Condensed Financial Statements as of March 31, 2016

Main Table of Contents

Condensed Report of the Board of Directors and Management	**7**
Overview, targets and *strategy*	9
Explanation and analysis of results and business standing	16
Risk overview	58
Policies and critical accounting estimates, controls and procedures	110
Certifications with regard to disclosure on the condensed financial statements	**113**
Independent Auditors' review report	**115**
Condensed Financial Statements	**117**
Corporate governance, other information about the Bank business and its management and addendums	**229**
Glossary and index of terms included in the condensed financial statements	**238**

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 for Financial Statements as of March 31, 2016

Table of Contents

Introduction	**7**
Forward-Looking Information	**7**
Overview, targets and strategy	**9**
Condensed financial information and key performance indicators for the Bank Group	9
Major risks	10
Business goals and strategy	11
Significant developments in business activities	11
Developments in capital structure	12
Developments in financing sources	13
Significant developments in management of business operations	15
Significant developments in human resources and administration	15
Other matters	15
Explanation and analysis of results and business standing	**16**
Trends, phenomena and material changes	16
The General Environment and Effect of External Factors on the Bank Group	16
Independent Auditors' review report	21
Events after the balance sheet date	21
Material developments in revenues, expenses and other comprehensive income	21
Summary of business results - profit and profitability	21
Analysis of developments in revenues, expenses and other comprehensive income	22
Analysis of developments in assets, liabilities, equity and capital adequacy	29
Assets and liabilities	29
Capital, capital adequacy and leverage	35
Other Off Balance Sheet Activity	40
Financial Information on Operating Segments	41
Major Investees	56
Risk overview	**58**
Overview of risks and manner of managing them	58
Credit risk	62
Developments in problematic credit risk	65
Market risk and interest risk	85
Operating risk	98
Liquidity and financing risk	102
Compliance and regulatory risk	104
Cross-border risk	105
Prohibition of money laundering	105
Reputation risk	106
Strategic risk	107
Risk factor assessment	109
Policies and critical accounting estimates, controls and procedures	**110**
Policies and critical accounting estimates	110
Controls and Procedures	112

List of tables included on the Condensed Report of the Board of Directors and Management

Condensed financial information and key performance indicators for the Bank Group	9
is information about official exchange rates and changes there to	18
Analysis of development in financing revenues	22
Total financing revenues by supervisory operating segment	23
Average balances of interest-bearing assets attributable to operations in Israel in the various linkage segments	23
Interest spreads (difference between interest income on assets and interest expenses on liabilities) based on average balances, attributable to operations in Israel in the various linkage segments	24
Development of expenses with respect to credit losses	24
Details of expenses with respect to credit losses by supervisory operating segments of the Group	25
Cost-Income ratio information	26
Development of Group return on equity and ratio of Tier I capital to risk elements, liquidity coverage ratio and leverage ratio at the end of the quarter	28
Earnings per share	28
Development of key balance sheet items for the Bank Group	29
Loans to the public, net by linkage basis	29
Loans to the public, net by supervisory operating segments	30
Problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debt, credit risk and provision for credit loss	30
Development of key off balance sheet items for the Bank Group	31
Composition of Group securities by portfolio	32
Distribution of Group security portfolio by linkage segment	33
Distribution of Group security portfolio by issuer type	33
Composition of deposits from the public by linkage segments	34
Composition of deposits from the public by supervisory operating segments	34
Evolution of deposits from the public for the Group by depositor size	35
Below is the composition of shareholder equity	35
Information about supervisory capital and risk assets on the consolidated report	36
Development of Group ratio of capital to risk elements	38
Details of dividends distributed by the Bank	39
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	40
Financial Information by Supervisory Operating Segments	46
Operating results in the household segment	47
Operating results of private banking segment	49
Operating results of micro and small business segment	50

