2017.

The Bank is acting in conformity with this legislative amendment and applies it.

- 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).

Insurance companies that act in this regard in co-operation with the Bank have applied the legislative amendment.

Application of the amendment has no impact on the Bank's financial statements.

Restructuring of the Stock Exchange

On April 6, 2017, the Securities Law (Amendment No. 63), 2017 was officially published, concerning restructuring of the Stock Exchange.

The Law 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. It 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 Law further stipulates arrangements for allocation of share capital of the Stock Exchange among members thereof and sale of holdings in excess of 5%. In conformity with the Act, on June 29, 2017 the Stock Exchange filed a request to convene a General Meeting of Stock Exchange members, in order to approve an arrangement on changes to the Stock Exchange structure in conformity with Section 350 of the Companies Law (hereinafter: "the Arrangement"). In the proposed Arrangement, bylaws of the clearinghouses were amended so that clearinghouse members would not take part in its management and objections were made to the proposed text. The Court approved the motion to convene a General Meeting and ordered

that should agreement be reached on the change to wording of a proposed resolution on amendment of the clearinghouse Bylaws, no further Court hearing would be required. Consequently, provisions with regard to amendment of clearinghouse Bylaws were revised to include claim and audit proceedings and have been approved by the Stock Exchange Audit Committee and Board of Directives (hereinafter: "the Revision"). On August 10, the Arrangement was approved, as amended, by the General Meeting of Stock Exchange members; on August 16, a motion was filed with the Tel Aviv District Court for approval of the Agreement pursuant to Section 350 of the Corporate Act. On September 7, 2017, the Court approved the arrangement for changing the stock exchange structure.

On September 18, 2017, the Bank received a letter from the Tel Aviv Stock Exchange, containing a notice of share allocation to the Bank and registration of the Bank in the Stock Exchange's register of shareholders.

At this stage the Act has no effect on the financial statements; the Bank is reviewing any potential future effects.

Sale Announcement (Apartments) (Securing Investments of Home Buyers), 2017

On May 25, 2017, the Sale Announcement (Apartments) (Securing Investments of Home Buyers), 2017 was made public, including revision of the amounts of monetary sanctions imposed on a seller or on a financing provider with respect to breach of duty imposed there upon by the Act due to increase in the Consumer Price Index.

For a corporation providing financial assistance - revision of the amount of sanctions with respect to breach of duty to issue payment vouchers and to accept buyer payments using such vouchers into the project account.

For a corporation providing financing to buyers - revision of the amount of sanctions with respect to breach of duty to inform the buyer of their rights to secure funds by law and the obligation to transfer loan funds after verifying that the buyer received a guarantee or written commitment by the seller to issue one.

The revised regulation is effective as from the announcement date.

Application of the amendment has no impact on the Bank's financial statements.

The Non-banking Loans Arrangement Law (Amendment 5), 2017

On August 6, 2017, the Law, known as the "Fair Credit Law", was published.

The law applies to credit extended to individuals from banking corporations, settlement providers, insurers and management companies.

The Justice Minister, with consent of the Finance Minister, the Governor and with approval of the Constitution Committee, is authorized to extend its scope, in whole or in part, to credit granted to corporations.

The Law provides a uniform maximum interest rate for all lending entities and applies to:

- Loans in NIS: The Bank of Israel interest rate plus 15%.
- Loans in foreign currency: One-year LIBOR interest rate plus 15% (for currencies for which LIBOR is not published - the interest rate of the central bank in that country plus 15%).
- Arrears interest: Maximum interest rate multiplied by 1.2.

In the third year after implementation of the Law, the Finance Minister will examine the average interest rate for credit extended by banks and will be authorized to reduce the maximum borrowing cost.

The following were excluded from the scope of the uniform maximum interest rate:

- Short-term loans (up to 3 months) - capped at a maximum of 5% over the maximum interest rate (i.e. currently: Bank of Israel / LIBOR interest (as the case may be) plus 20%).
- Transactions involving discounting a note for business (non-personal) use are not subject to this interest cap.
- Loans subject to an interest rate decree, pursuant to the Interest Law (such as arrears interest for housing loans or CPI-linked loans).

Any violation of statutory provisions may result in imposition of financial sanctions.

The provisions of the Law would apply only to new loans. The effective start date of the Law is November 6, 2018.

The Bank is preparing to implement the Act. Application of the Act is not expected to have any material impact on the Bank's financial statements.

