Condensed Financial Statements as of September 30, 2016

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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, 2016

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Condensed Report of the Board of Directors and Management on Financial Statements as of September 30, 2016

Introduction

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on November 14, 2016, it was 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, 2016.

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

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

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

See also Note 1 to financial statements as of December 31, 2015 and Note 1 to these condensed financial statements.

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

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

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

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

Forward-Looking Information

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

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

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

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

Overview, targets and strategy

This chapter describes major developments in the Bank Group, its operating segments (since publication of the annual financial statements), 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 2015 audited annual financial statements.

Condensed financial information and key performance indicators for the Bank Group

Condensed data

	For the quarter ended						
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
					NIS in millions		
Profit and profitability - major items							
Interest revenues, net	1,056	1,014	760	820	933	1,082	699
Non-interest financing revenues (expenses)	40	69	67	127	151	(45)	125
Commissions and other revenues	380	363	454	390	358	375	377
Total revenues	1,476	1,446	1,281	1,337	1,442	1,412	1,201
Expenses with respect to credit losses	59	57	3	75	61	40	35
Operating and other expenses	815	836	779	819	821	825	761
Profit before provision for taxes	602	553	499	443	560	547	405
Provision for taxes	218	200	203	197	213	204	147
Net profit(1)	373	340	288	240	316	330	248

	For the nine months ended September 30,		For the year ended December 31,
	2016	2015	2015
			NIS in millions
Profit and profitability - major items			
Interest revenues, net	2,830	2,714	3,534
Non-interest financing revenues	176	231	358
Commissions and other revenues	1,197	1,110	1,500
Total revenues	4,203	4,055	5,392
Expenses with respect to credit losses	119	136	211
Operating and other expenses	2,430	2,407	3,226
Profit before provision for taxes	1,654	1,512	1,955
Provision for taxes	621	564	761
Net profit(1)	1,001	894	1,134

	As of						
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
					NIS in millions		
Balance sheet - key items							
Balance sheet total	225,520	217,758	216,809	209,158	204,966	201,764	200,972
Loans to the public, net	168,620	165,515	162,073	159,204	157,996	152,317	150,694
Securities	9,407	8,419	9,013	11,845	11,306	15,833	13,802
Deposits from the public	173,748	169,621	165,001	162,380	158,107	153,736	153,002
Debentures and subordinated notes	27,253	24,337	26,859	23,719	23,196	22,648	20,804
Shareholders' equity(1)	12,726	12,384	12,098	11,847	11,616	11,266	11,033

(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.

Data summary - continued

Key financial ratios (in percent)

	For the quarter ended						
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Net profit return on equity(1)(2)	12.4	11.6	10.0	8.4	11.5	12.4	9.4
Deposits from the public, net to loans to the public	103.0	102.5	101.8	102.0	100.1	100.9	101.5
Capital to total assets	5.64	5.69	5.58	5.66	5.67	5.58	5.49
Ratio of Tier I capital to risk elements	9.85	9.72	9.65	9.50	9.30	9.30	9.10
Total ratio of capital to risk elements	13.52	13.23	13.20	13.29	12.76	12.86	12.66
Leverage ratio(3)	5.31	5.33	5.23	5.32	5.32	5.24	-
(Quarterly) liquidity coverage ratio(4)	105	99	97	91	84	84	-
Cost income ratio(5)	55.2	57.8	60.8	61.3	56.9	58.4	63.4
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.14	0.14	0.01	0.19	0.15	0.11	0.09
Basic earnings per share (in NIS)	1.61	1.47	1.24	1.04	1.36	1.43	1.07
Diluted earnings per share (in NIS)	1.61	1.47	1.24	1.03	1.36	1.42	1.07

	For the nine months ended September 30,		For the year ended December 31,
	2016	2015	2015
			NIS in millions
Net profit return on equity(1)(2)	11.0	10.8	10.0
Cost income ratio(5)	57.8	59.4	59.8
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.09	0.11	0.13
Basic earnings per share (in NIS)	4.32	3.87	4.90
Diluted earnings per share (in NIS)	4.32	3.86	4.89

(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) 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

(4) Liquidity Coverage Ratio - ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations during the reported quarter.

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

Major risks

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

The Bank conducts a structured process, at least once a year, for mapping the risks to which the Bank is exposed in the course of its business operations. This list is dynamically updated by new activities by the Bank or due to new or revised regulation. The risks mapping is approved by management and by the Board of Directors and each risk is classified as material or non-material, based on the materiality threshold specified by the Board of Directors. This threshold is given in terms of the Bank's capital. A Risk manager is assigned to each material risk and the framework for handling such risk is incorporated in a specific policies document, approved, at least once a year, by the Bank management and Board of Directors. The policies document stipulates how risk is to be managed, how the risk is to be measured, the required reports with regard to it and its mitigation. In particular, the Board of Directors specifies the risk appetite, i.e. the allowed exposure cap for each risk. During the year, Bank units in the various lines of defense monitor the risk profile, to ensure that risk does not deviate from the specified risk appetite. This monitoring uses a wide range of benchmarks specified, which review how close the risk profile is to the specified risk appetite and is conducted as part of the Bank's quarterly Risks Document, which is approved by management and by the Board of Directors. A report is submitted whenever any risk benchmark is getting close to the risk appetite and, definitely, in case of deviation from the Bank's risk appetite. In general, Bank management has zero risk appetite for deviation from risk restrictions specified by the Board of Directors.

The Bank's risks mapping listed the following major risks: Credit risk (and credit concentration), market risk, interest risk (in particular, interest risk in bank portfolio), liquidity risk, operating risk, legal risk, IT risk, information security and cyber risk, reputation risk, compliance and regulatory risk, AML risk and cross-border risk. As noted, the risks mapping is regularly reviewed to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements. In 2016, the Bank mapped the capital management risk, which reflects the potential impact to the Bank should it fail to comply with regulatory requirements and capital targets. Despite this "new" mapping, this is not a new risk - since the Bank has been managing its capital for a long time through forums, a policy document and processes designed to ensure compliance with specified targets.

For more information see chapter "Major risks" on the financial statements as of December 31, 2015.

Information about developments of risks is presented in the chapter "Risks overview" below. A detailed Risks Management 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, see chapter "Business goals and strategy" in the financial statements as of December 31, 2015.

Since publication of the annual financial statements as of December 31, 2015, there were no changes to business goals and strategy.

Significant developments in business activities

Along with the surge in the mortgage market, the Bank is acting to reinforce its leadership position in the mortgage market in terms of market share and in perception and further reinforce the expertise of mortgage bankers. In the first nine months of 2016, the Bank further succeeded in increasing its market share, while maintaining low risk attributes for LTV and repayment ratio out of borrower income.

The household segment is facing growing competition from both the banking system as well as from insurance companies and credit card companies, along with expanded regulatory impact, such as conclusions of the Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee") whose purpose is to increase competition for retail banking services.

The Bank's target is to increase its market share in the household segment, by expanding the client base with a focus on high-quality target audiences. Regulatory steps to increase competition in the household segment and to remove barriers to account transfer between banks - are an opportunity for increased client recruitment, based on the unique, high-quality personal service provided by the Bank. In this context, the Bank used the LIVE platform, while developing this concept and expanding the value proposition to improve customer service.

The mortgage client base at the Bank is potential ground for increasing the client base in commercial activity - and Bank Yahav clients are reinforcement for the retail segment activity of the Group. The Bank also strives to expand in new client segments, including the Arab segment.

The Bank is focusing its effort on getting deposits from retail clients and from business clients, in order to improve the Bank's liquidity coverage ratio and in order to reduce the cost of sources required for its operations, leading to improved profitability. These efforts resulted in the Bank significantly increasing the scope of retail and business deposits in the first nine months of 2016, with a significant improvement in the liquidity coverage ratio.

The Bank's business strategy emphasizes significant expansion of the client base and increase of the Bank's market share among small to medium business clients, with regular risk assessment at client level, at sector level and for the economy as a whole. The Bank addresses growing competition in these operating segments by increased marketing activities with clients, with client segmentation by type of occupation and needs and an overall view of their activities, as well as by expanding Bank activity in the State fund for small and medium businesses. In order to expand activity in the commercial banking segment, the Bank reorganized this activity under three business hubs. This infrastructure would support further expansion of operations in this segment in coming years.

Competition for provision of banking and financial services to the business banking segment has 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 Bank is facing competition in this segment by relying on the advantages of its human resources and on their knowledge and experience in providing professional service and in adapting banking solutions for client needs. The Bank's business strategy in this segment is directed toward maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them, Concurrently, the Bank is acting to leverage its professional advantage by increased cooperation in consortiums with other entities.
For more information see chapter "Significant developments in management of Bank business" in the financial statements.

The Bank continues to maintain high operating efficiency through, inter alia, reorganization of assets and optimization of the branch network.

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

Developments in capital structure

Investments in Bank Capital and Transactions in Bank Shares

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

Developments in financing sources

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

Deposits

The Bank distinguishes between different source types by term and by client type. The Bank reviews depositor concentration; management and the Board of Directors have specified restrictions and guidelines with regard to concentration risk which apply to individual depositors, liquid means with regard to major / institutional depositors and resource composition. Quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk –have been specified as part of liquidity risk management.

Total deposits from the public for the Group as of September 30, 2016 amounted to NIS 173.7 billion, compared to NIS 162.4 billion at end of 2015 - an increase of 7.0%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first nine months of 2016 by 11.3%; deposits in the CPI-linked segment increased by 2.3%; and deposits denominated in or linked to foreign currency decreased by 3.8%. For more information see chapter "Analysis of development of assets, liabilities, capital and capital adequacy" below.

Bank of Israel

The Bank of Israel serves as a key party for the short-term financing and absorption of money for the entire banking system, and for the Bank in particular. It should be noted that a bank that borrows money from the Bank of Israel must provide collateral, and the Bank takes this parameter into account in its day-to-day management of liquidity.

Another source for raising short-term funds is the inter-bank money market. In the first nine months of 2016, the banking system and the Bank had high excess liquidity and therefore use of this tool was negligible.

Among the factors influencing the scope and types of deposits in the banking system is the monetary policies of the Bank of Israel.

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 (Series 35-44,27,30-31), including subordinated notes, issued to the public by Tefahot Issuance, amounted to NIS 22,818 million in total par value (as of December 31, 2015 - NIS 19,769 million), of which NIS 2,131 million in subordinated notes (included in Tier II capital for maintaining minimum capital ratio and gradually reduced subject to transition provisions).

On March 15, 2016, Tefahot Issuance issued a new debenture series (Series 43) as well as debentures (Series 40 and 42), by way of series expansion, with total par value of NIS 2,763 million, respectively, for consideration amounting to NIS 3,121 million, pursuant to the shelf prospectus dated July 30, 2013 (which was extended by ISA for a further 12 months).

On September 25, 2016, Tefahot Issuance issued new CPI-linked debentures (Series 44), with total par value of NIS 3,014 million, with bullet maturity on September 25, 2022, for consideration of NIS 3,014 million, pursuant to a shelf prospectus dated July 5, 2016.

For more information about a prospectus to the public issued by Tefahot Issuance on July 4, 2016 (dated July 5, 2016), see chapter "Significant Events in the Bank Group's Business" below.

Complex capital instruments

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 pursuant to Basel III provisions and recognized by the supervisor of Banks as Tier II capital.

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

In July 2016, Bank Yahav issued contingent subordinated notes (Contingent Convertibles - CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 218 million.

These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

In November 2006, the Bank raised, in a private placement to institutional investors, the sum of NIS 451 million (NIS 460 million par value) via issuance of subordinated notes (Series A). On May 21, 2007 the Bank published a prospectus under which the complex capital instruments were listed for trading in early June 2007. In total, the Bank issued and listed for trading additional complex capital instruments under the prospectus amounting to NIS 1,242 million par value in exchange for NIS 1,193 million in proceeds.

All of the Bank's complex capital instruments (Series A) as of September 30, 2016, issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.

The complex equity instruments are included in Tier II capital but do not qualify as supervisory capital pursuant to Basel III directives - and are therefore gradually reduced in conformity with transitional provisions.

The revalued balance of the complex capital instruments, including contingent subordinated notes, as of September 30, 2016 was NIS 2.8 billion (of which NIS 0.8 billion in contingent subordinated CoCo notes), compared to NIS 2.4 billion as of December 31, 2015 (of which NIS 0.4 billion in contingent subordinated CoCo notes). See Note 9 to the financial statements for details.

Significant developments in management of business operations

Expansion of business operations

Management of deposit funds for overseas workers

On December 30, 2015, the Bank was informed it was awarded a tender issued by the State of Israel for management of deposit funds for foreign workers. On May 8, 2016, the Bank received the deposit funds amounting to NIS 300 million and the Bank started to manage the deposit in conformity with conditions specified in the agreement.

Small business tender

On January 17, 2016, the Ministry of Finance announced that the financial partnership between Bank Mizrahi Tefahot and other companies was selected as a winning bidder for the tender to provide loans to small and medium businesses, as part of the new fund guaranteed by the State. The new fund started operations in the first half of May 2016.

Savings account for every child

On August 5, 2015, the Government adopted a resolution on "Change in composition of child allowance and launch of long-term savings for every child".

On September 26, 2016, the Comptroller General Division of the Ministry of Finance issued a call for proposals to select banks and provident funds to manage these savings accounts.

After the balance sheet date, the Bank submitted its proposal and on November 9, 2016, the Bank was informed that it was selected to be one of the financial institutions which in future would manage these long-term savings accounts.

The Bank is preparing to receive funds for these savings accounts in early 2017.

Significant developments in IT

Project to replace the core banking system at Bank Yahav

As of the signing date of the financial statements, Bank Yahav receives computer and operating services from Bank HaPoalim Ltd. These services are 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, Bank Yahav contracted with an international company of the TATA Group, to create a core banking system and receive outsourced IT and operating services.

Bank Yahav is assisted by external consultants, experts in their field, in managing the process – and has hired Israeli consulting firms to adapt the international system to work in Israel. Bank Yahav also hired external consultants specialized in this field to assist in the Going Live process.

The work plan for this project has been approved by the Bank Yahav Board of Directors, which regularly supervises the progress made. Bank Yahav intends to disconnect from Bank Hapoalim systems and to transition to the new core banking system in early 2017. The exact cut-off date would be determined in the fourth quarter of 2016.

Bank Yahav regularly reports the progress made on this project to the Supervisor of Banks at the Bank of Israel.

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

Significant developments in human resources and administration

Remuneration of officers in financial corporations act

On April 12, 2016, the Remuneration of officers in financial corporations act (Special permission and non-allowance of expenses for tax purposes with respect to excessive remuneration), 2016 was made public. For more information, see the chapter "Corporate governance" (Legislation and Supervision of Bank Group Operations) and Note 8 to the financial statements.

Developments in logistics, administration and streamlining

In the first nine months of 2016, the Bank continued its efforts to streamline and to optimize use of existing resources. This effort includes realization of assets and better deployment of the branch network.

Developments in international geographic deployment

In the second quarter of 2016, the Bank decided to close its representative office in Uruguay. This representative office is scheduled to be closed in 2017.

The representative office in Panama was closed in the third quarter of 2016.

Other matters

Social involvement and charitable donations

In August 2016, the Bank issued its 2015 Corporate Social Responsibility Report.

This report was also compiled in conformity with reporting guidelines of GRI (the Global Reporting Initiative) and it is compliant with the GRI G4 Sustainability Reporting Guidelines.

All data reported in this issued report was externally audited by the Israeli Corporate Social Responsibility Institute.

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.J, 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

Sale of assets and liabilities in mortgage portfolio

On June 30, 2016, 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 882 million. The loan portfolio consists of housing loans extended by the Bank in 2014. The loan portfolio sold includes loans with LTV ratios ranging below 60%.

On September 29, 2016, 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 906 million. The loan portfolio consists of housing loans extended by the Bank from January 1, 2014 through February 25, 2015. The loan portfolio sold includes loans with an LTV ratio of up to 60% (in total, the two housing loan portfolios sold in 2016 amount to NIS 1,788 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.

Issue of prospectus - Mizrahi Tefahot Issue Company Ltd.

On July 4, 2016, Mizrahi Tefahot Issue Company Ltd. (hereinafter: "Mizrahi Tefahot Issue") issued a shelf prospectus (dated July 5, 2016) whereby the company may issue to the public securities of different types subject to statutory provisions – non-convertible debentures, non-convertible subordinated notes and commercial paper – through shelf offering reports in which it would complete all specifics of each offering, including details, terms and conditions of the securities and composition of the offered units, subject to statutory provisions and to bylaws and directives of the Tel Aviv Stock Exchange Ltd., as they may be at that time.

The prospectus is valid for two years from the issue date and may be extended for a further 12 months by the company.

Publication of prospectus – the Bank

On September 25, 2016, the Bank issued a shelf prospectus (dated September 26, 2016) whereby the Bank may issue to the public securities of different types subject to statutory provisions – including Bank ordinary shares in the holder's name of NIS 0.1 par value each, as well as other securities of the Bank (including debentures, subordinated notes (including contingent subordinated notes (COCO), options exercisable for shares and options exercisable for debentures) – through a shelf offering report in which it would complete all specifics of each offering, including details, terms and conditions of the securities and composition of the offered units, subject to statutory provisions and to bylaws and directives of the Tel Aviv Stock Exchange Ltd., as they may be at that time.

The prospectus is valid for two years from the issue date and may be extended for a further 12 months by the Bank.

For more information about business results of the various operating segments, see chapter "Supervisory operating segments" below.

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

Major developments in the banking industry in Israel and overseas

The banking system has been facing several key challenges in recent years:

- Moderate economic activity, with a low interest rate and inflation environment over time, which impairs bank profitability.
- More moderate global growth, impacted *inter alia*, by weaker emerging markets and increased uncertainty in the Euro Zone, results in a trend of transition from global multi-national banking to local banking.
- Rapid development of digital banking based on Internet platforms and increased use of mobile devices. The increased digital trend allows for entry of technology companies into the financial brokerage arena (P2P and crowd financing companies), due to the advantages of the on line platform: rapid information flow, rapid cooperation between individuals and low transaction cost.
- Competition in the household segment and in the small and medium business segments has increased in recent years, given the focus of the banking system on these segments, along with increased new entries from institutional investors and credit card companies. These effects are accompanied by increased regulation in the following areas: Supervision of prices of banking services; elimination of barriers to account transfer between banks; promotion of the Credit Information Act and creation of a banking ID for increased transparency for consumers and for reducing information gaps; increased competition in the banking sector by encouraging entry of new competitors - credit associations and cooperative banks. Further to the trend of expanding regulatory directives on June 3, 2015 the Finance Minister officially announced the appointment of the Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee"). On July 6, 2016 the Committee published its final recommendations (see details below).
- Streamlining steps taken in the banking system, as reflected by several moves: Launch of early retirement programs for employees, merger of subsidiaries into parent banks, reduced branches and real estate area, computer-based teller services and increased use of digital banking.
- Stricter requirements with regard to maintaining liquidity coverage ratio and leverage ratio, in order to improve stability of the banking system. On the other hand, the Supervisor of Banks allowed Israeli banks to issue debentures with a loss-absorption provision, as is common around the world (contingent conversion debentures - CoCo). Such debentures contribute to stability of the issuing bank and to reduced support required from the Government should the bank be in trouble.
- Stricter international regulation is characterized by increased, cross-border enforcement as well as by local taxation issues.
- Increased consumer awareness due, *inter alia*, to increased use of social networks and to technology which allows for easier access to information and to comparison of financial alternatives. Consequently, the banking world is becoming focused on identifying client needs.

Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee")

On July 6, 2016, the Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee") (hereinafter: "the Committee") issued its final report. The objective of this Committee is to increase competition in retail banking services, with reference to both supply (adding new players) and demand (increasing consumer power). The Committee's vision of competition is defined by creating a more efficient market along with cost cutting for the economy, simplified competition for consumers and more diverse sources of credit and financial services offered to consumers. The Committee recommends this to be achieved by taking the following steps:

Separation of control over credit card companies:

- Separation of control and ownership by large banks (banks with total balance sheet assets, on consolidated basis, exceeding 20% of total balance sheet assets for the Israeli banking system) from credit card companies, within three to four years. As of the balance sheet date, this directive does not apply to the Bank.
- Prohibiting banks, institutional investors and large non-banking corporations from buying and controlling credit card companies.

Issuing and distributing credit cards:

- Imposing restrictions on major banks with regard to issuing and distributing credit cards in the interim period, pending separation of the credit card companies, and for five years after the separation date. It was further stipulated that major banks should reduce credit extended to clients by 50% within two years.
- Reduction of cross commissions with due consideration to evolution of competition and with reference to issuer fee levels in Europe and the matter of transition to daily settlement.

  Supervised non-bank entities – creating conditions which would allow them to compete with banks, with an emphasis on information and the capacity to raise capital needed for their operations:
- Companies which hold institutional investors may establish subsidiaries for retail financing, whose sources would be the parent company's own capital and capital raised by public offering of debentures. The institutional investor may buy such debentures for client portfolios, subject to restrictions.
- Promoting new players (such as P2P and credit unions) – government assistance to new players in financing creation of IT systems and relief on regulations, with due attention to the extent of risk they represent.
- Putting in place appropriate regulation applicable to non-bank players, for protection from relevant risks, including: cyber risk, AML and misleading consumers.

New banks in the retail segment

- Promoting entry of new players, based on the outline for creating a new bank in Israel, issued by the Supervisor of Banks in June 2016, which is an integral part of the Shtrum Committee recommendations.
- Imposing obligatory deposit insurance on all Israeli banks, to increase client confidence and to increase competition.

Pooling of IT resources –

- Allowing small and medium banks to cooperate on IT among themselves and with non-banking entities, in order to reduce costs.
- ABS (Automated Bank Services Ltd.) – change in the ownership structure of this company, making ABS protocols modular and supporting international standards and giving access to relevant market players to use these protocols under equal terms.
- Opening the credit card settlement market – giving all financial institutions equal access to the settlement system and promoting entry of new competitors into this market.
- Payments – regulation of all payment services based on international - primarily European - regulation, adapted for the local market. In this regard, allow all providers of payment services equal access to the payment system.
- Information services and transaction launching – regulation to be specified, based on PSD principles. Rules will also be stipulated with regard to client consent to access the checking account and to use information for privacy protection and for information security. Banks, among other financial institutions, would be required to allow providers of information and transaction launching services computer access using commonly accepted standards to accounts of clients who have consented to do so.
- Allowing consumers in Israel to select and receive financial services from all financial institutions with no need to transfer their checking account. This would be done by establishing the technology infrastructure which would allow financial transactions to be made quickly and simply, even through competing financial institutions, regardless of where the checking account is managed.

The Shtrum Committee recommended, for monitoring the implementation of this reform and evolution of competition in the financial system, to establish a statutory implementation committee, headed by the Director General of the Ministry of Finance.

Upon publication of these recommendations, a draft bill was issued implementing the recommendations made by the Shtrum Committee. In conjunction with the legislative proceeding, comments about the draft bill may be received and the final proposed bill may not perfectly match the recommendations made by the Committee.

At this stage, the impact of these recommendations on the Bank's financial statements cannot be estimated.

Developments in the Israeli economy and in the global economy in the first nine months of 2016

Israeli economy

Real Developments

Macro-economic data for the first nine months of 2016 showed some improvement in economic growth, increase in foreign trade and industrial output.

In the first half of 2016, GDP grew at an annualized 3.2%, compared to 2.0% in the previous half and 2.7% in the corresponding period last year. Growth in the first half was positively affected by growth in all uses, primarily in private consumption, export of goods and services and in economic investment. The Bank of Israel Composite Index increased in the first nine months of this year at an annualized rate of 3.0%, compared to an annualized increase of 2.4% in the corresponding period last year and compared to increase of 2.8% in all of 2015. In the same period, the retail sales index increased by an annualized 4.1%, compared to 3.7% in the corresponding period last year and 4.8% in all of 2015. The industrial output index increased in the first eight months of 2016 by an annualized 6.4%, after being unchanged in the corresponding period last year and compared to 1.5% in all of 2015. This index was positively affected, primarily by the increase in the high-tech output index. The purchasing manager index indicated growth in economic activity in the third quarter of this year; in addition, the consumer confidence index continued to show improvement over recent months.

Exports of goods (annualized trend in USD, excluding ships, airplanes and diamonds) increased in the third quarter of 2016 by 1.7% following a decrease of 7.2% in the preceding quarter. This was in view of a certain recovery in global trade and following a sharp increase in drug exports. Import of goods (annualized trend in USD, excluding ships, airplanes, diamonds and energy) increased in the third quarter of 2016 by 8.0%, after an increase by 14.3% in the second quarter of this year. This increase was due to increase in imports of investment goods. The overall trade deficit in the first nine months of 2016 amounted to USD 10.2 billion, compared to USD 5.7 billion in the corresponding period last year.

In the first nine months of 2016, the average unemployment rate was 4.9%, compared to 5.3% in the corresponding period last year and to 5.2% in all of 2015. This was accompanied by a slight increase in the employment rate to 64.2%, compared to 64.0% n the corresponding period last year and to 64.1% in all of 2015.

Inflation and exchange rates

In the first nine months of 2016, the Consumer Price Index remained unchanged, compared to a decrease of 0.6% in the corresponding period last year. The CPI was primarily affected by lower prices of clothing and shoes, transportation and communication and food prices. Conversely, the CPI was positively affected by higher housing prices and prices of education, culture and entertainment. In the twelve months ended September 2016, the CPI decreased by 0.4%.

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

	September 30, 2016	December 31, 2015	Increase (decrease) rate (in %)
Exchange rate of:			
USD (in NIS)	3.758	3.902	(3.7)
EUR (in NIS)	4.203	4.247	(1.0)

On November 9, 2016, the USD/NIS exchange rate was 3.799 - a 1.1% devaluation compared to September 30, 2016. The EUR/NIS exchange rate on this date was 4.219 - a devaluation of 0.4% compared to September 30, 2016.

In support of the exchange rate, the Bank of Israel purchased in the first nine months of 2016 foreign currency valued at USD 4.6 million, after purchasing USD 5.5 billion in all of 2015 (USD 1.2 billion purchased to offset the effect on USD exchange rates of gas production from the Tamar reservoir, compared to USD 3.1 billion in all of 2015).

Monetary and fiscal policy

In the first nine months of 2016 there was no change in the Bank of Israel interest rate which was reduced from 0.25% to 0.10% in March 2015. The Bank of Israel monetary policy was affected this year, *inter alia*, by the stronger NIS against the currency basket, continued weakness in exportation of goods, more moderate inflationary expectations and continuing expansive monetary policy in major world economies, against the backdrop of further slow growth in major world economies.

In the first nine months of 2016, the government budget recorded a NIS 6.1 billion cumulative deficit, compared to a NIS 4.2 billion cumulative deficit in the corresponding period last year. The deficit rate as percentage of GDP for the 12 months ended in September 2016 was 2.2%, similar to the rate for all of 2015. Tax revenues increased in the first nine months of 2016 by 4.5% over the year-ago period, while Government expenditure increased by 7.2% in the same period. This is because in the corresponding period last year, Government expenses were low because the Government operated without an approved budget and therefore, by law, only spent $^1/_{12}$ of its 2014 annual budget per month.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first eight months of 2016 demand for new apartments (apartments sold and apartments constructed not for sale) was 32,700 apartments, a decrease of 6.0% over the corresponding period last year and an increase of 25.9% over the corresponding period in 2014. The decrease in demand for apartments, compared to the corresponding period last year, is due, *inter alia*, to a decrease in demand for apartments from investors. In this period, all regions recorded a decrease in demand for housing, except for a 3% increase in the Tel Aviv region and except for the South region, which was essentially unchanged. The most significant declines, compared to the corresponding period last year, were in the Haifa region (-18%) and in the North region (-13%). Based on the average pace of sales in May 2016, the inventory will account for 12.2 months' sales -higher than in December 2015 (10.9 months) and then in August 2015 (9.6 months). In the first nine months of 2016, housing loans originated to the public amounted to NIS 46.7 billion, compared to NIS 49.3 billion in the corresponding period last year - a decrease of 5.3%.

According to data from the Central Bureau of Statistics, housing prices in terms of the most recent 12 months, increased in August 2016 by 6.8%, compared to 7.8% in December 2015 and to 6.9% in August 2015.

Capital market

Trading in local and global equity markets in the third quarter of this year was positive, with the markets quickly rebounding from effects of the outcome of the UK referendum on exiting the Euro Zone.

Equity market – the major indices, Tel Aviv 25 and Tel Aviv 100, increased in the third quarter of 2016 by 3.2% and 4.2%, respectively following a decrease by 8.6% and 7.9% in the first half of this year. The Tel Aviv 75 Index increased by 9.4%, led by the financial and real estate stocks - after a decrease by 1.3% in the first half of this year. The Real Estate 15 Index was sharply higher by 8.5%, following an increase of 12.8% in the first half of this year. The Yeter 50 Index was sharply higher by 23.3%, following an increase of 0.3% in the first half of this year. The Financials Index was higher by 6.3% in the third quarter of 2016, following a decrease of 3.3% in the first half of this year. The Banking Index was higher by 10.9% in the third quarter of 2016, following a decrease of 2.0% in the first half of this year.

Average daily trading volume in equities and convertible securities in the third quarter of 2016 was NIS 1.1 billion, compared to NIS 1.3 billion on average for the previous four quarters.

Total equity issuance (including overseas issuance) in the third quarter of 2016 amounted to NIS 24.1 billion, of which NIS 21.1 billion in a private issuance by Teva). Excluding the Teva private placement, total issuance in the third quarter amounted to NIS 3 billion - similar to the quarterly average for the four most recent quarters.

Debenture market - the Government debenture market was higher in early 2016, but reversed direction in the third quarter. Long-term debentures were down more sharply than short-term and mid-term debentures. CPI-linked debentures were down more sharply than NIS debentures, in particular in the latter half of this quarter, with the Consumer Price Index for August being down by 0.3% following three positive CPI readings.

The General Debenture Index rose by 0.1% in the third quarter of 2016, following a decrease of 2.7% in the first half of this year. The CPI-Linked Government Debenture Index decreased by 0.9% in the third quarter of this year, following an increase of 3.4% in the first half of this year. The Non-Linked Debenture Index declined in the third quarter of 2016 by 0.1%, after rising by 2.2% in the first half of this year. In the third quarter of 2016, the Tel Bond 20 Index was unchanged, following an increase of 2.4% in the first half of this year; the Tel Bond 40 Index declined in the third quarter of 2016 by 0.1%, following an increase of 1.7% in the first half of this year.

Corporate debenture spreads over Government debentures were essentially unchanged. Debentures rated AA traded at the end of the third quarter of 2016 at a spread of 1.11 percentage points, similar to the spread at the end of the second quarter of 2016. Debentures rated A traded at the end of the third quarter of 2016 at a spread of 2.03 percentage points, compared to 2.04 percentage points at the end of the second quarter of 2016.

In total, the business sector raised from the public and from institutional investors, through debenture issuance, NIS 25.4 billion in the third quarter of 2016, an increase compared to a quarterly average NIS 17.0 billion raised over the previous four quarters. The average daily trading volume in debentures in the third quarter of 2016 amounted to NIS 3.4 billion, compared to NIS 3.7 billion over the previous four quarters.

Global economy

The US economy's growth rate accelerated in the third quarter of 2016, with US GDP increasing by 2.9%, compared to 1.4% in the previous quarter and to 2.6% in all of 2015. This was primarily due to higher exports of goods and services and a sharp increase in inventory. However, private consumption grew at a relatively moderate 2.1%, investment in fixed assets decreased by 0.6%, given the continued decrease in energy prices which resulted in lower economic investment and given the decline in investment in residential construction. Industrial output declined in recent months: in the 12 months ended in September 2016, industrial output decreased by 1.0%. Conversely, the purchasing manager index in industrial sectors continued to indicate expansion of economic activity, with a reading of 51.5 points in September 2016. Data published in the third quarter of this year continue to reflect continued improvement in the US labor market. The participation rate continued to increase from the low in the third quarter of 2015; the average number of new jobs created remained high; and the pace of salary increase for the trailing 12 months continued to be higher than 2%. The core inflation rate (excluding energy and food prices) in September 2016, for the trailing 12 months, was at 2.2%.

On November 9, 2016, Donald Trump was elected the 45th President of the United States. This was in fact of most early poles published prior to the election indicating that Hillary Clinton was likely to be elected. At this stage, the impact of the outcome of the US presidential elections on the US economy and on the global economy cannot be estimated.

The GDP growth rate in the Euro-zone in the third quarter of 2016 was 1.6% (compared to the corresponding period last year), similar to the growth rate in the previous two quarters. Year to date, the retail commerce index and the industrial output index showed more moderate expansion for the trailing 12 months. Most expectation surveys were also lower, including the Purchasing Manager Index - although it still indicates a moderate expansion of economic activity. The core inflation rate, in terms of the trailing 12 months, reached 0.8% in September 2016, similar to December 2015. The unemployment rate continued to decline this year, although at a moderate pace and was at 10.1% as of August 2016, compared to 10.4% at the end of 2015. Following the slow economic recovery and the persistently low inflation rate, the European Central Bank (ECB) lowered the deposit interest rate from (-0.3%) to (-0.4%) and reduced the loan interest rate from 0.05% to 0.0%. It also expanded its quantitative expansion program: as from April 2016, the monthly buying rate increased from EUR 60 billion to EUR 80 billion. The scope of the program was also expanded: now the ECB can also purchase corporate debentures - not only government ones.

On June 23, 2016, a referendum was held in the UK on the matter of the UK staying a member of the European Union. When the votes had been tallied, 52% voted to leave the EU. According to EU bylaws, the UK's decision to leave the EU would only become effective after filing an official exit motion which would activate Section 50 of the bylaws - which means the start of negotiations between the UK and the EU to agree on departure terms, to establish agreements on trade, movement of people, capital and taxation. These negotiations are to be completed within two years. Should the parties fail to reach agreement within two years - the UK would have to negotiate trade agreements and other economic agreements with Europe, just like any other country in the world. The agreement to be reached by the parties would have to be ratified by the parliaments of all EU member states. The IMF estimated that the cumulative impact, over several years, to global GDP growth due to the UK leaving the EU should not be significant, at 0.1%-0.3% of GDP. Following the Brexit vote, according to the Bank of Israel, it is more widely believed that major central banks would maintain their expansive monetary policy for a long time.

In early November 2016, the Supreme Court in the UK resolved that the British Parliament had to vote on activating Section 50 to launch the Brexit proceedings. The UK Government intends to appeal this decision by the Supreme Court – which should hand down its ruling on this matter later in the year.

China's GDP grew in the third quarter of 2016 at an annualized 6.7%, similar to the previous two quarters and compared to 6.9% in year-ago period. Note that this is China's lowest growth rate since the first quarter of 2009. This was mostly due to a slowdown in exports and further weakness in industrial output growth. Core inflation in terms of the trailing 12 months, rose slightly to 1.7% in September 2016, compared to 1.5% in 2015.

Positive macro-economic data in the USA and absence of investment alternatives pushed equity benchmarks around the world. The Dow Jones and S&P 500 indexes rose by 2.1% and 3.3%, respectively in the third quarter of 2016 - after rising by 2.9% and 2.7% in the first half of this year. The NASDAQ 100 Index was higher by 10.4% in the third quarter of 2016, following a decrease of 3.8% in the first half of this year.

The German DAX Index and the French CAC Index were up in the third quarter of 2016 by 8.6% and 5%, respectively - after being down by 9.9% and 9.4%, respectively in the first half of this year. The UK FTSE 100 Index was higher by 6.1% in the third quarter of 2016, following an increase of 4.2% in the first quarter of this year. The Japanese Nikkei Index was higher by 5.6% in the third quarter of 2016, following a decrease of 18.20% in the first half of this year.

Independent Auditors' review report

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

Events after the balance sheet date

For more information about a dividend distribution with respect to earnings of the third quarter of 2016, 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 the condensed financial statements.

Changes to critical accounting policies and to critical accounting estimates

As set forth in Note 1.D.6)D. On the 2015 financial statements, the group-based provision for credit losses is based, *inter alia*, on historical loss rates in various economic sectors, divided into troubled and non-troubled debt, for the 5 years ended on the report date. As directed by the Bank of Israel, on the financial statements for 2016 and 2017, the range of loss rates would be extended to include 2011, with the range being 6 and 7 years long, respectively.

The Bank started to apply this directive in these financial statements for the third quarter of 2016.

Material developments in revenues, expenses and other comprehensive income

Summary of business results - profit and profitability

Group net profit in the third quarter of 2016 amounted to NIS 373 million, compared to NIS 316 million in the corresponding period last year – an increase of 18.0%. This reflects a return on equity of 12.4%, compared to 11.5% in the corresponding period last year.

Net profit for the Group in the first nine months of 2016 amounted to NIS 1,001 million, compared to NIS 894 million in the corresponding period last year – an increase of 12.0%. This reflects a 11.0% annualized return on equity, compared to 10.8% in the corresponding period last year and 10.0% for all of 2015.

In the past year, the Bank's capital base increased by NIS 1.1 billion, or 9.6%. Total shareholder equity as of September 30, 2016 amounted to NIS 12.7 billion, compared to NIS 11.6 billion in the corresponding period last year.

Concurrently with the increase in capital base, the Bank is early on compliance with the capital adequacy ratio required by the Supervisor of Banks, showing a capital adequacy ratio of 9.85% as of September 30, 2016(1).

The following major factors affected Group profit in the first nine months of 2016 over the corresponding period last year:

- Financing revenues from current operations (including net interest revenues and non-interest financing revenues) increased in the first nine months of 2016 by NIS 261 million, an increase of 10.0% over the corresponding period last year. See also the analysis of evolution of financing revenues, below.
- Commissions and other revenues increased in the first nine months of 2016 by NIS 87 million, or 7.8%, over the corresponding period last year - see explanation below.
- Maintain operating and other expenses, so that expenses increased in the first nine months of 2016 by only NIS 23 million, or 1%, over the corresponding period last year. See explanation below.

(1) This capital adequacy ratio (9.85%) is the target required of the Bank as of January 1, 2017.

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 2016 amounted to NIS 993 million, as described below, compared to NIS 916 million in the corresponding period last year, an increase of 8.4%.

Net interest revenues and non-interest financing revenues[(1)] from current operations in the first nine months of 2016 amounted to NIS 2,874 million, as described below, compared to NIS 2,613 million in the corresponding period last year, an increase of 10.0%.

Net interest revenues and non-interest financing revenues[(1)] in the third quarter of 2016 amounted to NIS 1,096 million, as described on these financial statements, compared to NIS 1,084 million in the corresponding period last year, an increase of 1.1%.

Net interest revenues and non-interest financing revenues[(1)] in the third quarter of 2016 amounted to NIS 3,006 million, as described on these financial statements, compared to NIS 2,945 million in the corresponding period last year, an increase of 2.1%.

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

	Third Quarter			First nine months		
	2016	2015	Change in %	2016	2015	Change in %
Interest revenues, net	1,056	933		2,830	2,714	
Non-interest financing revenues (expenses) [(1)]	40	151		176	231	
Total financing revenues	1,096	1,084	1.1	3,006	2,945	2.1
Less:						
Effect of CPI	43	28		(19)	(35)	
Revenues from collection of interest on problematic debts	13	17		33	37	
Gain from realized debentures and from debentures held for trade, net	17	76		71	164	
Effect of accounting treatment of derivatives at fair value and others[(2)]	30	47		47	166	
Total effects other than current operations	103	168		132	332	
Total financing revenues from current operations	993	916	8.4	2,874	2,613	10.0

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

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.
Other effects include:
- Following the decrease in early mortgage repayment, in the third quarter and in the first nine months of 2016, revenues decreased by NIS 41 million and NIS 152 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):

	First nine months			
Operating segment	2016	2015	Change amount	Change in %
Individuals:				
Households – housing loans	811	719	92	12.8
Households – other	809	725	84	11.6
Private banking	38	26	12	46.2
Total - individuals	1,658	1,470	188	12.8
Business operations:				
Small and micro businesses	571	530	41	7.7
Medium businesses	143	133	10	7.5
Large businesses	306	325	(19)	(5.8)
Institutional investors	82	82	-	-
Total - business operations	1,102	1,070	32	3.0
Financial management	123	323	(1)(200)	-
Total activity in Israel	2,883	2,863	20	0.7
Overseas operations	123	82	41	50.0
Total	3,006	2,945	61	2.1

	Third Quarter			
Operating segment	2016	2015	Change amount	Change in %
Individuals:				
Households – housing loans	284	240	44	18.3
Households – other	284	246	38	15.4
Private banking	13	10	3	30.0
Total - individuals	581	496	85	17.1
Business operations:				
Small and micro businesses	195	182	13	7.1
Medium businesses	54	43	11	25.6
Large businesses	104	109	(5)	(4.6)
Institutional investors	28	26	2	7.7
Total - business operations	381	360	21	5.8
Financial management	90	201	(1)(111)	-
Total activity in Israel	1,052	1,057	(5)	(0.5)
Overseas operations	44	27	17	-
Total	1,096	1,084	12	1.1

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

For more information about implementation of the Bank of Israel directive with regard to supervisory operating segments, see Note 1.B.1 to the financial statements.

(1) The change, net of the effect of early repayment fees and exercise of debentures held to maturity at Bank Yahav in the third quarter of 2015:
First nine months: An increase by NIS 19 million.
Third quarter: A decrease by NIS 3 million.

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

	Third Quarter			First nine months		
Linkage segment	2016	2015	Change in %	2016	2015	Change in %
Israeli currency - non-linked	140,555	120,694	16.5	135,288	116,360	16.3
Israeli currency - linked to the CPI	50,557	52,683	(4.0)	51,179	52,499	(2.5)
Foreign currency (including Israeli currency linked to foreign currency)	11,549	13,434	(14.0)	12,072	13,678	(11.7)
Total	202,661	186,811	8.5	198,539	182,537	8.8

The increase in the average balances of interest-bearing assets in the NIS-denominated segment is primarily due to higher volume of retail loans.

The decrease in average balances of interest-bearing assets in the CPI-linked segment and in the foreign currency segment is primarily due to diversion of uses to the NIS-denominated segment.

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

	Third Quarter		First nine months	
Linkage segments	2016	2015	2016	2015
Israeli currency - non-linked	2.08	2.21	2.03	2.32
Israeli currency - linked to the CPI	0.67	0.18	0.48	0.31
Foreign currency	1.38	1.21	1.26	1.41
Total	1.71	1.60	1.57	1.70

(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.

The decrease in interest spread in NIS, non-linked is primarily due to the effect of early repayment commissions.

The increase in interest spread in CPI-linked NIS is due to continued improvement in interest spreads and to lower average cost of CPI-linked sources.

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

Expenses with respect to credit losses for the Group amounted to NIS 59 million in the third quarter of 2016, or an annualized rate of 0.14% of total loans to the public, net, compared with NIS 61 million in the corresponding period last year – an annualized rate of 0.15% of total loans to the public, net in the corresponding period last year - a decrease of NIS 2 million in total.

Expenses with respect to credit losses for the Group in the first nine months of 2016 amounted to NIS 119 million. An annualized rate of 0.09% of total loans to the public, net, compared with NIS 136 million, or an annualized rate of 0.11% of total loans to the public, net in the corresponding period last year - for a decrease of NIS 17 million in total.

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

	Third Quarter		First nine months	
	2016	2015	2016	2015
Provision for credit losses on individual basis (including accounting write-offs)	(7)	18	83	51
Provision for credit losses on Group basis:				
By extent of arrears	(2)	(2)	(18)	(9)
Other	68	45	54	94
Total expenses with respect to credit losses	59	61	119	136
Expense with respect to credit losses as percentage of total loans to the public, net (annualized)	0.14%	0.15%	0.09%	0.11%
Of which: With respect to commercial loans other than housing loans	0.37%	0.39%	0.26%	0.30%
Of which: With respect to housing loans	0.02%	0.03%	0.01%	0.02%

The provision for credit losses on individual basis in the first nine months of 2015 was impacted by significant collection from previously written-off clients and the group-based provision in the same period was impacted by an increase in observed historic provision rates for the Bank.

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

	Third Quarter		First nine months	
Operating segment	2016	2015	2016	2015
Individuals:				
Households – housing loans	7	8	8	14
Households – other	(1)26	9	(1)60	26
Private banking	1	-	1	1
Total - individuals	34	17	69	41
Business operations:				
Small and micro businesses	26	22	96	83
Medium businesses	2	4	(1)	3
Large businesses	3	16	(43)	10
Institutional investors	(6)	(4)	2	(5)
Total - business operations	25	38	54	91
Financial management	(1)	1	(2)	(1)
Total activity in Israel	58	56	121	131
Overseas activity	1	5	(2)	5
Total	59	61	119	136

(1) The increase in expenses with respect to credit losses in the Household - Other segment is due, *inter alia*, to increase in group-based provision attributed to this segment. For more information about the Supervisor of Banks' directives with regard to group-based provision, see Note 1.B.4. to the financial statements.

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on management approach - see chapter "Supervisory operating segments" below.
For more information about implementation of the Bank of Israel directive with regard to supervisory operating segments, see Note 1.B.1 to the financial statements.

Net interest revenues after expenses with respect to credit losses in the third quarter of 2016 amounted to NIS 997 million (including non-interest financing revenues - NIS 1,037 million), compared to NIS 872 million in the corresponding period last year (including non-interest financing expenses - NIS 1,023 million). Net interest revenues after expenses with respect to credit losses and including non-interest financing revenues, increased in the third quarter of 2016 by 1.4% compared to the corresponding period last year.
Net interest revenues after expenses with respect to credit losses in the first nine months of 2016 amounted to NIS 2,711 million (including non-interest financing revenues - NIS 2,887 million), compared to NIS 2,578 million in the corresponding period last year (including non-interest financing revenues - NIS 2,809 million). Net interest revenues after expenses with respect to credit losses and with the addition of non-interest financing revenues, increased in the first nine months of 2016 by 2.8% compared to the corresponding period last year.

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

Non-interest revenues in the third quarter of 2016 amounted to NIS 420 million, compared to NIS 509 million in the corresponding period last year.
Non-interest revenues amounted to NIS 1,373 million in the first nine months of 2016, compared with NIS 1,341 million in the corresponding period last year - a year-over-year increase of 2.4%. See explanation below.

Non-interest financing expenses in the third quarter of 2016 amounted to NIS 40 million, compared to NIS 151 million in the corresponding period last year.
Non-interest financing revenues in the first nine months of 2016 amounted to NIS 176 million, compared to NIS 231 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, with the change compared to the corresponding periods last year being primarily due to profit from debenture activity. See analysis of financing revenues from current operations above.

Commission revenues in the third quarter of 2016 amounted to NIS 360 million, compared to NIS 350 million in the corresponding period last year – an increase of 2.9%.
Commission revenues amounted to NIS 1,077 million in the first nine months of 2016, compared with NIS 1,071 million in the corresponding period last year - a year-over-year increase of 0.6%.

The increase in commissions due to growth in operating volume was significantly offset by the negative impact of various regulatory directives, primarily with regard to checking accounts.

Other revenues in the third quarter of 2016, amounted to NIS 20 million compared with NIS 8 million in the corresponding period last year - an increase of NIS 12 million.

Other revenues in the first nine months of 2016 amounted to NIS 120 million, compared to NIS 39 million in the corresponding period last year, an increase of NIS 81 million. For the first nine months of the year, this includes capital gains amounting to NIS 87 million before tax, from realization of assets in conjunction with asset reorganization and improvements to the Bank's branch network, compared to NIS 11 million in the corresponding period last year.

Operating and other expenses amounted to NIS 815 million in the third quarter of 2016, compared with NIS 821 million in the corresponding period last year - a decrease by 0.7%.

Operating and other expenses amounted to NIS 2,430 million in the first nine months of 2016, compared with NIS 2,407 million in the corresponding period last year - an increase by 1.0%. See explanation below.