Operating results of medium business	51
Operating results of large business segment	52
Operating results of institutional investor segment	53
Operating results of the financial management segment	54
Operating results of overseas operations	55
Major borrowers	63
Credit for financing equity transactions	65
Credit to leveraged companies	65
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 debt, credit risk and provision for credit loss	65
Major risk benchmarks related to credit quality	66
Analysis of movement in balance of provision for credit losses	66
Major risk benchmarks related to provision for credit losses	67
Credit Risk by Economic Sector	68
Exposure to Foreign Countries	74
Credit exposure to foreign financial institutions	77
Volume of mortgages granted by the Household segment	80
Details of various risk attributes of the housing loan portfolio	83
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	84
VaR for the Bank Group	86
Effect of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms	87
Exposure of the Bank and its subsidiaries to changes in interest rates	88
Fair value of financial instruments before impact of hypothetical changes in interest rates	96
Net fair value of financial instruments, after impact of changes in interest rates	96
Analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI	97
Mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor	109

Condensed Report of the Board of Directors and Management for Financial Statements as of March 31, 2016

Introduction

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on May 18, 2016, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risk Management Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of March 31, 2016.

The Report of the Board of Directors and Management, the Risk 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 practices by 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 new format stipulated by the Supervisor of Banks.

As part of the new format of the financial statements, additional information for the financial statements is provided on the Bank website:

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

This additional information includes a detailed Risk 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).

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					All of
	31.3.2016	31.12.2015	30.9.2015	30.6.2015	31.3.2015	2015
	NIS in millions					
Profit and profitability - major items						
Interest revenues, net	760	820	933	1,082	699	3,534
Non-interest financing revenues (expenses)	67	127	151	(45)	125	358
Commissions and other revenues	454	390	358	375	377	1,500
Total revenues	1,281	1,337	1,442	1,412	1,201	5,392
Expenses with respect to credit losses	3	75	61	40	35	211
Operating and other expenses	779	819	821	825	(1)761	3,226
Profit before provision for taxes	499	443	560	547	(1)405	1,955
Provision for taxes	203	197	213	204	(1)147	761
Net profit[(2)]	288	240	316	330	(1)248	1,134

	As of				
	31.3.2016	31.12.2015	30.9.2015	30.6.2015	31.3.2015
	NIS in millions				
Quarterly balance sheet – major items					
Balance sheet total	216,809	209,158	204,966	201,764	(1)200,972
Loans to the public, net	162,073	159,204	157,996	152,317	150,694
Securities	9,013	11,845	11,306	15,833	13,802
Deposits from the public	165,001	162,380	158,107	153,736	153,002
Debentures and subordinated notes	26,859	23,719	23,196	22,648	20,804
Shareholders' equity[(2)]	12,098	11,847	11,616	11,266	(1)11,033

	For the quarter ended					All of
	31.3.2016	31.12.2015	30.9.2015	30.6.2015	31.3.2015	2015
	NIS in millions					
Key financial ratios (in percent)						
Net profit return on equity[(2)(3)]	10.0	8.4	11.5	12.4	(1)9.4	10.0
Deposits from the public, net to loans to the public	101.8	102.0	100.1	100.9	101.5	102.0
Capital to total assets	5.58	5.66	5.67	5.58	(1)5.49	5.66
Ratio of Tier I capital to risk elements	9.65	9.50	9.30	9.30	(1)9.10	9.50
Total ratio of capital to risk elements	13.20	13.29	12.76	12.86	(1)12.66	13.29
Leverage ratio[(4)]	5.23	5.32	5.32	5.24	-	5.32
(Quarterly) liquidity coverage ratio[(5)]	97	91	84	84	-	91
Cost income ratio[(6)]	60.8	61.3	56.9	58.4	(1)63.4	59.8
Expenses with respect to credit losses to loans to the public, net for the period[(3)]	0.01	0.19	0.15	0.11	0.09	0.13
Basic net earnings per share	1.24	1.04	1.36	1.43	(1)1.07	4.90
Diluted net earnings per share	1.24	1.03	1.36	1.42	(1)1.07	4.89