Banking Rules (Customer Service) (Commissions) (Amendment), 2017

On August 24, 2017, the following rules were published:

- As of September 23, 2017, the Bank may charge a casual client a commission higher than the one charged to clients who are account holders at the Bank.
- As from November 1, 2017, a commission for service provided by direct channel must be lower than the commission amount or rate for the same service provided by a teller. The Bank is also required to add an appendix to its price list (the price list for individuals and small businesses) listing the benefits of direct channel transactions.

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

Circulars and Public Reporting Regulations

Streamlining operations of the banking system in Israel

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.

For more information about the plan to relocate operations of Bank headquarters units to one central site in Lod, as approved by the Bank's Board of Directors, see Note 9 to these financial statements.

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.

Board of Directors

On July 5, 2017, the Bank of Israel issued an update to Proper Banking Conduct Directive 301 concerning "Board of Directors". These updates to the regulation are designed to improve the effectiveness of Board work and to enhance the professional qualifications of the Board of Directors as a corporate organ. The revised regulation stipulates, *inter alia*, that the Board of Directors may not consist of more than 10 members, in lieu of 15 members currently; expands the definition of "having banking experience" and increases the number of Board members required to have such experience from one fifth to one third; stipulates that the Board of Directors shall include at least one Board member with proven experience in technology; reduces the list of topics for which Board authority may not be delegated to Board committees; stipulates that the Board of Directors should set policy on the maximum term in office of the Chairman of the Board of Directors; as well as other provisions with regard to Board authority, work and function.

The revised regulation is effective as from the circular issue date. As for the number and qualifications of Board members, the effective start date is July 1, 2020. The Bank is preparing to implement the revised regulation.

Bank's credit rating

On October 24, 2017, S&P GLOBAL RATINGS MAALOT LTD (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of iIAAA with a Stable rating outlook.

The rating of subordinated notes issued by Tefahot Issuance is one rank below the issuer rating, i.e. rated iIAA+. 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 iIA+.

The negotiable contingent subordinated notes (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated iIAA-.

On September 10, 2017, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") issued an initial rating of the Bank. The long-term deposits and senior debt of the Bank were rated Aaa.il / Stable outlook. Subordinated capital notes (Lower Tier II capital) were rated Aa1.il / Stable outlook and subordinated capital notes (Upper Tier II capital) were rated Aa2.il / Stable outlook.

Subordinated notes with contractual loss-absorption provisions (CoCo) were rated Aa3.il / Stable outlook.

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.

Interest Revenue and Expense Rates - of the Bank and its Subsidiaries⁽¹⁾ - continued

Reported amounts (NIS in millions)

A. Average balances and interest rates - liabilities and equity

	For the three months ended September 30, 2017	For the three months ended September 30, 2017	For the three months ended September 30, 2017	For the three months ended September 30, 2016	For the three months ended September 30, 2016	For the three months ended September 30, 2016
	Average balance ⁽²⁾	Interest expenses (revenues)	Expense (revenue) rate In %	Average balance ⁽²⁾	Interest expenses (revenues)	Expense (revenue) rate In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	20,901	1	0.02	8,444	11	0.52
Term deposits	117,343	219	0.75	124,616	330	1.06
Outside of Israel						
On-call	514	-	-	637	-	-
Term deposits	4,570	13	1.14	4,124	8	0.78
Total	143,328	233	0.65	137,821	349	1.02
Deposits from the Government						
In Israel	58	-	-	52	-	-
Outside of Israel	-	-	-	-	-	-
Total	58	-	-	52	-	-
Deposits from banks						
In Israel	1,515	3	0.79	490	4	3.31
Outside of Israel	-	-	-	-	-	-
Total	1,515	3	0.79	490	4	3.31
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	-	-	-	-	-	-
Debentures and subordinated notes						
In Israel	27,995	53	0.76	24,857	191	3.11
Outside of Israel	-	-	-	-	-	-
Total	27,995	53	0.76	24,857	191	3.11
Other liabilities						
In Israel	56	-	-	64	1	6.40
Outside of Israel	-	-	-	-	-	-
Total	56	-	-	64	1	6.40
Total interest-bearing liabilities	172,952	289	0.67	163,284	545	1.34
Non-interest bearing deposits from the public						
	40,066			33,845		
Payables for credit card transactions	3,299			3,174		
Other non-interest bearing liabilities ⁽⁶⁾	5,842			5,591		
Total liabilities	222,159			205,894		
Total equity resources	14,011			13,146		
Total liabilities and equity resources	236,170			219,040		
Interest margin			1.64			1.71
Net return⁽⁹⁾ on interest-bearing assets						
In Israel	217,896	956	1.77	202,661	1,002	1.99
Outside of Israel	9,420	55	2.36	9,348	54	2.33
Total	227,316	1,011	1.79	212,009	1,056	2.01
Total interest-bearing liabilities attributable to operations outside of Israel	5,084	13	1.03	4,761	8	0.67

See remarks below.