Payroll and associated expenses amounted to NIS 508 million in the third quarter of 2016, compared with NIS 487 million in the corresponding period last year - a year-over-year increase by 4.3%.

Payroll and associated expenses amounted to NIS 1,505 million in the first nine months of 2016, compared with NIS 1,445 million in the corresponding period last year - an increase by 4.2%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 177 million in the third quarter of 2016, compared with NIS 175 million in the corresponding period last year - an increase by 1.1%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 522 million in the first nine months of 2016, compared with NIS 523 million in the corresponding period last year - a decrease of 0.2%.

Maintaining a stable level of expenses for maintenance and depreciation for buildings and equipment is due to the Bank's efforts in streamlining, utilization of existing resources, asset reorganization and improvements to the branch network.

Other expenses in the third quarter of 2016, amounted to NIS 130 million compared with NIS 159 million in the corresponding period last year - a decrease of NIS 29 million.

Other expenses in the first nine months of 2016, amounted to NIS 403 million compared with NIS 439 million in the corresponding period last year - a decrease of NIS 36 million.

The decrease in other expenses is due to various expense items: marketing and advertising expenses, legal and consulting expenses, postage and communications.

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

	2015			2016			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-income ratio	55.2	57.8	60.8	61.3	56.9	58.4	63.4

	First nine months		All of
	2016	2015	2015
Cost-income ratio	57.8	59.4	59.8

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

Pre-tax profit for the Group in the third quarter of 2016 amounted to NIS 602 million, compared to NIS 560 million in the corresponding period last year – an increase of 7.5%.

Pre-tax profit for the Group amounted to NIS 1,654 million in the first nine months of 2016, compared with NIS 1,512 million in the corresponding period last year - an increase of 9.4%. See detailed explanation above.

The provision for taxes in the third quarter of 2016 amounted to NIS 218 million, compared to NIS 213 million in the corresponding period last year – an increase of 2.3%.

The provision for taxes amounted to NIS 621 million in the first nine months of 2016, compared with NIS 564 million in the corresponding period last year - an increase of 10.1%.

The change in provision for taxes in the third quarter of 2016 is due to change in profit and to a 1.7% decrease in the tax rate applicable to the Bank.

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 statutory tax rate applicable to the Bank, as noted above. In total, the provision rate for taxes on profit is similar in both periods, despite the lower tax rate applicable to the Bank.

The Bank's share of after-tax profit of associates in the third quarter of 2016 amounted to NIS 1 million, similar to the corresponding period last year.

The Bank's share of after-tax profit of associates in the first nine months of 2016 amounted to NIS 1 million, compared to no profit with respect to associates in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the third quarter of 2016 amounted to NIS 12 million, compared to NIS 32 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 2016 amounted to NIS 33 million, compared to NIS 54 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the third quarter of 2016 amounted to NIS 373 million, compared to NIS 316 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the first nine months of 2016 amounted to NIS 1,001 million, compared to NIS 894 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 2016, other comprehensive income attributable to shareholders of the Bank increased (decreased) by NIS (62) million and NIS 10 million, respectively, compared to the corresponding period last year. The change in Other Comprehensive Income attributable to shareholders of the Bank compared to the corresponding period last year is primarily due to adjustments with respect to presentation of securities available for sale at fair value and to adjustments with respect to employee benefits. See Note 4 to the financial statements for details.

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

	2016			2015			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	12.4	11.6	10.0	8.4	11.5	12.4	9.4
Ratio of Tier I capital to risk elements at end of quarter	9.85	9.72	9.65	9.50	9.30	9.30	9.10
(Quarterly) liquidity coverage ratio(4)	105	99	97	91	84	84	-
Leverage ratio at end of quarter(5)	5.31	5.33	5.23	5.32	5.32	5.24	-

	First nine months		All of
	2016	2015	2015
Net return on equity	11.0	10.8	10.0

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interest and less/plus the average balance of unrealized gain/loss from adjustment to fair value of debentures held for trading as well as gain/loss from debentures available for sale.

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

(4) Liquidity Coverage Ratio - ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations during the reported quarter.

(5) Leverage Ratio - ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218.

Earnings per share

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

	Third Quarter		First nine months		For the year ended December 31,
	2016	2015	2016	2015	2015
Basic earnings per share	1.61	1.36	4.32	3.87	4.90
Diluted earnings per share	1.61	1.36	4.32	3.86	4.89

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

Assets and liabilities

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2016	2015	2015	2015	2015
Balance sheet total	225,520	204,966	209,158	10.0	7.8
Cash and deposits with banks	40,753	26,720	30,489	52.5	33.7
Loans to the public, net	168,620	157,996	159,204	6.7	5.9
Securities	9,407	11,306	11,845	(16.8)	(20.6)
Buildings and equipment	1,537	1,543	1,583	(0.4)	(2.9)
Deposits from the public	173,748	158,107	162,380	9.9	7.0
Deposits from banks	1,255	1,298	1,166	(3.3)	7.6
Debentures and subordinated notes	27,253	23,196	23,719	17.5	14.9
Shareholder equity	12,726	11,616	11,847	9.6	7.4

Cash and deposits with banks - the balance of cash and deposits with banks increased in the first nine months of 2016 by NIS 10.3 billion. The increase in cash balance is part of on-going management of Bank liquidity.

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of September 30, 2016 accounted for 75% of total assets, compared to 76% as of December 31, 2015. Loans to the public, net for the Group increased in the first nine months of 2016 by NIS 9.4 billion, an increase of 5.9%.

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2016	2015	2015	2015	2015
Israeli currency					
Non-linked	107,786	94,097	95,814	14.5	12.5
CPI- linked	49,821	52,338	51,836	(4.8)	(3.9)
Foreign currency and foreign currency linked	11,013	11,561	11,554	(4.7)	(4.7)
Total	168,620	157,996	159,204	6.7	5.9

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2016	2015	2015	2015	2015
Individuals:					
Households – housing loans	112,272	103,408	105,106	8.6	6.8
Households – other	18,510	16,521	17,112	12.0	8.2
Private banking	97	85	67	13.3	43.5
Total - individuals	130,879	120,015	122,286	9.1	7.0
Business operations:					
Small and micro businesses	14,583	13,809	13,909	5.6	4.8
Medium businesses	5,236	4,748	4,786	10.3	9.4
Large businesses	12,309	14,596	13,132	(15.7)	(6.3)
Institutional investors	2,227	2,045	2,030	8.9	9.7
Total - business operations	34,354	35,198	33,857	(2.4)	1.5
Overseas operations	3,387	2,783	3,061	21.7	10.7
Total	168,620	157,996	159,204	6.7	5.9

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

For more information about implementation of the Bank of Israel directives with regard to supervisory operating segments, see Note 1.B.1 to the financial statements.

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

Reported amounts	September 30, 2016			September 30, 2015			December 31, 2015		
(NIS in millions)			Credit risk(1)			Credit risk(1)			Credit risk(1)
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Problematic credit risk									
Impaired credit risk	683	193	876	738	169	907	817	169	986
Inferior credit risk	110	-	110	78	-	78	82	-	82
Credit risk under special supervision(2)	1,358	233	1,591	1,367	329	1,696	1,318	329	1,647
Total troubled credit risk	2,151	426	2,577	2,183	498	2,681	2,217	498	2,715
Of which: Non-impaired debts in arrears 90 days or longer(2)	909			1,073			1,012		
2. Non-performing assets(3)	653			693			774		

(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 827 million (as of September 30, 2015 - NIS 1,005 million; as of December 31, 2015 - NIS 957 million).

(3) Assets not accruing interest.

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

Credit risk for loans to the public is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities. Total credit risk for the Bank Group as of September 30, 2016 amounted to NIS 225 billion, compared to NIS 217 billion as of December 31, 2015 - an increase of 3.7%.

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2016	2015	2015	2015	2015
Off balance sheet financial instruments other than derivatives [(1)]:					
Documentary credit	495	378	472	31.0	4.9
Loan guarantees	2,540	2,202	2,245	15.3	13.1
Guarantees to home buyers	12,678	11,903	11,597	6.5	9.3
Guarantees and other liabilities	4,772	4,255	4,546	12.2	5.0
Unutilized revolving credit card facilities	7,378	7,926	7,848	(6.9)	(6.0)
Unutilized debitory account and other credit facilities in accounts available on demand	17,691	18,606	16,588	(4.9)	6.6
Irrevocable commitments for loans approved but not yet granted	11,661	11,620	12,901	0.4	(9.6)
Commitments to issue guarantees	5,567	5,715	5,629	(2.6)	(1.1)
Financial instruments[(2)]:					
Total par value of derivative financial instruments	215,845	267,595	237,147	(19.3)	(9.0)
(On-balance sheet) assets with respect to derivative instruments	3,267	4,780	3,527	(31.7)	(7.4)
(On-balance sheet) liabilities with respect to derivative instruments	3,520	4,527	3,634	(2.7)	(3.1)

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 11 to the financial statements for additional information.

(2) Includes forward transactions, swaps, options and credit derivatives.

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

Securities - the balance of investment in securities decreased in the first nine months of 2016 by NIS 2.4 billion, and decreased by NIS 1.9 billion compared to the corresponding period last year. The decrease in total investment in securities is within asset and liability management of the Bank.

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

	September 30, 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]
	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

	September 30, 2015				
	Carrying amount	Amortized cost (for shares - cost)	Unrecognize d gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
Securities held to maturity	3,313	3,313	80	-	3,393
Securities available for sale	7,611	7,606	[2]33	(28)[2]	7,611
Securities held for trade	382	382	-	-	382
Total securities	11,306	11,301	113	(28)	11,386

	December 31, 2015				
	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	3,320	3,320	71	-	3,391
Securities available for sale	8,303	8,323	[2]20	[2](40)	8,303
Securities held for trade	222	222	-	-	222
Total securities	11,845	11,865	91	(40)	11,916

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

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

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

				Change in % over	
	September 30,	December 31,	September 30,	September 30,	December 31,
	2016	2015	2015	2015	2015
Israeli currency					
Non-linked	5,145	7,263	7,002	(29.2)	(26.5)
CPI- linked	204	112	66	82.1	209.1
Foreign currency and foreign currency linked	3,956	3,832	4,679	3.2	(15.5)
Non-monetary items	102	99	98	3.0	4.1
Total	9,407	11,306	11,845	(16.8)	(20.6)

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

	September 30,		December 31,
	2016	2015	2015
Government debentures:			
Government of Israel	8,246	9,755	9,788
Government of USA	983	912	1,624
UK Government	-	62	-
South Korea Government	38	28	40
Total government debentures	9,267	10,757	11,452
Debentures of banks in developed nations:			
UK	-	98	79
Israel	-	109	-
Germany	-	118	117
Other - Euro Zone	-	79	78
Other	19	10	-
Total debentures of banks in developed nations	19	414	274
Corporate debentures (composition by sector):			
Industry and production	-	10	10
Construction and real estate	-	15	-
Public and community services	11	11	11
Financial services	8	-	-
Total corporate debentures	19	36	21
Shares	102	99	98
Total securities	9,407	11,306	11,845

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

Buildings and equipment - The balance of buildings and equipment increased in the first nine months of 2016 by NIS 46 million, or 2.9%. The change in balance of buildings and equipment is due to depreciation and realized assets as part of asset reorganization and improvements to the branch network, offset by new investments - primarily in technology.

Deposits from the public - these account for 77% of total consolidated balance sheet as of September 30, 2016, compared with 78% at the end of 2015. In the first nine months of 2016, deposits from the public with the Bank Group increased by NIS 11.4 billion, or 7.0%.

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2016	2015	2015	2015	2015
Israeli currency					
Non-linked	121,456	100,715	109,091	20.6	11.3
CPI- linked	17,153	18,035	16,764	(4.9)	2.3
Foreign currency and foreign currency linked	35,139	39,357	36,525	(10.7)	(3.8)
Total	173,748	158,107	162,380	9.9	7.0

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2016	2015	2015	2015	2015
Individuals:					
Households – other	70,985	64,789	65,808	9.6	7.9
Private banking	10,666	10,481	10,242	1.8	4.1
Total - individuals	81,651	75,270	76,050	8.5	7.4
Business operations:					
Small and micro businesses	15,953	13,689	13,376	16.5	19.3
Medium businesses	7,087	6,113	6,098	15.9	16.2
Large businesses	28,101	24,030	26,688	16.9	5.3
Institutional investors	36,014	34,169	36,127	5.4	(0.3)
Total - business operations	87,155	78,001	82,289	11.7	5.9
Overseas operations	4,942	4,836	4,041	2.2	22.3
Total	173,748	158,107	162,380	9.9	7.0

For more information about implementation of the Bank of Israel directives with regard to supervisory operating segments, see Note 1.B.1 to the financial statements.

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

	September 30,		December 31,
	2016	2015[(1)]	2015[(1)]
Maximum deposit			
Up to 1	59,621	54,365	55,229
Over 1 to 10	38,094	34,666	35,229
Over 10 to 100	23,889	22,424	22,301
Over 100 to 500	27,426	24,724	25,616
Above 500	24,718	21,928	24,005
Total	173,748	158,107	162,380

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

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

Deposits from banks - deposits from banks as of September 30, 2016 amounted to NIS 1.3 billion, compared to NIS 1.2 billion as of December 31, 2015.

Debentures and subordinated notes - the balance of debentures and subordinated notes as of September 30, 2016 amounted to NIS 27.3 billion, compared to NIS 23.7 billion as of December 31, 2015, an increase by 14.9%. See also chapter "Developments in financing sources" above.

Contingent liabilities and special commitments

For more information about contingent liabilities and special commitments, see Note 10 to the financial statements.

Capital, capital adequacy and leverage

Equity attributable to shareholders of the Bank - the balance of equity attributable to shareholders of the Bank as of September 30, 2016 amounted to NIS 12.7 billion, compared to NIS 11.8 billion as of December 31, 2015 and NIS 11.6 billion as of September 30, 2015, an increase by 7.4% and 9.6%, respectively.

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

	September 30,		December 31,
	2016	2015	2015
Share capital and premium	2,224	2,222	2,222
Capital reserve from benefit from share-based payment transactions	72	60	68
Treasury shares	(76)	(76)	(76)
Cumulative other comprehensive income (loss)[(1)]	(95)	(80)	(97)
Retained earnings[(2)]	10,601	9,490	9,730
Total	12,726	11,616	11,847

The ratio of shareholders' equity to balance sheet total for the Group as of September 30, 2016 was 5.64%, compared to 5.66% as of December 31, 2015 and 5.67% as of September 30, 2015.

(1) Changes to Cumulative Other Comprehensive Income include changes to capital reserves and other adjustments to shareholder equity attributable to shareholders of the Bank, as presented in Note 4 to the financial statements.
(2) 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".

Capital adequacy

Supervisory capital

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

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

	September 30, 2016	September 30, 2015	December 31, 2015
Capital for purpose of calculating minimum capital ratio			
Tier I capital	13,136	12,061	12,299
Tier I capital	13,136	12,061	12,299
Tier II capital	4,893	4,496	4,916
Total capital	18,029	16,557	17,215
Weighted risk asset balances			
Credit risk	124,385	121,203	120,793
Market risks	985	906	950
Operating risk	7,979	7,634	7,743
Total weighted risk asset balances	133,349	129,743	129,486

Ratio of capital to risk elements

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

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 is being gradually implemented through January 1, 2017. Accordingly, the minimum Tier I equity ratio and the minimum total equity ratio required by the Supervisor of Banks, as of January 1, 2017, on consolidated basis, in conformity with data as of the reporting date, are 9.85% and 13.35%, respectively.

See Note 9 to the financial statements for additional information.

On July 23, 2012 the Bank's Board of Directors approved a strategic plan for 2013-2017 (hereinafter: "the original strategic plan" or "the original plan"), based on the following principles:

- The target set in the original plan is to present, in 2017, an average net operating profit return on equity of 17%, based on the target core capital ratio of 7.5%.
- On that date, the Bank's Board of Directors instructed the Bank to advance implementation of the Supervisor of Banks' directive dated March 28, 2012, whereby the Bank should adopt by December 31, 2014 a target core capital ratio of no less than 9%, to be applied, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved, on the same date, to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end. The core capital ratio will be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks. Consequently, the average equity basis used for Bank operations would be increased, therefore, arithmetically, any given profit would result in a lower return figure. Accordingly, the target average net operating profit return on equity, adjusted for the regulatory requirement for core capital ratio of 9% or higher, would be 14.5% in 2017. For comparison, this return on equity is equivalent to 17% based on regulatory capital requirements during the term of the previous strategic plan. See below the Board of Directors' resolution dated December 23, 2014 to amend the strategic plan.
- During the period of this strategic plan, the dividend distribution policies adopted by the Bank would be maintained, according to the original plan, whereby, subject to the Bank's core capital ratio being no less than the target set by the Board of Directors, the Bank would distribute annually dividends equal to 40% of net operating profit and 80% of profit from extraordinary items.

Following publication of the Supervisor of Bank's directives dated May 30, 2013, with regard to adoption of Basel III recommendations in Israel, including Supervisory adjustments, deductions from capital and directives on measurement and capital adequacy – the Bank reviewed once again, on that date, its compliance with schedules to achieve the core capital ratio target of 9% or higher.

Following this review and based on assumptions, as of the review date, with regard to expected profit in 2013-2014 and to growth rate of risk assets, the Bank presented to the Supervisor of Banks, on that date, an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.

After checking with the Supervisor of Banks, the Bank's Board of Directors resolved, on August 14, 2013, to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to bringing forward the implementation of the Supervisor of Banks' directives, with the intention of implementing these, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Banking Conduct Directive 329, whereby the target Tier I equity ratio and the target ratio of total capital to risk elements ratio would include an addition equal to 1% of the housing loan portfolio balance.

Accordingly, the minimum Tier I equity ratio and the minimum total equity ratio required by the Supervisor of Banks, as of January 1, 2017, on a consolidated basis, in conformity with data as of the reporting date, are 9.85% and 13.35%, respectively.

On December 23, 2014, the Bank's Board of Directors resolved to update the original strategic plan and to set the target for net operating profit return on average equity attributed to equity holders, at 13% in 2017. For more information about changes to certain assumptions used in the original strategic plan, see chapter "Business goals and strategy" in the 2015 financial statements.

Furthermore, the Bank's Board of Directors resolved on the same date to approve the dividend distribution policy (hereinafter: "the revised dividend policy"), replacing the dividend distribution policy described in section 1.C of the Immediate Report issued by the Bank on July 23, 2012 (reference no. 2012-01-191649) (hereinafter: "the previous Immediate Report"). The revised dividend 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 equity holders.
The revised dividends policy is subject to the Bank 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 and as described above.
In 2017, the dividends policies would be as specified in section 1.C. of the previous Immediate Report. This is subject to the Bank's Tier I capital ratio being no less than that required by the Supervisor of Banks' directives and subject to maintaining proper safety margins.
The Bank has received approval by the Supervisor of Banks for the aforementioned outline of its dividends policies.
Note that dividend distribution is subject to statutory provisions and to restrictions specified by the Supervisor of Banks.

For more information about dividend distribution, see chapter "Dividends" below.

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

	September 30, 2016	September 30, 2015	December 31, 2015
Ratio of Tier I capital to risk elements	9.85	9.30	9.50
Ratio of total capital to risk elements	13.52	12.76	13.29
Minimum Tier I capital ratio required by Supervisor of Banks(1)	9.64	9.20	9.30
Total minimum capital ratio required by the directives of the Supervisor of Banks(1)	13.14	12.70	12.80

(1) Capital ratios required by the Supervisor of Banks as from January 1, 2015.
To these ratios, as from January 1, 2015, an additional capital requirement would be added expressed as 1% of the housing loan balance as of the reporting date. This requirement is applied gradually through January 1, 2017. Accordingly, the minimum Tier I capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, based on data as of the reporting date, are 9.85% and 13.35%, respectively.

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

The Bank's leverage ratio as of September 30, 2016 is 5.31%, compared to 5.32% as of September 30, 2015 and December 31, 2015.
The minimum leverage ratio required by the Supervisor of Banks is 5.00%.
For more information see Note 9 to the financial statements and the Detailed Risk Management Report on the Bank website.

Dividends

Dividend distribution

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.

For more information about resolutions by the Board of Directors, including dividends policies for 2017, see above and see the chapter "Capital, capital adequacy and leverage" on the annual financial statements as of December 31, 2015.

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

Declaration date	Payment date	Dividends per share	Total dividends paid
		(Agorot)	(NIS in millions)
May 18, 2015	June 14, 2015	15.84	36.6
August 16, 2015	September 17, 2015	21.35	49.5
February 24, 2016	March 21, 2016	15.52	36.0
May 18, 2016	June 21, 2016	18.62	43.2
August 10, 2016	September 11, 2016	21.99	51.0

On November 14, 2016, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 56.0 million with respect to earnings in the third quarter of 2016.

The dividend amount is 241.2% of issued share capital, i.e. NIS 0.2412 per NIS 0.1 par value share. The effective date for dividends payment is November 27, 2016 and the payment date is December 12, 2016. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

Other Off Balance Sheet Activity

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2016	2015	2015	2015	2015
Securities[1]	217,567	213,222	208,514	2.0	4.3
Assets of provident funds for which the Group provides operating services	75,276	72,813	74,269	3.4	1.4
Assets of mutual funds for which the Bank provides operating services	14,002	18,151	16,219	(22.9)	(13.7)
Assets held in trust by the Bank Group	71,131	72,426	72,977	(1.8)	(2.5)
Other assets under management[2]	11,115	10,274	10,586	8.2	5.0

(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.

Financial Information on Operating Segments

Background

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for clients.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include - in Note 12 to the financial statements - disclosure with regard to "Operating segments in conformity with management approach".

An operating segment in conformity with management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a correlation between supervisory operating segments and "operating segments in conformity with management approach" but nevertheless, there are some differences in client attribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "management approach", as noted above.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for other than individuals (including business operating segments, institutional investors and financial management of the Bank).
Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals - housing loans and others", in conformity with definitions of credit risk classification by economic sector.

Definitions of supervisory operating segments are as follows:
Households – individuals, other than private banking clients, as noted below.

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

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

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

Large businesses – businesses with turnover higher than NIS 250 million

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

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

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

Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivatives, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

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

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

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Exceptions for classification of business clients by turnover

According to the Bank of Israel Q&A File, the Bank classified business clients to operating segments other than by turnover, in the following cases:

- When the Bank has no information about the revenues of a business client and client indebtedness is smaller than NIS 300 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.

"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 in past periods, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

Below are the Bank's operating segments in conformity with management approach:

Household segment - under responsibility of the Retail Division. This segment includes household clients with relatively minor financial activity, as well as the mortgage sector. 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, The segment serves small companies and 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 2.5 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 three 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 - this segment is under responsibility of the Major Corporations Sector of the Business Division. This segment serves 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. Investments in non-banking corporations are the responsibility of the Business Division and are attributed to this segment.

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 Finance Division is responsible for this segment.

Specific differences between supervisory operating segments and "management approach":

As noted above, there is a strong correlation between supervisory operating segments and "operating segments in conformity with management approach". However, there are some differences in client attribution to segments and in decision making between "management approach" and supervisory definitions.

A summary of these differences are as follows:

- The Bank's operating segments by "management approach" are based on the Bank’s organizational structure in the past period. There is a strong correlation between attributes specified by management for client attribution to the responsible division and the supervisory definitions.
  However, according to "management approach", in some cases the final client attribution may not be arbitrary - but rather would be subject to additional discretion.
  Such additional discretion may take into account 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.
- Other differences are reflected in the Bank's definition of Private Banking, how institutional investors are handled, business operations attributed to the Financial Management Division and other differences arising from the aforementioned definitions.

For more information about key products offered by the Bank's operating segments, see Note 12 to the financial statements.

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

Financial Information by Supervisory Operating Segments:

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

	Net profit		Share of total net profit (in %)	
	First nine months		First nine months	
	2016	2015	2016	2015
Individuals:				
Households – housing loans	360	320	36.0	35.8
Households – other	35	32	3.5	3.6
Private banking	8	3	0.8	0.3
Total - individuals	403	355	40.3	39.7
Business operations:				
Small and micro businesses	171	163	17.1	18.2
Medium businesses	75	72	7.5	8.1
Large businesses	225	203	22.5	22.7
Institutional investors	25	29	2.5	3.2
Total - business operations	496	467	49.6	52.2
Financial management	46	47	4.6	5.3
Total activity in Israel	945	869	94.4	97.2
Overseas operations	56	25	5.6	2.8
Total	1,001	894	100.0	100.0

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

Operating results in the household segment

	For the nine months ended September 30					
	2016			2015		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	809	811	1,620	725	719	1,444
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	405	112	517	408	133	541
Total revenues	1,214	923	2,137	1,133	852	1,985
Expenses with respect to credit losses	60	8	68	26	14	40
Operating and other expenses	1,045	339	1,384	1,003	328	1,331
Profit before provision for taxes	109	576	685	104	510	614
Provision for taxes	41	216	257	39	190	229
After-tax profit	68	360	428	65	320	385
Net profit:						
Attributable to non-controlling interests	(33)	-	(33)	(33)	-	(33)
Attributable to shareholders of the banking corporation	35	360	395	32	320	352
Balance sheet - key items:						
Loans to the public (end balance)	18,720	112,884	131,604	16,697	104,027	120,724
Loans to the public, net (end balance)	18,510	112,272	130,782	16,521	103,408	119,929
Deposits from the public, net (ending balance)	70,985	-	70,985	64,789	-	64,789
Average balance of loans to the public	17,988	109,584	127,572	16,158	100,226	116,384
Average balance of deposits from the public	69,285	-	69,285	69,285	-	69,285
Average balance of risk assets	15,696	60,250	75,946	14,931	55,213	70,144
Credit margins and deposit margins:						
Margin from credit granting operations	627	789	1,416	571	694	1,265
Margin from deposit operations	181	-	181	148	-	148
Other	1	22	23	6	25	31
Total interest revenues, net	809	811	1,620	725	719	1,444

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2016 amounted to NIS 395 million, compared to NIS 352 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 2016 amounted to NIS 360 million, compared to NIS 320 million in the corresponding period last year. Total interest revenues, net amounted to NIS 811 million, compared to NIS 719 million in the corresponding period last year, an increase of 12.8% - primarily due to an increase in mortgage business volume - reflected in an increase of NIS 9.3 billion in the average loan balance. Expenses with respect to credit losses decreased by NIS 6 million compared to the corresponding period last year. Commission and other revenues decreased by NIS 21 million, due, *inter alia*, to regulatory effects. Operating expenses amounted to NIS 339 million, compared to NIS 328 million in the corresponding period last year - an increase of 3.4%.

Contribution of households - other operations (other than housing loans) in the first nine months of 2016 amounted to NIS 35 million, compared to NIS 32 million in the corresponding period last year - an increase of NIS 3 million. Interest revenues, net increased by NIS 84 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. Commission and other revenues decreased by NIS 3 million, due to regulatory effects. Expenses with respect to credit losses increased by NIS 34 million, primarily due to the increase in group-based provision for this segment. For more information about the Supervisor of Banks' directives with regard to group-based provision, see Note 1.B.4. to the financial statements.

Operating expenses amounted to NIS 1,045 million, compared to NIS 1,003 million in the corresponding period last year - an increase of 4.2%.

For more details and extensive information about supervisory operating segments and operating results in conformity with management approach - see Note 12 to the financial statements.

Operating results in the household segment

	For the three months ended September 30,					
	2016			2015		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	284	284	568	246	240	486
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	136	38	174	131	43	174
Total revenues	420	322	742	377	283	660
Expenses with respect to credit losses	26	7	33	9	8	17
Operating and other expenses	353	112	465	334	110	444
Profit before provision for taxes	41	203	244	34	165	199
Provision for taxes	15	74	89	13	63	76
After-tax profit	26	129	155	21	102	123
Net profit:						
Attributable to non-controlling interests	(12)	-	(12)	(11)	-	(11)
Attributable to shareholders of the banking corporation	14	129	143	10	102	112
Balance sheet - key items:						
Loans to the public (end balance)	18,720	112,884	131,604	16,697	104,027	120,724
Loans to the public, net (end balance)	18,510	112,272	130,782	16,521	103,408	119,929
Deposits from the public, net (ending balance)	70,985	-	70,985	64,789	-	64,789
Average balance of loans to the public	18,628	112,286	130,914	16,450	102,220	118,670
Average balance of deposits from the public	70,975	-	70,975	64,523	-	64,523
Average balance of risk assets	16,100	61,338	77,438	15,095	56,564	71,659
Credit margins and deposit margins:						
Margin from credit granting operations	220	277	497	195	240	435
Margin from deposit operations	63	-	63	48	-	48
Other	1	7	8	3	-	3
Total interest revenues, net	284	284	568	246	240	486

Operating results of private banking segment

	For the nine months ended September 30,	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	38	26
Non-interest financing revenues	-	-
Commissions and other revenues	11	10
Total revenues	49	36
Expenses with respect to credit losses	1	1
Operating and other expenses	35	30
Profit before provision for taxes	13	5
Provision for taxes	5	2
Net profit	8	3
Balance sheet - key items:		
Loans to the public (end balance)	98	86
Loans to the public, net (end balance)	97	85
Deposits from the public, net (ending balance)	10,666	10,481
Average balance of loans to the public	71	75
Average balance of deposits from the public	10,508	9,720
Average balance of risk assets	28	35
Credit margins and deposit margins:		
Margin from credit granting operations	1	1
Margin from deposit operations	36	25
Other	1	-
Total interest revenues, net	38	26

Contribution of the private banking segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2016 amounted to NIS 8 million, compared to NIS 3 million in the corresponding period last year.

Total interest revenues, net increased by NIS 12 million, primarily due to increase in deposits from the public. Commissions and other revenues increased by NIS 1 million.

Operating expenses increased by NIS 5 million, attributed to an increase in segment business.

For more details and extensive information about supervisory operating segments and operating results in conformity with management 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.

Operating results of private banking segment

	For the three months ended September 30,	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	13	10
Non-interest financing revenues	-	-
Commissions and other revenues	4	4
Total revenues	17	14
Expenses with respect to credit losses	1	-
Operating and other expenses	12	10
Profit before provision for taxes	4	4
Provision for taxes	1	2
Net profit	3	2
Balance sheet - key items:		
Loans to the public (end balance)	98	86
Loans to the public, net (end balance)	97	85
Deposits from the public, net (ending balance)	10,666	10,481
Average balance of loans to the public	75	85
Average balance of deposits from the public	10,554	10,014
Average balance of risk assets	32	44
Credit margins and deposit margins:		
Margin from credit granting operations	1	1
Margin from deposit operations	12	9
Other	-	-
Total interest revenues, net	13	10

Operating results of micro and small business segment

	For the nine months ended September 30	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	571	530
Non-interest financing revenues	-	-
Commissions and other revenues	226	218
Total revenues	797	748
Expenses with respect to credit losses	96	83
Operating and other expenses	427	405
Profit before provision for taxes	274	260
Provision for taxes	103	97
Net profit	171	163
Balance sheet - key items:		
Loans to the public (end balance)	14,837	14,060
Loans to the public, net (end balance)	14,583	13,809
Deposits from the public, net (ending balance)	15,953	13,689
Average balance of loans to the public	15,583	13,942
Average balance of deposits from the public	14,510	12,870
Average balance of risk assets	13,191	12,081
Credit margins and deposit margins:		
Margin from credit granting operations	521	492
Margin from deposit operations	41	27
Other	9	11
Total interest revenues, net	571	530

Contribution of the small and micro business segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2016 amounted to NIS 171 million, compared to NIS 163 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 571 million, compared to NIS 530 million in the corresponding period last year - an increase of 7.7%, attributed to significant increase in lending and deposit volume.

Expenses with respect to credit losses amounted to NIS 96 million, compared to NIS 83 million in the corresponding period last year, an increase of NIS 13 million - primarily attributed to significant increase in the loan portfolio in this segment.

Operating expenses amounted to NIS 427 million, compared to NIS 405 million in the corresponding period last year - an increase of 5.4%.

For more details and extensive information about supervisory operating segments and operating results in conformity with management approach - see Note 12 to the financial statements.

Operating results of micro and small business segment

	For the three months ended September 30,	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	195	182
Non-interest financing revenues	-	-
Commissions and other revenues	77	73
Total revenues	272	255
Expenses with respect to credit losses	26	22
Operating and other expenses	146	135
Profit before provision for taxes	100	98
Provision for taxes	36	37
Net profit	64	61
Balance sheet - key items:		
Loans to the public (end balance)	14,837	14,060
Deposits from the public (end balance)	14,583	13,809
Average balance of loans to the public	15,953	13,689
	15,997	14,370
Average balance of deposits from the public	15,956	13,870
Average balance of risk assets	13,758	12,191
Credit margins and deposit margins:		
Margin from credit granting operations	180	168
Margin from deposit operations	15	10
Other	-	4
Total interest revenues, net	195	182

Operating results of medium business segment

	For the nine months ended September 30	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	143	133
Non-interest financing revenues	-	-
Commissions and other revenues	50	54
Total revenues	193	187
Expenses with respect to credit losses	(1)	3
Operating and other expenses	74	69
Profit before provision for taxes	120	115
Provision for taxes	45	43
Net profit	75	72
Balance sheet - key items:		
Loans to the public (end balance)	5,315	4,810
Loans to the public, net (end balance)	5,236	4,748
Deposits from the public, net (ending balance)	7,087	6,113
Average balance of loans to the public	4,957	4,842
Average balance of deposits from the public	6,386	5,974
Average balance of risk assets	6,402	6,074
Credit margins and deposit margins:		
Margin from credit granting operations	124	122
Margin from deposit operations	17	8
Other	2	3
Total interest revenues, net	143	133

Contribution of the medium business segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2016 amounted to NIS 75 million, compared to NIS 72 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net increased by NIS 10 million, primarily due to increase in credit and deposit margins in this segment. Commission and other revenues decreased by NIS 4 million, due to diverse regulatory effects.

Expenses with respect to credit losses amounted to revenues of NIS 1 million, compared to expenses of NIS 3 million in the corresponding period last year.

Operating expenses amounted to NIS 74 million, compared to NIS 69 million in the corresponding period last year - an increase of 7.2%.

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

Operating results of medium business segment

	For the three months ended September 30,	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	54	43
Non-interest financing revenues	-	-
Commissions and other revenues	16	15
Total revenues	70	58
Expenses with respect to credit losses	2	4
Operating and other expenses	25	22
Profit before provision for taxes	43	32
Provision for taxes	16	12
Net profit	27	20
Balance sheet - key items:		
Loans to the public (end balance)	5,315	4,810
Loans to the public, net (end balance)	5,236	4,748
Deposits from the public, net (ending balance)	7,087	6,113
Average balance of loans to the public	5,147	4,818
Average balance of deposits from the public	6,648	6,052
Average balance of risk assets	6,692	6,093
Credit margins and deposit margins:		
Margin from credit granting operations	46	40
Margin from deposit operations	7	3
Other	1	-
Total interest revenues, net	54	43

Operating results of large business segment

	For the nine months ended September 30	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	306	325
Non-interest financing revenues	-	-
Commissions and other revenues	112	109
Total revenues	418	434
Expenses with respect to credit losses	(43)	10
Operating and other expenses	101	100
Profit before provision for taxes	360	324
Provision for taxes	135	121
Net profit	225	203
Balance sheet - key items:		
Loans to the public (end balance)	12,487	14,807
Loans to the public, net (end balance)	12,309	14,596
Deposits from the public, net (ending balance)	28,101	24,030
Average balance of loans to the public	13,046	14,029
Average balance of deposits from the public	27,376	19,936
Average balance of risk assets	23,327	27,090
Credit margins and deposit margins:		
Margin from credit granting operations	274	301
Margin from deposit operations	21	18
Other	11	6
Total interest revenues, net	306	325

Contribution of the large business segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2016 amounted to NIS 225 million, compared to NIS 203 million in the corresponding period last year, an increase by 10.8%.

Total interest revenues, net amounted to NIS 306 million, compared to NIS 325 million in the corresponding period last year - a decrease of 5.8%, primarily due to significant decrease in lending volume in this segment.

Expenses with respect to credit losses amounted to revenues of NIS 43 million, compared to expenses of NIS 10 million in the corresponding period last year. Revenues in the current period are due to collection from previously written-off clients.

Operating expenses amounted to NIS 101 million, compared to NIS 100 million in the corresponding period last year.

For more details and extensive information about supervisory operating segments and operating results in conformity with management approach - see Note 12 to the financial statements.

Operating results of large business segment

	For the three months ended September 30,	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	104	109
Non-interest financing revenues	-	-
Commissions and other revenues	37	38
Total revenues	141	147
Expenses with respect to credit losses	3	16
Operating and other expenses	33	33
Profit before provision for taxes	105	98
Provision for taxes	38	37
Net profit	67	61
Balance sheet - key items:		
Loans to the public (end balance)	12,487	14,807
Loans to the public, net (end balance)	12,309	14,596
Deposits from the public, net (ending balance)	28,101	24,030
Average balance of loans to the public	12,612	13,703
Average balance of deposits from the public	26,520	19,094
Average balance of risk assets	22,381	26,037
Credit margins and deposit margins:		
Margin from credit granting operations	93	101
Margin from deposit operations	5	6
Other	6	2
Total interest revenues, net	104	109

Operating results of institutional investor segment

	For the nine months ended September 30	
	2016	2015
		NIS in millions
Profit and profitability		
Total interest revenues, net	81	82
Non-interest financing revenues	1	-
Commissions and other revenues	63	56
Total revenues	145	138
Expenses with respect to credit losses	2	(5)
Operating and other expenses	103	96
Profit before provision for taxes	40	47
Provision for taxes	15	18
Net profit	25	29
Balance sheet - key items:		
Loans to the public (end balance)	2,268	2,084
Loans to the public, net (end balance)	2,227	2,045
Deposits from the public, net (ending balance)	36,014	34,169
Average balance of loans to the public	2,873	2,182
Average balance of deposits from the public	34,960	38,569
Average balance of risk assets	2,994	3,500
Credit margins and deposit margins:		
Margin from credit granting operations	36	36
Margin from deposit operations	45	46
Other	-	-
Total interest revenues, net	81	82

Contribution of the institutional investor segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2016 amounted to NIS 25 million, compared to NIS 29 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Total financing revenues were unchanged from the year-ago period.

Commissions and other revenues increased by NIS 7 million compared to the corresponding period last year. The increase is primarily due to increase in commissions from securities activity.

Expenses with respect to credit losses amounted to NIS 2 million, compared to revenue of NIS 5 million in the corresponding period last year. The increase in expenses is due to higher group-based provisions in this segment.

For more information about the Supervisor of Banks' directives with regard to group-based provision, see Note 1.B.4. to the financial statements.

Operating expenses amounted to NIS 103 million, compared to NIS 96 million in the corresponding period last year.

For more details and extensive information about supervisory operating segments and operating results in conformity with management approach - see Note 12 to the financial statements.

Operating results of institutional investor segment

	For the three months ended September 30,	
	2016	2015
		NIS in millions
Profit and profitability		
Total interest revenues, net	28	27
Non-interest financing revenues	-	(1)
Commissions and other revenues	21	18
Total revenues	49	44
Expenses with respect to credit losses	(6)	(4)
Operating and other expenses	37	31
Profit before provision for taxes	18	17
Provision for taxes	7	6
Net profit	11	11
Balance sheet - key items:		
Loans to the public (end balance)	2,268	2,084
Loans to the public, net (end balance)	2,227	2,045
Deposits from the public, net (ending balance)	36,014	34,169
Average balance of loans to the public	3,093	2,088
Average balance of deposits from the public	36,606	35,381
Average balance of risk assets	2,939	3,500
Credit margins and deposit margins:		
Margin from credit granting operations	13	10
Margin from deposit operations	15	17
Other	-	-
Total interest revenues, net	28	27

Operating results of the financial management segment

	For the nine months ended September 30	
	2016	2015
		NIS in millions
Profit and profitability		
Total interest revenues, net	(47)	94
Non-interest financing revenues	170	229
Commissions and other revenues	196	98
Total revenues	319	421
Expenses with respect to credit losses	(2)	(1)
Operating and other expenses	249	316
Profit before provision for taxes	72	106
Provision for taxes	27	38
After-tax profit	45	68
Share of banking corporation in earnings of associates	1	-
Net profit before attribution to non-controlling interests	46	68
Net profit attributed to non-controlling interests	-	(21)
Net profit attributable to shareholders of the banking corporation	46	47
Balance sheet - key items:		
Average balance of risk assets	5,448	5,186
Credit margins and deposit margins:		
Margin from credit granting operations	-	-
Margin from deposit operations	-	-
Other	(47)	94
Total interest revenues, net	(47)	94

Contribution of the financial management segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2016 amounted to a profit of NIS 46 million, compared to a profit of NIS 47 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Total financing revenues (net interest revenues and non-interest financing revenues) decreased by NIS 200 million compared to the corresponding period last year, primarily due to lower early mortgage repayments, resulting in lower early repayment fees. Moreover, in the corresponding period last year the Bank recognized revenues from realized debentures held to maturity at Bank Yahav. See analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".

Commissions and other revenues increased by NIS 98 million, due to results of the Bank's continued effort to re-organize assets and to improve the branch network.

For more details and extensive information about supervisory operating segments and operating results in conformity with management 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.

Operating results of the financial management segment

	For the three months ended September 30,	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	51	48
Non-interest financing revenues	39	153
Commissions and other revenues	44	28
Total revenues	134	229
Expenses with respect to credit losses	(1)	1
Operating and other expenses	79	125
Profit before provision for taxes	56	103
Provision for taxes	19	39
After-tax profit	37	64
Share of banking corporation in earnings of associates	1	1
Net profit before attribution to non-controlling interests	38	65
Net profit attributed to non-controlling interests	-	(21)
Net profit attributable to shareholders of the banking corporation	38	44
Balance sheet - key items:		
Average balance of risk assets	5,584	4,995
Credit margins and deposit margins:		
Margin from credit granting operations	-	-
Margin from deposit operations	-	-
Other	51	48
Total interest revenues, net	51	48

Operating results of overseas operations

	For the nine months ended September 30	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	118	80
Non-interest financing revenues	5	2
Commissions and other revenues	22	24
Total revenues	145	106
Expenses with respect to credit losses	(2)	5
Operating and other expenses	57	60
Profit before provision for taxes	90	41
Provision for taxes	34	16
Net profit	56	25
Balance sheet - key items:		
Loans to the public (end balance)	3,415	2,811
Loans to the public, net (end balance)	3,387	2,783
Deposits from the public, net (ending balance)	4,942	4,836
Average balance of loans to the public	3,180	2,564
Average balance of deposits from the public	4,646	3,288
Average balance of risk assets	3,645	2,892
Credit margins and deposit margins:		
Margin from credit granting operations	63	55
Margin from deposit operations	10	6
Other	45	19
Total interest revenues, net	118	80

Contribution of overseas operations to Group profit in the first nine months of 2016 amounted to NIS 56 million, compared to NIS 25 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 118 million, compared to NIS 80 million in the corresponding period last year - an increase of 47.5%, attributed to significant increase in lending and deposit volume.

Operating expenses amounted to NIS 57 million, compared to NIS 60 million in the corresponding period last year.

For more details and extensive information about supervisory operating segments and operating results in conformity with management 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.

Operating results of overseas operations

	For the three months ended September 30,	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	43	28
Non-interest financing revenues	1	(1)
Commissions and other revenues	7	8
Total revenues	51	35
Expenses with respect to credit losses	1	5
Operating and other expenses	18	21
Profit before provision for taxes	32	9
Provision for taxes	12	4
Net profit	20	5
Balance sheet - key items:		
Loans to the public (end balance)	3,415	2,811
Loans to the public, net (end balance)	3,387	2,783
Deposits from the public, net (ending balance)	4,942	4,836
Average balance of loans to the public	3,260	2,638
Average balance of deposits from the public	4,760	1,952
Average balance of risk assets	3,670	3,092
Credit margins and deposit margins:		
Margin from credit granting operations	21	18
Margin from deposit operations	4	2
Other	18	8
Total interest revenues, net	43	28

Major Investees

The contribution of investees to net operating profit in the first nine months of 2016 amounted to NIS 99 million, compared with NIS 128 million in the corresponding period last year. These data include impact of changes in exchange rates on the balance of investment in overseas investees, covered by the Bank's own sources. Therefore, exchange rates have no impact on Group net profit.

Excluding the aforementioned effect of exchange rates, contribution of investees amounted to NIS 105 million, compared to NIS 121 million in the corresponding period last year - see explanation under Investees below.

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

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

Bank Yahav's contribution to Group net profit in the first nine of 2016 amounted to NIS 33 million, compared to NIS 54 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first nine months of 2016 was 7.6% on annualized basis, compared to 14.1% in the corresponding period last year. Bank Yahav's balance sheet total as of September 30, 2016 amounted to NIS 23,730 million, compared to NIS 22,651 million as of December 31, 2015 – an increase of NIS 1,079 million, or 4.8%. Net loans to the public as of September 30, 2016 amounted to NIS 8,646 million, compared to NIS 7,943 million as of December 31, 2015 – an increase of NIS 703 million, or 8.9%. Net deposits from the public as of September 30, 2016 amounted to NIS 20,174 million, compared to NIS 19,415 million as of December 31, 2015 – an increase of NIS 759 million, or 3.9%.

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 2016 (excluding net financing revenues from excess cash) amounted to NIS 36 million, compared to NIS 37 million in the corresponding period last year.

Net profit return on equity in the first nine months of 2016 was 8.1%, compared to 8.8% 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 2016 NIS 17 million, net - compared to NIS 13 million in the corresponding period last year. Of this, NIS 8 million (similar to the corresponding period last year) from trustee operations of the subsidiary, Mizrahi Tefahot Trust Company Ltd.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first nine months of 2016 amounted to CHF 0.7 million, compared to CHF 0.5 million in the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of September 30, 2016 amounted to CHF 188 million, compared to CHF 194 million at the end of 2015.

The balance of loans to the public as of September 30, 2016 amounted to CHF 75 million, compared to CHF 72 million at end of 2015. The deposits with banks as of September 30, 2016 amounted to CHF 109 million, compared to CHF 117 million at end of 2015. Deposits from the public as of September 30, 2016 amounted to CHF 126 million, compared to CHF 134 million at end of 2015. Deposits from banks as of September 30, 2016 amounted to CHF 0.3 million, compared to CHF 0.1 million at end of 2015.

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

The contribution of Mizrahi Overseas Holdings to Group net profit in the first nine months of 2016, net of exchange rate effects, amounted to net profit of NIS 2.9 million, compared with NIS 1.2 million in the corresponding period last year.

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

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

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. Shares of non-banking corporations in which the Bank invested were acquired for the purpose of earning capital gains, and are listed 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. About 3.2% of these investments are marketable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management assessment, a provision for impairment of the investment is made by the Bank.

Bank investments in non-banking corporations as of September 30, 2016 amounted to NIS 100 million, compared to NIS 101 million at end of 2015.

Net gain from investments in non-banking corporations, after provision for impairment, amounted in the first nine months of 2016 to NIS 2.2 million for the Bank, compared to NIS 3.4 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 2015 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.

Overview of risks and manner of managing them

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

In recent years, the Bank has created 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. The Bank’s Board of Directors and the Board’s Risks Management Committee are responsible for setting the required guidelines for management and control of the various risks to which the Bank is exposed in its operations, including setting the risk appetite (maximum allowed exposure) and supervision of Bank compliance with the specified guidelines and risk appetite. Bank management is responsible for implementation of these guidelines, through three lines of defense and application of diverse processes, tools, supporting IT systems and reporting - designed to ensure Bank compliance with the guidelines specified by the Board of Directors.