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B to the financial statements.
(2) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to equity holders of the Bank.
(3) Calculated on annualized basis.
(4) Leverage Ratio - ratio of Tier I capital,(according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218
(5) Liquidity Coverage Ratio - ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations in the reported period.
(6) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

Major risks

In its operations, the Bank is exposed to various risk factors 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 core 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, to 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, market risk, interest risk (in particular, interest risk in bank portfolio), operating risk, legal risk, information security and cyber risk, reputation risk, liquidity risk, compliance and regulatory risk, AML risk and cross-border risk. As noted, the risks mapping is regular reviewed to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements.

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

Information about risk-related developments is presented in the chapter "Risk overview" below. A detailed Risk 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 2015 and in the first quarter of 2016, the Bank 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 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 to recruit new clients and improve service to current clients, while developing this concept and expanding the value proposition.

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 2015 and in the first quarter of 2016, with a significant increase 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 co-operation in consortiums with other entities.

For more information see chapter "Significant developments in management of Bank business" in the financial statements.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought 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 statement of changes in shareholders equity in the financial statements.

Raising of capital sources

Bank management believes, in line with the forecasted outline of evolution of the core equity ratio and overall equity ratio, that no capital resources are required in the coming year in order to comply with the minimum equity ratio as required by Proper Conduct of Banking Business Directive 201.

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 or due to changes in the Bank's plans.

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. They also specified quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk - as part of liquidity risk management.

Total deposits from the public for the Group as of March 31, 2016 amounted to NIS 165.0 billion, compared to NIS 162.4 billion at end of 2015 - an increase of 1.6%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first quarter of 2016 by 2.7%; deposits in the CPI-linked segment increased by 1.4%; and deposits denominated in or linked to foreign currency decreased by 1.6%. 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 quarter 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. ("Mizrahi Tefahot Issuance"), a wholly-owned subsidiary of the Bank. Over the years, Mizrahi Tefahot Issue Company issued obligatory notes to the public under published prospectuses.

As of the balance sheet date, all obligatory notes (Series 27,30-31,33,35-43), including subordinated notes, issued to the public by Tefahot Issuance, amounted to NIS 22,532 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, Mizrahi Tefahot Issuance issued debentures (Series 43 and expansion of Series 40 and 42), with total par value of NIS 2,763 million, for consideration of NIS 3,121 million.
The proceeds from these issuances were deposited at the Bank under terms similar to those of issuances.

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.
Note that according to the Bank's capital planning forecast, the issue of contingent subordinated notes should fulfill the Bank's need for supervisory capital at least through 2017. Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-.

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.
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 March 31, 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 March 31, 2016 was NIS 2.5 billion, compared to NIS 2.4 billion as of December 31, 2015. 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, after the balance sheet date, 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.

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).

Developments in logistics, administration and streamlining

In the first quarter 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.

Other matters

Social involvement and charitable donations

For information about social involvement and charitable donations, see the Corporate Governance Report on the Bank 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

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, 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 co-operation 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 co-operative 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"). For more information see chapter "The General Environment and Effect of External Factors on the Bank Group" in the 2015 financial statements.
- 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, 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.

Developments in Israel's economy in the first quarter of 2016

Real Developments

Macro-economic data observed in the first quarter of 2016 indicate continued moderate growth in economic activity.

The Bank of Israel Composite Index increased in the first quarter of this year at an annualized rate of 2.3%, compared to an annualized increase of 4.1% in the final quarter of 2015 and an increase of 3.5% in all of 2015.