Interest 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 nine months ended September 30, 2017 Average balance ⁽²⁾	For the nine months ended September 30, 2017 Interest revenues	For the nine months ended September 30, 2017 Revenue rate In %	For the nine months ended September 30, 2016 Average balance ⁽²⁾	For the nine months ended September 30, 2016 Interest revenues	For the nine months ended September 30, 2016 Revenue rate In %
Interest-bearing assets						
Loans to the public⁽³⁾						
In Israel	170,273	(7)4,272	3.36	159,641	(7)3,826	3.21
Outside of Israel	3,055	118	5.18	3,182	112	4.72
Total	173,328	4,390	3.39	162,823	3,938	3.24
Loans to the Government						
In Israel	194	3	2.07	182	3	2.20
Outside of Israel	130	6	6.20	153	5	4.38
Total	324	9	3.72	335	8	3.20
Deposits with banks						
In Israel	857	7	1.09	1,004	1	0.13
Outside of Israel	339	4	1.58	302	3	1.33
Total	1,196	11	1.23	1,306	4	0.41
Deposits with central banks						
In Israel	35,017	23	0.09	29,640	19	0.09
Outside of Israel	4,316	33	1.02	3,847	15	0.52
Total	39,333	56	0.19	33,487	34	0.14
Securities loaned or acquired in resale agreements						
In Israel	55	-	-	112	-	-
Outside of Israel	-	-	-	-	-	-
Total	55	-	-	112	-	-
Debentures held to maturity and available for sale⁽⁴⁾						
In Israel	9,540	89	1.25	7,564	53	0.94
Outside of Israel	1,057	13	1.64	1,140	14	1.64
Total	10,597	102	1.29	8,704	67	1.03
Debentures held for trading⁽⁵⁾						
In Israel	122	3	3.29	396	6	2.03
Outside of Israel	-	-	-	-	-	-
Total	122	3	3.29	396	6	2.03
Total interest-bearing assets	224,955	4,571	2.72	207,163	4,057	2.62
Receivables for credit card operations	3,206			3,122		
Other non-interest bearing assets ⁽⁶⁾	5,337			3,978		
Total assets	233,498			214,263		
Total interest-bearing assets attributable to operations outside of Israel	8,897	174	2.62	8,624	149	2.31

See remarks below.

Interest Revenue and Expense Rates - of the Bank and its Subsidiaries⁽¹⁾ - continued

Reported amounts (NIS in millions)

A. Average balances and interest rates - liabilities and equity

	For the nine months ended September 30, 2017 Average balance ⁽²⁾	For the nine months ended September 30, 2017 Interest expenses (revenues)	For the nine months ended September 30, 2017 Expense (revenue) rate In %	For the nine months ended September 30, 2016 Average balance ⁽²⁾	For the nine months ended September 30, 2016 Interest expenses (revenues)	For the nine months ended September 30, 2016 Expense (revenue) rate In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	20,044	3	0.02	7,695	15	0.26
Term deposits	114,747	873	1.02	118,675	792	0.89
Outside of Israel						
On-call	595	-	-	611	-	-
Term deposits	4,509	33	0.98	4,035	22	0.73
Total	139,895	909	0.87	131,016	829	0.84
Deposits from the Government						
In Israel	55	-	-	54	1	2.48
Outside of Israel	-	-	-	-	-	-
Total	55	-	-	54	1	2.48
Deposits from banks						
In Israel	1,513	9	0.79	1,003	8	1.06
Outside of Israel	2	-	-	6	-	-
Total	1,515	9	0.79	1,009	8	1.06
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	-	-	-	-	-	-
Debentures and subordinated notes						
In Israel	27,865	440	2.11	24,394	387	2.12
Outside of Israel	-	-	-	-	-	-
Total	27,865	440	2.11	24,394	387	2.12
Other liabilities						
In Israel	89	2	3.01	126	2	2.12
Outside of Israel	-	-	-	-	-	-
Total	89	2	3.01	126	2	2.12
Total interest-bearing liabilities	169,419	1,360	1.07	156,599	1,227	1.05
Non-interest bearing deposits from the public	41,016			36,511		
Payables for credit card transactions	3,206			3,122		
Other non-interest bearing liabilities ⁽⁸⁾	6,120			5,189		
Total liabilities	219,761			201,421		
Total equity resources	13,737			12,842		
Total liabilities and equity resources	233,498			214,263		
Interest margin			1.65			1.57
Net return⁽⁹⁾ on interest-bearing assets						
In Israel	216,058	3,070	1.90	198,539	2,703	1.82
Outside of Israel	8,897	141	2.12	8,624	127	1.97
Total	224,955	3,211	1.91	207,163	2,830	1.83
Total interest-bearing liabilities attributable to operations outside of Israel	5,106	33	0.86	4,652	22	0.63