The Bank has a structured process for mapping and identification of risks associated with Bank operations and the list of material risks for Bank operations and the list of the Risk Owners is approved by management and by the Board of Directors, at least once a year. The list of material risks is determined based on the materiality threshold, expressed in terms of the Bank's core capital or annual profit and approved, at least once per year, by the Bank’s Board of Directors. Guidelines for handling of material risks by the Bank, as identified and mapped, including the measurement, management and mitigation of each risk, are included in special policies documents which are approved annually by the Board of Directors. In the policies documents, the Board of Directors specified the risk appetite, i.e. the maximum qualitative or quantitative exposure, allowed for Bank units. The Bank has a master policies document which specifies the framework for risks management and control, including the reporting chain required under normal conditions and in an emergency, as well as how to handle a new product or new operations. In recent years, the Bank continued to upgrade its handling of the risk appetite specified by the Board of Directors and in particular, has created a dedicated policies document which governs the qualitative and quantitative framework for handling risk appetite including their reporting and monitoring the development of the Bank's risk profile, in view of the risk appetite approved by the Bank Board of Directors.

Risks are is 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 applies the Bank of Israel directives on management of various risks, which stipulate standards for risks management and control frameworks at the Bank. These standards are included in the Bank's policies documents and in a range of procedures designed to ensure proper implementation of these guidelines.

Bank management believes that risks control and management must be an integrative process. The management of risks from a total viewpoint, for all of the Bank's financial activity, on and off-balance sheet, enables the Bank to maximize the utilization of the correlation between the different risk factors (basis and interest) in the various linkage segments, and the best possible diversification of the risk. In addition to measuring the total risk value, the Bank measures and manages the mix of risk elements. In recent years, the Bank has arranged the required framework for addressing the risks to which the Bank is exposed, including: Setting principles for risks management, including setting of risk appetite by the Board of Directors; setting management roles for implementation of the principles specified by the Board of Directors; specifying the roles of the three lines of defense specified (first line - risks takers or business lines; second line - control line; third line - Internal Audit); the required reporting chain under normal and emergency conditions; and continuous monitoring of the Bank's risk profile in view of the risk appetite specified by the Board of Directors.

As part of this framework, Bank units have upgraded the Bank's quarterly risks document (mini ICAAR), in conformity with Proper Conduct of Banking Business Directive 310, to provide an extensive overview of the various risks faced by the Bank, highlighting the status of the risk profile in view of the risk appetite specified in the policy document. Thus, this document complements and reinforces the view of the risk profile provided in the Bank's annual ICAAR (Internal Capital Adequacy Assessment Report) document, which includes the Bank's capital planning process and which is part of the requirements of Basel II Pillar 2. The Bank also runs a variety of stress tests that challenge its current risk profile under stress conditions, emphasizing stress tests that review the risk profile under material changes to macro-economic conditions. The Bank has a special master policy document, which specifies the principles for conducting stress testing and, in particular, how they are used at the Bank, including for specification of the risk appetite.

In the third quarter of 2016, there was no material change to the Bank's risks profile compared to its risk profile in 2015 and in the first half of 2016; continuous monitoring of the risks profile indicates that the Bank has low risk with regard to strategic, reputation - and low-medium with regard to credit, market and interest risk. The only risk which was increased, to Medium, is operating risk, including information security and cyber security risk and IT risk, which are classified as Medium level risk – due to the faster rate of technological changes and the proliferation and increased sophistication of global cyber attacks. Note that the Bank maintains a low risk profile with regard to its mortgage operations. This review is based on a quantitative process which reflects the Bank's diverse risks benchmark profile and on a subjective annual evaluation by risks managers and controllers, in which they express their opinion about the different risks levels, the quality of risks management and the anticipated direction of their development in the coming year.

The Bank continues to review its market and interest risk profile, in view of the low interest rate environment and the potential for change in interest rate trends or changes in the inflation rate; the Bank found that the framework specified for addressing this risk in recent years, including the range of restrictions specified, reporting, forums and means of management and control applied by the Bank would ensure appropriate handling of this risk, whose current risk profile - based on a range of risk appetite benchmarks and on diverse stress tests - is low. Nevertheless, the Bank has specified the interest risk level in the bank portfolio at low-medium, due to the potential effect of a change in interest rate trends on Bank operations and the need for continued monitoring of such potential effect. Similarly, the Bank has specified the inflation risk level at medium. The Bank found that the framework stipulated for handling liquidity risk, where management attention to such risk increased significantly at the Bank over the past year due to Bank of Israel requirements in new directives on handling such risk , is appropriate. The Bank has a clear outline for all liquidity benchmarks required according to the directive, the Bank has expanded the stress tests and required escape plans for addressing this risk. The liquidity risk profile was specified as medium, due to extensive regulatory requirements with regard to management of this risk which challenge risk management at the Bank. The Bank continues to follow the specified process for improvement in its liquidity profile, emphasizing increased liquidity ratio and reduced concentration of the Bank's liquidity profile. In the third quarter of this year, the Bank's liquidity benchmarks continued to improve.

In recent years, the Bank significantly upgraded the monitoring of its mortgage portfolio - which is the largest in the banking system. This upgrade was made in compliance with all Bank of Israel requirements and directives. Currently, the Bank has many risk benchmarks for regular analysis of its mortgage portfolio, based on risk factors in the portfolio - including: LTV, repayment ratio, estimated probability of default (PD) and underwriting quality. As part of this effort, in recent years the Bank implemented a systematic process for conducting a range of stress tests, which review the portfolio from multiple angles and risk aspects, using a range of methods for calculating the outcome of stress tests, in conformity with Bank of Israel requirements and with commonly accepted methodologies. The Bank's stress tests are based on material changes in macro-economic conditions relevant to the mortgage portfolio, primarily unemployment and interest rate data, where in some stress tests, the Bank applies the macro-economic conditions specified in the Bank of Israel Uniform Scenario, which is published annually. Based on the range of outcomes and analysis by the Bank and in comparison to outcomes of stress testing by overseas banks, the Bank determined that the potential loss for the portfolio upon occurrence of a significant stress event, is low as a percentage of the Bank's core capital - even without accounting for the many actions which may be taken to bring borrowers out of default or for the quality of underwriting at the Bank. The Bank continues to continuously monitor its mortgage portfolio. For more information, see chapter "Credit risk" below.

In the third quarter of 2016, the Bank continued to make progress on addressing "emerging" risks: internal enforcement risks, compliance risk, AML risk and cross-border risk, in line with the work plan specified in recent years - using a range of tools to deploy the culture for handling such risks across Bank units, with allocation of human and technology resources required to address such risk, including conducting compliance and regulatory surveys, arranging for appropriate reporting and deploying systems to support such risks. The deployment processes for the culture required for addressing such risks are based on the viewpoint of the Board of Directors and of Bank management, stipulating zero tolerance for non-compliance with regulatory and compliance requirements. These risk profiles were set at low to medium, given the need for continuously addressing them an despite the significant progress made by the Bank in addressing these risks.

The Bank has specified its risk profile with regard to addressing information security and cyber risk as medium, due to increased cyber threats recently and continues to implement a long-term plan for taking the required measures to face such threats and other, similar potential threats.

The Bank's risk appetite is specified for all material risks using quantitative and qualitative restrictions; the quantitative restrictions are mostly specified as percentage of Tier I capital at the Bank. The Bank specified restrictions, under normal market conditions and under stress conditions, for most risks - based on the outcome of various stress tests conducted by the Bank. The Bank has zero risk appetite for non-compliance with regulation. As noted above, each year the risk appetite is challenged by the Chief Risks Officer, management and the Board of Directors in view of business targets specified in the work plan, the risk profile and the impact of business targets on the risk profile and in view of results of the qualitative process conducted by Bank managers, which are designed to review the level and evolution of various risks 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. The Bank’s Board of Directors and management consider that all major business operating segments at the Bank should be monitored for a specific risk appetite and that the resources required for management and control of risk associated with such operations have been allocated. Thus, for example, in the past year the Bank completed development of the models required for rating and pricing of retail clients using advanced models, which are added to ordinary monitoring benchmarks - due to the expanded Bank business in this segment, due to the business strategy set by the Bank. In the first nine months of this year, the Bank's Retail Division put into production a computer system which allows division units at headquarters and branches to rate, price and manage clients of the division, as part of the usability program specified by the Bank for implementation of advanced models at the Bank.

As noted above, the Bank has extensive methodology for conducting diverse stress tests. This methodology and the use of the stress testing results are incorporated in a specific policy document. The Bank extensively uses the stress testing results in the capital planning process, which is part of the ICAAR document. This process reviews whether the Bank has sufficient capital to fulfill the strategic plan, which is challenged by a range of stress tests at various severity levels. These stress tests impact Bank profitability by causing potential loss due to material risks for Bank operations: credit risk, credit concentration risk, market risk, interest risk in the bank portfolio, operating risk etc. As part of capital planning by the Bank, the Bank's required capital level is reviewed when stress tests cause the Bank to incur a potential loss for three consecutive years, thereby eroding its Tier I capital. Stress tests strongly emphasize the Bank's mortgage portfolio, it's business lending operations, potential impact of information security and cyber events, operational failure events etc. The Bank filed its seventh ICAAR document at the end of 2015, after it was approved by Bank management and by the Board of Directors. The outcome of capital planning by the Bank indicates that the Bank has sufficient capital to achieve the targets in its strategic plan, even given stress tests at various severity levels. In February 2016, the Bank submitted to the Bank of Israel the results of its Uniform 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 core capital and annual profit.

For more information about corporate governance for risks management at the Bank Group and about the risk culture, see the detailed Risks Management Report on the Bank website.

Credit risk

Credit risk management

Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank.

The Bank's Board of Directors has defined the credit policies, including the Bank's risk appetite for economic sectors, borrower groups, mortgages, overseas operations etc. Bank policies with regard to credit is based upon the Bank's objectives and business strategy, emphasizing macro-economic changes in Israel and overseas and their implications on credit risk. Credit risk management at the Bank is carried out in conformity with Directive 311 "Credit risk management" of the Bank of Israel.

Monitoring of the risk profile, in view of the specified risk appetite, is made at the frequency specified under the credit policies, and compliance with these limitations is reported to Bank's Board of Directors and management. Monitoring is performed by the business units and by the Risks Control Division. Monitoring compliance with risk appetite limitations is a major part of the Bank's quarterly risk document, which is approved by the Bank's Board of Directors.

The Bank's Board of Directors has also set dedicated policy on credit concentration risk, in which it has specified the risk appetite in this area and specified methodology for measurement, control and reporting. Bank policies with regard to credit is based upon the Bank's objectives and business strategy, emphasizing macro-economic changes in Israel and overseas and their implications on credit risk.

The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. The credit policies are reviewed during the year, in view of developments in the business environment in which the Bank and Bank clients operate and the policy is revised as needed.

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

Analysis of developments in credit quality and troubled 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 Conduct of Banking Business Directive 313, exceeds 15% of the banking corporation's capital (as defined in Directive 313), NIS in millions:

As of September 30, 2016, the Bank had no borrower group which meets the aforementioned criteria.

Bank business with major borrower groups is conducted subject to several guidelines designed to mitigate risk associated with such activity:

- Activity with borrower groups is primarily done with established, leading public companies.
- Credit is mostly provided for short- and medium term, to be used in current operations of these companies.
- Credit is diversified among Group companies operating in different segments and economic sectors.
- Credit is provided, in as much as possible, to companies which are not mutually dependent or which are subject to mutual covenants or guarantees.

The Bank takes the following steps in order to manage exposure to groups of borrowers:

- Set financial covenants as needed.
- Provide credit against collateral, in as much as possible, and closely monitor exposure not secured by collateral.
- Closely monitor company operations and financial results.
- Closely monitor compliance of borrower group companies with financial covenants, if and when specified.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of September 30, 2016 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	117	940	1,057
2.	Construction and real estate	2	963	965
3.	Construction and real estate	61	714	775
4.	Construction and real estate	-	635	635
5.	Transport and storage	70	530	600
6	Construction and real estate	290	294	584

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 interest 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 Conduct of Banking Business Directive 323 and Proper Conduct of Banking Business Directive 327 with regard to management of leveraged loans. These regulations specify the overall risks framework for leveraged loans.

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

Credit for equity transactions (NIS in millions):

	September 30, 2016				September 30, 2015				December 31, 2015			
Economic sector of acquired company	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses
Construction and real estate	-	-	-	-	190	2	192	-	178	-	178	-
Commerce	100	-	100	-	112	-	112	-	112	1	113	-
Total	100	-	100	-	302	2	304	-	290	1	291	-

Credit to leveraged companies (NIS in millions):

	September 30, 2016				September 30, 2015				December 31, 2015			
Economic sector of borrower	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses
Construction and real estate	71	190	261	-	20	-	20	-	193	280	473	-
Commerce	427	103	530	-	277	84	361	-	128	38	166	-
Financial services	19	-	19	-	-	-	-	-	-	-	-	-
Information and communications	-	95	95	-	65	86	151	-	61	96	157	-
Total	517	388	905	-	362	170	532	-	382	414	796	-

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, 2016	September 30, 2015	December 31, 2015
Problematic credit risk			
Impaired credit risk	876	907	986
Inferior credit risk	110	78	82
Credit risk under special supervision - housing	827	1,005	957
Credit risk under special supervision - other	764	691	690
Total problematic credit risk	2,577	2,681	2,715

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

	September 30, 2016	September 30, 2015	December 31, 2015
Ratio of impaired loans to the public to total loans to the public	0.4	0.5	0.5
Ratio of impaired loans to the public to total non-housing loans	1.2	1.3	1.5
Ratio of problematic loans to the public to total non-housing loans	2.3	2.1	2.3
Ratio of housing loans in arrears 90 days or longer to total loans to the public(1)(2)	0.5	0.6	0.6
Ratio of problematic credit risk to total credit risk with respect to the public	1.2	1.3	1.2

(1) This non-housing rate is negligible.

(2) Balance of credit in arrears before provision by extent of arrears.

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

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

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision as of June 30, 2016	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 as of September 30, 2016	700	611	209	1,520	1	1,521

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision as of June 30, 2015	663	628	186	1,477	3	1,480
Expenses with respect to credit losses	38	7	15	60	1	61
Net accounting write-off(1)	(61)	(16)	(25)	(102)	-	(102)
Recovery of debts written off in previous years(1)	41	-	15	56	-	56
Net accounting write-offs	(20)	(16)	(10)	(46)	-	(46)
Balance of provision as of September 30, 2015	681	619	191	1,491	4	1,495

	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
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 as of September 30, 2016	700	611	209	1,520	1	1,521

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision as of December 31, 2014	632	624	189	1,445	5	1,450
Expenses with respect to credit losses	88	14	35	137	(1)	136
Net accounting write-off(1)	(134)	(19)	(83)	(236)	-	(236)
Recovery of debts written off in previous years(1)	95	-	50	145	-	145
Net accounting write-offs	(39)	(19)	(33)	(91)	-	(91)
Balance of provision as of September 30, 2015	681	619	191	1,491	4	1,495

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

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, 2016	September 30, 2015	December 31, 2015
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	0.4
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 with respect to credit is negligible.

Credit Risk by Economic Sector - Consolidated

As of September 30, 2016

Reported amounts (NIS in millions)

		Off balance sheet debts[1] and credit risk (other than derivatives)[2]			Total credit risk
	Debts[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Public – commercial					
Agriculture, forestry and fishing	611	289	900	-	-
Mining and excavation	311	286	597	-	20
Industry and production	5,013	3,031	8,044	-	61
Construction and real estate - construction[7]	9,582	17,374	26,956	-	2
Construction and real estate - real estate operations	2,152	295	2,447	-	-
Electricity and water delivery	610	606	1,216	-	291
Commerce	8,015	2,363	10,378	-	41
Hotels, dining and food services	799	226	1,025	-	2
Transport and storage	1,057	915	1,972	-	1
Information and communications	491	597	1,088	-	4
Financial services	3,446	6,730	10,176	-	457
Other business services	1,933	936	2,869	-	6
Public and community services	1,393	333	1,726	-	10
Total commercial credit	35,413	33,981	69,394	-	895
Private individuals - housing loans	112,884	6,698	119,582	-	-
Private individuals – other	17,652	10,466	28,118	-	19
Total	165,949	51,145	217,094	-	914
For borrowers' activities overseas	4,075	1,466	5,541	19	131
Total loans to the public	170,024	52,611	222,635	19	1,045
Banking corporations	4,151	226	4,377	19	2,221
Governments	353	13	366	9,276	-
Total credit	174,528	52,850	227,378	9,314	3,266

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

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

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

(4) Includes borrowed securities amounting to NIS 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.

(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.

			Total problematic credit risk				Problematic off balance sheet debts[1] and credit risk (other than derivatives)
					Credit losses[3]		
Futures transactions	Total	Credit performance rating[5]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	900	886	14	9	4	1	9
9	626	626	-	-	(2)	-	4
123	8,228	8,047	181	86	14	11	90
1	26,959	26,389	570	300	(7)	1	136
-	2,447	2,366	81	78	(8)	2	68
95	1,602	1,596	6	4	3	1	5
32	10,451	9,938	513	206	28	17	171
-	1,027	996	31	17	7	5	19
3	1,976	1,952	24	13	3	1	8
2	1,094	1,083	11	3	(14)	1	8
1,397	12,030	12,012	18	15	(1)	(18)	101
38	2,913	2,854	59	24	17	9	38
43	1,779	1,755	24	18	6	4	12
1,743	72,032	70,500	1,532	773	50	35	669
-	119,582	118,733	849	22	7	10	610
37	28,174	27,749	187	72	70	56	209
1,780	219,788	216,982	2,568	867	127	101	1,488
33	5,724	5,715	9	9	(6)	6	32
1,813	225,512	222,697	2,577	876	121	107	1,520
659	7,276	7,276	-	-	(2)	-	1
-	9,642	9,642	-	-	-	-	-
2,472	242,430	239,615	2,577	876	119	107	1,521

Credit Risk by Economic Sector - Consolidated - continued

As of September 30, 2015

Reported amounts (NIS in millions)

	Off balance sheet debts[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debts[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Public – commercial					
Agriculture, forestry and fishing	615	184	799	-	-
Mining and excavation	381	452	833	-	40
Industry and production	5,183	3,674	8,857	-	109
Construction and real estate - construction[7]	9,510	16,967	26,477	14	1
Construction and real estate - real estate operations	2,173	186	2,359	-	11
Electricity and water delivery	657	681	1,338	-	306
Commerce	8,097	2,420	10,517	-	45
Hotels, dining and food services	729	232	961	-	14
Transport and storage	992	453	1,445	-	1
Information and communications	1,110	474	1,584	-	14
Financial services	3,602	7,264	10,866	-	1,843
Other business services	1,889	851	2,740	-	2
Public and community services	1,006	301	1,307	-	14
Total commercial credit	35,944	34,139	70,083	14	2,400
Private individuals - housing loans	103,924	6,287	110,211	-	-
Private individuals – other	15,762	11,127	26,889	-	47
Total	155,630	51,553	207,183	14	2,447
For borrowers' activities overseas	3,752	1,103	4,855	22	83
Total loans to the public	159,382	52,656	212,038	36	2,530
Banking corporations	3,744	262	4,006	414	2,250
Government	287	16	303	10,857	-
Total credit	163,413	52,934	216,347	11,307	4,780

(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 100 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.
(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 1,307 million and off-balance sheet credit risk amounting to NIS 1,447 million, extended to certain purchase groups which are in the process of construction.

	Total problematic credit risk				Problematic off balance sheet debts[1] and credit risk (other than derivatives)		
							Credit losses[3]
Futures transactions	Total	Credit performance rating[5]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	799	789	10	6	1	-	7
11	884	884	-	-	1	-	5
144	9,110	8,963	147	80	24	15	95
1	26,493	25,887	606	246	(1)	(5)	144
3	2,373	2,235	138	132	13	31	76
81	1,725	1,722	3	2	-	-	3
33	10,595	10,211	384	241	64	20	158
7	982	961	21	8	8	4	16
6	1,452	1,433	19	5	(2)	(1)	6
6	1,604	1,600	4	2	1	1	5
2,285	14,994	14,934	60	55	(37)	(34)	87
3	2,745	2,704	41	19	3	5	30
48	1,369	1,346	23	16	-	2	9
2,628	75,125	73,669	1,456	812	75	38	641
-	110,211	109,203	1,008	6	14	19	618
66	27,002	26,701	198	82	35	33	191
2,694	212,338	209,573	2,662	900	124	90	1,450
25	4,985	4,966	19	7	13	1	41
2,719	217,323	214,539	2,681	907	137	91	1,491
614	7,284	7,284	-	-	(1)	-	4
-	11,160	11,160	-	-	-	-	-
3,333	235,767	232,983	2,681	907	136	91	1,495

Credit Risk by Economic Sector - Consolidated - continued

As of December 31, 2015

Reported amounts (NIS in millions)

	Off balance sheet debts[1] and credit risk (other than derivatives)[2]				Total credit risk
	Debts[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Public – commercial					
Agriculture, forestry and fishing	617	185	802	-	-
Mining and excavation	505	314	819	-	29
Industry and production	5,059	3,277	8,336	-	63
Construction and real estate - construction[7]	8,866	17,146	26,012	-	1
Construction and real estate - real estate operations	2,149	184	2,333	-	2
Electricity and water delivery	674	543	1,217	-	280
Commerce	7,978	2,054	10,032	-	42
Hotels, dining and food services	752	229	981	-	-
Transport and storage	968	404	1,372	-	1
Information and communications	902	462	1,364	-	7
Financial services	3,398	6,534	9,932	-	1,041
Other business services	1,928	914	2,842	-	7
Public and community services	1,037	317	1,354	-	9
Total commercial credit	34,833	32,563	67,396	-	1,482
Private individuals - housing loans	105,635	7,352	112,987	-	-
Private individuals – other	16,173	11,097	27,270	-	33
Total	156,641	51,012	207,653	-	1,515
For borrowers' activities overseas	3,963	1,269	5,232	21	57
Total loans to the public	160,604	52,281	212,885	21	1,572
Banking corporations	3,096	262	3,358	274	1,955
Governments	316	16	332	11,523	-
Total credit	164,016	52,559	216,575	11,818	3,527

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

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

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

(4) Includes borrowed securities amounting to NIS 71 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.

(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 1,285 million and off-balance sheet credit risk amounting to NIS 1,467 million, extended to certain purchase groups which are in the process of construction.

			Total problematic credit risk		Problematic off balance sheet debts(1) and credit risk (other than derivatives)		
					Credit losses(3)		
Futures transactions	Total	Credit performance rating(5)	Problematic(6)	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	802	794	8	7	1	2	6
11	859	859	-	-	2	-	6
121	8,520	8,369	151	84	23	17	87
1	26,014	25,397	617	233	(5)	(2)	144
2	2,337	2,211	126	124	37	52	78
80	1,577	1,575	2	1	-	-	3
29	10,103	9,684	419	338	78	27	160
-	981	951	30	20	10	7	17
2	1,375	1,357	18	5	(2)	(1)	6
2	1,373	1,301	72	3	17	-	23
2,564	13,537	13,519	18	15	(35)	(30)	84
46	2,895	2,855	40	19	6	11	30
45	1,408	1,384	24	18	1	-	10
2,903	71,781	70,256	1,525	867	133	83	654
-	112,987	112,007	980	24	9	19	613
60	27,363	26,861	195	81	55	49	195
2,963	212,131	209,124	2,700	972	197	151	1,462
28	5,338	5,323	15	14	16	1	44
2,991	217,469	214,447	2,715	986	213	152	1,506
599	6,186	6,186	-	-	(2)	-	3
-	11,855	11,855	-	-	-	-	-
3,590	235,510	232,488	2,715	986	211	152	1,509

Exposure to Foreign Countries - Consolidated[1]

Reported amounts (NIS in millions)

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

	Balance sheet exposure[2]									Off-balance sheet exposure[2][3]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of Bank affiliates in foreign country to local residents								Cross-border balance sheet exposure	
	To governments[4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	On-balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which: Off-balance sheet problematic credit risk	Maturing in under 1 year	Maturing in over 1 year
September 30, 2016													
USA	3,942	423	1,190	357	357	-	5,555	7	1	524	-	3,441	2,114
Others [5]	40	442	4,068	1,054	535	519	5,068	25	1	1,932	-	1,399	3,150
Total exposure to foreign countries	3,982	865	5,258	1,411	892	519	10,623	32	2	2,456	-	4,840	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
September 30, 2015													
USA	1,220	1,098	1,239	472	472	-	3,557	5	-	435	-	2,300	1,257
Other	23	1,597	3,569	899	358	541	5,730	30	1	1,035	-	2,009	3,090
Total exposure to foreign countries	1,243	2,695	4,808	1,371	830	541	9,287	35	1	1,470	-	4,309	4,347
Of which: Total exposure to LDC countries	23	-	380	-	-	-	403	1	-	70	-	141	262
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	16	50	-	-	-	66	1	-	22	-	31	35

See remarks below.

Exposure to Foreign Countries - Consolidated[1] - continued

Reported amounts (NIS in millions)

													December 31, 2015
	Balance sheet exposure[2]									Off-balance sheet exposure[2][3]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of Bank affiliates in foreign country to local residents								Cross-border balance sheet exposure	
	To governments[4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	On-balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which: Off-balance sheet problematic credit risk	Maturing in under 1 year	Maturing in over 1 year
USA	2,635	945	1,297	405	405	-	4,877	13	1	407	-	2,083	2,794
Other	46	750	3,685	1,063	370	693	5,174	34	1	1,012	-	1,215	3,266
Total exposure to foreign countries	2,681	1,695	4,982	1,468	775	693	10,051	47	2	1,419	-	3,298	6,060
Of which: Total exposure to LDC countries	6	1	550	-	-	-	557	1	-	80	-	177	380
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	5	49	-	-	-	54	-	-	14	-	18	36

- The exposure presented above represents, in accordance with directives of the Supervisor of Banks, exposure based on final risk. The party bearing the final risk is an individual, business, institution or instrument which provides "credit reinforcement" to the Bank, such as guarantees, collateral, insurance contracts or credit derivatives. When no "credit reinforcement" exists, the party bearing the final risk is the debtor.
- The row "Total exposure to LDC countries" includes total exposure to countries classified as "Less Developed Countries" (LDC) in Proper Conduct of Bank Businesses Directive 315 "Supplementary provision for doubtful debts".
- Balance sheet exposure to such country includes cross-border balance sheet exposure and balance sheet exposure of affiliates of the banking corporation in foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of Israeli offices of the banking corporation to residents of the foreign country and balance sheet exposure of overseas affiliates of the banking corporation to non-residents of the country where the affiliate is located.
- Balance sheet exposure of affiliates of the banking corporation in a foreign country to local residents includes balance sheet exposure of affiliates of the banking corporation in that foreign country to local residents, less liabilities of these affiliates (deducted up to the exposure amount).

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) On- and off-balance sheet credit risk, problematic 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 Conduct of Banking Business Directive 313.
(4) Governments, official institutions and central banks.

Exposure to Foreign Countries - Consolidated[(1)] - continued

Reported amounts (NIS in millions)

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

	September 30, 2016		September 30, 2015		December 31, 2015	
	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure
France	-	-	1,693	154	1,727	138
UK	-	-	1,430	216	1,588	250

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

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

	For the three months ended September 30, 2016			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	16	-	16
Net change in short-term exposure	-	1	-	1
Exposure at end of reported period	-	17	-	17

	For the three months ended September 30, 2015			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	17	-	17
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	-	17	-	17

	For the nine months ended September 30, 2016			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	14	-	14
Net change in short-term exposure	-	3	-	3
Exposure at end of reported period	-	17	-	17

	For the nine months ended September 30, 2015			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	11	-	11
Exposure at end of reported period	-	17	-	17

	For the year ended December 31, 2015			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	14	-	14
Net change in short-term exposure	-	2	-	2
Exposure at end of reported period	-	16	-	16

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

Credit exposure to foreign financial institutions

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

External credit rating	On-balance sheet credit risk[(3)] Before offset of deposits with respect to master netting agreements[(5)]	On-balance sheet credit risk[(3)] After offset of deposits with respect to master netting agreements[(6)]	Off balance sheet credit risk[(4)]	Current credit exposure Before offset of deposits with respect to master netting agreements[(5)]	Current credit exposure After offset of deposits with respect to master netting agreements[(6)]
	September 30, 2016				
AAA to AA-	527	493	1	528	494
A+ to A-	381	365	77	458	442
BBB+ to BBB-	22	5	-	22	5
BB+ to B-	-	-	17	17	17
Lower than B-	-	-	-	-	-
Unrated	3	3	-	3	3
Total credit exposure to foreign financial institutions	933	866	95	1,028	961
	September 30, 2015				
AAA to AA-	498	497	-	498	497
A+ to A-	850	845	-	850	845
BBB+ to BBB-	5	5	-	5	5
BB+ to B-	-	-	14	14	14
Lower than B-	-	-	-	-	-
Unrated	34	35	-	34	35
Total credit exposure to foreign financial institutions	1,387	1,382	14	1,401	1,396
	December 31, 2015				
AAA to AA-	674	567	2	676	569
A+ to A-	684	153	76	760	229
BBB+ to BBB-	11	-	-	11	-
BB+ to B-	-	-	14	14	14
Lower than B-	-	-	-	-	-
Unrated	34	34	-	34	34
Total credit exposure to foreign financial institutions	1,403	754	92	1,495	846

As of September 30, 2016, September 30, 2015 and December 31, 2015 there was no troubled commercial credit risk, net.

Troubled credit risk – credit risk for impaired, inferior credit or credit under special supervision.

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
(2) After deduction of provision for credit losses.
(3) Bank deposits, credit to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivative instruments.
(4) Primarily guarantees and commitments to grant credit, including guarantees to secure liabilities of third parties, which have been weighted at 50% of their amount – in accordance with Proper Banking Conduct Directive 313 (excluding off-balance sheet derivatives).
(5) Presented net of fair value of liabilities with respect to derivative instruments for counter-parties which have signed master netting agreements. Comparative figures were reclassified.
(6) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivatives.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 11.B. to the financial statements.

Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, credit to the public, public investment in debentures and other assets with respect to derivative instruments. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policies regarding management of exposure to foreign financial institutions, the Bank’s Board of Directors sets, *inter alia*, the risk appetite - i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various nations and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with these financial institution is also taken into consideration. The policies also specify a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to these institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure with respect to derivatives and investments in securities are for longer terms.

Ratings - Bank activity with overseas entities generates exposure to sovereigns and to financial institutions. The Bank has set policies with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as stated above, the Bank uses ratings by independent rating agencies, primarily: Fitch, Standard & Poor's, and Moody's. These ratings are accounted for as part of the considerations in setting limits on the Bank’s exposure to nations and banks, intended primarily for derivatives operations, financing and guarantees for foreign trade and various investments. External ratings form a basis for in-house analysis of a country or counter-party, conducted by the Bank. Other data from various sources used for this analysis are also taken into account. The Bank's assessment of the counter-party may differ from that of the rating agency.

The Bank acquires the ratings, and analysis underlying such ratings, from Fitch and Moody's. Ratings and analysis are periodically updated by the rating agencies and the Bank uses the most current information available when setting facilities or when reviewing a counter-party. The main rating used by the Bank for independent analysis is the rating provided by Fitch.

Housing credit risk

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risk 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 key parameters used for specifying risk appetite in the mortgage segment are: results of the differential risk premium model (which reflects the risk associated with the mortgage borrower), LTV ratio of the loan, property location (geographical risk) and credit quality benchmark (see below under Credit Control). Over the past two years, the list of risk benchmarks has been extended within the Bank's policy document and additional restrictions were imposed on various parameters: 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, in view of the specified risk appetite. In particular, as noted above, this monitoring is conducted through the Bank's quarterly risks document which is approved by the Board of Directors.

Monitoring of the risk profile in the mortgage portfolio consists of over 40 risk benchmarks specified by the Board of Directors and management, which are presented in the Bank's quarterly Risks Document with a review of the resulting risk profile, which also reviews the evolution of these risk appetite benchmarks over time. This monitoring system is complemented by results obtained from use of advanced models. This monitoring indicates that the risk profile of the

Bank's mortgage portfolio has been trending downwards in recent quarters, for most of the specified risk appetite benchmarks, including LTV and loan repayment ratio. In particular, default rates in the portfolio have been trending lower in recent years. In addition, as noted above, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using a variety of stress tests, including using the Uniform Scenario of the Bank of Israel. This testing is part of testing of the portfolio risk profile. This review, too, indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low relative to Bank core capital.

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

	Loans granted (NIS in millions)	
	For the nine months ended September 30	
	2016	2015
Mortgages issued (for housing and any purpose)		
From the Bank's funds	18,838	18,018
From the Treasury's funds		
Directed loans	70	55
Standing loans and grants	97	104
Total new loans	19,005	18,177
Refinanced loans	1,748	3,893
Total loans originated	20,753	22,070
Number of borrowers (includes refinanced loans)	38,365	45,421

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, 2016).

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, 2016 was 54.9%, compared to 55.0% on December 31, 2015 and to 55.8% on December 31, 2014. Out of the total loan portfolio of the Bank,

amounting to NIS 114.1 million, some 95% 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 since late 2008, along with reduced loan balances with respect to current repayment, result in a lower current LTV ratio for loans granted through 2008, so that most all of the loans currently have LTV ratios under 75%. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.2 billion, or only 0.2% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of September 30, 2016, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago - by 4%. For loans originated one to 5 years ago - by 7%; and for loans originated over 5 years ago - by 17%. For all loans - by 9%.

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 set forth 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 2.4 billion is insured by credit insurance - 42.3%.

In recent years, due to measures taken by the Bank to mitigate risk in the mortgage portfolio and the aforementioned restrictions imposed by the Bank of Israel, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 0.6% for loans granted 1-2 years ago, 0.5% for loans granted 3-12 months ago and 0.4% for loans granted in the third quarter of 2016.

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 27.7%. Some 79.9% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 25.6%). Some 16.3% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40%). Some 3.4% of mortgages were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.7%), and only 0.4% 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". For further details, see the chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" in the financial statements as of December 31, 2015.

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. For further details, see the chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" in the financial statements as of December 31, 2015.

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 10.5 billion, or only 9.2% 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 based on "normative interest".

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 5 billion on September 30, 2016, or only 4.4% of the Bank's housing loan portfolio.

Below are details of various risk attributes of the housing loan portfolio[1] as of September 30, 2016 (NIS in millions):

LTV ratio	Repayment as percentage of regular income	Loan age[2] (time elapsed since loan grant)						
		Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	3,076	8,863	9,915	17,135	13,113	4,029	56,131
	35%-50%	468	1,312	1,446	4,613	3,316	804	11,959
	50%-80%	-	-	13	1,018	1,195	305	2,531
	Over 80%	-	-	-	91	154	58	303
60%-75%	Up to 35%	1,497	5,689	5,858	10,773	6,254	970	31,041
	35%-50%	220	706	695	2,024	1,627	255	5,527
	50%-80%	-	-	3	307	523	96	929
	Over 80%	-	-	-	11	53	14	78
Over 75%	Up to 35%	19	68	104	968	1,801	1,268	4,228
	35%-50%	2	11	12	228	396	442	1,091
	50%-80%	-	-	-	15	113	153	281
	Over 80%	-	-	-	2	22	29	53
Total		5,282	16,649	18,046	37,185	28,567	8,423	114,152
Of which:								
Loans granted with original amount over NIS 2 million		333	837	825	1,738	1,259	51	5,043
Percentage of total housing loans		6.3%	5.0%	4.6%	4.7%	4.4%	0.6%	4.4%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,149	4,564	4,807	10,254	12,501	1,665	34,940
CPI-linked[3]		7	22	48	484	4,719	1,547	6,827
In foreign currency[3]		100	200	430	1,632	1,285	329	3,976
Total		1,256	4,786	5,285	12,370	18,505	3,541	45,743
Non-linked loans at prime lending rate, as percentage of total housing loans		21.8%	27.4%	26.6%	27.6%	43.8%	19.8%	30.6%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.1%	0.1%	0.3%	1.3%	16.5%	18.4%	6.0%
Loans with LTV over 75% as percentage of total housing loans		0.4%	0.5%	0.6%	3.3%	8.2%	22.5%	5.0%

(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 re-financed 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.

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, 2016 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to refinanced loans in arrears(4)	Total
	In arrears 30 to 89 days(3)	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	6	9	10	10	191	220	56	282
Of which: Balance of provision for interest(1)	-	-	-	-	97	97	6	103
Recorded debt balance	365	324	159	62	139	684	148	1,197
Balance of provision for credit losses (2)	-	-	24	29	102	155	69	224
Debt balance, net	365	324	135	33	37	529	79	973

(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 Management Report on the Bank website.

Market risk and interest risk

Market and interest risk management in the bank portfolio

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). The Bank has no exposure to commodities and its exposure to equities is not material, so that Bank exposure to such risk is primarily due to basis risk - the risk exists when the Bank's assets and liabilities are denominated in different currencies or are in different linkage segments - and from interest rate risk in the banking book, which 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. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value). The Bank manages its market risk and interest risk in integrated fashion, under the same organizational structure and using similar tools, data structures, methodology and systems.

Market risk and interest risk form an integral part of banking business and of management of Bank assets and liabilities. However, excessive market risk and/or interest risk may expose the Bank to loss and may pose a threat to Bank capital. Therefore, the Bank's Board of Directors and management have specified, in the Bank's structured process for risks mapping and identification, that market risk and interest risk are material risks and that management of these risks is critical for stability of the Bank, especially in view of the low interest rate environment and the potential for change in market interest trend. Therefore, the Bank's Board of Directors issued a special document on handling of market risk and interest risk, which stipulate the principles whereby the Bank should act in order to identify, measure, monitor, review and control the market risk and interest risk on a regular basis, both in the normal course of business and in times of stress. Management of these risks is designed to maintain a reasonable risk level, in conformity with the exposure caps, i.e. the risk appetite specified for these risks, while taking advantage of opportunities and constant monitoring of the risk profile, so that the Bank would not be exposed to significant loss.

Management of market risk and interest risk at the Bank consists of two main risk concentrations: the bank portfolio and the negotiable portfolio. The Bank's negotiable portfolio includes the portfolios managed as market maker in the trading room, other than for hedging purposes: The debenture portfolio for trade of the Interest Trading Unit (market maker portfolio), derivatives transactions classified under the market maker portfolio and futures for debentures - as part of the interest portfolio, as well as option portfolios (foreign currency, MAOF and interest) of the Foreign Currency Trading Unit, as well as portfolios of securities held for trade and transactions in derivatives conducted as part of a specific market strategy, managed by Financial Management under specific restrictions on exposure and profitability. This portfolio is small relative to activity in the bank portfolio and is associated with low risk.

Developments in market and interest risk

The Bank has two major models for managing its market and interest risks: The VaR model and the EVE model. The Bank calculates these benchmarks, as well as other benchmarks used for management of such risks, at least once per day.

The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a pre-determined statistical level of assurance. This model measures risk level in terms of money, where the Bank aligns the investment horizon for the portfolios reviewed using this benchmark. The Bank uses a combination of multiple methods for VaR calculation, commonly used around the world. The VaR calculation is in addition to a back testing calculation, designed to review the quality of its calculation estimates, i.e. review the model forecast, compared to actual results. The Bank has specified a risk appetite in VaR terms, for the entire Bank portfolio and for its activities in various options portfolios (for various underlying assets). VaR calculations for the Bank's overall portfolio are made daily, while calculations for the option portfolios are made hourly.

EVE (Economic Value of Equity) is a model which reflects the economic value approach. This is the Bank's main model for estimating interest risk in the bank portfolio, which reviews changes in economic value of the portfolio under various assumptions of changes to interest rate curves, under normal conditions and under stress conditions, including a concurrent increase / decrease in the interest rate curve. In addition, the Bank has various stress tests at different severity levels, designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of Directors. The Bank also applies innovative methods to review interest risk in the bank portfolio under emergency conditions, including under stress scenarios of an economic outline. This scenario is based on the Bank's understanding as to development under stress conditions of macro-economic conditions relevant for these risks. The Bank also performs a scenario where the interest rate curve moves in non-parallel fashion. Such scenario complements the EVE approach, which is based on parallel move of interest rate curves.

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

	For the nine months ended September 30		All of
	2016	2015	2015
At end of period	341	227	195
Maximum value during period	364 (Aug.)	379 (May)	379 (May)
Minimum value during period	235 (JAN)	227 (Sep.)	193 (OCT)

Back-testing of the historical-analytic VaR model shows one case in which the daily loss exceeded the forecasted VaR value. This deviation, amounting to NIS 3 million, was primarily due to an increase in the NIS-denominated curve (for longer terms). This number of cases is within the criteria specified by the Basel Committee for review of the VaR model quality.

Analysis of interest risk in bank portfolio

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

	September 30, 2016					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(1,146)	535	64	(10)	3	(554)
Decrease of 2%	1,572	(701)	(51)	12	(2)	830

	September 30, 2015					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(906)	265	64	(24)	(5)	(606)
Decrease of 2%	1,146	(424)	(51)	26	6	703

	December 31, 2015					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(631)	83	(72)	(37)	(11)	(668)
Decrease of 2%	875	(198)	91	39	12	819

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the pre-payment 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.

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

Reported amounts (NIS in millions)

	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
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets[1]	115,207	1,749	3,736	10,880	7,557	6,715
Financial derivative instruments (other than options)	5,174	5,825	27,221	12,175	9,183	7,490
Options (in terms of underlying asset)	294	1,492	861	237	181	111
Total fair value	120,675	9,066	31,818	23,292	16,921	14,316
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[1]	77,967	9,001	19,209	11,340	10,456	4,770
Financial derivative instruments (other than options)	16,572	25,174	10,686	8,578	9,366	7,645
Options (in terms of underlying asset)	883	763	863	242	164	43
Total fair value	95,422	34,938	30,758	20,160	19,986	12,458
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	25,253	(25,872)	1,060	3,132	(3,065)	1,858
Cumulative exposure in sector	25,253	(619)	441	3,573	508	2,366

Specific remarks:

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

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

(3) Reclassified.

				September 30, 2016			September 30, 2015			December 31, 2015	
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration[2]	Total fair value	Internal rate of return	Average effective duration[2]	Total fair value	Internal rate of return	Average effective duration[2]
				In %	in years		In %	in years		In %	in years
3,489	284	432	150,049	3.43	1.21	125,982	3.06	1.05	131,739	3.19	1.04
45	-	-	67,113		1.14	75,012		1.21	66,214		1.23
-	-	-	3,176		0.48	4,058		0.73	2,763		0.73
3,534	284	432	220,338		1.18	205,052		1.10	200,716		1.10
673	124	-	133,540	1.07	0.95	[3] 110,889	1.00	0.75	[3] 119,611	1.18	0.82
45	-	-	78,066		0.97	87,443		1.39	77,724		1.42
-	-	-	2,958		0.44	4,780		0.85	3,729		0.85
718	124	-	214,564		0.95	203,112		1.03	201,064		1.05
2,816	160	432	5,774			1,940			(348)		
5,182	5,342	5,774	5,774								

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

Reported amounts (NIS in millions)

	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
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets(1)	1,372	2,755	11,678	19,490	10,811	3,057
Financial derivative instruments (other than options)	155	10	573	1,315	1,397	102
Total fair value	1,527	2,765	12,251	20,805	12,208	3,159
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities(1)	504	1,069	7,132	11,591	9,508	8,372
Financial derivative instruments (other than options)	260	867	2,406	4,592	1,162	372
Total fair value	764	1,936	9,538	16,183	10,670	8,744
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	763	829	2,713	4,622	1,538	(5,585)
Cumulative exposure in sector	763	1,592	4,305	8,927	10,465	4,880

Specific remarks:

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

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

Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	September 30, 2016 Internal rate of return	Average effective duration(2)	Total fair value	September 30, 2015 Internal rate of return	Average effective duration(2)	Total fair value	December 31, 2015 Internal rate of return	Average effective duration(2)
				In %	in years		In %	in years		In %	in years
699	21	11	49,894	2.80	2.43	52,887	2.28	2.58	52,284	2.64	2.64
-	-	-	3,552		2.59	3,264		3.11	3,221		3.08
699	21	11	53,446		2.44	56,151		2.61	55,505		2.67
2,554	-	2	40,732	1.17	3.77	38,856	1.27	3.64	37,438	1.59	3.54
-	-	-	9,659		1.65	10,565		1.59	8,958		1.61
2,554	-	2	50,391		3.36	49,421		3.20	46,396		3.17
(1,855)	21	9	3,055			6,730			9,109		
3,025	3,046	3,055	3,055								

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

Reported amounts (NIS in millions)

	September 30, 2016					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1-3 years	Over 3-5 years	Over 5-10 years
Foreign currency[1]						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets[2]	8,898	4,792	1,255	754	316	925
Financial derivative instruments (other than options)	27,712	34,373	11,455	3,499	4,339	3,007
Options (in terms of underlying asset)	828	1,131	1,200	230	145	36
Total fair value	37,438	40,296	13,910	4,483	4,800	3,968
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[2]	17,428	7,120	10,009	410	253	133
Financial derivative instruments (other than options)	16,378	14,528	25,835	3,907	4,425	2,613
Options (in terms of underlying asset)	560	1,472	1,165	226	160	97
Total fair value	34,366	23,120	37,009	4,543	4,838	2,843
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	3,072	17,176	(23,099)	(60)	(38)	1,125
Cumulative exposure in sector	3,072	20,248	(2,851)	(2,911)	(2,949)	(1,824)

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

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

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

				September 30, 2016			September 30, 2015			December 31, 2015	
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)
				In %	in years		In %	in years		In %	in years
1,714	464	319	19,437	1.76	1.12	19,309	1.69	0.93	19,218	1.66	1.53
-	-	-	84,385		0.42	90,475		1.50	81,065		1.50
-	-	-	3,570		0.15	5,339		0.42	4,215		0.42
1,714	464	319	107,392		0.54	115,123		1.35	104,498		1.46
4	-	721	36,078	0.79	0.40	40,208	0.56	0.35	37,401	0.63	0.34
-	-	-	67,686		0.65	70,661		0.96	64,073		0.94
-	-	-	3,680		0.43	4,446		0.44	3,101		0.44
4	-	721	107,444		0.56	115,315		0.73	104,575		0.71
1,710	464	(402)	(52)			(192)			(77)		
(114)	350	(52)	(52)								

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

Reported amounts (NIS in millions)

	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
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets[(1)]	125,477	9,296	16,669	31,124	18,684	10,697
Financial derivative instruments (other than options)	33,041	40,208	39,249	16,989	14,919	10,599
Options (in terms of underlying asset)	1,122	2,623	2,061	467	326	147
Total fair value	159,640	52,127	57,979	48,580	33,929	21,443
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[(1)]	95,899	17,190	36,350	23,341	20,217	13,275
Financial derivative instruments (other than options)	33,210	40,569	38,927	17,077	14,953	10,630
Options (in terms of underlying asset)	1,443	2,235	2,028	468	324	140
Total fair value	130,552	59,994	77,305	40,886	35,494	24,045
Financial instruments, net						
Total exposure to interest rate fluctuations	29,088	(7,867)	(19,326)	7,694	(1,565)	(2,602)
Total cumulative exposure	29,088	21,221	1,895	9,589	8,024	5,422

Specific remarks:

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

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

(3) Reclassified.

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 recognized 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 gradual 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.