Exports of goods (annualized trend in USD, excluding ships, airplanes and diamonds) decreased significantly in the first quarter of 2016, by 13.2%, after being almost unchanged in the final quarter of 2015. This happened given the cumulative revaluation of the NIS against the effective nominal exchange rate during the first quarter of the year and given continued moderate growth in global trade. Import of goods (annualized trend in USD, excluding ships, airplanes, diamonds and energy) increased in the first quarter of 2016 by 5.7%, after an increase by 8.4% in the final quarter of 2015. This increase was due to increase in all components of imports of goods: raw materials, consumer goods and investment products. The overall trade deficit in the first quarter of 2016 amounted to USD 2.6 billion, compared to USD 1.0 billion in the corresponding period last year.

In the first two months of 2016, the economic sector turnover index rose moderately, by an annualized 0.6%. The retail sales turnover index increased similarly in this period. The industrial output index decreased in that period by 2.2%, while high-tech output index increased by 2.3%. The Consumer Confidence Index is still in negative territory, but showed some improvement in recent months. The purchasing manager index continued to show a decline in activity.

In the first quarter of 2016, unemployment was at 5.3%, similar to 5.2% in the previous quarter. The employment rate in these periods remained at 64.2%.

Inflation and exchange rates

In the first quarter of 2016, the Consumer Price Index decreased by 1.0%, compared to a decrease of 1.3% in the corresponding period last year. The lower CPI was primarily due to lower prices of transportation and communication and prices of clothing and shoes. The decrease was partially offset by moderately higher prices of home furniture and equipment. In the twelve months ended March 2016, the CPI decreased by 0.7%.

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

	March 31, 2016	December 31, 2015	Increase (decrease) rate
Exchange rate of:			
USD (in NIS)	3.766	3.902	(3.5)
EUR (in NIS)	4.286	4.247	0.9

On May 16, 2016, the EUR/NIS exchange rate was 4.315 - a 0.7% devaluation since March 31, 2016. The USD/NIS exchange rate on this date was 3.812 - a devaluation of 1.2% since March 31, 2016.

In support of the exchange rate, the Bank of Israel purchased in the first quarter of 2016 foreign currency valued at USD 1.0 billion, after purchasing USD 5.5 billion in all of 2015 (about half of the purchasing in each of these periods was designed to offset the effect on exchange rates of gas production from the Tamar reservoir).

Monetary and fiscal policy

In the first quarter of 2016, the Bank of Israel interest rate was unchanged, after being reduced from 0.25% to 0.10% in March 2015 - given the stronger NIS against the currency basket, more moderate inflationary expectations and continuing expansive monetary policy in major world economies.

In the first quarter of 2016, the government budget recorded a NIS 1.0 billion cumulative surplus, compared to a NIS 0.5 billion cumulative surplus in the corresponding period last year. The deficit rate as percentage of GDP for the 12 months ended in March 2016 was 2.1%, similar to the rate for all of 2015. Tax revenues increased in the first quarter of 2016 by 4.6% over the year-ago period, while Government expenditure increased by 8.5% in the same period. In the corresponding period last year, expenses were relatively low because the Government was operating without an approved budget.

According to data from the Central Bureau of Statistics, in the first two months of 2016 demand for new apartments (apartments sold and apartments constructed not for sale) was 8,145 apartments, a decrease of 2.9% over the corresponding period last year and an increase of 7.3% over the corresponding period in 2014. This was partially due to buyers waiting for developments with the "Buyer price" program. In this period, all regions recorded a decrease in demand for housing, except for a 24.3% increase in the South region. The most significant declines, compared to the corresponding period last year, were in the Jerusalem region (-28.1%) and in the Haifa region (-11.8%). Based on the average pace of sales in the six months ended February 2016, the housing inventory will account for 8.9 months' sales - slightly higher than inventory in December 2015 (8.7 months) but lower than inventory in December 2014 (11.0 months). In the first quarter of 2016, housing loan origination to the public amounted to NIS 14.9 billion, similar to the corresponding period last year.

According to data from the Central Bureau of Statistics, housing prices in terms of the most recent 12 months, increased in February 2016 by 7.2%, compared to 7.8% in December 2015 and to 4.6% in December 2014.