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 - additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended September 30, 2017 Average balance ⁽²⁾	For the three months ended September 30, 2017 Interest revenues (expenses)	For the three months ended September 30, 2017 Revenue (expense) rate In %	For the three months ended September 30, 2016 Average balance ⁽²⁾	For the three months ended September 30, 2016 Interest revenues (expenses)	For the three months ended September 30, 2016 Revenue (expense) rate In %
Israeli currency - non-linked						
Total interest-bearing assets	152,657	1,040	2.75	140,555	923	2.65
Total interest-bearing liabilities	113,258	(222)	(0.79)	104,744	(149)	(0.57)
Interest margin			1.96			2.08
Israeli currency - linked to the CPI						
Total interest-bearing assets	51,722	106	0.82	50,557	537	4.32
Total interest-bearing liabilities	36,745	6	0.07	36,584	(329)	(3.65)
Interest margin			0.89			0.67
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,517	86	2.57	11,549	79	2.76
Total interest-bearing liabilities	17,865	(60)	(1.35)	17,195	(59)	(1.38)
Interest margin			1.22			1.38
Total - operations in Israel						
Total interest-bearing assets	217,896	1,232	2.28	202,661	1,539	3.07
Total interest-bearing liabilities	167,868	(276)	(0.66)	158,523	(537)	(1.36)
Interest margin			1.62			1.71

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 - additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2017	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016	For the nine months ended September 30, 2016	For the nine months ended September 30, 2016
	Average balance ⁽²⁾	Interest revenues (expenses)	Revenue (expense) rate In %	Average balance ⁽²⁾	Interest revenues (expenses)	Revenue (expense) rate In %
Israeli currency - non-linked						
Total interest-bearing assets	152,728	3,022	2.65	135,288	2,665	2.64
Total interest-bearing liabilities	108,815	(569)	(0.70)	97,943	(450)	(0.61)
Interest margin			1.95			2.03
Israeli currency - linked to the CPI						
Total interest-bearing assets	50,849	1,130	2.97	51,179	1,019	2.66
Total interest-bearing liabilities	37,964	(608)	(2.14)	36,332	(593)	(2.18)
Interest margin			0.83			0.48
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	12,481	245	2.63	12,072	224	2.48
Total interest-bearing liabilities	17,534	(150)	(1.14)	17,672	(162)	(1.22)
Interest margin			1.49			1.26
Total - operations in Israel						
Total interest-bearing assets	216,058	4,397	2.72	198,539	3,908	2.63
Total interest-bearing liabilities	164,313	(1,327)	(1.08)	151,947	(1,205)	(1.06)
Interest margin			1.64			1.57

See remarks below.

Interest Revenue and Expense Rates - of the Bank and its Subsidiaries⁽¹⁾ - continued
Reported amounts (NIS in millions)