				September 30, 2016			September 30, 2015			December 31, 2015	
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration[2]	Total fair value	Internal rate of return	Average effective duration[2]	Total fair value	Internal rate of return	Average effective duration[2]
				In %	in years		In %	in years		In %	in years
5,902	769	762	219,380	3.08	1.48	198,178	2.61	1.45	203,241	2.79	1.50
45	-	-	155,050		0.78	168,751		1.40	150,500		1.42
-	-	-	6,746		0.31	9,397		0.55	6,978		0.54
5,947	769	762	381,176		1.20	376,326		1.41	360,719		1.45
3,231	124	723	210,350	1.11	1.40	[3]189,953	1.13	1.25	194,450	1.38	1.25
45	-	-	155,411		0.87	168,669		1.22	150,755		1.23
-	-	-	6,638		0.43	9,226		0.65	6,830		0.66
3,276	124	723	372,399		1.18	367,848		1.22	352,035		1.23
2,671	645	39	8,777			8,478			8,684		
8,093	8,738	8,777	8,777								

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

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

	Israeli currency		Foreign currency[1]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
September 30, 2016						
Financial assets[2]	150,049	49,894	14,688	2,791	1,958	219,380
Amounts receivable with respect to financial derivative instruments[3]	70,289	3,552	68,649	13,343	5,963	161,796
Financial liabilities[2]	(133,540)	(40,732)	(27,638)	(5,739)	(2,701)	(210,350)
Amounts payable with respect to financial derivative instruments[3]	(81,024)	(9,659)	(55,637)	(10,370)	(5,359)	(162,049)
Total	5,774	3,055	62	25	(139)	8,777
December 31, 2015						
Financial assets[2]	131,739	52,284	13,604	3,507	2,107	203,241
Amounts receivable with respect to financial derivative instruments[3]	68,977	3,221	66,514	13,217	5,549	157,478
Financial liabilities[2]	(119,611)	(37,438)	(28,490)	(6,113)	(2,798)	(194,450)
Amounts payable with respect to financial derivative instruments[3]	(81,453)	(8,958)	(51,657)	(10,499)	(5,018)	(157,585)
Total	(348)	9,109	(29)	112	(160)	8,684

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

	Israeli currency		Foreign currency[1]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
September 30, 2016								
Change in interest rates:								
Concurrent immediate increase of 1%	5,540	3,510	(191)	(68)	(147)	8,644	(133)	(1.5)
Concurrent immediate increase of 0.1%	5,749	3,103	34	15	(140)	8,761	(16)	(0.2)
Concurrent immediate decrease of 1%	6,038	2,548	385	145	(129)	8,987	210	2.4
December 31, 2015								
Change in interest rates:								
Concurrent immediate increase of 1%	(590)	9,188	(96)	105	(162)	8,445	(239)	(2.8)
Concurrent immediate increase of 0.1%	(318)	9,118	(36)	111	(160)	8,715	31	0.4
Concurrent immediate decrease of 1%	(88)	9,005	46	119	(157)	8,925	241	2.8

(1) Includes Israeli currency linked to foreign currency.

(2) Includes complex financial instruments. Excludes balance sheet balances of financial derivative instruments 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.

(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 an 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, 2016:

Capital increase (erosion), (NIS in millions):

	Scenarios				Historical stress scenario[1]	
	10% increase	5% increase	Decrease of 5%	Decrease of 10%	Maximum increase	Maximum decrease
CPI	427.4	213.7	(213.7)	(427.4)	62.4	(32.9)
Dollar	(1.6)	(4.4)	11.3	24.8	(3.8)	3.4
Pound Sterling	0.7	0.2	(0.2)	(0.3)	0.2	(0.2)
Yen	(0.1)	(0.3)	0.3	1.2	(0.3)	0.3
Euro	0.8	(0.7)	(4.5)	(13.3)	(0.9)	(1.8)
Swiss Franc	(0.2)	(0.1)	0.1	0.1	(0.4)	0.1

(1) Stress 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 Risk Management Report on the Bank website.

Operating risk

Operating risk management

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 a special policies document for addressing operating risk. The operating Risk Owner at the Bank is the Manager, Risks Control Division - who is also the Bank's Chief Risks Officer. The framework stipulated for handling this risk includes the framework required for handling fraud and embezzlement, which are part of the operating risk categories according to Bank of Israel directives. Recently, the Bank has deployed a framework for addressing operating risk which is not only defensive, i.e. acting only to minimize potential loss due to operating risk events, but also actively strives to regulate aspects of operating risk in systems, processes and controls applied by the Bank, in order to support achievement of its business targets.

Bank policies specify the Bank's operating risk appetite at 1% of the Bank's core capital. This appetite is constantly monitored by follow up on any default events which caused a loss, managed by category of operating risk, in conformity with Bank of Israel directives and also includes loss due to legal risk, information security and cyber risk, including fraud and embezzlement. The policy also stipulates the risk appetite for potential loss upon occurrence of a stress event. The Bank acts to specify a high-quality risk appetite, primarily by creating forward-looking risk indicators which can indicate a potential for development of operating risk, in addition to collection of actual losses, i.e. losses which have already occurred. The Bank is in the process of arranging KRI (Key Risk Indicators) on its major IT systems as well.

The Bank conducts surveys to identify and map operating risk at various divisions, as a continuous process focused on mapping and assessment of material risk at each unit. The Bank acts to define, where possible, key performance indicators (KPI) in order to form a tighter link between business targets and the level of inherent operating risk, in conformity with the Bank's revised definition as described above. The survey results and action items are discussed, as part of self-assessment processes, by specific forums, attended by managers of the surveyed units and representatives from the Risks Control Division. Recently, the Bank has been reviewing the capacity to conduct operating risks surveys integrated with other internal controls risks, so that these surveys may provide an overview of all risks to which the reviewed entity is exposed and the extent of their impact on the entity's business targets.

In addition to these surveys, the Bank also analyzes external events in Israel and overseas, which may provide information about potential circumstances and damage which may result in materialization of operating risk. Such analysis serves the Bank in implementation of appropriate steps for parallel processes within the Bank.

One of the key events made public late in the third quarter of 2016 involved opening of accounts and issuing of credit cards to clients of Wells Fargo bank, without their knowledge. This dramatic event, which involved severe fines amounting to USD 190 million, termination of over 5,000 bank employees and resignation of the CEO, was studied in-depth by the Bank - including identification of the material failures in conduct of this bank, to be discussed by various Bank committees in the fourth quarter of this year.

The Bank allocates capital with respect to operating risk using the standard approach. According to this approach, the Bank was segmented into eight lines of business, as stipulated by the Bank of Israel, with a standard risk weighting assigned to each line of business, reflecting its sensitivity to loss with respect to operating risk. This segmentation and addressing the required capital allocation are incorporated in a specific policy document which governs the aspects required for capital allocation using the standard approach and, in particular, specified the lines of business in Bank operations.

The Bank framework for handling operating risk is reviewed quarterly, as part of the Bank's Risks Document. The risk profile is presented in this context, i.e. the actual loss level, in view of the risk appetite and the most material events which occurred during the quarter are also presented and analyzed.

In early 2016, Bank management approved an extensive framework for debriefing and for learning lessons at the Bank. This framework specifies all of the required components for debriefing, upon occurrence of events which require learning lessons, to support management of operating risk at the Bank and for improvement of processes and controls which support the Bank's business operations.

Business continuity

The Bank applies Proper Conduct of Banking Business Regulation no. 355. In 2016, the Bank implemented the multi-annual exercise program, which includes drills and technology trials, in order to review and improve readiness and awareness of Bank management and employees to handling disaster scenarios; this included exercise of the secondary computer site (DRP) in Ramat Gan. As part of the annual drill, which took place late in the second quarter, an extensive exercise took place which included operating the Bank's alternative transaction room in Lod while concurrently operating the situation room, including discussion and exercise involving in-depth scenarios. The dilemmas raised in this discussion were submitted to and discussed by the Management Forum. The Bank also takes part in exercises initiated by the Bank of Israel throughout the banking system (Currency and Cyber Units). As part of the multi-annual maintenance plan, the basic procedures of the business continuity plan have been revised and the Business Impact Analysis (BIA) services have been refreshed.

Bank operations with regard to business continuity are incorporated in a specific policy. Reports on progress made on handling business continuity are sent to management, to the Board’s Risks Management Committee and to the Board plenum - and are included in the Bank's quarterly Risks Document.

Information security and cyber security

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

The relationships and information flow between these units have been specified in writing, including reference to: information security, physical security, IT governance, IT operations, risk management, fraud, human resource management, business continuity, client relationship management, spokesperson operations and legal counsel.

Information security and cyber defense policies at the Bank is implemented, inter alia, by the Mizrahi Tefahot Technology Division Ltd. As part of this effort, the management concept applied includes guidelines for management of cyber security. Application of these guidelines and ensuring that they are current while incorporating them into strategic decisions and business activity at the Bank - would ensure the consistency and integrity of the cyber security management concept over time.

In conformity with directives of the Supervisor of Banks, the Bank is preparing to secure cloud services as required.

The information security and cyber security policy is based on the following principles:

- Mapping and identifying cyber risks.
- Establishing an effective set of controls with cross-organizational integration of technology, human resources, processes and procedures.
- Maintaining a set of controls applied through managerial, operational and technical mechanisms.
- Establishing mechanisms for protection of on line presence.
- Proactive cyber security implemented through mapping and knowledge of the environment, forecasting and study of threats, weighting of the current situation report, development of responsiveness processes, use of techniques for deception, diversion and delay, cyber resilience and recovery capacity, conducting processes of inquiry, debriefing and execution of judgment.
- Implementation of multi-layer security in several circles and disciplines (both logical and physical), from the external system accessible to clients and through to internal systems, information and intelligence sharing.
- Using a system for monitoring, control and response for management of cyber events with integrated, corporate-wide view of components such as human resources, means of communications and procedures.
- Periodic and current reporting of risks management as a whole.
- Current analysis and assessment of cyber threats and exercising all those involved in handling cyber events.
- Development of stress scenarios related to information security and cyber.

In addition, the Bank's On line Banking sector is certified under the information security management standard ISO 27001.

In the third quarter of 2016, the Bank prepared for implementation of Proper Banking Conduct Directive no. 367 with regard to online banking systems and to risk management in this area.

Information technology risk

In recent years, the risk associated with IT management has 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. This is also intended to ensure that the Bank maintain business continuity during an alert or emergency. This may mitigate reputation risk and business risk which may arise under such conditions.

The Technology Division Manager is responsible for management of IT assets and the management framework is specified in a special policy document, in line with principles specified in policy documents on risk management and control at the Bank. The IT asset management policy is in line with requirements of the Supervisor of Banks and, in particular, with the principles stipulated in Proper Conduct of Banking Business Directive 357 "IT management"; Proper Conduct of Banking Business Directive 350 "Operating risk management"; Proper Conduct of Banking Business Directive 355 "Business continuity management" and Proper Conduct of Banking Business Directive 361 "Cyber security management". The Bank has minimal risk appetite for this risk, which is included, as noted above, under management of risk appetite under routine conditions and under stress conditions, for operating risk.

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 to include, inter alia, exposure to fines or penalties arising from supervisory action, as well as from individual arrangements.

The Bank regards legal risk in its wider definition, with regard to Bank conduct in its relationships with various stake holders (clients, suppliers, other third parties etc.) Legal risk includes risks arising from legislative and regulatory provisions, rulings by judiciary or quasi-judiciary authorities as well as legal risks arising from regular Bank operations. The Chief Legal Counsel for the Bank has been appointed Chief Legal Risks Manager. The Bank constantly strives to minimize as much as possible the legal risks associated with its current operations, and acts to disseminate a practical culture leading to identification and mitigation of legal risk in all its different aspects.

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.

The Bank's Legal Division applies internal processes to ensure regular monitoring of developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank Group. In this context, the Legal Division provides guidance to relevant Bank entities with regard to implementation of the implications arising from these developments. The Legal Division provides regular counsel to different Bank units, including to some subsidiaries. This is done, *inter alia*, by providing opinions, editing and updating legal documents, support for updates to procedures etc.

The Bank has specified procedures to help in minimizing legal risk, including regulating the interface between the Legal Division and different Bank departments. The Legal Division is also involved in training delivered to branches, at the Bank's Training Center and in compiling professional eLearning kits for imparting the legal knowledge required for regular Bank operations.

Similar reference is made for Bank affiliates overseas (branches and subsidiaries), with these affiliates receiving assistance from local external attorneys approved by the Bank's Legal Division. The Bank's overseas subsidiaries and affiliates have adopted similar procedures with regard to management of legal risk, and provide immediate and quarterly reports to the Legal Risk Manager of the Bank with regard to any legal risks identified in these entities.

Liquidity and financing risk

Management of liquidity and financing risk

Liquidity risk results 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. Liquidity risk is managed in conjunction with Proper Conduct of Banking Business Directive 310 "Risk management", Directive 342 "Liquidity risk management" and Directive 221 "Liquidity coverage ratio". The risk is managed subject to the limitations of the Board of Directors and Executive 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.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policies document covers how risk is managed, including roles and responsibilities of the various organs, the regular management of liquidity risk, all parameters used for risk measurement in the normal course of business and under various stress scenarios, restrictions specified by the Board of Directors and by management, including restrictions on source concentration and composition, as well as a detailed emergency plan for handling a liquidity crisis, including various states of alert for liquidity risk management and potential means under each scenario type and the estimated time for execution.

The Bank's Board of Directors sets strategy for liquidity risk management and the risk appetite in conformity with regulatory requirements, using a range of restrictions on three risk dimensions: Normal course of business, scenarios (liquidity coverage ratio and minimum liquidity ratio - internal model) and concentration. Bank management has specified a further set of restrictions to serve as management guidelines - beyond those specified by the Board of Directors. The risk is regularly managed using endogenous and exogenous indicators of the Bank's situation in particular and of the state of the banking system. The Bank developed an integrated benchmark for monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel - this benchmark is a decision-support tool for declaring a state of alert due to systemic failure. There were no deviations from the Board of Directors' limitations recorded in the first nine months of 2016.

At the end of the second quarter of 2016, the Bank increased its alert status to Higher Alert (i.e. close monitoring of model parameters and indicators) due to the Brexit events (the UK leaving the EU), which in actual fact had no impact on Bank liquidity. The Higher Alert status was terminated at the start of the third quarter.

Financing risk

Financing risk arises from shortage of financing sources or too high costs for such sources. This 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.

Concentration of financing sources is monitored through a wide range of restrictions set by the Board of Directors, management as well as by key risk indicators, classified into several sub-categories: Size, client type, individual depositor, number of clients, product and average deposit term. A "super-benchmark" was defined, which averages all indicators related to concentration of financing sources. Current management of source composition includes setting policy on source diversification and financing terms as well as setting specific targets for risk benchmarks. Concentration is monitored daily and is regularly managed and reported.

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 debenture issues. The Bank 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. At the end of the third quarter of 2016, concentration risk for financing sources remained low.

Furthermore, exposures to derivatives are regularly managed. In line with the exposure to each counter-party, counter-party collateral is immediately increased or collateral is immediately demanded from the counter-party.

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

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

Liquidity coverage ratio

As from April 1, 2015, the Bank applies Directive 221 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. The minimum regulatory LCR was set at 60% as from April 1, 2015, 80% as from January 1, 2016 and 100% as from January 1, 2017. The Bank’s Board of Directors specified a further safety cushion beyond the minimum ratio. This ratio is managed and reported for all currencies in aggregate and for NIS separately, both at Bank level and on Group basis. This regulation is in addition to liquidity risk management using internal models, as stipulated by Directive 342, as described above.

Soliciting sources and Bank liquidity status - In the first nine months of 2016, there was an increase in the Bank’s balance of deposits from the public. The balance of deposits from the public rose from NIS 162.4 billion on December 31, 2015 to NIS 173.7 billion on September 30, 2016, an increase of 7.0%.

In the non-linked segment, total deposits from the public amounted to NIS 121.5 billion, an increase of 11.3% compared to end of 2015. In the CPI-linked sector, deposits from the public amounted to NIS 17.2 million, an increase of 2.3%, and in the foreign currency sector - to NIS 35.1 billion, a decrease of 3.8% compared to end of 2015.

As of September 30, 2016, the balance of the three largest depositor groups at the Bank Group amounted to NIS 11.1 billion.

The average (consolidated) liquidity coverage ratio for the third quarter of 2016 was 105% (the minimum ratio required by the Supervisor of Banks was 80%), compared to 99% in the second quarter. As of September 30, 2016, the liquidity coverage ratio was at 119%. The increase in the average ratio compared to the previous quarter is due to increase in retail and other deposits and continued improvement in the structure of Bank resources, which resulted in increase in liquid assets. There were no deviations from limitations for this ratio recorded in the first nine months of 2016.

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

Other risks

Compliance and regulatory risk

Bank business operations are subject to regulation. 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.

As from January 1, 2016, when the new Proper Conduct of Banking Business Directive 308 became effective, the scope of responsibility within compliance risk management was expanded; therefore, the compliance provisions include laws, rules and regulations (including positions stated by the Supervisor of Banks in conjunction with handling public inquiries), internal procedures and the Code of Ethics which apply to banking operations at the Bank.

Compliance provisions also include the following laws: ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011; Securities Law 1968; Mutual Investment Act, 1994; Arrangement of Engagement in Investment Consultancy, Investment Marketing and Management of Portfolios Act, 1995 (hereinafter: "the Advisory Act"); hereinafter jointly - "securities laws" as well as the Restrictive Trade Practices Act, 1988. Compliance with these laws is also addressed in conjunction with the "Internal Enforcement Program" for Securities Act and for the Restrictive Trade Practices Act, respectively.

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

The Bank also maintains effective enforcement programs for securities law and for anti-trust law, adapted for the Bank and its unique circumstances, as part of overall risk management at the Bank. This is designed to ensure compliance with securities law and to avoid violation thereof. The Chief Enforcement Officer, through the Compliance Officer, handles issues of Bank compliance with obligations arising from securities law in general and in accordance with the enforcement program in particular. The Chief Enforcement Officer is the person responsible, on behalf of Bank management, for on-going implementation of the enforcement program and its deployment across the Bank.

The Compliance Division maps compliance risks in various areas, conducts compliance surveys on different topics from time to time and delivers training to deploy the compliance policy across the Bank. The Compliance Officer is a member of different forums at the Bank, in order to ensure an enterprise-wide view of various compliance aspects. In order to ensure compliance with all statutory provisions, as noted above, the Compliance Officer maintains a control system in line with control plans. These controls are designed to verify compliance of Bank branches and departments with various statutory provisions, as well as the effectiveness of controls applied by the various business and headquarters departments.

The level of compliance risk has continued to decrease in 2016. 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 continued increased regulation.

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

Cross-border risk

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"). For more information about FATCA, see chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" on the financial statements as of December 31, 2015.

The Bank has minimal risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank. Therefore, the Bank has specified that any faults discovered in compliance with statutory provisions would be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan for the Compliance Function, which includes qualitative targets for reducing compliance risk across the Bank.

The cross-border Risk Owner for the Bank is the Manager, Risks Control Division. The Compliance Officer is responsible for continuous management of this risk.

The Bank has zero appetite for cross-border risk. Therefore, the Bank has specified that any faults discovered with regard to cross-border risk would be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan for the Compliance Function, which includes qualitative targets for reducing compliance risk across the Bank.

As part of management of cross-border risk, the Bank especially monitors and reviews any monetary transactions where any party to such transaction is located in a country subject to international sanctions.

The Bank has trained 15 branches specialized in management of foreign-resident client accounts and only allows foreign residents to open accounts in these branches. Current foreign-resident clients with a significant balance were relocated from other Bank branches to these specialized branches.

After an increase in risk intensity last year, cross-border risk continued to moderately decrease in 2016. The moderate decrease is due to continued preparation for risk management.
For more information see the Detailed Risks Management Report on the Bank website.

Prohibition of money laundering

The Chief Compliance Officer for the Bank Group, appointed in the Risks Control Division, is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act for the Bank Group, including Bank affiliates overseas.

The Compliance Division acts to deploy statutory provisions on this matter. The Division handles subjective reports of unusual activity reported to the AML Authority, and conducts various controls over activity in different accounts based on their risk profile, providing regular advice to branches on this matter and delivers training customized for Bank staff in different roles. Moreover, in line with Bank policies set by the Board of Directors in May 2010, a knowledge test is administered once every two years to all Bank employees. Such a test was conducted in 2014.

The Bank operates different computer systems for identifying unusual activity and for monitoring the handling of subjective reports.

The Bank applies on a Group basis, with required changes, its policies in this area as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.

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

AML risk increased in 2016, primarily due to addition of serious tax offenses, as noted, to the Prohibition of Money Laundering Act.

Reputation risk

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.

The Bank has defined its risk appetite for reputation risk as minimal. In recent years, the Bank took action to put in place a framework for handling reputation risk. The Bank considers that this risk should be addressed based on similar principles to those used to address other risks, such as credit risk or market risk - even though this risk is considered harder to quantify. Therefore, similarly to other risks, the Bank’s Board of Directors has created a dedicated policy document for addressing reputation risk, which specifies guidelines for risk management, risk appetite, risk measurement and ways to mitigate risk. Accordingly, the Bank incorporated reputation risk into its regular risks management processes, including the process for approval of new products or activities and in self-assessment processes conducted by the Bank and has put in place a framework for regular measurement of this risk. The Bank emphasizes creation of a reporting chain and the required activity under stress conditions, in order to mitigate the impact of such risk, should it materialize. This activity requires identification of risk materialization at its early stages, in order to allow for qualitative and quantitative tools to be applied as early as possible, in order to address this risk. The policy

refers to all Bank subsidiaries and stipulates mandatory reporting and the required actions in case of an event classified as a reputation event. The Bank regularly coordinates with Bank Yahav on this matter.
The Reputation Risk Manager is the Manager, Marketing, Promotion and Business Development Division at the Bank.

The Bank routinely measures its reputation risk in the capital market, in the public and among clients and the business community. This measurement is based on specific quarterly studies which review public opinion (Bank clients and those of other banks), on monthly monitoring of on line discourse, on satisfaction surveys among Bank clients etc. Reports with regard to reputation risk are sent to Bank management and to the Board of Directors in the quarterly Risks Document - as is the case for all risks mapped by the Bank.
In the first nine months of 2016 there were no events which negatively impacted the Bank's reputation.
For more information see the Detailed Risks Management Report on the Bank website.

Strategic risk

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.
The Bank acts in line with the strategic outline and risk appetite approved by the Bank’s Board of Directors. Deviation from Bank strategy is subject to approval by the Bank’s Board of Directors. This risk is monitored by the Planning, Operations and Client Asset Division (hereinafter: "the Planning and Operations Division") and is challenged by the Risks Control Division.
The organizational structure for management of this risk includes the Board of Directors and management, the units which implement the strategic plan in business and operational procedures, the Planning and Operations Division and the Risks Control Division. Bank units are responsible for implementation of the strategic plan through annual work plans created in order to achieve the strategic objectives.

The Strategic Risk Manager is the President & CEO; based on his guidance, management periodically reviews the implementation of the strategy, monitoring of regulatory, economic or technology developments which affect the strategy and initiating annual work plans derived from and in conformity with the strategic plan. The Planning and Operations Division and the Risks Control Division independently monitor strategic risk from different control aspects, primarily the following: achievement of targets, risk mapping and identification, stress testing, threat tests and continuous monitoring of the risk profile in view of the Bank's risk appetite. The latter process is a continuous one, designed to apply diverse tools, primarily reporting tools, in order to ensure that the Bank has not deviated from the specified operating frameworks and exposure caps. In addition to continuous monitoring of the implementation of work plans and aligning them with the strategic outline, the Bank also monitors developments of external factors which may impact the Bank's strategic risk. The work plans of Bank divisions are adapted, when needed, to the changing business environment in order to achieve business targets and the strategic outline. The Bank is prepared for emergencies so as to reduce the impact to the Bank's business and strategic plan, should extreme economic or geo-political conditions evolve. In order to minimize the potential impact to the Bank's business plan, in recent years the Bank emphasized, *inter alia*, the approval process for new products or activities. As part of this process, the new products or activities are reviewed for their business value to the Bank, vs. their impact, if any, on the Bank's risk profile and strategic risk.

Developments in the business environment which may impact strategic risk

- In recent years, the global economy has been unstable and economic growth has been more moderate, along with a near-zero interest rate environment and moderate growth in global demand, as well as increased geo-political tension around the world, due to the emergence of Islamic fundamentalism. The economic growth rate in Israel has slowed down in recent years, due to stagnating exports. The Bank regularly monitors the potential implications of a global and local economic slow-down, which may lead to deterioration in the financial standing of households or may impact business activity in various economic sectors. In particular, the Bank is preparing for a potential change in the interest rate trends in the Israeli economy.
- Growing competition in the financial system, in view of expanded operations of non-banking entities, especially in the credit market and given the entry of technology companies into the financial brokerage area, in particular for the household and small business segments.
- The impact of regulatory provisions in core areas of banking operations, including the potential impact of recommendations made by the Committee for Increased Competition in Common Financial Banking Services in Israel ("the Shtrum Committee").

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 risk	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-medium	
Risk with respect to mortgage portfolio	Low	
Overall effect of market risk	Low-medium	Manager, Financial Division
Interest risk	Low-medium	
Inflation risk	Intermediate	
Exchange rate risk	Low	
Share price risk	Low	
Liquidity risk	Intermediate	Manager, Financial Division
Overall effect of operating risk	Intermediate	Manager, Risks Control Division
Cyber and information security	Intermediate	Manager, Risks Control Division
Information technology risk	Intermediate	Manager, Mizrahi-Tefahot Technology Division Ltd.
Legal risk	Low-medium	Chief Legal Counsel
Compliance and regulatory risk	Intermediate	Manager, Risks Control Division
Cross-border risk	Intermediate	Manager, Risks Control Division
Anti-money laundering 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 risk 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.J, 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 degree of influence of the various risk factors in the above table was determined based on management's assessments, as performed from time to time, on monitoring of various quantitative risk benchmarks as listed in the quarterly Risks Document, which presents the evolution of the Bank's risk profile given the specified risk appetite, in the four quarters prior to the report date and in coordination with the ICAAP process and its outcome, as conducted by the Bank, under leadership of the Bank's Risk Owners.

The ICAAP process accounts for both qualitative and quantitative aspects, including the Bank's risk profile, outcome of various scenarios at the Bank and the capital planning process. In the fourth quarter of 2015, as an integral part of the ICAAP process as part of the work plan discussions at the Bank for 2015, the Bank conducted self-assessment of the quality of risk management for risk mapped by the Bank. This process was based on rating the risk level and management quality, conducted independently by teams on behalf of Risk Owners and teams on behalf of risk controllers. This process added another dimension to the Bank's ability to evaluate the impact of different risk levels and their management quality on evolution of the Bank's risk profile given the specified risk appetite. When setting the risk level, Bank teams used, *inter alia*, the risk level scale approved by the Bank for 2016.

This scale specifies the potential loss due to each risk under normal market conditions and under turbulent market conditions (using stress testing) in terms of Bank capital and expected annual profit, as follows: Low risk is defined as potential for loss not to exceed 1% of Bank capital (monthly profit); medium risk is defined as potential for loss not to exceed 6% of Bank capital (semi-annual profit); and high risk is defined as potential for loss exceeding this amount.

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 2015 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.

For more information about accounting policy on critical matters, see chapter "Policies and critical accounting estimates" of the financial statements as of December 31, 2015.

Group provision for credit losses – For more information about changes in this quarter, see chapter "Changes to critical accounting policies and to critical accounting estimates" above.

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

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

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

Note 26.C to the annual financial statements for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders 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.

Other than the foregoing, in the first nine months of 2016 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 financial statements as of December 31, 2015.

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 2015, in the first nine months of 2016 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, 2016. 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, 2016, 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 2016, 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	**Eldad Fresher**
Chairman of the Board of Directors	President & CEO

Approval date:
Ramat Gan
November 14, 2016

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, 2016 ("the Report").

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will 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 14, 2016

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

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 2016 ("the Report").

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will 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 14, 2016

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

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, 2016, the condensed consolidated interim statements of profit and loss, comprehensive income, change in 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 practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We have not reviewed the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.57% of total consolidated assets as of September 30, 2016, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 9.31% and 8.23% 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 equity-accounted associate, the investment in which amounted to NIS 19 million as of September 30, 2016. 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 10.B.2.(j) and Note 10.B.3.(a-g) with regard to lawsuits filed against the Bank and a subsidiary thereof, including motions for class action status.
2. Note 10.B.4. with regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Member of Deloitte Touche Tohmatsu Limited
Certified Public Accountants
Tel Aviv, November 14, 2016

Condensed Financial Statements

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Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
		2016	2015	2016	2015	2015
			(unaudited)		(unaudited)	(audited)
Interest revenues	2	1,601	1,495	4,057	3,896	4,906
Interest expenses	2	545	562	1,227	1,182	1,372
Interest revenues, net		1,056	933	2,830	2,714	3,534
Expenses with respect to credit losses	6,13	59	61	119	136	211
Interest revenues, net after expenses with respect to credit losses		997	872	2,711	2,578	3,323
Non-interest revenues						
Non-interest financing revenues	3	40	151	176	231	358
Commissions		360	350	1,077	1,071	1,426
Other revenues		20	8	120	39	74
Total non-interest revenues		420	509	1,373	1,341	1,858
Operating and other expenses						
Payroll and associated expenses		508	487	1,505	1,445	1,944
Maintenance and depreciation of buildings and equipment		177	175	522	523	692
Other expenses		130	159	403	439	590
Total operating and other expenses		815	821	2,430	2,407	3,226
Pre-tax profit		602	560	1,654	1,512	1,955
Provision for taxes on profit		218	213	621	564	761
After-tax profit		384	347	1,033	948	1,194
Share in profits of associates, after tax		1	1	1	-	-
Net profit:						
Before attribution to non-controlling interests		385	348	1,034	948	1,194
Attributable to non-controlling interests		(12)	(32)	(33)	(54)	(60)
Attributable to shareholders of the Bank		373	316	1,001	894	1,134

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

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President & CEO

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, November 14, 2016

Condensed consolidated statement of profit and loss - Continued

(Reported amounts)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2016	2015	2016	2015	2015
		(unaudited)		(unaudited)	(audited)
Earnings per share[(1)]					
Basic earnings per share (in NIS)					
Net profit attributable to shareholders of the Bank	1.61	1.36	4.32	3.87	4.90
Diluted earnings per share (in NIS)					
Net profit attributable to shareholders of the Bank	1.61	1.36	4.32	3.86	4.89

(1) Share of NIS 0.1 par value.

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

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	Note	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
		2016	2015	2016	2015	2015
			(unaudited)		(unaudited)	(audited)
Net profit:						
Before attribution to non-controlling interests		385	348	1,034	948	1,194
Attributable to non-controlling interests		(12)	(32)	(33)	(54)	(60)
Net profit attributable to shareholders of the Bank		373	316	1,001	894	1,134
Other comprehensive income (loss) before taxes	4					
Adjustments for presentation of available-for-sale securities at fair value, net		11	89	43	(3)	(27)
Adjustments from translation of financial statements of investments in associates(1)		-	-	-	(1)	(1)
Net gains (losses) with respect to cash flows hedging		2	23	(5)	(3)	(6)
Adjustment of liabilities with respect to employee benefits(2)		12	17	(33)	(5)	(3)
Total other comprehensive income (loss), before tax		25	129	5	(12)	(37)
Related tax effect		(8)	(51)	(4)	5	13
Other comprehensive income (loss) after taxes(3)						
Other comprehensive income (loss), before attribution to non-controlling interest		17	78	1	(7)	(24)
Less other comprehensive income (loss) attributable to non-controlling interest		(1)	-	1	(1)	(1)
Other comprehensive income (loss) attributable to equity holders of the Bank, after taxes		16	78	2	(8)	(25)
Comprehensive income:						
Before attribution to non-controlling interests		402	426	1,035	941	1,170
Attributable to non-controlling interests		(13)	(32)	(32)	(55)	(61)
Comprehensive income attributable to shareholders of the Bank		389	394	1,003	886	1,109

(1) Adjustments from translation of financial statements of associates.
(2) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.
(3) For details see Note 4 to the financial statements - Cumulative Other Comprehensive Income.

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,		As of December 31
		2016	2015	2015
		(unaudited)		(audited)
Assets				
Cash and deposits with banks		40,753	26,720	30,489
Securities(1)(2)	5	9,407	11,306	11,845
Securities loaned or purchased in resale agreements		16	100	71
Loans to the public	6,13	170,024	159,382	160,604
Provision for credit losses	6,13	(1,404)	(1,386)	(1,400)
Loans to the public, net		168,620	157,996	159,204
Loans to Governments		353	287	316
Investments in associates		34	39	36
Buildings and equipment		1,537	1,543	1,583
Intangible assets and goodwill		87	87	87
Assets with respect to derivative instruments	11	3,267	4,780	3,527
Other assets		1,446	2,108	2,000
Total assets		225,520	204,966	209,158
Liabilities and Equity				
Deposits from the public	7	173,748	158,107	162,380
Deposits from banks		1,255	1,298	1,166
Deposits from the Government		53	62	58
Debentures and subordinated notes		27,253	23,196	23,719
Liabilities with respect to derivative instruments	11	3,520	4,527	3,634
Other liabilities(3)		6,365	5,598	5,786
Total liabilities		212,194	192,788	196,743
Shareholders' equity attributable to shareholders of the Bank		12,726	11,616	11,847
Non-controlling interests		600	562	568
Total equity		13,326	12,178	12,415
Total liabilities and equity		225,520	204,966	209,158

(1) Includes: NIS 6,092 million at fair value on consolidated basis (September 30, 2015 - NIS 7,896 million; December 31, 2015 - NIS 8,429 million).

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

(3) Includes: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 116 million (on September 30, 2015 - NIS 105 million, on December 31, 2015 - NIS 106 million).

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

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
	For the three months ended September 30, 2016 (unaudited)			
Balance as of June 30, 2016	2,224	68	(76)	2,216
Net profit for the period	-	-	-	-
Dividends paid[(5)]	-	-	-	-
Benefit from share-based payment transactions	-	4	-	4
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of September 30, 2016	2,224	72	(76)	2,220
	For the three months ended September 30, 2015 (unaudited)			
Balance as of June 30, 2015	2,215	62	(76)	2,201
Net profit for the period	-	-	-	-
Dividends paid[(5)]	-	-	-	-
Benefit from share-based payment transactions	-	5	-	5
Realization of share-based payment transactions[(2)]	7	(7)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of September 30, 2015	2,222	60	(76)	2,206

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

(2) In the second quarter of 2016, 1,028 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan (in the third quarter of 2015 - 319,085 ordinary NIS 0.1 par value shares were issued). In the third quarter of 2015, 33,405 ordinary NIS 0.1 par value shares were issued 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 2015 financial statements.

(5) On September 11, 2016, dividends amounting to NIS 51.0 million with respect to earnings in the second quarter of 2016 were distribute in conformity with a resolution by the Bank's Board of Directors.
On September 17, 2015, dividends amounting to NIS 49.5 million with respect to earnings in the second quarter of 2015 were distributed in conformity with a resolution by the Bank's Board of Directors.

(6) On November 14, 2016, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 56.0 million with respect to earnings in the third quarter of 2016. According to accounting rules, this amount will be deducted from retained earnings in the fourth quarter of 2016.

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

Cumulative other comprehensive income (loss)[3]	Retained earnings[4][6]	Total shareholder equity	Non-controlling interests	Total equity
(111)	10,279	12,384	587	12,971
-	373	373	12	385
-	(51)	(51)	-	(51)
-	-	4	-	4
16	-	16	1	17
(95)	10,601	12,726	600	13,326
(158)	9,223	11,266	530	11,796
-	316	316	32	348
-	(49)	(49)	-	(49)
-	-	5	-	5
-	-	-	-	-
78	-	78	-	78
(80)	9,490	11,616	562	12,178

Condensed Statement of Changes in Shareholders' Equity - Continued

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
	For the nine months ended September 30, 2016 (unaudited)			
Balance as of December 31, 2015	2,222	68	(76)	2,214
Net profit for the period	-	-	-	-
Dividends paid[5]	-	-	-	-
Benefit from share-based payment transactions	-	7	-	7
Related tax effect	-	(1)	-	(1)
Realization of share-based payment transactions[2]	2	(2)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of September 30, 2016	2,224	72	(76)	2,220
	For the nine months ended September 30, 2015 (unaudited)			
Balance as of December 31, 2014	2,197	66	(76)	2,187
Net profit for the period	-	-	-	-
Dividends paid[5]	-	-	-	-
Benefit from share-based payment transactions	-	13	-	13
Related tax effect	-	6	-	6
Realization of share-based payment transactions [2]	25	(25)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of September 30, 2015	2,222	60	(76)	2,206
	For the year ended December 31, 2015 (audited)			
Balance as of December 31, 2014	2,197	66	(76)	2,187
Net profit for the period	-	-	-	-
Dividends paid[5]	-	-	-	-
Benefit from share-based payment transactions	-	20	-	20
Related tax effect	-	7	-	7
Realization of share-based payment transactions[2]	25	(25)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of December 31, 2015	2,222	68	(76)	2,214

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

(2) In the first nine months of 2016, the Bank issued 46,091 ordinary NIS 0.1 par value shares for exercise of options in conjunction with the Employee Stock Option Plan (in the first nine months of 2015 - 1,052,703 ordinary NIS 0.1 par value shares) and issued to the Bank President & CEO 31,065 ordinary NIS 0.1 par value shares (in the first nine months of 2015, 74,647 ordinary NIS 0.1 par value shares were issued to the Bank President & CEO).
In 2015, the Bank issued 1,086,264 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employee Stock Option Plan, and issued to the Bank President & CEO 74,647 ordinary NIS 0.1 par value shares.

(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 2015 financial statements.

(5) On September 11, 2016, June 21, 2016 and March 21, 2016, dividends amounting to NIS 51.0 million, NIS 43.2 million and NIS 36.0 million with respect to earnings in the second quarter of 2016, the first quarter of 2016 and the fourth quarter of 2015, respectively, were distributed in conformity with a resolution by the Bank's Board of Directors.
On June 14, 2015 and September 17, 2015, the Bank paid, in conformity with a decision by the Bank's Board of Directors, dividends amounting to NIS 36.6 million and NIS 49.5 million, with respect to earnings in the first and second quarters of 2015, respectively.

(6) On November 14, 2016, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 56.0 million with respect to earnings in the third quarter of 2016. According to accounting rules, this amount will be deducted from retained earnings in the fourth quarter of 2016.

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

Cumulative other comprehensive income (loss)[3]	Retained earnings[4][6]	Total shareholder equity	Non-controlling interests	Total equity
(97)	9,730	11,847	568	12,415
-	1,001	1,001	33	1,034
-	(130)	(130)	-	(130)
-	-	7	-	7
-	-	(1)	-	(1)
-	-	-	-	-
2	-	2	(1)	1
(95)	10,601	12,726	600	13,326
(72)	8,682	10,797	507	11,304
-	894	894	54	948
-	(86)	(86)	-	(86)
-	-	13	-	13
-	-	6	-	6
-	-	-	-	-
(8)	-	(8)	1	(7)
(80)	9,490	11,616	562	12,178
(72)	8,682	10,797	507	11,304
-	1,134	1,134	60	1,194
-	(86)	(86)	-	(86)
-	-	20	-	20
-	-	7	-	7
-	-	-	-	-
(25)	-	(25)	1	(24)
(97)	9,730	11,847	568	12,415

Condensed statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2016	2015	2016	2015	2015
		(unaudited)		(unaudited)	(audited)
Cash flows provided by current operations					
Net profit	385	348	1,034	948	1,194
Adjustments					
Bank's share of undistributed (earnings) loss of associates	(1)	(1)	(1)	-	-
Depreciation of buildings and equipment	53	57	162	167	223
Expenses with respect to credit losses	59	61	119	136	211
Loss (gain) from sale of securities available for sale	(9)	(8)	(61)	(105)	(118)
Loss (gain) from sale of securities held to maturity[(1)]	-	(67)	-	(67)	(67)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(11)	(1)	(13)	8	5
Gain from sale of buildings and equipment	(9)	-	(87)	(10)	(36)
Expenses arising from share-based payment transactions	4	5	7	13	20
Deferred taxes, net	(24)	(36)	(22)	(111)	27
Change in net liabilities with respect to employee rights	(1)	48	16	122	(10)
Effect of changes in exchange rate on cash balances	179	(191)	244	82	183
Loss (gain) from sale of loan portfolios	1	-	(45)	-	(1)
Net change in current assets					
Deposits with banks	37	(1,249)	(435)	(1,164)	2,967
Loans to the public	(4,002)	(5,740)	(11,864)	(10,563)	(12,453)
Loans to Governments	10	(14)	(37)	20	(9)
Securities loaned or purchased in resale agreements	30	(100)	55	7	36
Assets with respect to derivative instruments	195	(279)	255	819	2,069
Securities held for trade	1	263	5	(10)	807
Other assets, net	51	(235)	624	148	191
Net change in current liabilities					
Deposits from banks	72	(605)	89	40	(92)
Deposits from the public	4,127	4,371	11,368	5,728	10,001
Deposits from the Government	-	2	(5)	7	3
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	(223)	(223)
Liabilities with respect to derivative instruments	(267)	(823)	(114)	(1,970)	(2,863)
Other liabilities	555	(720)	505	(728)	(464)
Accrual differences included with investment and financing operations	71	130	(112)	(270)	(399)
Net cash provided by current operations	1,506	(4,784)	1,687	(6,976)	1,202

(1) Proceeds from sale of debentures held to maturity at Bank Yahav.

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

Condensed statement of cash flows - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2016	2015	2016	2015	2015
		(unaudited)		(unaudited)	(audited)
Cash flows provided by investment operations					
Proceeds from sale of debentures held to maturity[(1)]	-	1,917	-	1,917	1,917
Acquisition of securities available for sale	(1,263)	(1,355)	(4,785)	(9,530)	(10,497)
Proceeds from sale of securities available for sale	331	2,744	7,084	9,230	9,603
Proceeds from redemption of securities available for sale	-	1,112	189	1,478	761
Proceeds from sale of loan portfolios	812	-	2,342	-	590
Acquisition of buildings and equipment	(45)	(52)	(138)	(141)	(233)
Proceeds from sale of buildings and equipment	16	-	116	21	55
Proceeds from realized investment in associates	2	-	3	12	15
Net cash provided by investment operations	(147)	4,366	4,811	2,987	2,211
Cash flows provided by financing operations					
Issuance of debentures and subordinated notes	3,235	845	6,539	5,800	7,502
Redemption of debentures and subordinated notes	(416)	(416)	(2,834)	(2,885)	(3,988)
Dividends paid to shareholders	(51)	(49)	(130)	(86)	(86)
Net cash provided by financing operations	2,768	380	3,575	2,829	3,428
Increase (decrease) in cash	4,127	(38)	10,073	(1,160)	6,841
Cash balance at beginning of the period	36,190	24,794	30,309	26,189	23,651
Effect of changes in exchange rate on cash balances	(179)	191	(244)	(82)	(183)
Cash balance at end of the period	40,138	24,947	40,138	24,947	30,309
Interest and taxes paid / received					
Interest received	1,546	1,303	3,810	3,978	5,080
Interest paid	555	512	1,455	1,157	1,591
Dividends received	10	-	13	8	10
Taxes on income received	6	-	81	60	69
Taxes on income paid	156	240	516	591	738
Appendix A - Non-cash Transactions During the Period					
Acquisition of buildings and equipment	7	3	7	3	22

(1) Proceeds from sale of debentures held to maturity at Bank Yahav.

Note 1 - Reporting Principles and Accounting Policies

A. Overview

The Bank's Board of Directors authorized publication of these condensed financial statements on November 14, 2016.

The condensed financial statements as of September 30, 2016 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, 2015.

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

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

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

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

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

As from reporting periods starting on January 1, 2016 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. Supervisory operating segments and reporting of operating segments in conformity with management approach.
2. Application of US GAAP with regard to business combinations, consolidation of financial statements and investment in investees.
3. Application of US GAAP with regard to intangible assets.
4. Supervisor of Banks' directive on group-based provision for credit losses.

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.

Note 1 - Reporting Principles and Accounting Policies - Continued

1. Supervisory operating segments and reporting of operating segments in conformity with management approach

Supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued a circular concerning the Public Reporting Directives with regard to supervisory operating segments, as well as a Q&A file on this topic. The circular revised the Public Reporting Directives with regard to required reporting of supervisory operating segments and modified certain definitions and directives, whereby banks are required to classify clients into supervisory segments.

The major changes to the Public Reporting Directives according to this Q&A file are as follows:

- Added was a requirement for disclosure of "supervisory operating segments", based on definitions by the Supervisor of Banks. The disclosure layout includes the following segments: private banking, households, very small and small business, mid-size business, large business, institutional entities and financial management.
- Additional definitions clarify which clients are to be included in each segment.
- An additional requirement stipulates separate disclosure of the "Financial management" segment.
- It has been clarified that a banking corporation where, according to its management approach, the operating segments differ materially from the supervisory operating segments - should also provide disclosure of the operating segments based on its management approach.
- It has been clarified that the disclosure requirements in the Board of Directors' report and in the interim directive with regard to "Description of the banking corporation's business and forward-looking information in the Board of Directors' report" shall refer to disclosure of supervisory operating segments.

On September 10, 2015, the Supervisor of Banks issued an updated Q&A file, which includes certain relief with regard to client categorization by operating segments based on the volume of their revenues - when this data is not typical or is unavailable to the Bank. According to the Q&A file, in such cases the Bank may categorize clients into operating segments based on other parameters, in line with total client indebtedness. Thus, in some cases listed in the Q&A file, clients may be categorized based on the number of employees or total assets on their balance sheet. If this information is not available either, clients may be categorized, in such cases, based on their total financial assets with the bank, multiplied by a specified factor.

Operating segments in conformity with management approach.

In addition to uniform reporting by supervisory operating segments, the circular stipulates that disclosure of "Operating segments in conformity with management approach" should be provided in conformity with generally acceptable accounting practices by US banks with regard to operating segments (included in ASC 280), if there is a material difference between management approach and supervisory reportable segments.

An operating segment in conformity with management approach pursuant to ASC 280-10 is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed by chief decision makers at the Bank for the purpose of making decisions about resource allocation and performance evaluation, and
- separate financial information is available with regard to it.

In fact, there is a correlation between supervisory operating segments and "operating segments in conformity with management approach" but never the less, there are some differences in client attribution to segments and in decision making. Therefore, the financial statements also include reporting of operating results in conformity with "management approach", as noted above.

For more information about criteria for classification of clients to supervisory segments and to segments in conformity with management approach and for the differences between them, as well as for additional extensive segment-based information, see Note 12 to the financial statements.

Scope

The new rules apply, to a limited extent, as from the 2015 financial statements. Expansion of the reporting format, up to the full format, is achieved as follows:

As from the financial statements for the first quarter of 2016, full disclosure based on supervisory segment is required, except for the separate disclosure of the Financial Management segment. Comparative figures would be retroactively adjusted; reports in 2016 may present comparative figures for one year only with reference to the Note about supervisory operating segments. For presentation of comparative figures, it is possible to rely on client classification to supervisory operating segments as of January 1, 2016.

The directives in the circular should be fully implemented as from the reports for the first quarter of 2017.

Application of the new directives has no material impact on the Bank's financial statements, other than the in presentation and disclosure. Note 12 has been revised to include the new disclosure, subject to the aforementioned transitional provisions. See Note 1.D.19 to the 2015 financial statements.

2. Application of US GAAP with regard to business combinations, consolidation of financial statements and investment in investees

On June 10, 2015, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card companies in Israel in conformity with US GAAP with regard to business combinations, consolidation of financial statements and investment in investees. According to the circular, US GAAP should be applied to these matters as follows:

Note 1 - Reporting Principles and Accounting Policies - Continued

- Presentation, measurement and disclosure rules stated in provisions of ASC 805 "Business combinations".
- Provisions of ASC 810 "Consolidation".
- Provisions of ASC 350-20 "Intangibles - Goodwill and Other Assets" with regard to accounting treatment of impairment of goodwill acquired in a business combination.
- US GAAP with regard to investees, including presentation, measurement and disclosure rules as well as provisions with regard to impairment specified in ASC 323 "Investments - Equity Method and Joint Ventures".