Capital market

Early in 2016, global equity markets declined on concerns about growth in China, lower oil prices and fear of a banking crisis in Europe. Around mid-quarter, the trend was reversed with higher equity prices on global stock exchanges, supported by higher oil prices.

Equity market - The leading benchmarks, Tel Aviv 25 and Tel Aviv 100, were lower in the first quarter of 2016 by 5.1% and 4.9%, respectively, compared to increase of 4.4% and 2.0% in 2015. The Tel Aviv 75 Index was down 1.1%, following a decrease of 5.4% in 2015. The Real Estate 15 Index was up by 5.4%, compared to a decrease of 1.1% in 2015. The Yeter 50 Index was slightly higher by 0.3%, compared to an increase of 21.2% in 2015. Financials were lower; the Banking and Financials 15 indices were down by 2.7% and 3.0%, respectively following increases of 7.3% and 4.0% in 2015.

Average daily trading volume in equities and convertible securities in the first quarter of 2016 was NIS 1.39 billion, compared to NIS 1.45 billion in 2015.

Total equity issuance (including overseas issuance) in the first quarter of 2016 amounted to NIS 2.5 billion, similar to the average quarterly rate in 2015 (excluding the Teva issuance).

Debenture market - the Government debenture market was higher in 2016, due to lower interest and inflation rates, lower inflationary expectations and low yield environments overseas, after most of the debenture indices declining in the final quarter of 2015. Long-term debentures were up more sharply than short-term and mid-term debentures. NIS-denominated debentures were up slightly more than CPI-linked debentures.

The General Debenture Index rose by 1.6% in the first quarter of 2016, following an increase of 1.8% in 2015. The CPI-Linked Government Debenture Index rose in the first quarter of 2016 by 1.8%, after declining by 0.2% in 2015. The Non-Linked Debenture Index was up by 1.2%, following an increase of 2.8% in 2015. In the first quarter of 2016, the Tel Bond 20 Index was up by 0.9%, compared to a decrease of 1.1% in 2015, and the Tel Bond 40 Index rose in the first quarter by 0.7%, following an increase of 0.2% in 2015.

Debentures rated AA traded at the end of the first quarter of 2016 at a spread of 1.50 percentage points, compared to 1.11 percentage points at the end of 2015. Debentures rated A traded at the end of the quarter at a spread of 2.07 percentage points, compared to 2.22 percentage points at the end of 2014.

In total, the business sector raised from the public and from institutional investors by debenture issuance some NIS 19.9 billion in the first quarter of 2016, a significant increase compared to a quarterly average of NIS 14.3 billion raised in 2015. The average daily trading volume in debentures in the first quarter of 2016 amounted to NIS 4.3 billion, compared to NIS 4.2 billion for all of 2015.

Global economy

The US economy's growth rate remained moderate in the first quarter of 2016, with US GDP increasing in this quarter by a low 0.5%, compared to 1.4% in the previous quarter. This is primarily due to the following factors: effect of the slow-down in global economic activity, the stronger USD vs. major world currencies, which affected exports of goods and services and a continued decline in energy prices, which resulted in lower investment in the economy. GDP growth was positively affected by moderate growth in private consumption, along with a more moderate growth in public consumption. Industrial output declined in recent months: in the 12 months ended in March 2016, industrial output decreased by 2.0%. The purchasing manager index in industrial sectors indicated expansion in economic activity in March 2016, but in recent months, this index usually showed a decline in activity. Conversely, data published in recent months reflect a improvement in the US labor market. The participation rate increased slightly from the low in the third quarter of 2015; the number of new jobs created was higher than expected; and the pace of salary increase was higher. The core inflation rate in March 2016, in terms of the trailing twelve months, excluding the effect of lower energy and food prices, was 2.2%. Given the real indicators in the US economy in the first quarter of this year, which indicated more moderate activity, the Fed reduced its forecast for developments in the pace of interest rate increases. Moreover, the IMF revised its growth forecast for the US economy for 2016, from 2.6% to 2.4%.