C. Analysis of change in interest revenues and expenses

	For the three months ended September 30, 2017 compared to the three months ended September 30, 2016 Quantity	For the three months ended September 30, 2017 compared to the three months ended September 30, 2016 Price	For the three months ended September 30, 2017 compared to the three months ended September 30, 2016 Net change	For the nine months ended September 30, 2017 - compared to the nine months ended September 30, 2016 Quantity	For the nine months ended September 30, 2017 - compared to the nine months ended September 30, 2016 Price	For the nine months ended September 30, 2017 - compared to the nine months ended September 30, 2016 Net change
Interest-bearing assets						
Loans to the public						
In Israel	68	(386)	(318)	267	179	446
Outside of Israel	(2)	(1)	(3)	(5)	11	6
Total	66	(387)	(321)	262	190	452
Other interest-bearing assets						
In Israel	5	6	11	19	24	43
Outside of Israel	1	8	9	4	15	19
Total	6	14	20	23	39	62
Total interest revenues	72	(373)	(301)	285	229	514
Interest-bearing liabilities						
Deposits from the public						
In Israel	8	(129)	(121)	55	14	69
Outside of Israel	1	4	5	3	8	11
Total	9	(125)	(116)	58	22	80
Other interest-bearing liabilities						
In Israel	8	(148)	(140)	60	(7)	53
Outside of Israel	-	-	-	-	-	-
Total	8	(148)	(140)	60	(7)	53
Total interest expenses	17	(273)	(256)	118	15	133

(1) Information in these tables is after effect of hedging financial derivatives.

(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 (to) the average balance of debentures available for sale, for the three-month periods ended September 30, 2017 and September 30, 2016, and for the nine-month periods ended September 30, 2017 and September 30, 2016, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Cumulative Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS 5 million, NIS 14 million, NIS (16) million and NIS 7 million, respectively.

(5) From the average balance of debentures held for trade, for the three-month periods ended September 30, 2017 and September 30, 2016, and for the nine-month periods ended September 30, 2017 and September 30, 2016, we deducted / added the average balance of unrealized gains from adjustment to fair value of debentures held for trade amounting to NIS (1) million, NIS 4 million, NIS (1) million and NIS (3) million, respectively.

(6) Includes derivatives, other non-interest bearing assets, net of provision for credit losses.

(7) Commissions amounting to NIS 61 million, NIS 62 million, NIS 166 million and NIS 218 million were included in interest revenues for the three-month periods ended September 30, 2017 and September 30, 2016 and for the nine-month periods ended September 30, 2017 and September 30, 2016, respectively.

(8) Includes derivatives.

(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:

1. Terms with regard to risks management at the Bank and to capital adequacy

Term	Explanation
ICAAP - Internal Capital Adequacy Assessment Process	Internal process for assessment of overall capital adequacy at the Bank. This process includes, <i>inter alia</i> , 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.
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.
Basel	Basel II / Basel III - Framework for assessment of capital adequacy and risk management, issued by the Basel Committee on Bank Supervision.
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.
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.
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.
Stress tests	A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.
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.
Pillar 2	The second pillar of the Basel II project, refers to the Supervisory Review Process. This part consists of the following basic principles: <ul style="list-style-type: none"> • 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.
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.
Supervisory capital (total capital)	Supervisory capital consists of two tiers: Tier I capital, which includes Tier I shareholders' equity and additional Tier I capital. Tier II equity: As defined in Proper Banking Conduct Directive 202 "Measurement and capital adequacy - supervisory capital".
Subordinated notes	Obligations whose rights are subordinated to claims by other Bank creditors, except for other obligations of the same type.
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.

Term	Explanation
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).
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.
Loan to Value (LTV) ratio	The ratio between the approved facility when extended and the asset value.

2. Terms with regard to banking and finance

Term	Meaning
OTC - Over the Counter	Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.
Off-balance sheet credit	Contracting for providing credit and guarantees (excluding derivatives).
Indebtedness	On- and off-balance sheet credit, as defined in Proper Banking Conduct Directive 313.
Debt whose collection is contingent on collateral.	Impaired debt whose repayment is expected through realization of collateral provided to secure such debt.
Debentures	Securities which are obligations by the issuer to pay to the debenture holder the principal issued plus interest, on specified dates or upon realization of a specified condition.
Recorded debt balance	The debt balance, including recognized accrued interest, premium or discount yet to be amortized, net deferred commissions or net deferred costs charged to the debt balance and yet to amortized, net of the debt amount subject to accounting write-off.
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).
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.
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.
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 debt in housing loans.
Problematic debts	Debts classified under one of the following negative classifications: special supervision, inferior or impaired.
Financial instrument	A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.

Term	Meaning
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.
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.
Syndication	A loan extended jointly by a group of lenders.
Active market	A market where transactions involving an asset or liability take place regularly and in sufficient volume, so as to regularly provide information about pricing of assets and liabilities.

3. Terms with regard to regulatory directives

Term	Meaning
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).
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.
EMIR - European Market Infrastructure Regulation	EU regulations adopted in order to increase stability, transparency and efficiency of derivative markets.