The new provisions cover a variety of topics, including non-material changes to the old provisions on these topics: Recognition of non-controlling interests, subsequent measurement of contingent liabilities, revaluation of assets and liabilities by subsidiaries in a business combination ("Push Down Accounting"), investments held for sale, impairment of investment in associate, transition from cost method to equity method and other topics.

The provisions of the circular would apply as from January 1, 2016. Upon initial application, action should be taken in conformity with transitional provisions included in US GAAP for these issues, *mutatis mutandis*, including retroactive amendment of comparative figures, if required by US GAAP for these issues.

Provisions with regard to Push Down Accounting apply to business combinations made as from January 1, 2016.

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

3. US GAAP with regard to intangible assets

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 intangible assets.

According to this circular, banking corporations are required to adopt US GAAP with regard to intangible assets including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets - Goodwill and other".

In this regard, accounting treatment of goodwill, including review of its impairment, was revised in conformity with the circular dated June 10, 2015 concerning "Reporting by banking corporations and credit card companies in Israel in conformity with US GAAP with regard to business combinations and consolidation of financial statements". ASC 350 also discusses treatment of intangible assets from in-house development, including capitalization of software costs (including treatment of and review for impairment) and revaluation of intangible assets.

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

Note 1 - Reporting Principles and Accounting Policies - Continued

4. **Group provision for credit losses**

As set forth in Note 1.D.6)D. On the 2015 financial statements, the group-based provision for credit losses is based, *inter alia*, on historical loss rates in various economic sectors, divided into troubled and non-troubled debt, for the 5 years ended on the report date. As directed by the Bank of Israel, on the financial statements for 2016 and 2017, the range of loss rates would be extended to include 2011, with the range being 6 and 7 years long, respectively.

The Bank started to apply this directive in these financial statements for the third quarter of 2016.

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

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.

The Bank is reviewing the effect of this standard on its financial statements.

2. 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 draft 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 draft circular, banking corporations are required to adopt US GAAP with regard to taxes on income, including the presentation, measurement and disclosure rules specified in provisions of ASC 740 "Income Taxes".

According to the draft circular, a banking corporation is not required to provide disclosure on financial statements in 2017 with regard to disallowed tax benefits, which are required by section 740-10-50-15-2 and section 740-10-50-15A of the codification.

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

On October 13, 2016, the Supervisor of Banks issued a final circular, whereby the new directives would be applied as from January 1, 2017. Temporary differences with respect to previous periods would continue to be treated in conformity with directives in effect through December 31, 2016.

The final circular dated October 13, 2016 clarified the following:

- 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.

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

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

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

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

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

The Bank is reviewing the effect of the circular on its financial statements.

4. FASB codification update 2014-11 concerning repurchase-to-maturity transactions and repurchase of financings.

On July 15, 2015, the Supervisor of Banks issued a draft concerning "FASB codification update 2014-11 concerning repurchase-to-maturity transactions and repurchase of financings". According to this draft, in June 2014, FASB issued codification update 2014-11 concerning repurchase-to-maturity transactions and repurchase of financings. This update clarifies, *inter alia*, that repurchase-to-maturity transactions should be treated, for accounting purposes, as secured loan - consistently with the accounting treatment of other repurchase transactions.

The update also clarifies the accounting treatment of repurchase of financings, where one party transfers a financial asset to the other party and concurrently, contracts with the other party an agreement for sale and repurchase of the financial asset, also including certain disclosure requirements. According to the draft, banks are required to apply these updates as from January 1, 2016 in conformity with transitional provisions specified in the USA, *mutatis mutandis*. As of the publication date of the financial statements, a final circular on this matter has yet to be issued.

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

5. Re-structuring of troubled debt

On May 22, the Supervisor of Banks issued a circular concerning restructuring of problematic debt. This circular revises the Public Reporting Regulations given update no. 2011-20 to the codification issued by FASB and given new directives by regulators in the USA. These directives include, *inter alia*, clarifications with regard to criteria for award of waivers and for determination whether a debtor is facing financial difficulties, requirements for comprehensive documentation for renewal, extension or changes to debt of borrowers facing financial difficulties and whose debt is classified as inferior, where a decision has been made that they do not constitute restructuring of problematic debt, as well as performance of credit analysis for restructured debt. Furthermore, they specify that in case of a subsequent restructuring. the banking corporation is no longer required to treat the debt as a restructuring of problematic debt if both of the following conditions are met:

Note 1 - Reporting Principles and Accounting Policies - Continued

- The debtor is no longer facing financial difficulties upon the date of the subsequent restructuring.
- According to terms of the subsequent restructuring, the banking corporation did not give the debtor any waiver.

In order to meet these conditions, the restructuring agreement is required, *inter alia*, to be at market terms.

The provisions specified in conformity with the circular would apply as from December 31, 2016 to any restructuring to be carried out or renewed.

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

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

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

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

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

Application of this circular has no 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		For the nine months ended September 30		For the year ended December 31,
	2016	2015	2016	2015	2015
		(unaudited)		(unaudited)	(audited)
A. Interest revenues[(1)]					
From loans to the public	1,556	1,446	3,938	3,736	4,691
From loans to Governments	2	2	8	6	9
From deposits with the Bank of Israel and from cash	13	6	34	24	29
From deposits with banks	2	1	4	4	6
From debentures	28	40	73	126	171
Total interest revenues	1,601	1,495	4,057	3,896	4,906
B. Interest expenses					
On deposits from the public	349	372	829	804	962
On deposits from governments	-	1	1	3	2
On deposits from banks	4	4	8	15	12
On debentures and subordinated notes	191	179	387	359	392
On other liabilities	1	6	2	1	4
Total interest expenses	545	562	1,227	1,182	1,372
Total interest revenues, net	1,056	933	2,830	2,714	3,534
C. Details of net effect of hedging derivative instruments on interest revenues	3	(36)	(49)	24	44
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	10	15	31	49	75
Available for sale	16	23	36	68	92
Held for trading	2	2	6	9	4
Total included under interest revenues	28	40	73	126	171

(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		For the nine months ended September 30		For the year ended December 31,
	2016	2015	2016	2015	2015
		(unaudited)		(unaudited)	(audited)
A. Non-interest financing revenues (expenses) with respect to non-trade operations					
1. From activity in derivative instruments					
Non-effective element of hedging ratios[(1)]	-	(5)	3	3	5
Net revenues (expenses) with respect to ALM derivatives[(2)]	(308)	675	(282)	167	37
Total from activity in derivative instruments	(308)	670	(279)	170	42
2. From investment in debentures					
Gains from sale of debentures held to maturity[(3)]	-	67	-	67	67
Gains on sale of debentures available for sale	9	8	61	105	118
Total from investment in debentures	9	75	61	172	185
3. Exchange rate differences, net	329	(641)	412	(89)	136
4. Gains (losses) from investment in shares					
Gains on sale of available-for-sale shares	-	-	-	-	-
Provision for impairment of available-for-sale shares	-	-	-	-	-
Dividends from available-for-sale shares	-	-	3	3	7
Total from investment in shares	-	-	3	3	7
5. Net gains (losses) with respect to loans sold	(1)	-	45	-	1
Total non-interest financing revenues with respect to non-trade operations	29	104	242	256	371

(1) Excludes the effective element in the hedging ratios.
(2) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) For more information about gains from sale of debentures held to maturity by Bank Yahav, see Note 25 to the 2015 financial statements.

Note 3 - Non-interest financing revenues - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2016	2015	2016	2015	2015
		(unaudited)		(unaudited)	(audited)
B. Non-interest financing revenues (expenses)with respect to trading operations[1]					
Net revenues (expenses) with respect to other derivative instruments	-	46	(79)	(17)	(8)
Realized gains (losses) from adjustment to fair value of debentures held for trade, net	1	11	5	(1)	(9)
Unrealized gains (losses) from adjustment to fair value of debentures held for trade, net	10	(10)	8	(7)	4
Total from trading operations[2]	11	47	(66)	(25)	(13)
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	1	4	-	-	3
Foreign currency exposure	13	44	(62)	(26)	(23)
Exposure to shares	1	(1)	2	(1)	-
Exposure to commodities and others	(4)	-	(6)	2	7
Total	11	47	(66)	(25)	(13)

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

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

Note 4 - Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

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

	Other comprehensive income (loss), before attribution to non-controlling interest						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments(1)	Net gain from cash flow hedges	Adjustments with respect to employee benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributable to shareholders of the Bank
							For the three months ended September 30, 2016
							(unaudited)
Balance as of June 30, 2016	8	-	9	(135)	(118)	(7)	(111)
Net change in the period	7	-	2	8	17	1	16
Balance as of September 30, 2016	15	-	11	(127)	(101)	(6)	(95)
							For the three months ended September 30, 2015
							(unaudited)
Balance as of June 30, 2015	(51)	-	2	(114)	(163)	(5)	(158)
Net change in the period	55	-	14	9	78	-	78
Balance as of September 30, 2015	4	-	16	(105)	(85)	(5)	(80)
							For the nine months ended September 30, 2016
							(unaudited)
Balance as of December 31, 2015	(12)	-	14	(104)	(102)	(5)	(97)
Net change in the period	27	-	(3)	(23)	1	(1)	2
Balance as of September 30, 2016	15	-	11	(127)	(101)	(6)	(95)
							For the nine months ended September 30, 2015
							(unaudited)
Balance as of December 31, 2014	5	1	18	(102)	(78)	(6)	(72)
Net change in the period	(1)	(1)	(2)	(3)	(7)	1	(8)
Balance as of September 30, 2015	4	-	16	(105)	(85)	(5)	(80)
							For the year ended December 31, 2015
							(audited)
Balance as of December 31, 2014	5	1	18	(102)	(78)	(6)	(72)
Net change in the period	(17)	(1)	(4)	(2)	(24)	1	(25)
Balance as of December 31, 2015	(12)	-	14	(104)	(102)	(5)	(97)

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

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					
	2016			2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:						
Adjustments for presentation of securities available for sale at fair value						
Net unrealized gains (losses) from adjustments to fair value	43	(15)	28	97	(37)	60
(Gains) Losses with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(32)	11	(21)	(8)	3	(5)
Net change in the period	11	(4)	7	89	(34)	55
Translation adjustments						
Adjustments from translation of financial statements(2)	-	-	-	-	-	-
Net change in the period	-	-	-	-	-	-
Cash flows hedges						
Net gains (losses) with respect to cash flows hedging	2	-	2	23	(9)	14
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	23	(9)	14
Employee benefits						
Net actuarial gain (loss) for the period	9	(4)	5	16	(8)	8
Net losses reclassified to the statement of profit and loss	3	-	3	1	-	1
Net change in the period	12	(4)	8	17	(8)	9
Total net change in the period	25	(8)	17	129	(51)	78
Total net change in the period attributable to non-controlling interests	(1)	-	(1)	-	-	-
Total net change in the period attributable to shareholders of the Bank	24	(8)	16	129	(51)	78

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

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

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

	For the nine months ended September 30						For the year ended December 31		
	2016			2015			2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	161	(58)	103	102	(38)	64	91	(34)	57
	(118)	42	(76)	(105)	40	(65)	(118)	44	(74)
	43	(16)	27	(3)	2	(1)	(27)	10	(17)
	-	-	-	(1)	-	(1)	(1)	-	(1)
	-	-	-	(1)	-	(1)	(1)	-	(1)
	(5)	2	(3)	(3)	1	(2)	(1)	1	-
	-	-	-	-	-	-	(5)	1	(4)
	(5)	2	(3)	(3)	1	(2)	(6)	2	(4)
	(40)	10	(30)	(8)	2	(6)	(7)	3	(4)
	7	-	7	3	-	3	4	(2)	2
	(33)	10	(23)	(5)	2	(3)	(3)	1	(2)
	5	(4)	1	(12)	5	(7)	(37)	13	(24)
	2	(1)	1	(1)	-	(1)	(1)	-	(1)
	7	(5)	2	(13)	5	(8)	(38)	13	(25)

Note 5 - Securities

September 30, 2016 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	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		Fair value[1]
			Gains	Losses	
(2) Securities available for sale					
Debentures -					
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 banks and financial institutions overseas	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)	Unrealized gains from adjustments to fair value	Unrealized 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. See also chapter "Risks Overview" in the Report of the Board of Directors and Management, with regard to exposure to foreign countries.

Note 5 - Securities – Continued

September 30, 2015 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	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	3,313	3,313	80	-	3,393
Total debentures held to maturity	3,313	3,313	80	-	3,393

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[1]
			Gains	Losses	
(2) Securities available for sale					
Debentures -					
Of the Government of Israel[2]	6,060	6,066	20	(26)	6,060
Of foreign governments[2][5]	1,002	997	5	-	1,002
Of banks and financial institutions in Israel	109	108	1	-	109
Of banks and financial institutions overseas	305	298	7	-	305
Of others overseas	36	36	-	-	36
Total debentures available for sale	7,512	7,505	33	(26)	7,512
Shares[3]	99	101	-	(2)	99
Total securities available for sale	7,611	7,606	[4]33	[4](28)	7,611

	Carrying amount	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
of Government of Israel	382	382	-	-	382
Total securities held for trade	382	382	-	-	382
Total securities	11,306	11,301	113	(28)	11,386

(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 780 million.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 97 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Primarily US government debentures.

Remarks:

(1) For more information about operations involving investments in debentures - see Notes 2.D, 3.A.2 and 3.B to the financial statements; for more information about investment in shares - see Note 3.A.4 to the financial statements.
(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities. See also chapter "Risks Overview" in the Report of the Board of Directors and Management, with regard to exposure to foreign countries.

Note 5 - Securities – Continued

As of December 31, 2015 (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	3,320	3,320	71	-	3,391
Total debentures held to maturity	3,320	3,320	71	-	3,391

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[1]
			Gains	Losses	
(2) Securities available for sale					
Debentures -					
Of the Government of Israel[2]	6,246	6,254	20	(28)	6,246
Of foreign governments[2][5]	1,664	1,673	-	(9)	1,664
Of banks and financial institutions overseas	274	275	-	(1)	274
Of others overseas	21	21	-	-	21
Total debentures available for sale	8,205	8,223	20	(38)	8,205
Shares[3]	98	100	-	(2)	98
Total securities available for sale	8,303	8,323	[4]20	[4] (40)	8,303

	Carrying amount	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
of Government of Israel	222	222	-	-	222
Total securities held for trade	222	222	-	-	222
Total securities	11,845	11,865	91	(40)	11,916

(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 588 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 96 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Primarily US government debentures.

Remarks:
(1) For more information about operations involving investments in debentures - see Notes 2.D, 3.A.2 and 3.B to the financial statements; for more information about investment in shares - see Note 3.A.4 to the financial statements.
(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities. See also chapter "Risks Overview" in the Report of the Board of Directors and Management, with regard to exposure to foreign countries.

Note 5 - Securities - Continued

Reported amounts (NIS in millions)

A. Consolidated - continued

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

	September 30, 2016							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
Debentures -								
of Government of Israel	392	2	-	2	332	13	-	13
Total securities available for sale	392	2	-	2	332	13	-	13

	September 30, 2015							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
Debentures -								
of Government of Israel	1,498	16	-	16	121	10	-	10
Shares	2	-	2	2	-	-	-	-
Total securities available for sale	1,500	16	2	18	121	10	-	10

	December 31, 2015							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
Debentures -								
of Government of Israel	1,048	14	-	14	114	14	-	14
Of foreign governments	1,435	9	-	9	-	-	-	-
Of banks and financial institutions overseas	78	1	-	1	-	-	-	-
Shares	-	-	-	-	2	2	-	2
Total securities available for sale	2,561	24	-	24	116	16	-	16

(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 un-recognized loss.

(4) Asset-backed and mortgage-backed securities

As of September 30, 2016, September 30, 2015 and December 31, 2015, 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, 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	9,392	113,174	17,230	139,796	-	139,796
Of which: By extent of arrears	1,178	112,599	-	113,777	-	113,777
Total debts	38,872	[2]113,196	17,956	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 5,625 million.

(3) Includes balance of provision in excess of that required by the extent of arrears method, assessed on group basis, amounting to NIS 394 million.

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

	September 30, 2015[4]					
	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	30,616	6	767	31,389	4,031	35,420
reviewed on group basis	8,425	104,244	15,324	127,993	-	127,993
Of which: By extent of arrears	1,073	103,726	-	104,799	-	104,799
Total debts	39,041	[2]104,250	16,091	159,382	4,031	163,413
Of which:						
Impaired debts under restructuring	215	-	53	268	-	268
Other impaired debts	436	6	28	470	-	470
Total impaired debts	651	6	81	738	-	738
Debts in arrears 90 days or longer	47	1,005	21	1,073	-	1,073
Other problematic debts	281	-	91	372	-	372
Total problematic debts	979	1,011	193	2,183	-	2,183
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	503	1	19	523	4	527
reviewed on group basis	82	618	163	863	-	863
Of which: Provision by extent of arrears[3]	1	618	-	619	-	619
Total provision for credit losses	585	619	182	1,386	4	1,390
Of which: With respect to impaired debts	108	-	10	118	-	118

(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 5,379 million.

(3) Includes balance of provision in excess of that required by the extent of arrears method, assessed on group basis, amounting to NIS 362 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, 2015					
	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Recorded debt balance of debt s[1]						
reviewed on individual basis	29,656	24	758	30,438	3,412	33,850
reviewed on group basis	8,503	105,922	15,741	130,166	-	130,166
Of which: By extent of arrears	1,046	105,419	-	106,465	-	106,465
Total debts	38,159	[2]105,946	16,499	160,604	3,412	164,016
Of which:						
Impaired debts under restructuring	175	-	54	229	-	229
Other impaired debts	537	24	27	588	-	588
Total impaired debts	712	24	81	817	-	817
Debts in arrears 90 days or longer	38	957	17	1,012	-	1,012
Other problematic debts	296	-	92	388	-	388
Total problematic debts	1,046	981	190	2,217	-	2,217
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	516	1	22	539	3	542
reviewed on group basis	84	613	164	861	-	861
Of which: Provision by extent of arrears[3]	4	613	-	617	-	617
Total provision for credit losses	600	614	186	1,400	3	1,403
Of which: With respect to impaired debts	118	1	10	129	-	129

(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 5,421 million.

(3) Includes balance of provision in excess of that required by the extent of arrears method, assessed on group basis, amounting to NIS 368 million.

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

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

	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 three months ended September 30, 2015					
Balance of provision for credit losses at start of period	663	628	186	1,477	3	1,480
Expenses with respect to credit losses	38	7	15	60	1	61
Net accounting write-off[(1)]	(61)	(16)	(25)	(102)	-	(102)
Recovery of debts written off in previous years[(1)]	41	-	15	56	-	56
Net accounting write-offs	(20)	(16)	(10)	(46)	-	(46)
Balance of provision for credit losses at end of period	681	619	191	1,491	4	1,495
Of which: With respect to off balance sheet credit instruments	96	-	9	105	-	105

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

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

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses (continued)

	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

	For the nine months ended September 30, 2015					
Balance of provision for credit losses at start of period	632	624	189	1,445	5	1,450
Expenses with respect to credit losses	88	14	35	137	(1)	136
Net accounting write-off[1]	(134)	(19)	(83)	(236)	-	(236)
Recovery of debts written off in previous years[1]	95	-	50	145	-	145
Net accounting write-offs	(39)	(19)	(33)	(91)	-	(91)
Balance of provision for credit losses at end of period	681	619	191	1,491	4	1,495
Of which: With respect to off balance sheet credit instruments	96	-	9	105	-	105

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

Note 7 - Deposits from the Public

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	September 30,		December 31,
	2016	2015	2015
	(unaudited)		(audited)
In Israel			
On-call			
Non interest-bearing	38,921	34,018	33,973
Interest-bearing	8,560	6,498	7,117
Total on-call	47,481	40,516	41,090
Term deposits	121,348	112,778	117,271
Total deposits in Israel[(1)]	168,829	153,294	158,361
Outside of Israel			
On-call			
Non interest-bearing	647	939	556
Interest-bearing	6	8	7
Total on-call	653	947	563
Term deposits	4,266	3,866	3,456
Total deposits overseas	4,919	4,813	4,019
Total deposits from the public	173,748	158,107	162,380

(1) Of which:

Deposits from individuals	81,493	76,177	76,291
Deposits from institutional investors	36,014	34,901	37,523
Deposits from corporations and others	51,322	42,216	44,547

B. Deposits from the public by size

	September 30,		December 31,
	2016	2015[(1)]	2015[(1)]
	(unaudited)		(audited)
Maximum deposit			
Up to 1	59,621	54,365	55,229
Over 1 to 10	38,094	34,666	35,229
Over 10 to 100	23,889	22,424	22,301
Over 100 to 500	27,426	24,724	25,616
Above 500	24,718	21,928	24,005
Total	173,748	158,107	162,380

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

Note 8 - Employee Rights

1. Employment terms of the vast majority of Group employees and managers are subject to provisions of collective bargaining agreements. Liabilities to these employees, except for Bank Yahav employees, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities for those employees by law. For more information about various benefits to Bank employees and managers, see Note 22 to the financial statements as of December 31, 2015.

2. On March 8, 2016, the General Meeting of Bank shareholders approved the terms of office and employment of Mr. Vidman as Chairman of the Bank's Board of Directors pursuant to the approved employment agreement (hereinafter: "the Additional Employment Agreement") for a further employment term from December 1, 2015 through December 31, 2017 and will be automatically renewed, every year, for one additional year - all subject to provisions of the Additional Employment Agreement (hereinafter: "the Additional Employment Term"). For his work, the Chairman is eligible to receive a monthly salary amounting to NIS 220 thousand. This salary is fully linked to changes in the Consumer Price Index. The Bank provides to the Chairman of the Board of Directors a budget equal to 13.33% for contributions towards provident fund, retirement fund and severance pay payable by the Bank (5% for provident fund and 8.33% for severance pay). The Chairman of the Board of Directors is also eligible to employer contributions to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

   Notwithstanding the foregoing, either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing three months' advance notice to the other party.

   During the advance notice period, the Chairman of the Board of Directors will be required to fully work as usual, but the Bank may waive such notice period, in whole or in part, and may terminate employment of the Chairman of the Board of Directors; in such case, the Bank will pay to the Chairman of the Board of Directors for the portion of the advance notice period for which the Bank waived the Chairman's work - in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

   Upon termination of employment pursuant to the Additional Employment Agreement, the Bank will pay to the Chairman of the Board of Directors an acclimation bonus in exchange for non-competition, equal to three monthly salaries (hereinafter: "Acclimation Bonus").

Note 8 - Employee Rights - Continued

The Additional Employment Agreement also specifies that the Acclimation Bonus payable to the Chairman of the Board of Directors, as noted above, is the sole acclimation bonus for which the Chairman of the Board of Directors would be eligible upon termination of employment pursuant to the Additional Employment Agreement and the Chairman of the Board of Directors will not be eligible for an Acclimation Bonus with respect to the employment term starting on December 1, 2012 and ending on November 30, 2015 pursuant to the employment agreement applicable for this term (hereinafter: "the Previous Employment Agreement").

Furthermore, upon termination of employment pursuant to the Additional Employment Agreement, the Bank would pay the Chairman of the Board of Directors the retirement bonus to which the Chairman is eligible pursuant to the Previous Employment Agreement, equal to 150% of the Chairman's final salary, according to the Previous Employment Agreement, multiplied by the number of years in office (three years), in conformity with the Previous Employment Agreement.

It is hereby clarified that the Chairman of the Board of Directors is not eligible to a retirement grant pursuant to the additional employment agreement and that payment of the retirement grant to the Chairman pf the Board of Directors upon termination of his employment would be in conformity with his eligibility for a retirement grant pursuant to the previous employment agreement as noted above.

Should the Chairman of the Board of Directors be eligible for severance pay, pursuant to the Severance Pay Law, 1963 (hereinafter: "the Severance Pay Law") and should the amount accrued in the provident fund with respect to Bank contributions towards severance pay (8.33%) and all accrued returns as of the termination date and as reported by the provident fund, be lower than the Severance Pay Amount, as defined in the Severance Pay Law, gross (hereinafter: "Statutory severance pay"), then the aforementioned retirement grant (pursuant to the previous employment agreement), in whole or as required, will be on account of the statutory severance pay; should the amount accrued in the provident fund plus the retirement grant amount together be lower than the statutory severance pay - then the Bank will make up the difference up to the statutory severance pay.

On April 4, 2016, the General Meeting of Bank shareholders approved, after approval by the Bank's Remuneration Committee and Board of Directors, to pay the Chairman of the Board of Directors the amount of NIS 246 thousand (1.35 monthly salaries), which is the full amount with respect to the discretionary portion of the bonus payable to the Chairman of the Board of Directors for 2015, so that the total annual bonus paid to the Chairman of the Board of Directors for 2015 amounted to NIS 764 thousand.

Note 8 - Employee Rights - Continued

3. Given the uncertainty with regard to interpretation of the law with respect to past employee rights and in order to allow Bank officers additional time to review the legal status, the Bank Board of Directors resolved on June 20, after approval by the Remuneration Committee and recommendation by the Audit Committee with regard to the Chief Internal Auditor, to waive part of the notice period to which the Bank is entitled from the President and other officers reporting there to, including the Chief Internal Auditor, with regard to termination of their employment by the Bank, so that the notice period would be of 45 days instead of 3 months (and for one officer - instead of 6 months) according to their employment contracts - provided that such notice be given to the Bank by end of 2016. It was further stipulated that as from January 1, 2017, the notice period would once again be of 3 or 6 months, as the case may be.

   On September 21, 2016, the Bank's Board of Directors, following a resolution by the Remuneration Committee, resolved that consequently to implementation of the Remuneration of Officers in Financial Corporations Act (Special permission and non-allowance of expenses for tax purposes with respect to excessive remuneration), 2016, the Chairman of the Board of Directors and the Bank President & CEO would not be eligible for remuneration for which the expected cost would exceed the maximum specified in section 2(a) of the Act - NIS 2.5 million. This applies for an interim period, from October 12, 2016 (the effective start date of the Remuneration Act, with regard to such contracts) or from a later date to be specified for this matter in conformity with the Supreme Court ruling (if any), whichever is later, through the date of approval of terms of office and employment for the Bank President and for the Chairman of the Board of Directors by the qualified organs of the Bank which terms are in compliance with provisions of the Remuneration Act. For the period ended October 11, 2016, the terms of office and terms of employment of the Chairman of the Bank Board of Directors and of the Bank President & CEO would remain in effect as prior to the effective start date of the Remuneration Act.

   For more information about the Remuneration of officers in financial corporations act (Special permission and non-allowance of expenses for tax purposes with respect to excessive remuneration), 2016 - see chapter "Corporate Governance" of the financial statements (Legislation and Supervision of Bank Group Operations).

Note 8 - Employee Rights - Continued

4. 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,		For the nine months ended September 30,		For the year ended December 31,
	2016	2015	2016	2015	2015
	(unaudited)		(unaudited)		(audited)
Cost of service(1)	7	6	20	17	26
Cost of interest(2)	8	7	23	21	31
Expected return on plan assets(3)	(1)	(1)	(3)	(3)	(4)
Deduction of non-allowed amounts:					
Net actuarial gain(4)	3	1	7	3	4
Total benefit cost, net	17	13	47	38	57
Total expense with respect to defined-contribution pension	29	28	86	82	112
Total expenses included in payroll and associated expenses	46	41	133	120	169

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

	Forecast	Actual deposits		Actual deposits		
	For(5)	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2016	2016	2015	2016	2015	2015
		(unaudited)		(unaudited)		(audited)
Deposits	2	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 2016.

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 Conduct of Banking Business Directive No. 201-211 "Measurement and Capital Adequacy"

	September 30,		December 31,
	2016	2015	2015
	(unaudited)		(audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I capital	13,136	12,061	12,299
Tier I capital	13,136	12,061	12,299
Tier II capital	4,893	4,496	4,916
Total capital	18,029	16,557	17,215
B. Weighted risk asset balances			
Credit risk	124,385	121,203	120,793
Market risks	985	906	950
Operating risk	7,979	7,634	7,743
Total weighted risk asset balances	133,349	129,743	129,486
		In %	
C. Ratio of capital to risk elements			
Bank data:			
Ratio of Tier I capital to risk elements	9.85	9.30	9.50
Ratio of Tier I capital to risk elements	9.85	9.30	9.50
Ratio of total capital to risk elements	13.52	12.76	13.29
Minimum Tier I capital ratio required by Supervisor of Banks(1)	9.64	9.20	9.30
Total minimum capital ratio required by the Supervisor of Banks(1)	13.14	12.70	12.80
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Ratio of Tier I capital to risk elements	9.67	9.93	9.97
Ratio of Tier I capital to risk elements	9.67	9.93	9.97
Ratio of total capital to risk elements	14.06	13.38	13.23
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(2)	12.50	13.00	13.00
3. Effect of transitional provisions on Tier 1 capital ratio (for details see section J. below):			
Ratio of capital to risk elements			
Ratio of Tier I equity to risk elements before application of transitional provisions	9.72	9.12	9.32
Effect of transitional provisions	0.13	0.18	0.18
Ratio of Tier I equity to risk elements before application of transitional provisions	9.85	9.30	9.50

(1) 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 is gradually implemented through January 1, 2017. Accordingly, the minimum Tier I capital ratio and the minimum total capital ratio required by the Supervisor of Banks, as of January 1, 2017, on a consolidated basis, in conformity with data as of the current reporting date, are 9.85% and 13.35%, respectively.

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

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

Reported amounts (NIS in millions)

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

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

	September 30, 2016	September 30, 2015	December 31, 2015
	(unaudited)		(audited)
	In %		
1. Consolidated data[(1)]			
Liquidity coverage ratio	105	84	91
Minimum liquidity coverage ratio required by the Supervisor of Banks[(2)]	80	60	60
2. Bank data			
Liquidity coverage ratio	105	83	90
Minimum liquidity coverage ratio required by the Supervisor of Banks[(2)]	80	60	60
3. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Liquidity coverage ratio	343	476	382
Minimum liquidity coverage ratio required by the Supervisor of Banks[(3)]	100	100	100

(1) In terms of simple average of daily observations during the reported quarter. The liquidity coverage ratio as of September 30, 2016 was 100%.

(2) The minimum liquidity coverage ratio required by the Supervisor of Banks would gradually increase to 100% as of January 1, 2017.

(3) According to Proper Conduct of Banking Business Directive 221, it is expected that any banking corporation achieving a liquidity coverage ratio of 100% upon the start date of applying the directive would maintain the ratio at or over 100% during the transition period.

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

Reported amounts (NIS in millions)

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

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

	September 30, 2016	September 30, 2015	December 31, 2015
	(unaudited)		(audited)
1. Consolidated data			
Tier I capital	13,136	12,061	12,299
Total exposure	247,564	226,537	231,291
			In %
Leverage ratio(1)	5.31	5.32	5.32
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	4.95	4.91	4.89
Minimum leverage ratio required by the Supervisor of Banks	4.70(3)	4.83	4.85

(1) 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

(2) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks 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.

(3) In March 2016, the Supervisor of Banks specified that the minimum leverage ratio required of Bank Yahav is 4.70%.

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

D. On June 30, 2010, the Supervisor of Banks issued a letter to banking corporations, on capital policies for interim periods, in which they are required to adopt a target for Tier I capital ratio by December 31, 2010, to be no less than 7.5%. Concurrently, the banks are required to submit to the Supervisor a work plan for achieving this target. The letter further stipulates that in absence of prior approval by the Supervisor of Banks, the bank shall not distribute dividends if the target has not been achieved, or if such dividend distribution would cause the bank not to achieve the target. This directive is intended to clarify the expectations of the Supervisor of Banks from banking corporations in the interim period, pending adaptation of the Supervisor's directives to emerging changes in recommendations of the Basel Committee.

E. On October 25, 2010, the Bank's Board of Directors decided that the target core capital ratio would be no less than 7.5%. Further, the Board of Directors resolved to direct Bank management to act so as to maintain appropriate safety margins, in order to ensure that the core capital ratio shall be no less than the foregoing. The Bank's Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

F. On March 28, 2012, the Supervisor of Banks issued a directive to all banking corporations, citing a higher minimum core capital ratio than the one currently required. According to the directive, all banking corporations would be required to achieve a minimum core capital ratio of 9% by January 1, 2015. In addition, large banking corporations, whose total consolidated balance sheet assets exceed 20% of total balance sheet assets for the Israeli banking sector, would be required to achieve a minimum core capital ratio of 10% by January 1, 2017. The directive with regard to a minimum core capital ratio of 10% does not apply to the Bank.

G. On July 23, 2012, the Bank's Board of Directors instructed Bank management to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

H. On March 21, 2013, the Supervisor of Banks issued directives with regard to residential real estate. In conformity with the directives, capital allocation for loans originated as from January 1, 2013 is calculated using the following weighting:

For loans with LTV up to 45%	- 35% risk weighting
For loans with LTV from 45% to 60%	- 50% risk weighting
For loans with LTV over 60%	- 75% risk weighting
For leveraged loans with LTV ratio over 60% with A variable interest component of 25% or higher	- 75% risk weighting

This compares with the former weighting:

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

For loans with LTV up to 75% - 35% risk weighting

For loans with LTV over 75% - 75% risk weighting

For leveraged loans with LTV ratio over 60% with

A variable interest component of 25% or higher - 100% risk weighting

In addition, the credit conversion factor for guarantees to secure investments of apartment buyers was reduced from 20% to 10% if the apartment has been delivered to the resident.

I. On April 30, 2013, the Supervisor of Banks issued a letter confirming that notes to be issued by the Bank would count as lower Tier II capital with regard to maintaining a minimum capital ratio.

Changes to conditions for recognition as lower Tier II capital, following implementation of Basel III directives, would retroactively apply to these notes.

J. On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directives 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets (hereinafter: "the directives").

The amendments to the regulations are primarily focused on improving capital quality and size and improving the coverage for Credit Valuation Adjustment (CVA) risk.

The directives are effective as from January 1, 2014, subject to transitional provisions.

Below are the key amendments included in these directives:

- **Capital structure**

  Supervisory capital would be composed of only two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.

  The requirement for Tier III capital to cover market risk was eliminated.

- **Qualified capital instruments for Tier I additional capital and Tier II capital**

  Qualification criteria were specified for capital instruments classified as Tier I additional capital and as Tier II capital. These instruments are to include a mechanism for absorbing losses of principal, whereby conversion into shares or principal reduction would take place when the Tier I equity ratio drops below 7% for Tier I additional capital instruments, or below 5% for Tier II capital instruments.

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

- **Non-controlling interest**

  The amount of non-controlling interest recognized as capital would be limited, and excess equity of a subsidiary would not be recognized.

- **Group provision for credit losses**

  The amount of the group provision would be recognized as Tier II capital up to 1.25% of weighted risk assets for credit risk.

  On the other hand, the provision amount would be added to the weighted risk assets for credit risk.

- **Adjustments to and deductions from supervisory capital**

  - Deferred taxes due to temporary differences would be accounted for as follows:

    Up to 10% of Tier I equity - weighted at 250% risk weighting.

    Over 10% of Tier I equity - would be deducted from capital.

  - Investments in equity components of financial institutions - banks, insurance companies and any company doing business in the capital market segment - would be accounted for as a deduction from capital or by risk weighting, subject to specified tests.

  - The accumulated gain with respect to cash flow hedging of items not listed at fair value on the balance sheet - would be deducted from capital. This means that positive amounts would be deducted from capital and negative amounts would be added to capital.

  - Accounting adjustments with respect to liabilities of derivatives arising from a change in the Bank's credit risk (Debit Valuation Adjustment - DVA) would be deducted from capital.

- **Capital allocation with respect to CVA loss (Credit Value Adjustments) - loss due to revaluation at market value with respect to counter-party credit risk.**

  In addition to capital requirement with respect to default risk arising from counter-party credit risk under the standard approach, an additional capital allocation is required to cover the risk of potential loss which may arise from marking to market value of OTC derivatives.

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

In order to comply with the new requirements in conjunction with application of the Basel III directives, a graduated transition period of several years was specified, until these directives are completely applied.

- Supervisory adjustments and deductions from capital and non-controlling interest not qualified for inclusion under supervisory capital - an annual 20% deduction as from January 1, 2014.
- Capital instruments not qualified as supervisory capital - recognition of 80% of the balance of such instruments as from the effective start date and a 10% deduction annually through January 1, 2022.

The amendment to Directive 202 stipulates that the target date for compliance with the minimum 9% Tier I capital ratio for a non-large banking corporation is January 1, 2015 - in line with the Supervisor of Banks' letter dated March 28, 2012.

The Bank is prepared to implement these directives and is reviewing their impact on the Bank's strategic plan.

K. Following the publication of these directives, the Bank has revisited its compliance with the schedules for achieving the target core capital ratio of no less than 9%

Following this review and based on assumptions, as of the review date, with regard to expected profit in 2013-2014 and to growth rate of risk assets, the Bank presented to the Supervisor of Banks an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.

After checking with the Supervisor of Banks, the Bank's Board of Directors resolved, on August 14, 2013, to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to bringing forward the implementation of the Supervisor of Banks' directives, dated March 28, 2012, with the intention of implementing these, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

L. On August 29, 2013, the Supervisor of Banks issued directives with regard to "Restrictions on provision of housing loans". According to the directives, as from September 1, 2013 a bank may not approve nor originate housing loans where the ratio of monthly repayment to borrower income exceeds 50%.

Furthermore, loans with a ratio of monthly repayment to borrower income in excess of 40% will have a 100% risk weighting in calculation of capital allocation.

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

M. On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Banking Conduct Directive no. 329, as well as a Q&A file on this issue. The circular consists of two amendments to the directive:

- Increase to the capital target – the target Tier I capital to risk elements ratio is to include an addition equal to 1% of the housing loan portfolio balance. The equity targets would be increased by fixed quarterly steps from January 1, 2015 to January 1, 2017 (over eight quarters).
- Risk weighting of leveraged loans bearing variable interest – the risk weighting of leveraged loans bearing variable interest would be reduced from 100% to 75%.

Following implementation of this directive, the target ratio of Tier I capital to risk elements is expected to increase by 0.1%, according to data as of the reporting date, in each of the eight quarters as from the implementation date of this directive, for a total increase of 0.84% when implementation is complete. **This target may change based on actual data for the housing loan portfolio and for total risk assets.**

N. On December 23, 2014, the Bank's Board of Directors resolved to approve the revised dividend distribution policy for 2015 and 2016. The revised dividends policy calls for dividends to be distributed with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015), at a rate of up to 15% of net profit attributable to shareholders.

The revised dividends policies are subject to the Bank's maintaining proper safety margins, as specified for this matter, so that the Bank's Tier I capital ratio would not be lower than the target required by the Supervisor of Banks' directives, as adopted by the Board of Directors.

O. As from January 1, 2015, the Bank has adopted US GAAP with regard to employee rights.

In conformity with transition provisions specified in Proper Conduct of Banking Business Directive no. 299, a cumulative other comprehensive loss balance and amounts directly charged to retained earnings as of January 1, 2013 with respect to remeasurement of net liabilities or net assets with respect to defined benefit to employees, would not be immediately taken into account for calculation of the capital requirements, but would rather be subject to transitional provisions, so that the impact would be applied at equal rates of 20% as from January 1, 2014, 40% as from January 1, 2015 and through to full application as from January 1, 2018.

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

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

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

Q. On October 22, 2015, the Supervisor of Banks issued a circular concerning capital requirements with respect to exposure to central counter-parties (CCP). The circular includes an amendment to Proper Conduct of Banking Business Directive 203 with regard to capital measurement and adequacy, in conformity with directives of the Basel Committee on this matter.

The directive stipulates rules for treatment of exposure to clearinghouses, arising from trading of OTC derivatives, from transactions in negotiable derivatives and from transactions for financing securities.

Below are highlights of the amended directive:

- A central counter-party has been defined as a clearinghouse operating as a financial broker between counter-parties to contracts traded on a financial market.
- The trading exposure of a bank which is a member of the clearinghouse to a qualified central counter-party (QCCP) would be weighted at a risk weighting of 2% (compared to zero exposure currently). The trading exposure of a bank which is a member of the clearinghouse, that makes transfers to the clearinghouse's risk fund would be weighted in conformity with a formula specified in the directive.
- The trading exposure of a bank which is a member of the clearinghouse to clients active on a stock exchange in Israel would be calculated based on the calculation method for bi-lateral transactions (compared to current calculation according to rules of the stock exchange in Israel).
- The trading exposure of a bank acting through a member of the clearinghouse would carry a risk weighting of 2% or 4%, subject to compliance with business, operational and legal conditions specified in the directive.
- The trading exposure of a bank to a Non-Qualified Central Counter-Party would carry a risk weighting as applicable to that counter-party.

On June 9, 2016, the Supervisor of Banks issued a letter, whereby the provisions of the circular would apply as from January 1, 2017.

Note that the provision allows the Tel Aviv Stock Exchange to be treated as a Qualified Central Counter-Party through June 30, 2017.

The Bank is preparing to implement these directives.

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

R. In December 2015 and in January 2016, the Bank issued contingent subordinated notes (Contingent Convertibles - CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 600 million.
These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.
The notes include loss-absorption provisions if the Bank's Tier I equity should drop below 5% or in case of another event leading to dissolution of the Bank, in conformity with the Supervisor of Banks' decision.
In such case, the notes would be partially or completely written off.
Should the Tier I equity ratio exceed the minimum required ratio, the Bank may announce a principal write-off, in whole or in part.
Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-.

In July 2016, Bank Yahav issued contingent subordinated notes (Contingent Convertibles - CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 218 million.
These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

Note 10 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

		September 30,	December 31,
	2016	2015	2015
		(unaudited)	(audited)
Obligations with respect to:			
Long-term leases[1]	799	612	730
Computerization and software service contracts	267	106	203
Acquisition and renovation of buildings	7	7	3

(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,	December 31,
	2016	2015	2015
		(unaudited)	(audited)
First year	67	64	62
Second year	65	61	60
Third year	61	50	52
Fourth year	56	48	50
Fifth year	52	45	47
Sixth year and thereafter	497	344	459
Total	799	612	730

B. Contingent liabilities and other special commitments

1. For more information about other contingent liabilities and special commitments by the Bank group, see Note 26 to the financial statements for the year ended December 31, 2015. Below is a description of material changes relative to the Note provided in the 2015 annual report.

2. Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

Note 10 - Contingent Liabilities and Special Commitments - Continued

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 2015 financial statements:

A) In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank - firstly, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount. The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the aforementioned indications on the reporting forms, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt on Court Order Execution Service files is higher than the real debt, and over-charges in payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

   The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

   On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012.

   On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

   The parties have agreed and launched a reconciliation process aimed to try and resolve their differences. The reconciliation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files. The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon there after, in an attempt to reached an agreed arrangement. On August 29, 2016, a Court hearing took place and the Court resolved that the parties to this lawsuit and to the lawsuit described in section E. below, should file a settlement agreement and motion for approval thereof, no later than October 30, 2016. The resolution dated November 7, 2016 allowed the parties an extension to file a settlement agreement and motion for approval thereof, no later than November 30, 2016.

Note 10 - Contingent Liabilities and Special Commitments - Continued

B) In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to "hundreds of millions of NIS". No specific amount was specified in the statement of claim. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

In February 2012, the Bank filed its response to the motion and in August 2012, the plaintiff filed their response to the Bank's response to the motion.

In November 2012, the parties launched a reconciliation process designed to try and settle their disagreements. The reconciliation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files. The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon there after, in an attempt to reached an agreed arrangement.

Following direct negotiations between the parties, the parties reached an agreed settlement to be brought for approval by the Court.

C) In September 2011, a claim and motion for class action status was filed with the Central District Court against the Bank, Bank Leumi LeIsrael 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.

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 were ordered to file their summations and the appeal hearing scheduled for September 12, 2016 was delayed until February 6, 2017.

Note 10 - Contingent Liabilities and Special Commitments - Continued

D) In October 2012, a claim with motion for class action status was filed with the Tel Aviv District Court, against the five large banks - including the Bank - alleging failure to match the client debt amount on Bank accounts and the debt amount indicated in Court Order Execution Service files. The plaintiffs indicate that the claim amount cannot be estimated at this stage.

In March 2014, the Bank filed its response to the motion and in April 2014, the plaintiff filed their response to the Bank's response. In its resolution dated September 14, 2014, the Court forwarded the issues raised by the motion to the Supervisor of Banks and the Attorney General for their opinions. On February 1, 2015, the Attorney General filed its position (on behalf of the Enforcement and Collection Authority and on behalf of the Bank of Israel) and on March 26, 2015 the banks filed their response to the position of the Attorney General. The plaintiffs' response to the aforementioned response by the banks was filed on April 1, 2015.

A preliminary hearing took place on April 19, 2015 and as resolved by the Court, a further hearing took place on June 21, 2015, attended by representatives of the Enforcement and Collection Authority, in which the Court ordered, inter alia, that the Enforcement and Collection Authority should file its revised position - which was filed on October 8, 2015. On December 20, 2015, the banks filed their response to the revised position by the Attorney General and also filed a motion to allow them to file a third-party notice against the Enforcement and Collection Authority. The Enforcement and Collection Authority filed its response to the motion and the Bank filed its response on July 10, 2016. At a hearing held on July 13, 2016, the Court proposed an outline for a settlement of disagreements in this case; the proposed settlement was discussed and consequently, the banks filed a notice of consent to the Court proposal and principles thereof with regard to how the disagreements in this case should be resolved, as proposed to the parties at the July 13 hearing.

As resolved by the Court on October 5, the position of the Attorney General with regard to the proposed outline and the notice filed by the banks in this regard, was filed on October 31, 2016. In conformity with the Court decision, the Bank filed its response to the Attorney General’s position on November 10, 2016.

E) In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts. The plaintiff is unable to estimate the amount claimed.

The parties agreed to add this motion to the reconciliation process on-going with regard to other motions which also concern collection processes conducted by the Bank against clients in debt, as stated in sections A. and B. above. On January 4, 2016, a resolution was given to refer this lawsuit for discussion by the same reconciliator handling the aforementioned lawsuits.

As noted above, the parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated and were recently resumed. Upon resumption of negotiations between the parties, on July 31, 2016 the Bank filed an agreed motion seeking an extension to file its response by September 30, 2016. On August 29, 2016, a Court hearing took place and the Court resolved that the parties to this lawsuit and to the lawsuit described in section A. above, should file a settlement agreement and motion for approval thereof. Concurrently, the Court approved a further extension for the Bank to file its response to this motion, by November 30, 2016.

F) 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, personally - 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 claim filed on February 3, 2014 set the claim amount at NIS 11.15 billion for all banks on aggregate.

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 LeIsrael and Bank Yahav, alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency (this claim is identical to the aforementioned one).

A motion has been filed to combine heating of this claim with the first aforementioned claim 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.

Note 10 - Contingent Liabilities and Special Commitments - Continued

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; the plaintiffs have filed a new summation. The defendant banks should file their summation by December 25, 2016.

G) 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; an evidentiary hearing is scheduled for April 2017.

Note 10 - Contingent Liabilities and Special Commitments - Continued

H) 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 it controlled 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; a resolution is still pending.

I) In March 2015, a counter-claim was filed against the Bank with the Central District Court, along with a motion for class action status, with respect to alleged over-charging of commissions in an "individual" account and in a "small business" account, allegedly in breach of Banking Rules (Customer Service) (Commissions), 2008. The plaintiff alleges that the breach was due, inter alia, to the Bank charging holders of "individual" or "small business" account commissions for

certain services at higher tariffs than those set for large corporations, in contravention of the aforementioned Banking Rules.

The plaintiff claimed they were unable to estimate the damage incurred by potential class members.

The Bank filed its response to the motion on June 30, 2015. The plaintiff also filed their response to the Bank's response.

According to a Court resolution dated September 10, 2015, the Bank of Israel filed its position on December 15, 2015. On December 16, 2015, another pre-trial hearing took place - at which the parties were urged to negotiate a potential settlement agreement. Another pre-trial hearing took place on March 29, 2016. An evidentiary hearing took place on July 12, 2016. The plaintiff's summation was filed on November 8, 2016; the Bank is to file its summation by December 31, 2016.

Note 10 - Contingent Liabilities and Special Commitments - Continued

J) In March 2015, a claim and motion for class action status was filed with the District Court in Tel Aviv against the Bank, its President, Board members and controlling shareholders, with regard to damage allegedly caused to the plaintiff and to class members due to the alleged breach of mandatory disclosure of material information to investors.

The plaintiff alleges that the defendants have allegedly acted in contravention of the Securities Act, 1968 and relevant regulations, by failing to disclose on the Bank's financial statements that a provision has been made with respect to an investigation against the Bank in the USA, the nature and amounts of such provisions and the fact that the Supervisor of Banks has required the Bank to make provisions on the Bank's financial statements with regard to exposure to investigation by authorities in the USA.

The plaintiff claims that - due to the requirement by the Supervisor of Banks - the Bank made provisions amounting to tens of millions of NIS on its financial statements for the second and third quarters of 2014, classified under "Other expenses".

The plaintiff claims that, based on information in the aforementioned financial statements, tens of thousands of investors have bought Bank shares without having the aforementioned material information. The plaintiff also claims that the price at which class members purchased those Bank shares was higher than the price they would have paid for the shares, had the proper disclosure been made.

No specific amount was specified in the statement of claim. However, the plaintiff referred to the mechanism for calculation of damage whereby, on the date when the alleged deception was made public, the Bank share under-performed the Bank Share Index by 2.19% (excluding Bank HaPoalim and Bank Mizrahi Tefahot).

The plaintiff wishes to specify, in conformity with the Class Action Lawsuit Act, that the lawsuit would be filed on behalf of "anyone who bought shares of Bank Mizrahi-Tefahot Ltd. from the publication date of the financial statements for the second quarter of 2014 (August 13, 2014) and held the shares on February 26, 2015".

The Bank and other respondents filed their response to the motion 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 response to the response by the Bank and other defendants to the motion, was filed on September 11, 2016. On October 9, 2016, the defendants filed a motion to dismiss the plaintiffs' response due, *inter alia*, to front expansion; a resolution on this motion is still pending. 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.

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

Note 10 - Contingent Liabilities and Special Commitments - Continued

K.) In October 2015, a claim was filed with the Central Region District Court, along with a motion for class action status, in the amount of NIS 141.4 million, for charging a fee for "Non-recurring foreign currency transfer to / from overseas". The plaintiff claims that the Bank charges this fee for a non-recurring foreign currency transfer to / from overseas, denominated in USD, in NIS - in contravention of the price list, using the Bank's "Buy/Sell" rate with alleged deception with regard to the cost of the service and the fee amount and in breach of mandatory disclosure. The Bank filed its response on February 17; a pre-trial hearing is scheduled for May 19, 2016.

On May 19, 2016 a verdict was issued, confirming the plaintiff's withdrawal of the motion for class action status.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 3 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 152 million.

3. Motions for class action status are pending against the Bank and subsidiaries, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

A) In March 2015, a motion for approval of derivative claim was filed with the District Court in Tel Aviv ("the **motion**") on behalf of the Bank and its subsidiary, UMB (Switzerland) Ltd. ("**Mizrahi Switzerland**") against past and incumbent officers of the Bank and of Mizrahi Switzerland, at a minimum amount of NIS 95 million, for damage allegedly sustained by Mizrahi Group due to the defendants' deeds and omissions with regard to providing assistance to US clients in avoiding taxes in the USA. The plaintiff claims that defendants should reimburse the Bank for the damage they have caused to Mizrahi Group in general and to the Bank in particular.

On March 24, 2015, a Bank shareholder filed a motion in conjunction with the aforementioned proceeding, seeking to join as a party to said proceeding and to delay the hearing or, alternatively, to dismiss it out of hand, given the motion for document discovery filed by that shareholder in December 2014 with the Tel Aviv District Court against the Bank and its officers pursuant to provisions of Section 198a of the Companies Law 1999 ("the **motion for discovery**"). In conjunction with the motion for discovery, the plaintiff asked the Court to instruct the Bank and the other defendants to provide to the plaintiff various documents with regard to on-going proceedings in the USA, so as to allow the plaintiff to review potential filing of a motion for derivative defense (on behalf of the Bank in the USA) or filing of a motion for approval of derivative claim (against executives and employees of the Bank). The plaintiff claims in the motion for discovery that the process of the motion for discovery is a pending process which has priority over the motion for approval - which is why hearing of the motion for approval should be delayed and even dismissed out of hand.

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.

On April 18, 2016, the Court resolved to postpone the hearing of the motion pending conclusion of the inquiry and reporting of its outcome.

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

B) In January 2016, a claim and motion for class action status was filed with the Jerusalem District Court, amounting in total to NIS 697.5 million, against the Bank, First International Bank of Israel Ltd., Bank Otzar HaChayal Ltd., Bank Yahav for Government Employees Ltd. and Bank Igud LeIsrael Ltd. (hereinafter: "the defendants"). This claim alleges discrimination of the Arab population with regard to access to banking services, in that the defendants do not maintain branches close to Arab population and do not make their banking services accessible to this population - in alleged violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000.

The plaintiff seeks a verdict stating, in conformity with the Class Action Lawsuit Act, that the claim is to be filed on behalf of all Israeli residents who are Muslim, Christian or Druze, who suffer from discrimination in access to banking services by the defendants, due to absence of bank branches of the defendants in their town.

The plaintiffs set their claim against all defendants at NIS 697.5 million, noting that each defendant's share of the damage caused to class members is based on their market share - as is their share in compensation to class members. The Bank filed its response to the motion on August 4, 2016 and a pre-trial hearing is scheduled for December 12, 2016.

Note 10 - Contingent Liabilities and Special Commitments - Continued

C) 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. A pre-trial hearing is scheduled for January 17, 2017.

D) In May 2016, a lawsuit was filed against the Bank with the Tel Aviv Yafo District Court, along with a motion for class action status, amounting to NIS 220 million. The lawsuit alleges unlawful over-charging of commissions to clients eligible to be classified as a small business, in breach of the Bank's duties in its relations with clients.

The plaintiff claims that the Bank has not disclosed to clients who manage a small business that they are eligible for the lower commission schedule of a "small business", in order to foil the commission reform and to charge small businesses commissions other than according to the small business tariff, allegedly resulting in unlawful gain at the expense of these clients.

The Bank filed its response to the motion on November 1, 2016.

E) In May 2016, a claim and application for class action status was filed with the Central District Court against the Bank and against Bank HaPoalim Ltd., Bank Discount Le-Israel Ltd. and Bank Leumi Le-Israel Ltd. ("the defendants"). The motion alleges over-charging of commissions to clients eligible for reduced commissions (senior citizens, new immigrants, students etc.) for transactions conducted through a teller, where a cash commission was charged as well as over-charging of a commission up to the monthly minimum - without taking into account the teller transaction commission paid in cash, which is allegedly unlawful.

Note 10 - Contingent Liabilities and Special Commitments - Continued

The plaintiffs claim that when the teller transaction commission is charged in cash at the counter, the defendants do not apply the rates applicable to clients in these population groups - and charge them the commission based on the standard price list. They also claim that the defendants do not take into account commissions charged in cash at the counter for calculation of the monthly minimum and therefore the defendants over-charge the minimum commission. The plaintiffs claim they are unable to estimate the exact amount unlawfully charged, allegedly, to all class members - but estimate this to be "a large amount, in the millions of NIS or even higher".

The Bank is due to file its response to the motion by November 22, 2016. A pre-trial hearing is scheduled for January 5, 2017.

F) A claim and 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.

G) In August 2016, a claim and motion for class action status was filed against Bank Yahav and other banks, alleging charging of commissions to clients which are not, allegedly, in the full price list as issued by the Bank of Israel. The plaintiff estimates the claim amount at NIS 1 billion for all of the banks.

4. Further to section C.12) of Note 26 to the financial statements as of December 31, 2015 ("the annual report") and section B.4. of Note 10 to the financial statements as of March 31, 2016 ("the Q1 2016 report") and the complementary report issued by the Bank on July 4, 2016, reference 2016-01-073735 ("the complementary report") and as per section C.4) of Note 7 to the financial statements as of June 30, 2016 ("the Q2 2016 report"), on September 20, 2016 the Bank delivered to the US Department of Justice additional quantitative information in conformity with further clarifications received from the US DOJ.

Furthermore, the Bank continues to strive to provide data, information and documents which the Bank is required to provide in conformity with letters, Court Orders and discussions.

Moreover, meetings and discussions are held with US DOJ representatives, at which the requested information is presented. In the aforesaid letters, discussions and meetings, the US DOJ specified actions which the Bank should take in order to conclude the inquiry.

However, even at this stage there are no negotiations taking place with the US DOJ with regard to the inquiry outcome or to its implications in terms of any arrangement and in terms of any monetary implications for the Bank Group, if any, of such an arrangement when formulated.

Note 10 - Contingent Liabilities and Special Commitments - Continued

According to the opinion of the Bank's legal counsel, based on data in the computer-based repository which has been validated and considering arrangements made by the US DOJ with other banks with regard to investigations concerning undisclosed accounts of US taxpayers, certain data in the repository may be relevant to Bank Group exposure, should the Bank's position about these data not prevail.

Based on the aforementioned opinion, the provision with respect to this inquiry has been increased to to USD 44.3 million (NIS 166 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 in the Swiss Program.

Note that the Bank's legal counsel have expressed their opinion that at this stage, it is not possible to estimate the potential loss which the Bank Group may incur with respect to this inquiry, the relevant exposure amount nor the exposure range for the Bank Group. This is due, *inter alia*, to the fact that based on the professional experience of US legal counsel, such conclusions cannot be made prior to analysis of all of all data and information to be provided and because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start.

Because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start, it may transpire in future that the realized loss significantly exceeds the provision made to date.

Note 11 - Derivative instruments and hedging activities

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	September 30, 2016					
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[(1)]						
Forward contracts	2,402	-	-	-	-	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 a fixed 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 - Derivative instruments and hedging activities - Continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	September 30, 2016					
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	666	666
Foreign currency spot swap contracts	-	-	5,971	-	-	5,971
Total	-	-	5,971	-	666	6,637
Total stated amounts of derivative instruments	11,381	34,042	138,047	31,658	717	215,845
2. Fair value, gross, of derivative instruments						
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 derivative instruments	427	1,177	1,364	300	1	3,269
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	126	192	502	215	1	1,036
Total						
Negative fair value, gross[3]	211	1,593	1,310	402	5	3,521
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	211	1,593	1,310	402	5	3,521
Of which: Carrying amount of liabilities with respect to derivative instruments 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 derivative instruments amounting to NIS 2 million and negative fair value, gross of liabilities with respect to embedded derivative instruments amounting to NIS 1 million.

Note 11 - Derivative instruments and hedging activities - Continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

						September 30, 2015
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[1]						
Forward contracts	2,830	-	-	-	-	2,830
Swaps	-	1,599	-	-	-	1,599
Total	2,830	1,599	-	-	-	4,429
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,599	-	-	-	1,599
B. ALM derivatives[1][2]						
Forward contracts	6,852	900	98,641	-	21	106,414
Option contracts traded on stock exchange:						
Options written	-	-	2,416	630	-	3,046
Options purchased	-	-	2,491	630	-	3,121
Other option contracts:						
Options written	-	-	11,576	-	-	11,576
Options purchased	-	-	10,484	-	-	10,484
Swaps	1,845	38,223	8,440	-	-	48,508
Total	8,697	39,123	134,048	1,260	21	183,149
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,571	21,438	-	-	-	23,009
C. Other derivatives[1]						
Forward contracts	-	-	1,284	-	-	1,284
Option contracts traded on stock exchange:						
Options written	-	-	8,490	21,891	-	30,381
Options purchased	-	-	8,490	21,891	-	30,381
Other option contracts:						
Options written	-	24	-	77	-	101
Options purchased	-	27	-	75	-	102
Swaps	-	4	120	10,472	-	10,596
Total	-	55	18,384	54,406	-	72,845
Includes interest rate swaps on which the Bank agreed to pay a fixed 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 - Derivative instruments and hedging activities - Continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

						September 30, 2015
	Interest contracts				Commodities and	
	NIS – CPI	Other	Currency contracts	Contracts for shares	other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	415	415
Foreign currency spot swap contracts	-	-	6,757	-	-	6,757
Total	-	-	6,757	-	415	7,172
Total stated amounts of derivative instruments	11,527	40,777	159,189	55,666	436	267,595
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	54	-	-	-	-	54
Negative fair value, gross	1	164	-	-	-	165
B. ALM derivatives(1)(2)						
Positive fair value, gross	328	1,292	2,035	157	1	3,813
Negative fair value, gross	225	1,634	1,589	1	1	3,450
C. Other derivatives(1)						
Positive fair value, gross	-	-	163	753	-	916
Negative fair value, gross	-	1	163	748	-	912
Total						
Positive fair value, gross(3)	382	1,292	2,198	910	1	4,783
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	382	1,292	2,198	910	1	4,783
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	84	122	943	863	1	2,013
Total						
Negative fair value, gross(3)	226	1,799	1,752	749	1	4,527
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	226	1,799	1,752	749	1	4,527
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	7	115	828	407	-	1,357

(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 3 million.

Note 11 - Derivative instruments and hedging activities - Continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	December 31, 2015					
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[1]						
Forward contracts	1,990	-	-	-	-	1,990
Other option contracts:						
Options written	-	59	-	-	-	59
Swaps	-	1,347	-	-	-	1,347
Total	1,990	1,406	-	-	-	3,396
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,347	-	-	-	1,347
B. ALM derivatives[1][2]						
Forward contracts	6,447	200	87,248	-	21	93,916
Option contracts traded on stock exchange:						
Options written	-	-	1,934	564	-	2,498
Options purchased	-	-	1,390	592	-	1,982
Other option contracts:						
Options written	-	-	8,848	-	-	8,848
Options purchased	-	-	8,519	-	-	8,519
Swaps	1,814	35,685	8,095	-	-	45,594
Total	8,261	35,885	116,034	1,156	21	161,357
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,543	20,369	-	-	-	21,912
C. Other derivatives[1]						
Forward contracts	-	-	1,244	-	-	1,244
Option contracts traded on stock exchange:						
Options written	-	-	5,485	22,343	-	27,828
Options purchased	-	-	5,485	22,343	-	27,828
Other option contracts:						
Options written	-	24	-	51	-	75
Options purchased	-	27	-	45	-	72
Swaps	-	4	133	9,759	-	9,896
Total	-	55	12,347	54,541	-	66,943
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	4	-	-	-	4

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 11 - Derivative instruments and hedging activities - Continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	December 31, 2015					
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	709	709
Foreign currency spot swap contracts	-	-	4,742	-	-	4,742
Total	-	-	4,742	-	709	5,451
Total stated amounts of derivative instruments	10,251	37,346	133,123	55,697	730	237,147
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	47	1	-	-	-	48
Negative fair value, gross	-	135	-	-	-	135
B. ALM derivatives(1)(2)						
Positive fair value, gross	375	1,210	1,300	98	1	2,984
Negative fair value, gross	220	1,526	1,148	-	1	2,895
C. Other derivatives(1)						
Positive fair value, gross	-	-	86	412	-	498
Negative fair value, gross	-	-	86	518	-	604
Total						
Positive fair value, gross(3)	422	1,211	1,386	510	1	3,530
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	422	1,211	1,386	510	1	3,530
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	96	113	582	492	1	1,284
Total						
Negative fair value, gross	220	1,661	1,234	518	1	3,634
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	220	1,661	1,234	518	1	3,634
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	5	96	604	362	-	1,067

(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 3 million.

Note 11 - Derivative instruments and hedging activities - Continued

Reported amounts (NIS in millions)

b) Credit risk on derivative instruments according to counter-party to the contract - Consolidated

						September 30, 2016
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments (1)	**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 derivative instruments	154	97	30	1	815	1,097
Off-balance sheet credit risk on derivative instruments(2)	-	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 derivative instruments	-	673	236	-	996	1,905
Total credit risk on derivative instruments	154	770	266	1	1,811	3,002
Carrying amount of liabilities with respect to derivative instruments (3)	**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 derivative instruments	199	146	-	1	1,176	1,522

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

(2) The difference, if positive, between the total amount with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

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

Note 11 - Derivative instruments and hedging activities - Continued

Reported amounts (NIS in millions)

b) Credit risk on financial derivatives according to counter-party to the contract - Consolidated - continued

						September 30, 2015
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(1)]	**676**	**2,250**	**44**	**-**	**1,813**	**4,783**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(2,071)	-	-	(46)	(2,117)
Mitigation of credit risk with respect to cash collateral received	-	(57)	-	-	(16)	(73)
Net amount of assets with respect to derivative instruments	676	122	44	-	1,751	2,593
Off-balance sheet credit risk on derivative instruments[(2)]	-	1,420	103	-	1,276	2,799
Mitigation of off-balance sheet credit risk	-	(795)	-	-	(27)	(822)
Net off-balance sheet credit risk with respect to derivative instruments	-	625	103	-	1,249	1,977
Total credit risk on derivative instruments	676	747	147	-	3,000	4,570
Carrying amount of liabilities with respect to derivative instruments	**545**	**3,199**	**-**	**64**	**719**	**4,527**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(2,071)	-	-	(46)	(2,117)
Pledged cash collateral	-	(1,025)	-	(29)	-	(1,054)
Net amount of liabilities with respect to derivative instruments	545	103	-	35	673	1,356

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 3 million.

(2) The difference, if positive, between the total amount with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

Note 11 - Derivative instruments and hedging activities - Continued

Reported amounts (NIS in millions)

b) Credit risk on financial derivatives according to counter-party to the contract - Consolidated - continued

						December 31, 2015
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [1]	**151**	**1,955**	**28**	**-**	**1,396**	**3,530**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,778)	-	-	(41)	(1,819)
Mitigation of credit risk with respect to cash collateral received	-	(82)	-	-	(2)	(84)
Net amount of assets with respect to derivative instruments	151	95	28	-	1,353	1,627
Off-balance sheet credit risk on derivative instruments[2]	-	1,275	116	-	1,201	2,592
Mitigation of off-balance sheet credit risk	-	(678)	-	-	(29)	(707)
Net off-balance sheet credit risk with respect to derivative instruments	-	597	116	-	1,172	1,885
Total credit risk on derivative instruments	151	692	144	-	2,525	3,512
Carrying amount of liabilities with respect to derivative instruments	**42**	**2,600**	**-**	**33**	**959**	**3,634**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,778)	-	-	(41)	(1,819)
Pledged cash collateral	-	(653)	-	-	-	(653)
Net amount of liabilities with respect to derivative instruments	42	169	-	33	918	1,162

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 3 million.

(2) The difference, if positive, between the total amount with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

In the nine-month period ended September 30, 2016, the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments, amounting to NIS 16 million (in the nine-month period ended September 30, 2015 the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments amounting to NIS 9 million and in all of 2015, the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments amounting to NIS 11 million).

Note 11 - Derivative instruments and hedging activities - Continued

Reported amounts (NIS in millions)

c) Maturity dates – stated amounts: year-end balances – Consolidated

					September 30, 2016
	Up to three months	Over 3 months to 1 year	Over 1 year to 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

					September 30, 2015
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	1,744	1,468	7,682	633	11,527
Other	3,660	8,632	17,398	11,087	40,777
Currency contracts	110,831	37,614	8,541	2,203	159,189
Contracts for shares	47,456	8,006	204	-	55,666
Commodities and other contracts	18	3	405	10	436
Total	163,709	55,723	34,230	13,933	267,595

					December 31, 2015
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	730	2,016	6,943	562	10,251
Other	3,221	6,593	17,143	10,389	37,346
Currency contracts	87,832	35,464	7,601	2,226	133,123
Contracts for shares	47,693	7,806	198	-	55,697
Commodities and other contracts	9	12	490	219	730
Total	139,485	51,891	32,375	13,396	237,147

Note 12 – Operating Segments

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for clients.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include - in Note 12 to the financial statements - disclosure with regard to "Operating segments in conformity with management approach".

An operating segment in conformity with management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with management approach" but nevertheless, there are some differences in client attribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "management approach", as noted above.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for other than individuals (including business operating segments, institutional investors and financial management of the Bank).
Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals - housing loans and others", in conformity with definitions of credit risk classification by economic sector.

Definitions of supervisory operating segments are as follows:

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

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

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

Note 12 – Operating Segments - Continued

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

Large businesses – businesses with turnover higher than NIS 250 million

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

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

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

Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivatives, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

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

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

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Exceptions for classification of business clients by turnover

According to the Bank of Israel Q&A File, the Bank classified business clients to operating segments other than by turnover, in the following cases:

- When the Bank has no information about the revenues of a business client and client indebtedness is smaller than NIS 300 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:

Note 12 – Operating Segments - Continued

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 businesses– businesses where total assets on the client balance sheet exceeds NIS 215 million.

The main products offered by the Bank's different operating segments are:

- **Banking and** finance – an array of banking services offered to private and corporate clients, including management of checking accounts, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivative instruments, including trading in currencies and interest rates, etc.
- **Capital market** – security transactions for clients on stock exchanges in Israel and overseas, provident fund operating services and mutual fund distribution (management of provident funds and mutual funds until sold) which are among investment tracks available to Bank clients.
- **Credit cards** – A set of financial products and banking services given in conjunction with credit cards issued to Bank clients by credit card companies in Israel.
- **Mortgages** – **Housing** loans secured by charges on a residence, out of the Bank's funds and within the framework of government aid programs.
- **Construction and real estate** – banking operations vis-à-vis companies in the real estate sector, as well as unique banking services for the real estate sector, including the financing of real estate products by the closed financing method.

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

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, expense set at cost of capital raised (transfer cost) is attributed to clients, against an inter-segment credit to the Financial Management segment. Each segment is also charged any excess premium inherent in the cost of raising qualified equity instruments for capital adequacy. This is based on the capital attributed for segment operations. For deposits, revenue set at cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Transfer prices for loans and deposits are similar. Each of the segments is credited for capital attributed to operations there of, against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.
- When calculating risk assets attributed to each segment, any off-balance sheet credit exposures are "converted" to credit equivalent using coefficients specified in directives on measurement of capital adequacy.
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Profit arising from changes to fair value of derivatives is attributed to Financial Management.

Note 12 – Operating Segments - Continued

- Profit and loss 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.
- Commission and other revenues are specifically attributed to clients.
- Payroll expenses, building maintenance and other expenses specifically attributed to Bank branches are attributed to branch clients using loading factors which reflect the client operations and the number of transactions in their account. Later on, an additional (inter-segment) settlement takes place, which attributes some of the direct expenses of the branch to clients in non-retail operating segments.

  Inter-segment 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, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

Note 12 – Operating Segments - Continued

Supervisory operating segments

For the nine months ended September 30, 2016 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	**Total – operations in Israel**	Private individuals	Business operations	**Total – operations overseas**	**Total**
Interest revenues from externals	614	2,083	1	600	150	387	41	31	3,907	15	135	150	4,057
Interest expenses from externals	286	-	76	38	18	98	241	443	1,200	2	25	27	1,227
Interest revenues, net from externals	328	2,083	(75)	562	132	289	(200)	(412)	2,707	13	110	123	2,830
Interest revenues, net - inter-segment	481	(1,272)	113	9	11	17	281	365	5	-	(5)	(5)	-
Total interest revenues, net	809	811	38	571	143	306	81	(47)	2,712	13	105	118	2,830
Total non-interest financing revenues	-	-	-	-	-	-	1	170	171	-	5	5	176
Total commissions and other revenues	405	112	11	226	50	112	63	196(3)	1,175	18	4	22	1,197
Total non-interest revenues	405	112	11	226	50	112	64	366	1,346	18	9	27	1,373
Total revenues	1,214	923	49	797	193	418	145	319	4,058	31	114	145	4,203
Expenses with respect to credit losses	60	8	1	96	(1)	(43)	2	(2)	121	(1)	(1)	(2)	119
Operating and other expenses to externals	1,122	339	30	471	35	51	78	247	2,373	21	36	57	2,430
Operating and other expenses - inter-segment	(77)	-	5	(44)	39	50	25	2	-	-	-	-	-
Total operating and other expenses	1,045	339	35	427	74	101	103	249	2,373	21	36	57	2,430
Pre-tax profit	109	576	13	274	120	360	40	72	1,564	11	79	90	1,654
Provision for taxes on profit	41	216	5	103	45	135	15	27	587	4	30	34	621
After-tax profit	68	360	8	171	75	225	25	45	977	7	49	56	1,033
Share of banking corporation in earnings of associates	-	-	-	-	-	-	-	1	1	-	-	-	1
Net profit before attribution to non-controlling interests	68	360	8	171	75	225	25	46	978	7	49	56	1,034
Net profit attributed to non-controlling interests	(33)	-	-	-	-	-	-	-	(33)	-	-	-	(33)
Net profit attributable to shareholders of the banking corporation	35	360	8	171	75	225	25	46	945	7	49	56	1,001
Average balance of assets	32,367	109,584	71	15,583	4,957	13,798	2,873	29,933	209,166	1,130	8,744	9,874	219,040
Of which: Investments in associates	-	-	-	-	-	-	-	35	35	-	-	-	35
Average balance of loans to the public	17,988	109,584	71	15,583	4,957	13,046	2,873	-	164,102	566	2,614	3,180	167,282
Balance of loans to the public at end of reported period	18,720	112,884	98	14,837	5,315	12,487	2,268	-	166,609	542	2,873	3,415	170,024
Balance of impaired debts	77	22	-	297	69	203	9	-	677	-	6	6	683
Balance of debt in arrears 90 days or longer	23	827	-	51	-	8	0	-	909	-	-	-	909
Average balance of liabilities	70,656	32	10,508	15,242	6,395	27,576	35,779	32,149	198,337	972	7,854	8,826	207,163
Of which: Average balance of deposits from the public	69,285	-	10,508	14,510	6,386	27,376	34,960	-	163,025	932	3,714	4,646	167,671
Balance of deposits from the public at end of reported period	70,985	-	10,666	15,953	7,087	28,101	36,014	-	168,806	949	3,993	4,942	173,748
Average balance of risk assets (1)	15,696	60,250	28	13,191	6,402	23,327	2,994	5,448	127,336	399	3,246	3,645	130,981
Balance of risk assets at end of reported period(1)	16,454	62,037	34	13,970	6,948	21,505	2,957	5,732	129,637	368	3,344	3,712	133,349
Average balance of assets under management(2)	37,281	5,924	1,746	17,278	5,616	16,105	140,337	117	224,404	-	-	-	224,404
Composition of interest revenues, net:													
Margin from credit granting operations	627	789	1	521	124	274	36	-	2,372	9	54	63	2,435
Margin from activities of receiving deposits	181	-	36	41	17	21	45	-	341	4	6	10	351
Other	1	22	1	9	2	11	-	(47)	(1)	-	45	45	44
Total interest revenues, net	809	811	38	571	143	306	81	(47)	2,712	13	105	118	2,830

(1) Risk assets - as calculated for capital adequacy (Proper Conduct of Banking Business 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 88 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network, compared to NIS 11 million in the corresponding period last year.

Note 12 – Operating Segments - Continued
Supervisory operating segments
For the nine months ended September 30, 2015 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	**Total – operations in Israel**	Private individuals	Business operations	**Total – operations overseas**	**Total**
Interest revenues from externals	564	1,915	1	567	148	422	41	140	3,798	10	88	98	3,896
Interest expenses from externals	253	-	58	24	10	86	531	200	1,162	2	18	20	1,182
Interest revenues, net from externals	311	1,915	(57)	543	138	336	(490)	(60)	2,636	8	70	78	2,714
Interest revenues, net - inter-segment	414	(1,196)	83	(13)	(5)	(11)	572	154	(2)	-	2	2	-
Total interest revenues, net	725	719	26	530	133	325	82	94	2,634	8	72	80	2,714
Total non-interest financing revenues	-	-	-	-	-	-	-	229	229	-	2	2	231
Total commissions and other revenues	408	133	10	218	54	109	56	98	1,086	21	3	24	1,110
Total non-interest revenues	408	133	10	218	54	109	56	327	1,315	21	5	26	1,341
Total revenues	1,133	852	36	748	187	434	138	421	3,949	29	77	106	4,055
Expenses with respect to credit losses	26	14	1	83	3	10	(5)	(1)	131	-	5	5	136
Operating and other expenses to externals	1,084	329	25	447	36	52	64	310	2,347	22	38	60	2,407
Operating and other expenses - inter-segment	(81)	(1)	5	(42)	33	48	32	6	-	-	-	-	-
Total operating and other expenses	1,003	328	30	405	69	100	96	316	2,347	22	38	60	2,407
Pre-tax profit	104	510	5	260	115	324	47	106	1,471	7	34	41	1,512
Provision for taxes on profit	39	190	2	97	43	121	18	38	548	3	13	16	564
After-tax profit	65	320	3	163	72	203	29	68	923	4	21	25	948
Share of banking corporation in earnings of associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	65	320	3	163	72	203	29	68	923	4	21	25	948
Net profit attributed to non-controlling interests	(33)	-	-	-	-	-	-	(21)	(54)	-	-	-	(54)
Net profit attributable to shareholders of the banking corporation	32	320	3	163	72	203	29	47	869	4	21	25	894
Average balance of assets	24,271	100,231	75	13,942	4,893	14,399	2,182	29,358	189,351	1,176	8,664	9,840	199,191
Of which: Investments in associates	-	-	-	-	-	-	-	43	43	-	-	-	43
Average balance of loans to the public	16,158	100,226	75	13,942	4,842	14,029	2,182	-	151,454	500	2,064	2,564	154,018
Balance of loans to the public at end of reported period	16,697	104,027	86	14,060	4,810	14,807	2,084	-	156,571	518	2,293	2,811	159,382
Balance of impaired debts	85	6	-	207	48	320	42	22	731	-	7	7	738
Balance of debt in arrears 90 days or longer	22	1,005	-	45	-	-	-	-	1,072	-	1	1	1,073
Average balance of liabilities	73,502	87	9,721	12,870	6,082	21,148	38,569	20,311	182,290	977	7,243	8,220	190,510
Of which: Average balance of deposits from the public	69,285	-	9,720	12,870	5,974	19,936	38,569	-	156,354	880	2,408	3,288	159,642
Balance of deposits from the public at end of reported period	64,789	-	10,481	13,689	6,113	24,030	34,169	-	153,271	1,078	3,758	4,836	158,107
Average balance of risk assets	14,931	55,213	35	12,081	6,074	27,090	3,500	5,186	124,110	370	2,522	2,892	127,002
Balance of risk assets at end of reported period	15,234	57,393	42	12,171	6,002	26,738	3,156	4,665	125,401	399	2,862	3,261	128,662
Average balance of assets under management	40,627	6,990	1,914	18,230	5,122	15,229	146,357	189	234,658	-	-	-	234,658
Composition of interest revenues, net:													
Margin from credit granting operations	571	694	1	492	122	301	36	-	2,217	5	50	55	2,272
Margin from activities of receiving deposits	148	-	25	27	8	18	46	-	272	3	3	6	278
Other	6	25	-	11	3	6	-	94	145	-	19	19	164
Total interest revenues, net	725	719	26	530	133	325	82	94	2,634	8	72	80	2,714

(1) Risk assets - as calculated for capital adequacy (Proper Conduct of Banking Business 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)

	Households – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	**Total – operations in Israel**	Private individuals	Business operations	**Total – operations overseas**	**Total**
Interest revenues from externals	221	911	-	199	45	150	14	6	1,546	5	50	55	1,601
Interest expenses from externals	121	-	32	17	9	34	102	220	535	1	9	10	545
Interest revenues, net from externals	100	911	(32)	182	36	116	(88)	(214)	1,011	4	41	45	1,056
Interest revenues, net - inter-segment	184	(627)	45	13	18	(12)	116	265	2	-	(2)	(2)	-
Total interest revenues, net	284	284	13	195	54	104	28	51	1,013	4	39	43	1,056
Total non-interest financing revenues	-	-	-	-	-	-	-	39	39	-	1	1	40
Total commissions and other revenues	136	38	4	77	16	37	21	44(3)	373	6	1	7	380
Total non-interest revenues	136	38	4	77	16	37	21	83	412	6	2	8	420
Total revenues	420	322	17	272	70	141	49	134	1,425	10	41	51	1,476
Expenses with respect to credit losses	26	7	1	26	2	3	(6)	(1)	58	-	1	1	59
Operating and other expenses to externals	376	112	10	160	10	17	33	79	797	7	11	18	815
Operating and other expenses - inter-segment	(23)	-	2	(14)	15	16	4	-	-	-	-	-	-
Total operating and other expenses	353	112	12	146	25	33	37	79	797	7	11	18	815
Pre-tax profit	41	203	4	100	43	105	18	56	570	3	29	32	602
Provision for taxes on profit	15	74	1	36	16	38	7	19	206	1	11	12	218
After-tax profit	26	129	3	64	27	67	11	37	364	2	18	20	384
Share of banking corporation in earnings of associates	-	-	-	-	-	-	-	1	1	-	-	-	1
Net profit before attribution to non-controlling interests	26	129	3	64	27	67	11	38	365	2	18	20	385
Net profit attributed to non-controlling interests	(12)	-	-	-	-	-	-	-	(12)	-	-	-	(12)
Net profit attributable to shareholders of the banking corporation	14	129	3	64	27	67	11	38	353	2	18	20	373
Average balance of assets	33,191	112,286	75	17,475	5,147	13,046	8,619	89,799	279,638	1,140	9,552	10,692	290,330
Of which: Investments in associates	-	-	-	-	-	-	-	36	36	-	-	-	36
Average balance of loans to the public	18,628	112,286	75	15,997	5,147	12,612	3,093	-	167,838	584	2,676	3,260	171,098
Balance of loans to the public at end of reported period	18,720	112,884	98	14,837	5,315	12,487	2,268	-	166,609	542	2,873	3,415	170,024
Balance of impaired debts	77	22	-	297	69	203	9	-	677	-	6	6	683
Balance of debt in arrears 90 days or longer	23	827	-	51	-	8	0	-	909	-	-	-	909
Average balance of liabilities	72,216	24	10,554	17,418	6,667	26,746	107,337	96,447	337,409	1,070	8,088	9,158	346,567
Of which: Average balance of deposits from the public	70,975	-	10,554	15,956	6,648	26,520	36,606	-	167,259	956	3,804	4,760	172,019
Balance of deposits from the public at end of reported period	70,985	-	10,666	15,953	7,087	28,101	36,014	-	168,806	949	3,993	4,942	173,748
Average balance of risk assets (1)	16,100	61,338	32	13,758	6,692	22,381	2,939	5,584	128,824	395	3,275	3,670	132,494
Balance of risk assets at end of reported period(1)	16,454	62,037	34	13,970	6,948	21,505	2,957	5,732	129,637	368	3,344	3,712	133,349
Average balance of assets under management(2)	36,039	7,910	1,764	19,272	4,372	17,005	142,324	302	228,988	-	-	-	228,988

	Households – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	**Total – operations in Israel**	Private individuals	Business operations	**Total – operations overseas**	**Total**
Composition of interest revenues, net:													
Margin from credit granting operations	220	277	1	180	46	93	13	-	830	2	19	21	851
Margin from activities of receiving deposits	63	-	12	15	7	5	15	-	117	2	2	4	121
Other	1	7	-	-	1	6	-	51	66	-	18	18	84
Total interest revenues, net	284	284	13	195	54	104	28	51	1,013	4	39	43	1,056

(1) Risk assets - as calculated for capital adequacy (Proper Conduct of Banking Business 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 10 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

Note 12 – Operating Segments - Continued

Supervisory operating segments

For the three months ended September 30, 2015 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	**Total – operations in Israel**	Private individuals	Business operations	**Total – operations overseas**	**Total**
Interest revenues from externals	195	818	-	195	49	140	54	12	1,463	3	29	32	1,495
Interest expenses from externals	117	-	25	10	4	34	290	78	558	2	2	4	562
Interest revenues, net from externals	78	818	(25)	185	45	106	(236)	(66)	905	1	27	28	933
Interest revenues, net - inter-segment	168	(578)	35	(3)	(2)	3	263	114	-	-	-	-	-
Total interest revenues, net	246	240	10	182	43	109	27	48	905	1	27	28	933
Total non-interest financing revenues	-	-	-	-	-	-	(1)	153	152	-	(1)	(1)	151
Total commissions and other revenues	131	43	4	73	15	38	18	28	350	8	-	8	358
Total non-interest revenues	131	43	4	73	15	38	17	181	502	8	(1)	7	509
Total revenues	377	283	14	255	58	147	44	229	1,407	9	26	35	1,442
Expenses with respect to credit losses	9	8	-	22	4	16	(4)	1	56	-	5	5	61
Operating and other expenses to externals	361	111	8	149	11	17	22	121	800	7	14	21	821
Operating and other expenses - inter-segment	(27)	(1)	2	(14)	11	16	9	4	-	-	-	-	-
Total operating and other expenses	334	110	10	135	22	33	31	125	800	7	14	21	821
Pre-tax profit	34	165	4	98	32	98	17	103	551	2	7	9	560
Provision for taxes on profit	13	63	2	37	12	37	6	39	209	1	3	4	213
After-tax profit	21	102	2	61	20	61	11	64	342	1	4	5	347
Share of banking corporation in earnings of associates	-	-	-	-	-	-	-	1	1	-	-	-	1
Net profit before attribution to non-controlling interests	21	102	2	61	20	61	11	65	343	1	4	5	348
Net profit attributed to non-controlling interests	(11)	-	-	-	-	-	-	(21)	(32)	-	-	-	(32)
Net profit attributable to shareholders of the banking corporation	10	102	2	61	20	61	11	44	311	1	4	5	316
Average balance of assets	25,347	102,235	85	14,370	4,971	14,055	6,546	88,074	255,683	1,168	8,442	9,610	265,293
Of which: Investments in associates	-	-	-	-	-	-	-	39	39	-	-	-	39
Average balance of loans to the public	16,450	102,220	85	14,370	4,818	13,703	2,088	-	153,734	494	2,144	2,638	156,372
Balance of loans to the public at end of reported period	16,697	104,027	86	14,060	4,810	14,807	2,084	-	156,571	518	2,293	2,811	159,382
Balance of impaired debts	85	6	-	207	48	320	42	22	731	-	7	7	738
Balance of debt in arrears 90 days or longer	22	1,005	-	45	-	-	-	-	1,072	-	1	1	1,073
Average balance of liabilities	79,774	69	10,017	13,870	6,198	22,634	115,707	60,933	309,202	831	5,877	6,708	315,910
Of which: Average balance of deposits from the public	64,523	-	10,014	13,870	6,052	19,094	35,381	-	148,934	554	1,398	1,952	150,886
Balance of deposits from the public at end of reported period	64,789	-	10,481	13,689	6,113	24,030	34,169	-	153,271	1,078	3,758	4,836	158,107
Average balance of risk assets	15,095	56,564	44	12,191	6,093	26,037	3,500	4,995	124,519	380	2,712	3,092	127,611
Balance of risk assets at end of reported period	15,234	57,393	42	12,171	6,002	26,738	3,156	4,665	125,401	399	2,862	3,261	128,662
Average balance of assets under management	41,235	7,610	1,860	18,946	5,516	15,075	149,688	58	239,988	-	-	-	239,988
Composition of interest revenues, net:													
Margin from credit granting operations	195	240	1	168	40	101	17	-	755	-	18	18	773
Margin from activities of receiving deposits	48	-	9	10	3	6	18	-	94	1	1	2	96
Other	3	-	-	4	-	2	-	48	56	-	8	8	64
Total interest revenues, net	246	240	10	182	43	109	27	48	905	1	27	28	933

(1) Risk assets - as calculated for capital adequacy (Proper Conduct of Banking Business 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 year ended December 31, 2015 (audited)

Reported amounts (NIS in millions)

	Households – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	**Total – operations in Israel**	Private individuals	Business operations	**Total - operations overseas**	**Total**
Interest revenues from externals	748	2,267	1	759	189	551	63	194	4,772	14	120	134	4,906
Interest expenses from externals	292	-	70	31	13	114	588	238	1,346	1	25	26	1,372
Interest revenues, net from externals	456	2,267	(69)	728	176	437	(525)	(44)	3,426	13	95	108	3,534
Interest revenues, net - inter-segment	516	(1,274)	104	(14)	(8)	(7)	637	43	(3)	-	3	3	-
Total interest revenues, net	972	993	35	714	168	430	112	(1)	3,423	13	98	111	3,534
Total non-interest financing revenues	-	-	-	(1)	(1)	1	(2)	356	353	-	5	5	358
Total commissions and other revenues	542	170	12	295	70	148	76	155	1,468	27	5	32	1,500
Total non-interest revenues	542	170	12	294	69	149	74	511	1,821	27	10	37	1,858
Total revenues	1,514	1,163	47	1,008	237	579	186	510	5,244	40	108	148	5,392
Expenses with respect to credit losses	23	14	-	102	13	58	(7)	(2)	201	-	10	10	211
Operating and other expenses to externals	1,445	442	33	610	46	76	88	406	3,146	29	51	80	3,226
Operating and other expenses - inter-segment	(107)	(1)	6	(57)	44	66	43	6	-	-	-	-	-
Total operating and other expenses	1,338	441	39	553	90	142	131	412	3,146	29	51	80	3,226
Pre-tax profit	153	708	8	353	134	379	62	100	1,897	11	47	58	1,955
Provision for taxes on profit	58	267	3	133	50	143	23	62	739	4	18	22	761
After-tax profit	95	441	5	220	84	236	39	38	1,158	7	29	36	1,194
Share of banking corporation in earnings of associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	95	441	5	220	84	236	39	38	1,158	7	29	36	1,194
Net profit attributed to non-controlling interests	(39)	-	-	-	-	-	-	(21)	(60)	-	-	-	(60)
Net profit attributable to shareholders of the banking corporation	56	441	5	220	84	236	39	17	1,098	7	29	36	1,134
								-	-	-	-	-	
Average balance of assets	23,938	102,194	74	14,197	4,849	14,324	2,176	28,083	189,835	1,182	8,114	9,296	199,131
Of which: Investments in associates	-	-	-	-	-	-	-	42	42	-	-	-	42
Average balance of loans to the public	16,284	102,194	74	14,110	4,849	14,189	2,176	-	153,876	505	2,160	2,665	156,541
Balance of loans to the public at end of reported period	17,290	105,719	68	14,156	4,857	13,359	2,063	-	157,512	536	2,556	3,092	160,604
Balance of impaired debts	81	24	-	235	41	402	27	-	810	2	5	7	817
Balance of debt in arrears 90 days or longer	17	956	-	38	-	-	1	-	1,012	-	-	-	1,012
Average balance of liabilities	75,473	79	9,828	13,105	5,985	21,489	37,447	21,981	185,387	830	6,556	7,386	192,773
Of which: Average balance of deposits from the public	63,664	-	9,828	13,105	5,927	21,489	37,447	-	151,460	793	2,181	2,974	154,434
Balance of deposits from the public at end of reported period	65,808	-	10,242	13,376	6,098	26,688	36,127	-	158,339	896	3,145	4,041	162,380
Average balance of risk assets	14,964	55,922	34	12,098	6,077	26,726	3,437	5,224	124,482	377	2,641	3,018	127,500
Balance of risk assets at end of reported period	15,094	58,761	31	12,166	6,084	25,267	3,184	5,377	125,964	405	3,118	3,523	129,487
Average balance of assets under management	40,250	5,528	1,888	18,112	5,245	15,068	146,171	149	232,411	-	-	-	232,411
									-	-	-	-	-
Composition of interest revenues, net:													
Margin from credit granting operations	767	946	1	666	158	404	47	-	2,989	9	69	78	3,067
Margin from activities of receiving deposits	201	-	34	36	8	24	60	-	363	4	3	7	370
Other	4	47	-	12	2	2	5	(1)	71	-	26	26	97
Total interest revenues, net	972	993	35	714	168	430	112	(1)	3,423	13	98	111	3,534

(1) Risk assets - as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.

Note 12 – Operating Segments - Continued

B. Operating segments in conformity with management approach.

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments" below and Note 1.B.1 to the financial statements.

Below are the Bank's operating segments in conformity with management approach:

Household segment - under responsibility of the Retail Division. This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves small business clients, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Finance Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 625 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Note 12 – Operating Segments - Continued

Business banking - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. Criteria by which clients are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management - operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The major products and guidelines for attribution of balances, revenues and expenses to clients in the system to operating segments in conformity with management approach, are similar to products and guidelines according to the supervisory operating segment approach.

Note 12 – Operating Segments - Continued

Operating segments in conformity with management approach.

For the nine months ended September 30, 2016 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	507	1,920	(1)	403	121	457	(577)	2,830
Inter-segment	446	(1,226)	56	47	5	122	550	-
Total interest revenues, net	953	694	55	450	126	579	(27)	2,830
Non-interest financing revenues	2	-	1	1	-	12	160	176
Commissions and other revenues	411	111	44	195	37	193	206	1,197
Total revenues	1,366	805	100	646	163	784	339	4,203
Expenses with respect to credit losses	61	7	-	90	4	(41)	(2)	119
Operating and other expenses	1,045	281	68	381	86	238	331	2,430
Pre-tax profit	260	517	32	175	73	587	10	1,654
Provision for taxes on profit	98	194	12	66	27	220	4	621
After-tax profit	162	323	20	109	46	367	6	1,033
Share in net profits of associates, after tax	-	-	-	-	-	-	1	1
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	162	323	20	109	46	367	7	1,034
Attributable to non-controlling interests	(33)	-	-	-	-	-	-	(33)
Net profit attributable to shareholders of the Bank	129	323	20	109	46	367	7	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	21,508	105,032	1,050	10,256	4,538	22,306	-	164,690
Average balance of deposits from the public	74,925	-	8,253	14,908	5,654	53,261	10,501	167,502
Average balance of assets	21,605	105,324	1,814	10,354	4,600	27,415	25,806	196,918
Average balance of risk assets (2)	18,455	58,067	832	8,018	4,953	35,320	5,337	130,982

(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 Conduct of Banking Business Regulation No. 201).

Note 12 – Operating Segments - Continued

Operating segments in conformity with management approach.

For the nine months ended September 30, 2015 (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	529	1,771	5	392	126	452	(561)	2,714
Inter-segment	333	(1,156)	42	18	(2)	104	661	-
Total interest revenues, net	862	615	47	410	124	556	100	2,714
Non-interest financing revenues	3	-	-	1	-	20	207	231
Commissions and other revenues	406	127	50	181	38	177	131	1,110
Total revenues	1,271	742	97	592	162	753	438	4,055
Expenses with respect to credit losses	29	14	2	79	18	(5)	(1)	136
Operating and other expenses(3)	1,006	263	66	377	81	225	389	2,407
Pre-tax profit	236	465	29	136	63	533	50	1,512
Provision for taxes on profit	88	173	11	51	24	199	18	564
After-tax profit	148	292	18	85	39	334	32	948
Share in net profits of associates, after tax	-	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	148	292	18	85	39	334	32	948
Attributable to non-controlling interests	(33)	-	-	-	-	-	(21)	(54)
Net profit attributable to shareholders of the Bank	115	292	18	85	39	334	11	894
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	7.5%	8.4%	37.1%	20.8%	11.9%	12.4%	22.6%	10.8%
Average balance of loans to the public, net	20,573	95,027	973	9,221	4,358	21,921	-	155,657
Average balance of deposits from the public	67,590	-	8,398	12,548	5,077	46,322	13,391	153,383
Average balance of assets	20,364	93,678	1,903	9,272	4,467	27,092	41,970	198,746
Average balance of risk assets (2)	17,211	53,997	917	6,741	4,818	38,303	5,254	127,240

(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 Conduct of Banking Business Regulation No. 201).

(3) Reclassified.

Note 12 – Operating Segments - Continued

Operating segments in conformity with management approach.

For the three months ended September 30, 2016 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	159	850	(3)	129	56	162	(297)	1,056
Inter-segment	176	(606)	22	24	(13)	37	360	-
Total interest revenues, net	335	244	19	153	43	199	63	1,056
Non-interest financing revenues	1	-	-	1	-	7	31	40
Commissions and other revenues	137	37	14	65	11	63	53	380
Total revenues	473	281	33	219	54	269	147	1,476
Expenses with respect to credit losses	29	7	(1)	29	(2)	(2)	(1)	59
Operating and other expenses	352	95	24	128	30	81	105	815
Pre-tax profit	92	179	10	62	26	190	43	602
Provision for taxes on profit	33	65	4	22	9	69	16	218
After-tax profit	59	114	6	40	17	121	27	384
Share in net profits of associates, after tax	-	-	-	-	-	-	1	1
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	59	114	6	40	17	121	28	385
Attributable to non-controlling interests	(12)	-	-	-	-	-	-	(12)
Net profit attributable to shareholders of the Bank	47	114	6	40	17	121	28	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.

Note 12 – Operating Segments - Continued
Operating segments in conformity with management approach.
For the three months ended September 30, 2015 (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	154	781	-	130	43	132	(307)	933
Inter-segment	138	(569)	17	12	(2)	35	369	-
Total interest revenues, net	292	212	17	142	41	167	62	933
Non-interest financing revenues	1	-	-	-	-	5	145	151
Commissions and other revenues	135	40	15	59	11	59	39	358
Total revenues	428	252	32	201	52	231	246	1,442
Expenses with respect to credit losses	13	8	-	21	12	6	1	61
Operating and other expenses(2)	335	89	22	137	26	73	139	821
Pre-tax profit	80	155	10	43	14	152	106	560
Provision for taxes on profit	30	59	4	16	5	58	41	213
After-tax profit	50	96	6	27	9	94	65	347
Share in net profits of associates, after tax	-	-	-	-	-	-	1	1
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	50	96	6	27	9	94	66	348
Attributable to non-controlling interests	(11)	-	-	-	-	-	(21)	(32)
Net profit attributable to shareholders of the Bank	39	96	6	27	9	94	45	316
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	7.0%	8.3%	41.4%	22.9%	6.4%	11.6%	206.4%	11.5%

(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.

Note 12 – Operating Segments - Continued

Operating segments in conformity with management approach.

For the year ended December 31, 2015 (audited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	728	2,066	9	531	166	617	(583)	3,534
Inter-segment	428	(1,229)	55	24	1	135	586	-
Total interest revenues, net	1,156	837	64	555	167	752	3	3,534
Non-interest financing revenues	2	-	1	2	-	32	321	358
Commissions and other revenues	544	164	66	244	50	241	191	1,500
Total revenues	1,702	1,001	131	801	217	1,025	515	5,392
Expenses with respect to credit losses	42	10	3	104	16	38	(2)	211
Operating and other expenses[3]	1,362	350	90	508	113	305	498	3,226
Pre-tax profit	298	641	38	189	88	682	19	1,955
Provision for taxes on profit	112	241	14	71	33	257	33	761
After-tax profit	186	400	24	118	55	425	(14)	1,194
Share in net profits of associates, after tax	-	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	186	400	24	118	55	425	(14)	1,194
Attributable to non-controlling interests	(39)	-	-	-	-	-	(21)	(60)
Net profit attributable to shareholders of the Bank	147	400	24	118	55	425	(35)	1,134
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[1]	7.8%	8.2%	33.3%	19.6%	12.1%	11.4%	0.0%	10.0%
Average balance of loans to the public, net	22,074	100,950	934	9,871	4,484	20,982	-	159,295
Average balance of deposits from the public	68,519	-	8,356	12,819	5,126	46,344	13,067	154,231
Average balance of assets	20,784	96,752	1,871	9,568	4,531	26,522	39,103	199,131
Average balance of risk assets [2]	17,252	54,120	916	6,700	4,783	38,057	5,352	127,180

(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 Conduct of Banking Business Regulation No. 201).

(3) Reclassified.

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 the nine-month and three-month periods ended September 30, 2016 would have amounted to a loss of NIS 46 million and NIS 11 million, respectively; for the nine-month and three-month periods ended September 30, 2015: a loss of NIS 99 million and NIS 40 million, respectively.

Results of the private banking segment for the year ended December 31, 2015 would have amounted to a loss of NIS 106 million.

Results of the Financial Management Segment, according to the supervisory approach, for the nine-month and three-month periods ended September 30, 2016 would have amounted to a profit of NIS 100 million and NIS 52 million, respectively; for the nine-month and three-month periods ended September 30, 2015: a profit of NIS 140 million and NIS 86 million, respectively.

Results of the Financial Management Segment for the year ended December 31, 2015 would have amounted to a profit of NIS 144 million.

Results of overseas operations according to the supervisory approach, for the nine-month and three-month periods ended September 30, 2016 would have been unchanged; for the nine-month period ended September 30, 2015: a profit of NIS 34 million and for the three-month period ended September 30, 2015: unchanged.

Results of overseas operations for the year ended December 31, 2015 would have amounted to a profit of NIS 20 million.

Results of the Private Banking Segment, according to management approach, for the nine-month and three-month periods ended September 30, 2016 would have amounted to a loss of NIS 34 million and NIS 8 million, respectively; for the nine-month and three-month periods ended September 30, 2015: a loss of NIS 75 million and NIS 36 million, respectively.

Results of the private banking segment for the year ended December 31, 2015 would have amounted to a loss of NIS 103 million.

Results of the Financial Management Segment, according to management approach, for the nine-month and three-month periods ended September 30, 2016 would have amounted to a profit of NIS 61 million and NIS 42 million, respectively; for the nine-month and three-month periods ended September 30, 2015: a profit of NIS 104 million and NIS 87 million, respectively.

Results of the private banking segment for the year ended December 31, 2015 would have amounted to a profit of NIS 92 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, 2016					
	Provision for credit losses					
	Loans to the public					
	Commercial	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 three months ended September 30, 2015					
Balance of provision for credit losses at start of period	663	628	186	1,477	3	1,480
Expenses with respect to credit losses	38	7	15	60	1	61
Net accounting write-off[2]	(61)	(16)	(25)	(102)	-	(102)
Recovery of debts written off in previous years[2]	41	-	15	56	-	56
Net accounting write-offs	(20)	(16)	(10)	(46)	-	(46)
Balance of provision for credit losses at end of period	681	619	191	1,491	4	1,495
Of which: With respect to off balance sheet credit instruments	96	-	9	105	-	105

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

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

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Change in balance of provision for credit losses - continued

	For the nine months ended September 30, 2016					
	Provision for credit losses					
	Loans to the public					
	Commercial	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

	For the nine months ended September 30, 2015					
Balance of provision for credit losses at start of period	632	624	189	1,445	5	1,450
Expenses with respect to credit losses	88	14	35	137	(1)	136
Net accounting write-off[2]	(134)	(19)	(83)	(236)	-	(236)
Recovery of debts written off in previous years[2]	95	-	50	145	-	145
Net accounting write-offs	(39)	(19)	(33)	(91)	-	(91)
Balance of provision for credit losses at end of period	681	619	191	1,491	4	1,495
Of which: With respect to off balance sheet credit instruments	96	-	9	105	-	105

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

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

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated:

						September 30, 2016
						Provision for credit losses
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debt s[1]						
reviewed on individual basis	29,480	22	726	30,228	4,504	34,732
reviewed on group basis	9,392	113,174	17,230	139,796	-	139,796
Of which: Loans for which a provision for credit losses is assessed by extent of arrears	1,178	112,599	-	113,777	-	113,777
Total debts	38,872	[2]113,196	17,956	170,024	4,504	174,527
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
						September 30, 2015
Recorded debt balance of debt s[1]						
reviewed on individual basis	30,616	6	767	31,389	4,031	35,420
reviewed on group basis	8,425	104,244	15,324	127,993	-	127,993
Of which: Loans for which a provision for credit losses is assessed by extent of arrears	1,073	103,726	-	104,799	-	104,799
Total debts	39,041	[2]104,250	16,091	159,382	4,031	163,413
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	503	1	19	523	4	527
reviewed on group basis	82	618	163	863	-	863
Of which: For which a provision for credit losses is assessed by extent of arrears[3][4]	1	618	-	619	-	619
Total provision for credit losses	585	619	182	1,386	4	1,390
						December 31, 2015
Recorded debt balance of debt s[1]						
reviewed on individual basis	29,656	24	758	30,438	3,412	33,850
reviewed on group basis	8,503	105,922	15,741	130,166	-	130,166
Of which: Loans for which a provision for credit losses is assessed by extent of arrears	1,046	105,419	-	106,465	-	106,465
Total debts	38,159	105,946[2]	16,499	160,604	3,412	164,016
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	516	1	22	539	3	542
reviewed on group basis	84	613	164	861	-	861
Of which: for which a provision for credit losses is assessed by extent of arrears[3]	4	613	-	617	-	617
Total provision for credit losses	600	614	186	1,400	3	1,403

(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 5,625 million (as of September 30, 2015: NIS 5,379 million, as of December 31, 2015: NIS 5,421 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 394 million (as of September 30, 2015 - NIS 362 million, as of December 31, 2015 - NIS 368 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

						September 30, 2016
		Problematic[2]			Non impaired debts - additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate - construction[8]	9,421	51	110	9,582	13	26
Construction and real estate - real estate operations	2,071	3	78	2,152	2	5
Financial services	3,428	3	15	3,446	-	6
Commercial – other	19,383	474	376	20,233	44	87
Total commercial	34,303	531	579	35,413	59	124
Private individuals - housing loans	112,035	[7]827	22	112,884	[7]827	[6]365
Private individuals – other	17,469	110	73	17,652	23	68
Total public – activity in Israel	163,807	1,468	674	165,949	909	557
Banks in Israel	264	-	-	264	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	164,072	1,468	674	166,214	909	557
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,714	-	4	1,718	-	-
Commercial – other	1,736	-	5	1,741	-	-
Total commercial	3,450	-	9	3,459	-	-
Private individuals	616	-	-	616	-	-
Total public – activity overseas	4,066	-	9	4,075	-	-
Overseas banks	3,887	-	-	3,887	-	-
Overseas governments	352	-	-	352	-	-
Total activity overseas	8,305	-	9	8,314	-	-
Total public	167,873	1,468	683	170,024	909	557
Total banks	4,151	-	-	4,151	-	-
Total governments	353	-	-	353	-	-
Total	172,377	1,468	683	174,528	909	557

(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 26 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 134 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 1,463 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

					September 30, 2015	
		Problematic[2]			Non impaired debts - additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate - construction[8]	9,370	41	99	9,510	10	13
Construction and real estate - real estate operations	2,035	6	132	2,173	2	1
Financial services	3,543	5	54	3,602	2	13
Commercial – other	20,031	269	359	20,659	33	168
Total commercial	34,979	321	644	35,944	47	195
Private individuals - housing loans	102,913	[7]1,005	6	103,924	[7]1,005	[6]343
Private individuals – other	15,570	111	81	15,762	20	76
Total public – activity in Israel	153,462	1,437	731	155,630	1,072	614
Banks in Israel	407	-	-	407	-	-
Government of Israel	2	-	-	2	-	-
Total activity in Israel	153,871	1,437	731	156,039	1,072	614
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,610	-	5	1,615	-	-
Commercial – other	1,473	7	2	1,482	-	-
Total commercial	3,083	7	7	3,097	-	-
Private individuals	654	1	-	655	1	-
Total public – activity overseas	3,737	8	7	3,752	1	-
Overseas banks	3,337	-	-	3,337	-	-
Overseas governments	285	-	-	285	-	-
Total activity overseas	7,359	8	7	7,374	1	-
Total public	157,199	1,445	738	159,382	1,073	614
Total banks	3,744	-	-	3,744	-	-
Total governments	287	-	-	287	-	-
Total	161,230	1,445	738	163,413	1,073	614

(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 32 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 168 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 1,307 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

	December 31, 2015					
		Problematic[(2)]			Non impaired debts - additional information	
	Non problematic	Non impaired	Impaired[(3)]	Total	In arrears 90 days or longer[(4)]	In arrears 30 to 89 days[(5)]
Borrower activity in Israel						
Public – commercial						
Construction and real estate - construction[(8)]	8,719	64	83	8,866	10	14
Construction and real estate - real estate operations	2,023	2	124	2,149	1	2
Financial services	3,380	3	15	3,398	1	4
Commercial – other	19,679	265	476	20,420	26	136
Total commercial	33,801	334	698	34,833	38	156
Private individuals - housing loans	104,655	[(7)]956	24	105,635	[(7)]956	[(6)]347
Private individuals – other	15,983	109	81	16,173	17	81
Total public – activity in Israel	154,439	1,399	803	156,641	1,011	584
Banks in Israel	758	-	-	758	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	155,197	1,399	803	157,399	1,011	584
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,942	-	5	1,947	-	-
Commercial – other	1,370	-	9	1,379	-	-
Total commercial	3,312	-	14	3,326	-	-
Private individuals	636	1	-	637	1	-
Total public – activity overseas	3,948	1	14	3,963	1	-
Overseas banks	2,338	-	-	2,338	-	-
Overseas governments	316	-	-	316	-	-
Total activity overseas	6,602	1	14	6,617	1	-
Total public	158,387	1,400	817	160,604	1,012	584
Total banks	3,096	-	-	3,096	-	-
Total governments	316	-	-	316	-	-
Total	161,799	1,400	817	164,016	1,012	584

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, 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 20 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 161 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,285 million, extended to certain purchase groups which are in the process of construction.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, *inter alia*, on the actual number of days in arrears for each debt.

Non-performing debts

Debt measured on individual basis is classified as non-performing (not accruing interest revenues) after 90 days in arrears. Debt previously restructured as problematic debt and which is again in arrears with regard to the new terms thereof - is also classified as non-performing. Debt measured on group basis is classified as non-performing (inferior) after 150 days in arrears. At that time, accounting write-off of the debt is also carried out.

Inferior debts

Debt in the individual track is classified as inferior debt accruing revenues after 60 days in arrears. Debt in the group track is classified as inferior after 90 days in arrears.

Housing loans

The state of arrears for housing loans is monitored by the extent of arrears for the loan, except for loans with no monthly or quarterly payment.

Credit risk attributes, including specific risk for housing loans, are included on the Report of the Board of Directors and Management under "Risks Overview".

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

Consolidated

						September 30, 2016
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	37,748	112,347	17,773	353	4,151	172,372
Problematic non-impaired debts(1)	531	827	110	-	-	1,468
Impaired debts	593	22	73	-	-	688
Total	38,872	113,196	17,956	353	4,151	174,528
						September 30, 2015
Debts in good standing	38,062	103,239	15,898	287	3,744	161,230
Problematic non-impaired debts(1)	328	1,005	112	-	-	1,445
Impaired debts	651	6	81	-	-	738
Total	39,041	104,250	16,091	287	3,744	163,413
						December 31, 2015
Debts in good standing	37,113	104,965	16,309	316	3,096	161,799
Problematic non-impaired debts(1)	334	957	109	-	-	1,400
Impaired debts	712	24	81	-	-	817
Total	38,159	105,946	16,499	316	3,096	164,016

(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.

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, 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

	September 30, 2015				
	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	74	11	25	99	282
Construction and real estate - real estate operations	131	15	1	132	257
Financial services	8	6	46	54	65
Commercial – other	271	76	88	359	472
Total commercial	484	108	160	644	1,076
Private individuals - housing loans	6	-	-	6	6
Private individuals – other	22	10	59	81	88
Total public – activity in Israel	512	118	219	731	1,170
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	512	118	219	731	1,170
Borrower activity overseas					
Public – commercial					
Construction and real estate	5	-	-	5	6
Commercial – other	2	-	-	2	6
Total commercial	7	-	-	7	12
Private individuals	-	-	-	-	3
Total public – activity overseas	7	-	-	7	15
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	7	-	-	7	15
Total public	519	118	219	738	1,185
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	519	118	219	738	1,185
Of which:					
Measured at present value of cash flows	358	104	112	470	
Debts under problematic debts restructuring	194	22	74	268	

(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, 2015				
	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	59	13	24	83	191
Construction and real estate - real estate operations	108	12	16	124	275
Financial services	9	7	6	15	65
Commercial – other	393	86	83	476	533
Total commercial	569	118	129	698	1,064
Private individuals - housing loans	7	1	17	24	24
Private individuals – other	24	10	57	81	89
Total public – activity in Israel	600	129	203	803	1,177
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	600	129	203	803	1,177
Borrower activity overseas					
Public – commercial					
Construction and real estate	5	-	-	5	6
Commercial – other	9	-	-	9	6
Total commercial	14	-	-	14	12
Private individuals	-	-	-	-	3
Total public – activity overseas	14	-	-	14	15
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	14	-	-	14	15
Total public	614	129	203	817	1,192
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	614	129	203	817	1,192
Of which:					
Measured at present value of cash flows	508	118	127	635	
Debts under problematic debts restructuring	155	17	74	229	

(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

B. Average balance and interest revenues

	For the three months ended					
	September 30, 2016			September 30, 2015		
	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	89	-	-	102	2	2
Construction and real estate - real estate operations	126	-	-	137	-	-
Financial services	18	1	1	80	4	4
Commercial – other	518	4	4	372	5	4
Total commercial	751	5	5	691	11	10
Private individuals - housing loans	31	-	-	5	-	-
Private individuals – other	77	1	1	82	1	1
Total public – activity in Israel	859	6	6	778	12	11
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	859	6	6	778	12	11
Borrower activity overseas						
Public – commercial						
Construction and real estate	4	-	-	5	-	-
Commercial – other	7	-	-	3	-	-
Total commercial	11	-	-	8	-	-
Private individuals	-	-	-	-	-	-
Total public – activity overseas	11	-	-	8	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	11	-	-	8	-	-
Total public	870	6	6	786	12	11
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total[(4)]	870	6	6	786	12	11

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

(2) Average recorded debt balance of impaired debts during reported period.

(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.

(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 11 million (as of September 30, 2015 - NIS 19 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 - Continued

	For the nine months ended					
	September 30, 2016			September 30, 2015		
	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	96	3	3	98	3	3
Construction and real estate - real estate operations	153	-	-	196	-	-
Financial services	31	1	1	80	4	4
Commercial – other	389	8	8	330	7	6
Total commercial	669	12	12	704	14	13
Private individuals - housing loans	15	-	-	4	-	-
Private individuals – other	76	2	2	80	2	2
Total public – activity in Israel	760	14	14	788	16	15
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	760	14	14	788	16	15
Borrower activity overseas	-	-	-			
Public – commercial	-	-	-			
Construction and real estate	4	-	-	5	-	-
Commercial – other	6	-	-	3	-	-
Total commercial	10	-	-	8	-	-
Private individuals	-	-	-	-	-	-
Total public – activity overseas	10	-	-	8	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	10	-	-	8	-	-
Total public	770	14	14	796	16	15
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total[4]	770	14	14	796	16	15

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

(2) Average recorded debt balance of impaired debts during reported period.

(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.

(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 39 million (as of September 30, 2015 - NIS 73 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, 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

					September 30, 2015
					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	33	-	-	-	33
Construction and real estate - real estate operations	126	-	1	-	127
Financial services	3	-	-	1	4
Commercial – other	37	-	-	12	49
Total commercial	199	-	1	13	213
Private individuals - housing loans	-	-	-	-	-
Private individuals – other	23	-	1	29	53
Total public – activity in Israel	222	-	2	42	266
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	222	-	2	42	266
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	223	-	2	43	268
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	223	-	2	43	268

(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, 2015				
	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	102	-	-	-	102
Financial services	3	-	-	-	3
Commercial – other	35	-	-	12	47
Total commercial	161	-	-	12	173
Private individuals - housing loans	-	-	-	-	-
Private individuals – other	24	-	1	29	54
Total public – activity in Israel	185	-	1	41	227
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	185	-	1	41	227
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	186	-	1	42	229
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	186	-	1	42	229

(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, 2016, 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, 2016			September 30, 2015		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	2	-	-	15	3	1
Construction and real estate - real estate operations	-	-	-	-	-	-
Financial services	1	-	-	5	-	-
Commercial – other	26	4	4	89	10	8
Total commercial	29	4	4	109	13	9
Private individuals - housing loans	-	-	-	-	-	-
Private individuals – other	106	4	3	175	6	5
Total public – activity in Israel	135	8	7	284	19	14
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	135	8	7	284	19	14
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	135	8	7	284	19	14
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	135	8	7	284	19	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) 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 [2]					
	For the nine months ended					
	September 30, 2016			September 30, 2015		
	Number of contracts	Recorded debt balance before restruc-turing	Recorded debt balance after restruc-turing	Number of contracts	Recorded debt balance before restruc-turing	Recorded debt balance after restruc-turing
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	13	2	2	22	4	2
Construction and real estate - real estate operations	2	-	-	-	-	-
Financial services	7	1	-	8	-	-
Commercial – other	91	12	12	149	17	13
Total commercial	113	15	14	179	21	15
Private individuals - housing loans	-	-	-	-	-	-
Private individuals – other	376	16	14	645	24	22
Total public – activity in Israel	489	31	28	824	45	37
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	489	31	28	824	45	37
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	489	31	28	824	45	37
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	489	31	28	824	45	37

(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, 2016		September 30, 2015
		Recorded debt balance		
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	1	-	-	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial – other	6	-	8	-
Total commercial	7	-	8	-
Private individuals - housing loans	-	-	-	-
Private individuals – other	10	-	36	2
Total public – activity in Israel	17	-	44	2
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	17	-	44	2
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	17	-	44	2
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	17	-	44	2

(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, 2016		September 30, 2015	
	Recorded debt balance			
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	4	-	1	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial – other	37	4	27	1
Total commercial	41	4	28	1
Private individuals - housing loans	-	-	-	-
Private individuals – other	85	2	112	3
Total public – activity in Israel	126	6	140	4
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	126	6	140	4
Borrower activity overseas	-	-		
Public – commercial	-	-		
Construction and real estate	-	-	-	-
Commercial – other	-	-	-	-
Total commercial	-	-	-	-
Private individuals	-	-	-	-
Total public – activity overseas	-	-	-	-
Overseas banks	-	-	-	-
Overseas governments	-	-	-	-
Total activity overseas	-	-	-	-
Total public	126	6	140	4
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	126	6	140	4

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

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. 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, 2016
				Housing loan balance	Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	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

					September 30, 2015
Senior lien: LTV ratio	Up to 60%	64,151	2,042	43,442	3,881
	Over 60%	39,990	469	28,155	1,785
Junior lien or no lien		109	1	84	1,071
Total		104,250	2,512	71,681	6,737

					December 31, 2015
Senior lien: LTV ratio	Up to 60%	65,486	2,136	43,710	3,887
	Over 60%	40,347	457	27,978	2,064
Junior lien or no lien		113	2	88	1,649
Total		105,946	2,595	71,776	7,600

(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, 2016				For the three months ended September 30, 2015			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	-	-	85	85	-	-	112	112
Loans sold	113	725	-	838	-	-	-	-

	For the nine months ended September 30, 2016				For the nine months ended September 30, 2015			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	-	-	85	85	-	-	235	235
Loans sold	898	1,431	-	2,329	178	-	-	178

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

D. Off-balance sheet financial instruments

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

	September 30, 2016	September 30, 2015	December 31, 2015	September 30, 2016	September 30, 2015	December 31, 2015
			Balance[1]			Provision for credit losses
		(unaudited)	(audited)		(unaudited)	(audited)
Transactions in which the balance represents a credit risk:						
- Documentary credit	495	378	472	2	1	3
- Loan guarantees	2,540	2,202	2,245	29	26	26
- Guarantees to home buyers	12,678	11,903	11,597	6	7	7
- Guarantees and other liabilities[2]	4,772	4,255	4,546	25	21	23
- Unutilized revolving credit card facilities	7,378	7,926	7,848	7	6	5
- Unutilized debitory account and other credit facilities in accounts available on demand	17,691	18,606	16,588	33	27	25
- Irrevocable commitments for loans approved but not yet granted	11,661	11,620	12,901	11	13	13
- Commitments to issue guarantees	5,567	5,715	5,629	3	4	4

(1) Contract 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 66 million. (as of September 30, 2015 and December 31, 2015 - NIS 161 million and NIS 125 million, respectively).
For more information see Note 26.C.2. and Note 27.B. to Financial Statements as of December 31, 2015.

Note 14 - Assets and Liabilities by Linkage Basis

As of September 30, 2016

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	
	Non-linked	CPI- linked	US dollars	Euro	Other currencies		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 associates	34	-	-	-	-	-	34
Buildings and equipment	-	-	-	-	-	1,537	1,537
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	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 derivative instruments	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 derivative instruments:							
Derivative instruments (other than options)	2,360	(2,360)	-	-	-	-	-
Non-hedging derivative instruments:							
Derivative instruments (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 derivative instruments whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the different linkage bases.

Note 14 - Assets and Liabilities by Linkage Basis - Continued

As of September 30, 2015

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	
	Non-linked	CPI- linked	US dollars	Euro	Other currencies		Total
Assets							
Cash and deposits with banks	22,880	124	3,039	281	396	-	26,720
Securities	7,263	112	2,724	1,036	72	99	11,306
Securities loaned or acquired in conjunction with resale agreements	76	24	-	-	-	-	100
Loans to the public, net[3]	94,097	52,338	7,690	2,124	1,747	-	157,996
Loans to Governments	-	-	159	128	-	-	287
Investments in associates	35	-	-	-	-	4	39
Buildings and equipment	-	-	-	-	-	1,543	1,543
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	2,531	390	1452	335	72	-	4,780
Other assets	1,716	257	47	1	26	61	2,108
Total assets	128,598	53,245	15,111	3,905	2,313	1,794	204,966
Liabilities							
Deposits from the public	100,715	18,035	30,446	6,099	2,812	-	158,107
Deposits from banks	392	291	501	93	21	-	1,298
Deposits from the Government	20	11	31	-	-	-	62
Debentures and subordinated notes	4,726	18,470	-	-	-	-	23,196
Liabilities with respect to derivative instruments	2,558	203	1,425	310	31	-	4,527
Other liabilities	4,311	837	215	(5)	52	188	5,598
Total liabilities	112,722	37,847	32,618	6,497	2,916	188	192,788
Difference	15,876	15,398	(17,507)	(2,592)	(603)	1,606	12,178
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,771	(2,771)	-	-	-	-	-
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(15,013)	(4,718)	17,023	2,331	377	-	-
Net in-the-money options (in terms of underlying asset)	(544)	-	369	118	58	(1)	-
Net out-of-the-money options (in terms of underlying asset)	(348)	-	256	60	31	1	-
Total	2,742	7,909	141	(83)	(137)	1,606	12,178
Net in-the-money options (capitalized par value)	(691)	-	780	(14)	(75)	-	-
Net out-of-the-money options (capitalized par value)	1,437	-	(1,620)	(6)	189	-	-

(1) Includes linked to foreign currency.

(2) Includes derivative instruments whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 14 - Assets and Liabilities by Linkage Basis - Continued

As of December 31, 2015

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-	
					Other	monetary	
	Non-linked	CPI- linked	US dollars	Euro	currencies	items[2]	Total
Assets							
Cash and deposits with banks	27,705	121	2,053	290	320	-	30,489
Securities	7,002	66	3,755	914	10	98	11,845
Securities loaned or acquired in conjunction with resale agreements	-	71	-	-	-	-	71
Loans to the public, net[3]	95,814	51,836	7,660	2,142	1,752	-	159,204
Loans to Governments	-	-	160	156	-	-	316
Investments in associates	35	-	-	-	-	1	36
Buildings and equipment	-	-	-	-	-	1,583	1,583
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	2,291	356	757	84	39	-	3,527
Other assets	1,591	283	59	1	22	44	2,000
Total assets	134,438	52,733	14,444	3,587	2,143	1,813	209,158
Liabilities							
Deposits from the public	109,091	16,764	27,751	6,030	2,744	-	162,380
Deposits from banks	259	287	539	70	11	-	1,166
Deposits from the Government	20	9	29	-	-	-	58
Debentures and subordinated notes	4,982	18,737	-	-	-	-	23,719
Liabilities with respect to derivative instruments	2,311	181	873	243	26	-	3,634
Other liabilities	4,479	822	245	17	46	177	5,786
Total liabilities	121,142	36,800	29,437	6,360	2,827	177	196,743
Difference	13,296	15,933	(14,993)	(2,773)	(684)	1,636	12,415
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	1,939	(1,939)	-	-	-	-	-
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(13,382)	(3,972)	14,132	2,816	406	-	-
Net in-the-money options (in terms of underlying asset)	(845)	-	649	84	108	4	-
Net out-of-the-money options (in terms of underlying asset)	(270)	-	246	(11)	38	(3)	-
Total	738	10,022	34	116	(132)	1,637	12,415
Net in-the-money options (capitalized par value)	(760)	-	1,010	(110)	(140)	-	
Net out-of-the-money options (capitalized par value)	595	-	(500)	(262)	167	-	-

(1) Includes linked to foreign currency.

(2) Includes derivative instruments whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 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

					September 30, 2016
	Book				Fair value (unaudited)
	balance	(1)Level 1	(1)Level 2	(1)Level 3	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 purchased in resale agreements	16	16	-	-	16
Loans to the public, net	168,620	288	10,386	(5)157,696	168,370
Loans to Governments	353	-	-	353	353
Investments in associates	34	-	-	34	34
Assets with respect to derivative instruments	3,267	254	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 derivative instruments	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 measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.
(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.
(4) Includes assets and liabilities amounting to NIS 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

					September 30, 2015 (unaudited)
	Book				Fair value
	balance	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	26,720	4,243	20,004	2,366	26,613
Securities[3]	11,306	[6]8,444	[6]2,622	320	11,386
Securities loaned or purchased in resale agreements	100	100	-	-	100
Loans to the public, net	157,996	362	10,788	[5]147,458	158,608
Loans to Governments	287	-	-	286	286
Investments in associates	35	-	-	35	35
Assets with respect to derivative instruments	4,780	720	2,640	[2]1,420	4,780
Other financial assets	1,249	410	-	839	1,249
Total financial assets	[4]202,473	14,279	36,054	152,724	203,057
Financial liabilities					
Deposits from the public	158,107	362	40,776	119,246	160,384
Deposits from banks	1,298	-	305	1,007	1,312
Deposits from the Government	62	-	-	71	71
Debentures and subordinated notes	23,196	23,117	-	857	23,974
Liabilities with respect to derivative instruments	4,527	545	2,791	[2]1,191	4,527
Other financial liabilities	[6]4,212	564	3,359	[6]289	4,212
Total financial liabilities	[4]191,402	24,588	47,231	122,661	194,480

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.
(3) For details of the carrying amount and fair value of securities, see Note 5.
(4) Includes assets and liabilities amounting to NIS 47,023 million and NIS 46,163 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 3 million.
(6) Reclassified.

Note 15 – Balances and Estimates of Fair Value of Financial Instruments – Continued

Reported amounts (NIS in millions)

A. Fair value balances - Continued

	As of December 31, 2015 (audited)				
	Book balance	Fair value			
		Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	30,489	4,623	23,962	1,898	30,483
Securities[(3)]	11,845	[(6)]8,809	[(6)]2,815	292	11,916
Securities loaned or purchased in resale agreements	71	71	-	-	71
Loans to the public, net	159,204	312	11,041	[(5)]148,178	159,531
Loans to Governments	316	-	-	316	316
Investments in associates	35	-	-	35	35
Assets with respect to derivative instruments	3,527	565	2,237	725	3,527
Other financial assets	987	580	-	407	987
Total financial assets	[(4)]206,474	14,960	40,055	151,851	206,866
Financial liabilities					
Deposits from the public	162,380	312	43,565	120,507	164,384
Deposits from banks	1,166	-	313	863	1,176
Deposits from the Government	58	-	-	65	65
Debentures and subordinated notes	23,719	23,132	-	1,262	24,394
Liabilities with respect to derivative instruments	3,634	429	2,387	[(2)]818	3,634
Other financial liabilities	[(6)]4,431	121	3,530	[(6)]780	4,431
Total financial liabilities	[(4)]195,388	23,994	49,795	124,295	198,084

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.
(3) For details of the carrying amount and fair value of securities, see Note 5.
(4) Includes assets and liabilities amounting to NIS 50,442 million and NIS 47,044 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.
(5) Of which embedded derivatives in loans to the public, net amounting to NIS 2 million.
(6) Reclassified.

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

				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 trading:				
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 derivative instruments(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
Other	-	-	-	-
Total assets	3,764	4,247	1,645	9,656
Liabilities				
Deposits with respect to borrowing from clients	288	-	-	288
Liabilities with respect to derivative instruments(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
Other	-	-	-	-
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:

1. On recurring basis

	September 30, 2015 (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	(2)3,558	(2)2,502	-	6,060
Of foreign governments	1,002	-	-	1,002
Of banks and financial institutions in Israel	109	-	-	109
Of banks and financial institutions overseas	-	99	206	305
Of others overseas	-	21	15	36
Shares	2	-		2
Securities held for trading:				
Debentures of the Government of Israel	382	-	-	382
Securities loaned or acquired in resale agreements	100	-	-	100
Credit with respect to loans to clients	362	-	-	362
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	293	89	382
Other	-	1,223	69	1,292
Currency contracts	207	1,124	867	2,198
Contracts for shares	513	-	394	907
Commodities and other contracts	-	-	1	1
Other financial assets	410	-	-	410
Other	-	-	3	3
Total assets	6,645	5,262	1,644	13,551
Liabilities				
Deposits with respect to borrowing from clients	362	-	-	362
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	209	17	226
Other	-	1,649	150	1,799
Currency contracts	188	932	632	1,752
Contracts for shares	357	-	392	749
Commodities and other contracts	-	1	-	1
Other financial liabilities	564	-	-	564
Other	-	-	-	-
Total liabilities	1,471	2,791	1,191	5,453

(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.

(2) Reclassified.

Note 15 – Balances and Estimates of Fair Value of Financial Instruments – Continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

	As of December 31, 2015 (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)3,530	(2)2,716	-	6,246
Of foreign governments	1,664	-	-	1,664
Of banks and financial institutions overseas	-	78	196	274
Of others overseas	-	21	-	21
Shares	2	-	-	2
Securities held for trading:				
Debentures of the Government of Israel	222	-	-	222
Securities loaned or acquired in resale agreements	71	-	-	71
Credit with respect to loans to clients	312	-	-	312
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	297	125	422
Other	-	1,143	68	1,211
Currency contracts	127	797	462	1,386
Contracts for shares	438	-	69	507
Commodities and other contracts	-	-	1	1
Other financial assets	580	-	-	580
Other	-	-	3	3
Total assets	6,946	5,052	924	12,922
Liabilities				
Deposits with respect to borrowing from clients	312	-	-	312
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	202	18	220
Other	-	1,541	120	1,661
Currency contracts	89	643	502	1,234
Contracts for shares	340	-	178	518
Commodities and other contracts	-	1	-	1
Other financial liabilities	121	-	-	121
Total liabilities	862	2,387	818	4,067

(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.

(2) Reclassified.

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

	September 30, 2016 (unaudited)				For the three months ended September 30, 2016	For the nine months ended September 30, 2016
	Fair value					
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Losses	Losses
Impaired credit whose collection is contingent on collateral	-	-	6	6	-	-

	September 30, 2015 (unaudited)				For the three months ended September 30, 2015	For the nine months ended September 30, 2015
	Fair value					
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Losses	Losses
Impaired credit whose collection is contingent on collateral	-	51	73	124	(24)	(4)

	As of December 31, 2015 (audited)				For the year ended December 31, 2015
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Losses
Impaired credit whose collection is contingent on collateral	-	27	92	119	(28)

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.

Note 15 – Balances and Estimates of Fair Value of Financial Instruments – Continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended September 30, 2016 (unaudited)								
		Realized / unrealized gains(losses) included, net[1]							
	Fair value as of June 30, 2016	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisi-tions	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 derivative instruments[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 derivative instruments[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 three months ended September 30, 2015 (unaudited)								
		Realized / unrealized gain s(losses) included, net[1]							
	Fair value as of June 30, 2015	In state-ment of profit and loss	In statement of other compre-hensive income under Equity	Acquisi-tions	Sales	Disposi-tions	Transfer to level 3	Fair value as of Septem-ber 30, 2015	Unrealized Gains (losses) with respect to instruments held as of September 30, 2015
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	191	15	-	-	-	-	-	206	7
Of others overseas	15		-	-	-	-	-	15	(1)
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	106	13	-	4	-	(36)	2	89	125
Other	79	(14)	-	4	-	-	-	69	190
Currency contracts	341	90	-	606	-	(170)	-	867	523
Contracts for shares	278	104	-	24	-	(12)	-	394	-
Commodities and other contracts	-	1	-	-	-	-	-	1	-
Other	2	1	-	-	-	-	-	3	1
Total assets	1,012	210	-	638	-	(218)	2	1,644	845
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	14	-	-	1	-	(2)	4	17	(13)
Other	141	-	-	14	-	(5)	-	150	(209)
Currency contracts	1,150	(94)	-	191	-	(615)	-	632	(676)
Contracts for shares	274	106	-	24	-	(12)	-	392	-
Other	3	(3)	-	-	-	-	-	-	-
Total liabilities	1,582	9	-	230	-	(634)	4	1,191	(898)

(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, 2016 (unaudited)								
		Realized / unrealized gains(losses) included, net[1]							
	Fair value as of January 1, 2016	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisi-tions	Sales	Disposi-tions	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 derivative instruments[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 derivative instruments[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:

	For the nine months ended September 30, 2015 (unaudited)								
		Realized / unrealized gains(losses) included, net[1]							
	Fair value as of January 01, 2015	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2015	Unrealized Gains (losses) with respect to instruments held as of September 30, 2015
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	199	7	-	-	-	-	-	206	7
Of others overseas	16	(1)	-	-	-	-	-	15	(1)
Assets with respect to derivative instruments[(2)(3)]									
Interest contracts:									
NIS / CPI	119	29	-	11	-	(72)	2	89	125
Other	58	(1)	-	12	-	-	-	69	190
Currency contracts	680	155	-	1,018	-	(986)	-	867	523
Contracts for shares	120	202	-	135	-	(63)	-	394	-
Commodities and other contracts	-	1	-	-	-	-	-	1	1
Other	10	(7)	-	-	-	-	-	3	-
Total assets	1,202	385	-	1,176	-	(1,121)	2	1,644	845
Liabilities									
Liabilities with respect to derivative instruments[(2)(3)]									
Interest contracts:									
NIS / CPI	10	1	-	5	-	(4)	5	17	(13)
Other	173	(32)	-	18	-	(9)	-	150	(209)
Currency contracts	736	298	-	1,079	-	(1,481)	-	632	(676)
Contracts for shares	117	200	-	134	-	(59)	-	392	-
Other	6	(6)	-	-	-	-	-	-	-
Total liabilities	1,042	461	-	1,236	-	(1,553)	5	1,191	(898)

(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 year ended December 31, 2015 (audited)								
		Realized / unrealized gain s(losses) included, net[1]							
	Fair value as of December 31, 2014	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of December 31, 2015	Unrealized Gains (losses) with respect to instruments held as of December 31, 2015
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	199	(3)	-	-	-	-	-	196	(3)
Of others overseas	16	(16)	-	-	-	-	-	-	(16)
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	119	49	-	13	-	(103)	47	125	108
Other	58	(2)	-	13	-	(1)	-	68	35
Currency contracts	680	131	-	1,298	-	(1,647)	-	462	200
Contracts for shares	120	90	-	148	-	(289)	-	69	-
Commodities and other contracts	-	1	-	1	-	(1)	-	1	-
Other	10	(7)	-	-	-	-	-	3	-
Total assets	1,202	243	-	1,473	-	(2,041)	47	924	324
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	10	2	-	5	-	(4)	5	18	(16)
Other	173	(51)	-	22	-	(24)	-	120	17
Currency contracts	736	305	-	1,200	-	(1,739)	-	502	(248)
Contracts for shares	117	50	-	169	-	(158)	-	178	-
Other	6	(6)	-	-	-	-	-	-	-
Total liabilities	1,042	300	-	1,396	-	(1,925)	5	818	(247)

(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)

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, 2016	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	106	Cash flows discounting	Inflationary expectations	0.24% - 0.25%	0.24%
Contracts for shares	2	Option pricing model	Standard deviation for shares	55.69% - 55.69%	55.69%
Other	1,537	Cash flows discounting	Counter-party credit quality	0.30% - 3.30%	2.00%
Liabilities with respect to derivative instruments:					
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 September 30, 2015	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	10	Estimated recuperation rate	Recuperation rate	11.50%	11.50%
CLN	196	Cash flows discounting	Probability of default	1.09% - 0.57%	0.79%
Debentures of foreign others	15	Cash flows discounting	Discount rate	6.11%	6.11%
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	35	Cash flows discounting	Inflationary expectations	0.07% - 0.04%	0.06%
Contracts for shares	3	Option pricing model	Standard deviation for shares	167.97% - 65.68%	101.9%
Other	1,385	Cash flows discounting	Counter-party credit quality	3.10% - 0.30%	1.79%
Liabilities with respect to derivative instruments:					
Interest contracts - NIS CPI	9	Cash flows discounting	Inflationary expectations	0.04% - 0.04%	0.04%
Other	1,182	Cash flows discounting	Counter-party credit quality	3.10% - 0.30%	1.99%

	Fair value as of December 31, 2015	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
CLN	196	Cash flows discounting	Probability of default	0.83%-1.16%	0.92%
Assets with respect to derivative instruments:					
Interest contracts - NIS CPI	73	Cash flows discounting	Inflationary expectations	(0.16%)-(0.14%)	0.02%
Contracts for shares	2	Option pricing model	Standard deviation for shares	29.46% - 95.52%	78.0%
Other	653	Cash flows discounting	Counter-party credit quality	0.30% - 3.10%	1.59%
Liabilities with respect to derivative instruments:					
Interest contracts - NIS CPI	7	Cash flows discounting	Inflationary expectations	(0.16%)-(0.13%)	1.35%
Other	811	Cash flows discounting	Counter-party credit quality	0.30% - 3.30%	1.85%

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.

Note 15 – Balances and Estimates of Fair Value of Financial Instruments – Continued

Reported amounts (NIS in millions)

The following table lists the fair value of items measured at fair value due to the election of the fair value option:

	Fair value as of September 30, 2016	Gain with respect to change in fair value for the nine months ended September 30, 2016
Securities available for sale	-	-

	Fair value as of September 30, 2015	Gain with respect to change in fair value for the nine months ended September 30, 2015
Securities available for sale	-	-

	Fair value as of December 31, 2015	Gains with respect to changes in fair value for the year ended December 31, 2015
Securities available for sale	-	6

Note 16 – Other matters

A. On March 15, 2016, Mizrahi Tefahot Issuance Company issued a new debenture series (Series 43) as well as debentures (Series 40 and 42), by way of series expansion, with total par value of NIS 2,763 million, for consideration amounting to NIS 3,121 million, pursuant to the shelf prospectus dated July 30, 2013.
The proceeds from this issuance were deposited at the Bank under terms similar to those of the issuance.
On September 25, 2016, Tefahot Issuance issued debentures (Series 44), with total par value of NIS 3,014 million, for consideration of NIS 3,121 million, pursuant to a shelf prospectus dated July 5, 2016.
The proceeds from this issuance were deposited at the Bank under terms similar to those of the issuance.

B. 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.

C. On July 4, 2016, Tefahot Issuance issued a shelf prospectus (dated July 5, 2016) whereby the company may issue to the public securities of different types subject to statutory provisions – non-convertible debentures, non-convertible subordinated notes and commercial paper – through shelf offering reports in which it would complete all specifics of each offering, including details, terms and conditions of the securities and composition of the offered units, subject to statutory provisions and to bylaws and directives of the Tel Aviv Stock Exchange Ltd., as they may be at that time.
The prospectus is valid for two years from the issue date and may be extended for a further 12 months by the company.

D. On September 25, 2016, the Bank issued a shelf prospectus (dated September 26, 2016) whereby the Bank may issue to the public securities of different types subject to statutory provisions – including Bank ordinary shares in the holder's name of NIS 0.1 par value each, as well as other securities of the Bank (including debentures, subordinated notes (including contingent subordinated notes (COCO), options exercisable for shares and options exercisable for debentures) – through a shelf offering report in which it would complete all specifics of each offering, including details, terms and conditions of the securities and composition of the offered units, subject to statutory provisions and to bylaws and directives of the Tel Aviv Stock Exchange Ltd., as they may be at that time.
The prospectus is valid for two years from the issue date and may be extended for a further 12 months by the Bank.

Note 16 – Other matters - Continued

E. Change in corporate tax rate

On January 4, 2016, the Knesset Plenum approved the Income Tax Ordinance Amendment Act (Amendment no. 216), 2016 which stipulates, *inter alia*, a reduction of the companies' tax rate as from 2016 by 1.5%, to 25%. (The previous rate was 26.5%).

The effect of this decrease in the companies tax rate is reflected in the financial statements for the first quarter of 2016, amounting to a decrease in deferred taxes by NIS 32 million, against recording expenses with respect to provision for profit taxes amounting to NIS 30 million and against Other Comprehensive Income equity amounting to NIS 2 million.

Note 17 – Events after the balance sheet date

On November 14, 2016, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 56.0 million with respect to earnings in the third quarter of 2016. The dividend amount is 241.2% of issued share capital, i.e. NIS 24.12 per NIS 0.1 par value share. The effective date for dividends payment is November 27, 2016 and the payment date is December 12, 2016. 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 2016.

Corporate Governance, Audit, Other Information about the Bank and its Management and Appendixes to the Condensed Financial Statements

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Corporate governance

Board of Directors and management

Board of Directors

During the first nine months of 2016, the Bank Board of Directors held 19 plenary meetings. During this period there were also 47 meetings of Board committees and 4 Board member workshops.

On March 8, 2016, the General Meeting of Bank shareholders approved the terms of office and employment of Mr. Vidman as Chairman of the Bank Board of Directors for a term in office started on December 1, 2015, as stated in an Immediate Report dated March 8, 2016, reference no. 2016-01-002319. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report. For more information about approval of terms of office and employment of the Chairman, see Note 8 to the financial statements.

On that date, the General Meeting of Bank shareholders resolved to amend the Bank's Bylaws, reducing the Bank's permission to waive liability of its officers for any damage incurred due to any breach of duty of care towards the Bank, so that such waiver would not apply to any breach of duty of care which occurred after December 23, 2015 when making a decision or approving a transaction in which the controlling shareholder of the Bank or any officer of the Bank (including another officer, other than the officer who received the waiver) has a personal interest.

On April 4, 2016, the General Meeting of Bank shareholders approved, after approval by the Bank's Remuneration Committee and Board of Directors, to pay the Chairman of the Board of Directors the amount of NIS 246 thousand (1.35 monthly salaries), which is the full amount with respect to the discretionary portion of the bonus payable to the Chairman of the Board of Directors for 2015, such that the total annual bonus paid to the Chairman of the Board of Directors for 2015 amounted to NIS 764 thousand.

On the same date, the General Meeting of Bank shareholders approved the appointment of Mr. Jacob Abraham Neyman and Mr. Yossi Shachak as external Board members of the Bank for a further 3-year term.

On September 19, 2016, Mr. Avi Zigelman concluded his term in office as external Board member of the Bank. Consequently, the number of Board members having accounting and financial qualifications is 10.

On September 20, 2016, Ms. Osnat Ronen was appointed Chair, Audit Committee - replacing Mr. Avi Zigleman.

On September 20, 2016, Mr. Jacob Abraham Neyman was appointed Chair, Remuneration Committee - replacing Mr. Avi Zigleman.

On September 28, 2016 the General Meeting of Bank shareholders approved the appointment of Ms. Osnat Ronen as external Board member of the Bank for a further 3-year term.

Members of Bank management and senior officers

In the first nine months of 2016 there were no changes to members of Bank management and senior officers.

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.

Other information about the Bank and its management

Controlling shareholders

Ofer Group

On September 28, 2016, the Bank was informed by Ofer Investments that, as Administrators of the Estate of Mr. Juli Ofer RIP (hereinafter: "the Estate Administrators") notified Ofer Investments Ltd. (hereinafter: "Ofer Investments") and following resolutions by the Family Court with regard to distribution of assets in the estate of Mr. Juli Ofer RIP, on September 28, 2016 the shareholder registry of Ofer Investments was revised, so that Ms. Liora Ofer was registered as holder of Ofer Investments shares held by Mr. Juli Ofer RIP (accounting for 36.67% of the share capital of Ofer Investments). Therefore, the holdings in Ofer Investments as of this date are as follows: Liora Ofer: 51.67%; Doron Ofer: 15%; L.I.N. (Holdings) Ltd.: 33.33%.

They further noted that, as informed by the Estate Administrators, the Estate Administrators would continue, at this time, to hold the shares held by Mr. Juli Ofer RIP in Ofer Holdings (1989) Ltd. (hereinafter: "Ofer Holdings") (accounting for 36.67% of the Ofer Holdings share capital). Upon receiving confirmation from the Bank of Israel, the shareholder registry of Ofer Holdings would be revised, so that Ms. Liora Ofer would be registered as holder of Ofer Holdings shares held by Mr. Juli Ofer RIP.

Wertheim Group

On February 17, 2013, Mr. Moshe (Mosie) Wertheim informed the Bank that he had gifted to his children his shares and holdings of corporations holding Bank shares which are part of the controlling interest in the Bank, M.W.Z (Holdings) Ltd. and F&W (Registered Partnership), as follows: to Mr. David Wertheim - 63% of his holding stake, and to Ms. Drorit Wertheim - 37% of his holding stake.

According to Mr. Moshe Wertheim's notice to the Bank, this transfer of shares is subject, inter alia, to obtaining a control permit from the Governor of the Bank of Israel, pursuant to the Banking Act (Licensing), 1981.

On January 18, 2015, the Bank received notice from Mr. Wertheim, whereby a letter, received on January 15, 2015 from the Supervisor of Banks at the Bank of Israel, indicates that for legal and procedural reasons, the Supervisor of Banks is unable to recommend that the Governor of the Bank of Israel grant the requested permit.

On August 31, 2016, Mr. Moshe (Mosie) Wertheim passed away. Mr. David Wertheim and Ms. Drorit Wertheim are in negotiations with the Bank of Israel reach agreement on this matter.

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

Remuneration of officers in financial corporations act (Special permission and non-allowance of expenses for tax purposes with respect to excessive remuneration), 2016

On April 12, 2016, the Remuneration of officers in financial corporations act (Special permission and non-allowance of expenses for tax purposes with respect to excessive remuneration), 2016 was made public. The Act, whose provisions with regard to contracts approved prior to its publication date would apply as from six months after said publication date, contracting with a senior officer or employee of a financial corporation with regard to their terms of office or employment, which include remuneration for which the forecasted expenses, as calculated as of the approval date, in conformity with GAAP, would exceed NIS 2.5 million per year, is subject to special approval proceedings (including approval by the General Meeting of Bank shareholders by a special majority). The Act also stipulates that a pre-condition for approval of contracting with such employee is that the ratio of the aforementioned anticipated expense to the expense for the lowest remuneration of a full-time position paid by the financial corporation, directly or indirectly, to any employee of the corporation, must be less than 35.

The Act further stipulated an amendment to the Income Tax Ordinance, whereby the cost of payroll for any officer or employee of the financial corporation, in excess of the adjusted cap of NIS 2.5 million per year, would not be deductible from the taxable income of the financial corporation, so that the adjusted cap threshold, as noted above, would be decreased by the amount of any expenses in excess of this cap. The Act further stipulates that for calculation of the cost of payroll, as noted above, any expense with respect to retirement bonus would be deemed to have been expended in equal annual installments over the years in service for which such expense is payable.

The Act stipulates mandatory reporting by financial corporations to the Tax Authority, for any officer or employee whose cost of payroll exceeds NIS 2.5 million.
Given the uncertainty with regard to interpretation of the law with respect to past employee rights and in order to allow Bank officers additional time to review the legal status, the Bank Board of Directors resolved on June 20, after approval by the Remuneration Committee and recommendation by the Audit Committee with regard to the Chief Internal Auditor, to waive part of the notice period to which the Bank is entitled from the President and other officers reporting there to, including the Chief Internal Auditor, with regard to termination of their employment by the Bank, so that the notice period would be of 45 days instead of 3 months (and for one officer - instead of 6 months) according to their employment contracts - provided that such notice be given to the Bank by end of 2016. It was further stipulated that as from January 1, 2017, the notice period would once again be of 3 or 6 months, as the case may be.

On September 21, 2016, the Bank's Board of Directors, following a resolution by the Remuneration Committee, resolved that as a consequence of implementation of the statutory provisions, the Chairman of the Board of Directors and the Bank President & CEO would not be eligible for remuneration for which the expected cost would exceed the maximum specified in section 2(a) of the Act - NIS 2.5 million. This applies for an interim period, from October 12, 2016 (the effective start date of the Remuneration Act, with regard to such contracts) or from a later date to be specified for this matter in conformity with the Supreme Court ruling (if any), whichever is later, through the date of approval of terms of office and employment for the Bank President and for the Chairman of the Board of Directors by the qualified organs of the Bank which terms are in compliance with provisions of the Remuneration Act. For the period ended October 11, 2016, the terms of employment of the Chairman of the Bank Board of Directors and of the Bank President & CEO would remain in effect as prior to the effective start date of the Remuneration Act.

The Banking Association and the Insurance Companies Association filed an appeal with the Supreme Court with regard to validity of the aforementioned statutory provisions, against the Knesset, the Minister of Finance and others. On July 27, 2016, the Supreme Court issued a temporary injunction against the defendants, instructing them to provide justification with regard to provisions of the Act by August 29, 2016. The Court also left in place an interim order issued on July 11, 2016, whereby employees of banking corporations who would resign within 45 days from a decision on this appeal or rescinding of the interim order, would not forfeit their rights with regard to termination of employment.

On September 29, 2016, a verdict was issued on appeal, which stipulated, *inter alia*, that the required remedies with regard to provisions of sections 2(b), 4(1) and 6(a) of the Act being constitutional have been rejected and further stipulates that the ratio cap would only apply to expected remuneration expenses with respect to future work. The interim injunction issued on July 11, 2016 was extended through January 1, 2017.

At this stage, the Bank is unable to assess the impact of this Act on any specific employees or officers, if any. Furthermore, the Bank expects no material impact to the Bank's financial statements due to the Act.

FATCA (Foreign Account Tax Compliance Act)

In accordance with the Act, which became effective in the USA in March 2011, foreign financial institutions, including banks around the world, are required to provide to the IRS (US Tax Authority) information about US tax payers.

According to the Act, foreign financial institutions are required to identify all accounts of individual and entities directly or indirectly owned by Americans, and to report some of them (based on criteria specified in the Act) to the IRS.

Any foreign financial institution which would not sign an agreement with the IRS, shall be required to withhold tax at 30% on relevant payments from a US Source. The withholding shall apply to financial assets of the foreign financial institution as well as to assets of its clients.

The Act is designed to reduce tax avoidance by US persons by using accounts outside the USA and to increase tax revenues payable by US persons to the USA and increasing transparency and reporting of assets and balances of clients identified as US persons to the US IRS.

The Bank acted to implement this legislation and avoided providing consulting or any assistance with regard to how accounts are to be identified as American or with respect to US taxation, including any advice with regard to FATCA.

On April 6, 2014, the Bank received the Supervisor of Banks' letter concerning preparation for application of FATCA provisions; these require banking corporations, *inter alia*, to set policy and procedures as to the manner of application, to be approved by the Board of Directors; to appoint a responsible person and to establish a dedicated team to co-ordinate application of these provisions, reporting directly to management and providing updates to management and to the Board of Directors on the progress made, at a frequency to be determined.

The steps to be taken with regard to clients of the banking corporation in the course of such preparations would be taken with due consideration to the bank's obligations to its clients and after diligent review of the circumstances.

The letter also stipulates the cases in which a refusal to provide bank services would be considered a reasonable refusal with regard to the Banking Act (Customer Service), 1981.

On June 30, 2014, an international agreement for implementation of FATCA directives was signed by the State of Israel and by US authorities, in 1IGA format, which governs, *inter alia*, the transfer of information to US tax authorities, through the Israeli Tax Authority - which would receive information from financial institutions in Israel ("the FATCA agreement"). The agreement also stipulates concessions, including exemption from reporting for various institutions or for accounts whose attributes indicate very low risk of tax evasion.

The Income Tax Ordinance Amendment Law (Amendment no. 227), 2016 and Income Tax Regulations (Implementation of the FATCA Agreement), 2016

On July 14, 2016, the Income Tax Ordinance Amendment Law(Amendment no. 227), 2016 ("the Act") was made public. This Law was designed to enable Israel to implement the FATCA agreement and other "implementation agreements", as defined in the Law (agreements for implementation of information exchange pursuant to an international agreement, based on the procedure for automated information exchange for financial accounts, issued by the OECD). Highlights of the Law are as follows:

The Law stipulates that financial institutions should demand information from account holders, or from prospective account holders, including entities and controlling shareholders and carry out checks to verify their identity and tax residency, or their citizenship for the purpose of implementation of the FATCA agreement or any other implementation agreement, in conformity with directives to be stipulated by the Minister of Finance.

According to the Law, a financial institution should deliver to the Tax Authority Manager ("the Manager") information about clients and accounts which the Manager should deliver to a tax authority in a foreign country, as stipulated in regulations by the Minister of Finance.

The Law authorizes the Minister of Finance to specify directives with regard to notice to be given by an Israeli financial institution to clients where information about such clients and accounts held thereby is expected to be delivered to the Manager for delivery to a foreign tax authority. The Law also authorizes the Minister of Finance to specify conditions upon which the financial institution would close accounts opened after June 30, 2014, for which the financial institution was unable to obtain certifications or documents.

The Law stipulates that the Manager may impose monetary sanctions on any financial institution or person who have failed to conduct authentication as required by the Act or have failed to deliver information, or have delivered partial information, to the Manager about accounts managed with the financial institution.

The Income Tax Ordinance Amendment Law (Amendment no. 227), 2016 also includes amendments to the Prohibition of Money Laundering Act, as stated below.

The Law is effective as from the date of publication of relevant regulations Income Tax Regulations (Implementation of the FATCA Agreement), 2016 were issued on August 4, 2016. The regulations refer, *inter alia*, to issues addressed by the Law: Due diligence to be conducted by the financial institution, account classification and reporting by the financial institution to the Manager, as well as specification of transition provisions with regard to recognizing an entity as a public institution by a reporting Israeli financial institution for the purpose of implementation of these regulations. The Hebrew version of the FATCA Agreement was enclosed as Addendum I to the regulations.

On September 12, 2016, the Supreme Court resolution in case no. 8886/15, Overseas Republicans in Israel *et al v.* Government of Israel, stipulated that no information would be provided to US authorities with regard to anyone whose account has been classified as "Reportable" and fewer than 30 days have elapsed since notifying them of this fact, or if such notification has been given and reservations have been made about the notification, for as long as a response to the reservations is still pending.

The Bank applies the statutory and regulatory provisions in conformity with the schedule specified in the FATCA agreement, in the Supervisor of Banks' directives and in the Law - and is preparing to implement provisions of the amendment to the Prohibition of Money Laundering Act.

Prohibition of Money Laundering Act (Amendment no. 14) – addition of tax violations as original violations

The Amendment was published on April 7, 2016 and will become effective on October 7, 2016. As part of the fight against tax evasion, Israel has joined other countries in defining in statute severe tax violations as "original violations" with regard to the Prohibition of Money Laundering Act ("the Act"). This list includes violations of the Income Tax Ordinance, VAT Law and Land Taxation Law (Capital Gain and Purchase Taxation) which were made under aggravated circumstances (over a certain threshold, or with sophistication, or with relation to criminal or terror organizations, or made by a person other than the taxable person. These conditions should not affect the Bank's preparations).

After this Amendment, any action involving property or monies related to or arising from the aforementioned tax violations constitutes an action involving prohibited property and money laundering.

The Amendment has created a legal infrastructure for indictment and conviction of tax evaders and those who knowingly assist them (such as attorneys, bookkeepers and bankers) in money laundering violations - as well as authority to exercise enforcement pursuant to the Act and regulatory supervisory provisions and imposing of monetary sanctions - also for activity related to tax violations. The Bank is preparing to take action with all its clients, in order to ensure that funds deposited with or transferred through the Bank are reported to the tax authorities.

OECD directive concerning information exchange about financial accounts

In October 2014, the State of Israel announced that it would adopt the directive concerning automated information exchange about financial accounts for tax purposes (the OECD Common Reporting Standard) by end of 2018. The directive would be implemented by an agreement between the relevant authorities in the countries which apply the directive (such as the interstate agreement between Israel and the US authorities - the FATCA agreement).

According to the directive, financial institutions would be required to conduct an identification procedure for clients who are residents of foreign countries - and provide information about their accounts to the tax authority. The appropriate legislation changes to Israeli law for application of this procedure have yet to be made.

On March 16, 2015, the Supervisor of Banks issued directives to banking corporations on management of risk arising from cross-border client activities.

According to the Supervisor's directive, the Board of Directors of a banking corporation should review and revise its policy and ensure that management updates its procedures and controls accordingly, with regard to risk inherent in cross-border activities of clients of the banking corporation, with emphasis on tax liabilities outside the country in which the account has been opened, with reference to issues such as: Classification of high-risk clients due to cross-border activities; countries where client activities would be considered as countries at risk etc.

According to the directives, banking corporations are required to obtain from clients a statement with regard to countries in which they are tax residents, certification that they have reported their income in conformity with applicable law and an undertaking to notify them of any change in tax liability. They are also required to obtain from the client a waiver of banking confidentiality vis-a-vis overseas authorities. Banking corporations should specify procedures and a ranking of authority levels for approval of account opening, management and conducting transactions defined as associated with potential cross-border risk.

The Supervisor further determined that refusal to provide banking services would constitute reasonable refusal with regard to the Banking Act (Customer Service), 1981 in these cases:

- Opening an account for a client who does not cooperate with the banking corporation as required for implementation of the latter's policy and procedures with regard to risk associated with cross-border activities.
- Continued provision of banking services to an existing account, including funds withdrawal and change of owners or beneficiaries, in a manner which exposes the banking corporation to the risk of being considered an accomplice in bypassing foreign legislation applicable to the client.

The effective start date of these directives is March 16, 2015. As for client funds in existing accounts: For accounts classified as "at risk", the required actions should be completed by December 31, 2015 and for all other accounts - by December 31, 2016.

The Bank is acting in conformity with CRS provisions and with the Supervisor's directives and schedules specified in the directive and has revised its policies accordingly.

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 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.

The reform classified financial entities by scope of trading and imposes obligations based on this classification (swap dealer, MSP - Major Swap Participants etc.)

The rules specified in the reform apply to US entities and to non-US entities which conduct transactions of significant volume (as defined in the reform) with US entities. In view of the reform, such entities would not be able to conduct transactions involving the types of derivatives included in the Act with other financial entities (even those not subject to the Act, such as the Bank) - unless they comply with provisions of the Act.

Provisions of the Act gradually became effective, and today many transactions in OTC derivatives with US banks and with banks which are Swap Dealers or MSPs, require compliance with provisions of the Act, including with regard to settlement.

The Bank is preparing to apply the relevant provisions of the reform so as to be able to conduct transactions involving OTC derivatives with entities subject to the Act.

Concurrently with the Dodd Frank reform launched in the USA, a similar reform was launched in Europe - European Market Infrastructure Regulation ("**EMIR**")

The EMIR reform, similar to the Dodd Frank reform, calls for mandatory central settlement, increased collateral requirements and reporting of executed transactions to designated data repositories.

The EMIR reform applies to all financial entities in the EU and therefore should impact Bank operations involving derivatives - since the Bank has significant business with European banks. Some provisions of this reform are already in effect (such as: the mandatory reporting provisions) and the central settlement provisions expected to become effective gradually for entities such as the Bank, as from December 21, 2016 with mandatory settlement of transactions dated from May 31, 2016 through the settlement date (December 21, 2016) – the Front loading directive. The Bank is preparing to apply the reform provisions applicable to the Bank in conformity with the schedule stipulated in legislation and is preparing for settlement of transactions where the other party to the transaction is subject to regulation. The Bank has contracted settlement agreements with clearinghouse members, which would allow the Bank to settle transactions which require settlement in a central clearinghouse.

Along with rules applicable to transactions subject to central settlement, the regulations also stipulate new, binding rules with regard to margins (Variation Margin and Initial Margins) for transactions which would not be settled. In this area, too, there are parallels in the USA and in Europe, which should result in rules of conduct for the derivatives market (both for transactions to be settled and for transactions which would not be settled) being uniform and supervised by the relevant regulators. Provisions with regard to Variation Margin should become effective for regulated entities such as the Bank as from March 1, 2017. The Bank is preparing in conformity with the schedules stipulated by regulations.

Credit Data Act, 2016

On April 12, 2016, the Act was made public, to become effective on October 12, 2018 if not delayed (to April 12, 2020 at the latest).

The aforementioned act reforms the market for credit data service. When this act would become effective, the Credit Data Service Act, 2002 would be rescinded.

This act is relevant for the Bank, both due to the Bank being an "information source", required to provide credit data for Bank clients to a central information repository to be created for this purpose at the Bank of Israel and due to the Bank being a "credit data user", authorized to receive credit data from the credit bureaus.

Key provisions of the act include:

A client may ask the Bank of Israel to exclude their credit data from the repository. A client may not file such a request if credit data has been provided by an information source to the repository, which clearly indicate that the client has failed to make payments they have committed to.

Credit data for a client would only be provided to a credit provider (such as the Bank) if:

- The credit provider needs the credit data for contracting a credit transaction with that client or to ensure fulfillment of conditions of such transaction;
- The client has explicitly consented for credit data about them, included in the repository, to be provided to the credit bureau for the purpose of compiling a credit report to be provided to the credit provider.

A credit provider may ask the credit bureau to provide an indication as to whether credit should be extended to the client for contracting a credit transaction with this client - provided that they have informed the client of this fact in advance.

As part of the Bank's preparations for implementation of this act, the Bank is currently gathering information to be provided to the Bank of Israel repository.

Electronic Settlement of Checks Act, 2016 (Legislation Register 2528)

The Act was made public on February 10, 2016 and will become effective on August 10, 2016, unless the banks would not be prepared, in which case the Minister of Justice, with consent of the Governor of the Bank of Israel, may delay the effective start date of the Act by a further six months.

The Act is designed to transition from physical settlement of checks to electronic settlement. The objective of electronic settlement is to streamline the check settlement process, reduce cost of check transportation and eliminate the need for retaining the checks in physical storage for seven years. Note that electronic settlement only applies to checks deposited for collection with the collecting bank or transferred for collection at the collecting bank in a computer file, rather than in physical format. For computer-based checks (including on cellular devices) transferred for collection, these are only checks made (in writing or in printed letters) to the payee only and which may not be endorsed to another.

Since checks are settled electronically and the drawee bank does not physically "see" the check, the collecting bank is responsible for careful verification of the checks, ensuring that no prohibited changes were made to them, including verification of endorsements, their correctness and validity.

The computer output of this settlement would constitute acceptable evidence to prove the veracity of its content in any legal proceeding. The Governor of the Bank of Israel will specify rules and provisions with regard to computer scanning of checks, producing the computer check output and rules for mandatory retention of computer checks.

The Governor, with consent of the Minister of Public Security, will determine the duration for retention of the actual checks by the bank.
The bank is liable to their client for any damage which may be incurred due to failure to retain the actual check.

Mutual Investment Regulations (Offering Units of Foreign Fund), 2016 and amendments to Mutual Investment Regulations (Distribution Commissions) (Amendment), 2016 (hereinafter: "Distribution commissions regulations"):

The regulations specify the conditions for offering units of a foreign fund. These include appointment of a representative in Israel, to serve as liaison between the foreign fund manager, ISA and Israeli unit holders. According to the regulations, public offering of units in Israel may only take place after ISA has authorized these to be offered or listed for trading on the stock exchange (after obtaining consent of the stock exchange for this listing) and the foreign fund prospectus has been made public on the distribution website whereby the units are being offered.
According to the amendment to the distribution commission regulations, the foreign fund manager may pay a commission to distributors with respect to foreign fund units which ISA has authorized to be offered to the public - except for foreign fund units which are listed for trading on the stock exchange. A distributor may charge the unit holder a commission, equal to the distribution commission which they could have charged the fund manager or the foreign fund manager had they so agreed, provided that the fund manager or the foreign fund manager had not contracted an agreement with the distributor for payment of a distribution commission. For a fund or foreign fund listed for trading on the stock exchange and for an index fund, the distributor may charge a commission to the unit buyer or to the seller - exclusively for conducting the transaction. The commission charged by the distributor would not vary due to the fact that fund managers, who had not contracted with them an agreement for payment of distribution commission, have issued the units or due to the fund being a foreign fund. Furthermore, in case of a money market fund, no commission may be charged to the unit holder fir purchase, holding or redemption of a unit, if the distributor has signed a distribution agreement with respect to a money market fund. Application of this directive has no material impact on the Bank's financial statements.

Banking Decree (Customer Service) (Supervision of Standard Reporting Service Requested by the Client), 2016

The Decree was made public on July 19, 2016 and became effective on August 1, 2016. According to the Decree, a "Standard Reporting Service Requested by the Client" (section 2(a)(4)(a) of the price list for individuals / small businesses) is considered a supervisable service and the commission may not exceed NIS 15 (compared to NIS 36 at the Bank, prior to the Decree becoming effective). Application of this decree has no material impact on the Bank's financial statements.

Banking Rules (Customer Service) (Commissions) (Amendment), 2016

The amendment to the rules was made public on July 19, 2016 and became effective on August 2, 2016. According to the amendment, the Bank should assign, by its own initiative, any client who is a senior citizen or a person with disabilities, to the basic commission track if charged for basic transactions (transactions by teller and transactions by direct channel) an amount higher than the basic commission track cost in any month during the fiscal year.

No commission may be charged to any client for six months after they have closed their account, other than for delivery of one copy of notice sent by media to the client pursuant to the law during the six months prior to the account closing. Application of this amendment has no material impact on the Bank's financial statements.

Supervisor of Banks

Streamlining operations of the banking system in Israel

On January 12, 2016, the Supervisor of Banks issued a letter with regard to streamlining operations of the banking system in Israel. According to 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. The Bank is studying the implications of provisions of this letter.

Bank's credit rating

On January 21, 2016, Standard & Poor's Maalot (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook.

The rating of subordinated notes issued by Tefahot Issuance is one rank below the issuer rating, i.e. rated ilAA+. These subordinated notes qualify as Tier II capital under transitional provisions of Basel III.

The subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, are rated ilA+.

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

On June 30, 2015, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 and raised the outlook from Negative to Stable.

Addendums to condensed financial statements

Addendum I - Revenue and Expense Rates - of the Bank and its Subsidiaries[(1)]

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	Three months ended September 30, 2016			Three months ended September 30, 2015		
	Average balance[(2)]	interest revenues	Revenue rate	Average balance[(2)]	interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public[(3)]						
In Israel	163,029	[(7)]1,508	3.75	150,924	[(7)]1,421	3.82
Outside of Israel	3,267	48	6.01	2,636	25	3.85
Total	166,296	1,556	3.80	153,560	1,446	3.82
Loans to the Government						
In Israel	210	1	1.92	281	2	2.88
Outside of Israel	146	1	2.77	-	-	-
Total	356	2	2.27	281	2	2.88
Deposits with banks						
In Israel	666	-	-	2,755	1	0.15
Outside of Israel	303	2	2.67	431	-	-
Total	969	2	0.83	3,186	1	0.13
Deposits with central banks						
In Israel	30,951	7	0.09	19,756	4	0.08
Outside of Israel	4,488	6	0.54	3,799	2	0.21
Total	35,439	13	0.15	23,555	6	0.10
Securities loaned or purchased in resale agreements						
In Israel	52	-	-	82	-	-
Outside of Israel	-	-	-	-	-	-
Total	52	-	-	82	-	-
Debentures held to maturity and available for sale[(4)]						
In Israel	7,372	21	1.14	12,321	34	1.11
Outside of Israel	1,144	5	1.76	1,133	4	1.42
Total	8,516	26	1.23	13,454	38	1.13
Debentures held for trade[(5)]						
In Israel	381	2	2.12	692	2	1.16
Outside of Israel	-	-	-	-	-	-
Total	381	2	2.12	692	2	1.16
Total interest-bearing assets	212,009	1,601	3.06	194,810	1,495	3.11
Receivables for credit card operations	3,174			3,094		
Other non-interest bearing assets[(6)]	3,857			2,028		
Total assets	219,040			199,932		
Total interest-bearing assets attributable to operations outside of Israel	9,348	62	2.68	7,999	31	1.56

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 - assets

	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Average balance(2)	interest revenues	Revenue rate	Average balance(2)	interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public(3)						
In Israel	159,641	(7)3,826	3.21	147,548	(7)3,660	3.32
Outside of Israel	3,182	112	4.72	2,563	76	3.97
Total	162,823	3,938	3.24	150,111	3,736	3.33
Loans to the Government						
In Israel	182	3	2.20	292	6	2.75
Outside of Israel	153	5	4.38	-	-	-
Total	335	8	3.20	292	6	2.75
Deposits with banks						
In Israel	1,004	1	0.13	2,365	4	0.23
Outside of Israel	302	3	1.33	453	-	-
Total	1,306	4	0.41	2,818	4	0.19
Deposits with central banks						
In Israel	29,640	19	0.09	19,368	17	0.12
Outside of Israel	3,847	15	0.52	3,802	7	0.25
Total	33,487	34	0.14	23,170	24	0.14
Securities loaned or purchased in resale agreements						
In Israel	112	-	-	222	-	-
Outside of Israel	-	-	-	-	-	-
Total	112	-	-	222	-	-
Debentures held to maturity and available for sale(4)						
In Israel	7,564	53	0.94	11,906	105	1.18
Outside of Israel	1,140	14	1.64	1,152	12	1.39
Total	8,704	67	1.03	13,058	117	1.20
Debentures held for trade(5)						
In Israel	396	6	2.03	836	9	1.44
Outside of Israel	-	-	-	-	-	-
Total	396	6	2.03	836	9	1.44
Total interest-bearing assets	207,163	4,057	2.62	190,507	3,896	2.74
Receivables for credit card operations	3,122			3,019		
Other non-interest bearing assets(6)	3,978			5,665		
Total assets	214,263			199,191		
Total interest-bearing assets attributable to operations outside of Israel	8,624	149	2.31	7,970	95	1.59

See remarks below.

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

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	Three months ended September 30, 2016			Three months ended September 30, 2015		
	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	8,444	11	0.52	5,990	6	0.40
Term deposits	124,616	330	1.06	111,559	361	1.30
Outside of Israel						
On-call	637	-	-	762	-	-
Term deposits	4,124	8	0.78	1,190	5	1.69
Total	137,821	349	1.02	119,501	372	1.25
Deposits from the Government						
In Israel	52	-	-	60	1	6.84
Outside of Israel	-	-	-	-	-	-
Total	52	-	-	60	1	6.84
Deposits from banks						
In Israel	490	4	3.31	1,420	4	1.13
Outside of Israel	-	-	-	-	-	-
Total	490	4	3.31	1,420	4	1.13
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	-	-	-	-	-	-
Debentures and subordinated notes						
In Israel	24,857	191	3.11	23,156	179	3.13
Outside of Israel	-	-	-	-	-	-
Total	24,857	191	3.11	23,156	179	3.13
Other liabilities						
In Israel	64	1	6.40	671	6	3.63
Outside of Israel	-	-	-	-	-	-
Total	64	1	6.40	671	6	3.63
Total interest-bearing liabilities	163,284	545	1.34	144,808	562	1.56
Non-interest bearing deposits from the public	33,845			33,845		
Payables for credit card transactions	3,174			3,094		
Other non-interest bearing liabilities[(8)]	5,591			6,134		
Total liabilities	205,894			187,881		
Total equity resources	13,146			12,051		
Total liabilities and equity resources	219,040			199,932		
Interest margin			1.71			1.54
Net return[(9)] on interest-bearing assets						
In Israel	202,661	1,002	1.99	186,811	907	1.96
Outside of Israel	9,348	54	2.33	7,999	26	1.31
Total	212,009	1,056	2.01	194,810	933	1.93
Total interest-bearing liabilities attributable to operations outside of Israel	4,761	8	0.67	1,952	5	1.03

See remarks below.

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

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	7,695	15	0.26	6,322	(1)	(0.02)
Term deposits	118,675	792	0.89	113,284	787	0.93
Outside of Israel						
On-call	611	-	-	808	-	-
Term deposits	4,035	22	0.73	2,480	18	0.97
Total	131,016	829	0.84	122,894	804	0.87
Deposits from the Government						
In Israel	54	1	2.48	58	3	6.96
Outside of Israel	-	-	-	-	-	-
Total	54	1	2.48	58	3	6.96
Deposits from banks						
In Israel	1,003	8	1.06	1,034	15	1.94
Outside of Israel	6	-	-	-	-	-
Total	1,009	8	1.06	1,034	15	1.94
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	116	-	-
Outside of Israel	-	-	-	-	-	-
Total	-	-	-	116	-	-
Debentures and subordinated notes						
In Israel	24,394	387	2.12	21,218	359	2.26
Outside of Israel	-	-	-	-	-	-
Total	24,394	387	2.12	21,218	359	2.26
Other liabilities						
In Israel	126	2	2.12	792	1	0.17
Outside of Israel	-	-	-	-	-	-
Total	126	2	2.12	792	1	0.17
Total interest-bearing liabilities	156,599	1,227	1.05	146,112	1,182	1.08
Non-interest bearing deposits from the public	36,511			30,424		
Payables for credit card transactions	3,122			3,019		
Other non-interest bearing liabilities[(8)]	5,189			7,927		
Total liabilities	201,421			187,482		
Total equity resources	12,842			11,709		
Total liabilities and equity resources	214,263			199,191		
Interest margin			1.57			1.66
Net return[(9)] on interest-bearing assets						
In Israel	198,539	2,703	1.82	182,537	2,637	1.93
Outside of Israel	8,624	127	1.97	7,970	77	1.29
Total	207,163	2,830	1.83	190,507	2,714	1.90
Total interest-bearing liabilities attributable to operations outside of Israel	4,652	22	0.63	3,288	18	0.73

See remarks below.

Interest Revenue and Expense Rates - of the Bank and its Subsidiaries[1] - continued

Reported amounts (NIS in millions)

C. Average balances and interest rates - additional information about interest-bearing assets and liabilities attributed to operations in Israel

	Three months ended September 30, 2016			Three months ended September 30, 2015		
	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	140,555	923	2.65	120,694	863	2.89
Total interest-bearing liabilities	104,744	(149)	(0.57)	85,560	(145)	(0.68)
Interest margin			2.08			2.21
Israeli currency - linked to the CPI						
Total interest-bearing assets	50,557	537	4.32	52,683	521	4.01
Total interest-bearing liabilities	36,584	(329)	(3.65)	37,381	(353)	(3.83)
Interest margin			0.67			0.18
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	11,549	79	2.76	13,434	80	2.40
Total interest-bearing liabilities	17,195	(59)	(1.38)	19,915	(59)	(1.19)
Interest margin			1.38			1.21
Total - operations in Israel						
Total interest-bearing assets	202,661	1,539	3.07	186,811	1,464	3.17
Total interest-bearing liabilities	158,523	(537)	(1.36)	142,856	(557)	(1.57)
Interest margin			1.71			1.60

See remarks below.

Interest Revenue and Expense Rates - of the Bank and its Subsidiaries[1] - continued

Reported amounts (NIS in millions)

C. Average balances and interest rates - additional information about interest-bearing assets and liabilities attributed to operations in Israel

	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	135,288	2,665	2.64	116,360	2,583	2.97
Total interest-bearing liabilities	97,943	(450)	(0.61)	84,410	(412)	(0.65)
Interest margin			2.03			2.32
Israeli currency - linked to the CPI						
Total interest-bearing assets	51,179	1,019	2.66	52,499	985	2.51
Total interest-bearing liabilities	36,332	(593)	(2.18)	37,459	(615)	(2.20)
Interest margin			0.48			0.31
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	12,072	224	2.48	13,678	233	2.28
Total interest-bearing liabilities	17,672	(162)	(1.22)	20,955	(137)	(0.87)
Interest margin			1.26			1.41
Total - operations in Israel						
Total interest-bearing assets	198,539	3,908	2.63	182,537	3,801	2.79
Total interest-bearing liabilities	151,947	(1,205)	(1.06)	142,824	(1,164)	(1.09)
Interest margin			1.57			1.70

Interest Revenue and Expense Rates - of the Bank and its Subsidiaries[1] - continued

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	For the three months ended September 30, 2016 - compared to the three months ended September 30, 2015			For the nine months ended September 30, 2016 - compared to the nine months ended September 30, 2015		
	Increase (decrease) due to change[10]			Increase (decrease) due to change[10]		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	112	(25)	87	290	(124)	166
Outside of Israel	9	14	23	22	14	36
Total	121	(11)	110	312	(110)	202
Other interest-bearing assets						
In Israel	3	(15)	(12)	8	(67)	(59)
Outside of Israel	2	6	8	-	18	18
Total	5	(9)	(4)	8	(49)	(41)
Total interest revenues	126	(20)	106	320	(159)	161
Interest-bearing liabilities						
Deposits from the public						
In Israel	40	(66)	(26)	43	(22)	21
Outside of Israel	5	(2)	3	6	(2)	4
Total	45	(68)	(23)	49	(24)	25
Other interest-bearing liabilities						
In Israel	1	5	6	37	(17)	20
Outside of Israel	-	-	-	-	-	-
Total	1	5	6	37	(17)	20
Total interest expenses	46	(63)	(17)	86	(41)	45

(1) Information in these tables is after effect of hedging financial derivative instruments.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment - based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debts not accruing interest revenues.
(4) From (to) the average balance of debentures available for sale, for the three-month periods ended September 30, 2016 and September 30, 2015, and for the nine-month periods ended September 30, 2016 and September 30, 2015, 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 14 million, NIS (38) million, NIS 7 million and NIS 0 million, respectively.
(5) From the average balance of debentures held for trade, for the three-month periods ended September 30, 2016 and September 30, 2015, and for the nine-month periods ended September 30, 2016 and September 30, 2015, we deducted the average balance of unrealized gain from adjustment to fair value of debentures held for trade amounting to NIS 4 million, NIS (9) million, NIS (3) million and NIS (3) million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 62 million, NIS 106 million, NIS 218 million and NIS -368 million were included in interest revenues for the three-month periods ended September 30, 2016 and September 30, 2015 and for the nine-month periods ended September 30, 2016 and September 30, 2015, respectively.
(8) Includes derivative instruments.
(9) Net return - net interest revenues divided into total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Glossary and index of terms included on the financial statements

Below is a summary of terms included on the financial statements and index for these terms

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

Term	Explanation	Location on the financial statements
CRO - Chief Risks Officer	Chief Risks Officer A member of Bank management, heads the Risks Management Division at the Bank. The CRO is responsible for the risks management function, for the comprehensive risks management framework across the Bank and for other roles as specified in the Supervisor of Banks' directives.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
ICAAP - Internal Capital Adequacy Assessment Process	Internal process for assessment of overall capital adequacy at the Bank. This process includes, *inter alia*, setting capital targets, capital planning processes and review of capital status under various stress scenarios. This process is part of Pillar 2 of the Basel II directive.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
ICAAR - Internal Capital Adequacy Assessment Report	The summary report for the ICAAP process.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
KPIs - Key performance indicators	Key performance indicators, used as a tool to formulate insights about the status of process execution across the Bank.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
KRI - Key risk indicators	Key risk indicators are risk benchmarks and/or statistical benchmarks used to monitor key factors associated with key risks factors at the banking corporation, in order to try and diagnose risk materialization, as early as possible.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
VaR	A model used to estimate overall exposure to diverse market risk factors. The VaR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.	Chapter "Risks Overview" in the Report of the Board of Directors and Management

Term	Explanation	Location on the financial statements
Basel II	A framework for assessment of capital adequacy and risks management, published in its final version by the Basel Committee on Bank Supervision in 2006.	This term appears multiple times.
Basel III	A framework for assessment of capital adequacy and risks management, initially published by the Basel Committee on Bank Supervision in 2010.	This term appears multiple times.
Economic value approach - EVE - Economic Value of Equity	The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Credit rating (score)	A credit rating is a score assigned to a borrower, as part of assessment of its capacity to fulfill its obligations when due and in full.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Borrower rating	A rating which reflects the Bank's risk assessment for a borrower or a counter-party to a transaction.	This term appears multiple times.
Standard approach	An approach used to calculate the required capital with respect to credit risk, market risk or operating risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks.	Chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Supervisory capital (total capital)	Supervisory capital consists of two tiers: - Tier I equity , which includes Tier I shareholder equity and additional Tier I equity. - Tier 2 equity. As defined in Proper Banking Conduct Directive 202 "Measurement and capital adequacy - supervisory capital".	Chapter "Overview, targets and strategy" and chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management - term included in Notes to the financial statements
Business continuity	A situation where the Bank operates continuously and with no disruption.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Basel Committee	The Basel Committee is a forum for cooperation on matters of bank supervision. The Committee's objectives are to increase understanding in key supervision issues and	This term appears multiple times.

Term	Explanation	Location on the financial statements
	to improve the quality of supervision over banking corporations around the world. The Committee is mostly known for the international standards on capital adequacy, core principles for effective supervision over banks and for coordination between different countries in order to create cross-border supervision over banks world-wide.	
External credit rating agencies	Rating agencies which provide external credit ratings and recognized by the Supervisor of Banks, in conformity with specified qualification requirements. Qualified external credit rating agencies are: S&P, Moody's and Fitch.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Minimum capital ratio	This ratio reflects the minimum supervisory capital requirement which the Bank is required to maintain in conformity with Proper Banking Conduct Directive 201.	Chapter "Overview, targets and strategy" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Stress tests	A title for various methods used to assess the financial standing of a banking corporation under a scenario.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Risks management framework	A framework for risks management, which includes policy, procedures, measurement, risk appetite and controls for risks management.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Risks Document	A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The Risks Document is compiled and sent to the Board of Directors quarterly.	Chapter "Overview, targets and strategy" and chapter "Risks overview" in the Report of the Board of Directors and Management
Pillar 1	The first pillar of the Basel II project, includes calculation of minimum capital requirements with respect to credit risk (including counter-party risk), market risk (negotiable portfolio only) and operating risk.	Chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management

Term	Explanation	Location on the financial statements
Pillar 2	The second pillar of the Basel II project, refers to the Supervisory Review Process. This part consists of the following basic principles: The Bank shall conduct the ICAAP process, as defined above. The Supervisor shall conduct a process to assess the ICAAP process conducted by the Bank, to review the Bank's capacity to monitor and achieve supervisory capital ratios. The Bank is expected to operate above the specified minimum capital ratios.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management
Pillar 3	The third pillar of the Basel II project, designed to promote market discipline by developing a set of disclosure requirements, which would allow market participants to assess the capital, risk exposure and risk assessment processes - and use these to assess the Bank's capital adequacy.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management
Risk assets	These consist of credit risk, operating risk and market risk, calculated using the standard approach as stated in Proper Banking Conduct Directives 201-211.	This term appears multiple times.
Risk	Risk is the potential (likelihood) of impact to capital, profit, stability of the corporation or its capacity to achieve its business objectives.	This term appears multiple times.
Cross-border risk	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.	Chapter "Overview, targets and strategy", chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management

Term	Explanation	Location on the financial statements
Credit Valuation Adjustment risk (CVA)	CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss due to mark-to-market with respect to expected counter-party risk for OTC derivatives. This means - loss due to impairment of fair value of derivatives, due to an increase in counter-party credit risk (such as: lower rating).	Term included in Notes to the financial statements
Inflation risk	Exposure to loss due to the effect of changes in the Consumer Price Index on profit or capital of the corporation, including through effect on off-balance sheet items.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Strategic risk	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.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Credit risk	Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank.	This term appears multiple times.
Counter-party credit risk	The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.	Chapter "Risks Overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Reputation risk	Reputation is a set of concepts, ideas and beliefs by interested parties about the corporation, based on their experience and expectations. Reputation risk is the risk to corporate profit, stability or capacity to achieve its objectives, due to impact to reputation which may arise from practices applied by the corporation, its financial standing or negative publicity (whether true or false).	Chapter "Overview, targets and strategy" and chapter "Risks overview" in the Report of the Board of Directors and Management

Term	Explanation	Location on the financial statements
Financing risk	Financing risk, or funding liquidity risk, is the risk that the corporation would not be able to efficiently service its cash flows and collateral needs, both expected and unexpected, both present and future, without this affecting its day-to-day operations or its financial standing.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Legal risk	Legal risk is part of operating risk and includes the 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).	Chapter "Overview, targets and strategy" and chapter "Risks overview" in the Report of the Board of Directors and Management
Liquidity risk	The risk to profit and stability of the banking corporation, due to its inability to satisfy its liquidity requirements.	Chapter "Overview, targets and strategy" and chapter "Risks overview" in the Report of the Board of Directors and Management
Compliance and regulatory risk	The risk of imposition of legal or regulatory sanctions, material financial loss or impact to Bank image, which the Bank may incur due to its failure to comply with compliance provisions (such as: statutory provisions, regulation, standards and conduct commonly expected from the corporation).	Chapter "Overview, targets and strategy" and chapter "Risks overview" in the Report of the Board of Directors and Management
Interest risk	The risk to Bank profit (change in revenues) or to Bank capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations 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. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).	Chapter "Overview, targets and strategy" and chapter "Risks overview" in the Report of the Board of Directors and Management
Market risk	This is the risk of loss in 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).	This term appears multiple times.

Term	Explanation	Location on the financial statements
Operating risk	The risk of loss due to inappropriateness or failure of internal processes, people and systems or due to external events. This risk is inherent in all products, activities, processes and systems.	This term appears multiple times.
Risk profile	Assessment of the aggregate risk inherent in exposures and business operations of the Bank at a certain point in time.	Chapter "Overview, targets and strategy" and chapter "Risks overview" in the Report of the Board of Directors and Management
LTV ratio	The ratio between the approved facility when extended and the asset value.	This term appears multiple times.
Three lines of defense	The risks management concept is divided into three lines of defense: First line – risks takers: Business line management is responsible for identification, assessment, measurement, monitoring, mitigation and reporting of the inherent risks. It is also responsible for management of an appropriate control environment for risk management. Second line – risk controllers: The risks management function is tasked with complementing the risks management activities by the line of business. Responsible, *inter alia*, for planning and development of a risks management framework and for challenging risks management by the lines of business. Third line – Internal Audit conducts an independent review and challenges the controls, processes and systems used for risks management.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Risk appetite	A decision made by the Bank with regard to the risk level which the banking corporation is willing to assume, given the risk / reward attributes.	Chapter "Overview, targets and strategy", chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management

2. Terms with regard to banking and finance

Term	Meaning	Report chapter
OTC - Over the Counter	Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.	Term included in Notes to the financial statements
Credit control	A review process designed to assess performance of the team involved in extending credit and the overall status of the credit portfolio. This process is retroactively conducted by the Bank's Credit Control Department; the review includes a review of rating reliability and appropriateness of classification and provision.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Provision for credit losses	A provision designed to cover expected credit losses in the Bank's credit portfolio. These losses reflect the net write-off amount which is likely to materialize for a loan or loan group, given the facts and circumstances as of the evaluation date.	This term appears multiple times.
Financial covenants	Covenants agreed between lender and borrower in the loan contract, which specify suspensive conditions for extending credit, such as achieving certain financial ratios. Occasionally, a breach of such condition may give cause to demand immediate repayment of the credit.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management
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).	Chapter "Overview, targets and strategy" in the Report of the Board of Directors and Management - term included in Notes to the financial statements

Term	Meaning	Report chapter
Debt under special supervision	Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
Inferior debt	Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.	Chapter "Explanation and analysis of results and business standing" and chapter "Risks overview" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
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.	This term appears multiple times.
Problematic debt	Debt classified under one of the following negative classifications: special supervision, inferior or impaired.	This term appears multiple times.
Loan repayment to income ratio	The ratio between monthly payment and available monthly income. This ratio is a benchmark used for assessment of the current repayment capacity of the borrower over the term of the loan.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Minimum liquidity coverage ratio	The ratio of liquidity cushion to net forecasted cash outflows for the next month, under various scenarios.	Chapter "Risks Overview" in the Report of the Board of Directors and Management

Term	Meaning	Report chapter
Financial project assistance	A method for financial project assistance (closed assistance) is a financing method where the borrower expects to be repaid primarily from expected project receipts, which are both the repayment source and the collateral for exposure. As part of this method, the financed projects are closely monitored.	Chapter "Explanation and analysis of results and business standing" in the Report of the Board of Directors and Management
Average effective duration	The average term to maturity of debentures. Measured in years, by weighting principal and interest payments for the debenture over its term to final maturity. The average effective duration of a debenture reflects the financial instrument's sensitivity to changes in interest rates. Average effective duration is calculated as the ratio between the weighted average debenture payouts to its price.	Chapter "Risks Overview" in the Report of the Board of Directors and Management
Derivatives	A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.	This term appears multiple times.
Asset and Liability Management (ALM)	A technique applied by organizations to align the composition of assets and liabilities in order to ensure an adequate return on equity. This means management of risks arising from gaps between the composition of assets and liabilities, at the business level. This includes processes for management of market and liquidity risks, setting shadow pricing etc.	Term included in Notes to the financial statements
Banking portfolio / non-negotiable portfolio	The banking portfolio, which is the Bank's primary activity, consists of all transactions not included in the negotiable portfolio, including financial derivatives used to hedge the banking portfolio.	Chapter "Risks Overview" in the Report of the Board of Directors and Management

Term	Meaning	Report chapter
Negotiable portfolio	The Bank's negotiable portfolio includes the portfolios managed as market maker in the trading room, as well as portfolios of securities held for trade and transactions in derivatives conducted as part of a specific market strategy, managed by Financial Management under specific limitations on exposure and profitability.	Chapter "Risks Overview" in the Report of the Board of Directors and Management

3. Terms with regard to regulatory directives

Term	Meaning	Report chapter
FATCA - Foreign Accounts Tax Compliance Act	The US Foreign Accounts Tax Compliance Act stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).	Chapter "Risks Overview" in the Report of the Board of Directors and Management
LCR - Liquidity Coverage Ratio	Liquidity Coverage Ratio is defines as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.	Chapter "Risks Overview" in the Report of the Board of Directors and Management

4. Other terms

Term	Meaning	Report chapter
Corporate governance	The ensemble of relations between management, the Board of Directors, shareholders and interested parties which form the structure used to determine Bank objectives and the means to achieve and to monitor these objectives. Corporate governance also supports definition of roles and responsibilities as well as the decision-making process.	This term appears multiple times.

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