The GDP growth rate in the Euro-zone in the first quarter of 2016 was 1.6% (compared to the corresponding period last year), similar to the growth rate in the previous three quarters. The retailing index and the industrial output index were stable. Expectation surveys were 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 1.0% in March 2016, similar to December 2015. The unemployment rate continued to decline this year, although at a moderate pace and it is still at a high level of 10.2% as of March 2016, compared to 10.4% at the end of 2015. Following the slow economic recovery and the persistently low inflation rate, the ECB lowered the deposit interest rate from (-0.3%) to (-0.4%) and reduced the loan interest rate from 0.05% to 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.

China's GDP grew in the first quarter of 2016 at an annualized 6.7% after growing at 6.8% in the previous quarter and growing at 7.0% in the corresponding period last year. 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, remained at 1.5% in March 2016, similar to its level in 2015.

The Dow Jones and S&P 500 indexes rose by 1.5% and 0.8%, respectively in the first quarter of 2016 - after declining by 3.0% and 1.5% in 2015. The NASDAQ 100 Index declined in the first quarter of 2016 by 2.4%, after rising by 7.5% in 2015.

The German DAX Index and the French CAC Index were down in the first quarter of 2016 by 7.2% and 6.2%, respectively - after being up by 3.5% and 8.5%, respectively in 2015. The UK's FTSE 100 Index declined in the first quarter of 2016 by 1.1%, after dropping by 4.9% in 2015. Japan's Nikkei Index declined in the first quarter of 2016 by 12.0%, after rallying by 7.8% in 2015.

Independent Auditors' review report

The Independent Auditor has drawn attention in their review report to Note 10.B.2(j) and 10.B.3(a-f) 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 dividend distribution with respect to earnings of the first 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.

Material developments in revenues, expenses and other comprehensive income

Summary of business results - profit and profitability

Group net profit in the first quarter of 2016 amounted to NIS 288 million, compared to NIS 248 million(1) in the corresponding period last year – an increase of 16.1%. This reflects a 10.0% annualized return on equity, compared to 9.4% in the corresponding period last year and 10.0% for all of 2015.

The following major factors affected Group operating income in the first quarter of 2016 compared to the corresponding period last year:

- Financing revenues from current operations (including net interest revenues and non-interest financing revenues) increased in the first quarter of 2016 by NIS 76 million, an increase of 9.0% over the corresponding period last year. See also the analysis of evolution of financing revenues, below.
- Commissions and other revenues in the first quarter of 2016 increased by 20.4% (increase by NIS 77 million) over the corresponding period last year. Commission revenues increased by 2.5% (or NIS 9 million) due to continued growth in operations and despite the negative impact of various regulatory provisions. Other revenues increased by NIS 68 million and include results of the Bank's continued effort to re-organize assets and to improve the branch network. See explanation below and in the chapter "Developments in logistics, administration and streamlining".
- Expenses with respect to credit losses in the first quarter of 2016 decreased by NIS 32 million, see explanation below.
- Operating and other expenses increased in the first quarter of 2016 by NIS 18 million, or 2.4%, over the corresponding period last year, see explanation below.
- the provision for taxes on profit 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 to 35.82%. The decrease in the statutory tax rate applicable to the Bank is due to the decrease in the corporate tax rate, as from January 1, 2016, from 26.5% to 25%.

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues[(1)] from current operations in the first quarter of 2016 amounted to NIS 922 million, as described below, compared to NIS 846 million in the corresponding period last year, an increase of 9.0%.

Net interest revenues and non-interest financing revenues[(1)] in the first quarter of 2016 amounted to NIS 827 million, as described on these financial statements, compared to NIS 824 million in the corresponding period last year, an increase of 0.4%.

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

			First Quarter
	2016	2015	Change in %
Interest revenues, net	760	699	
Non-interest financing revenues[(1)]	67	125	
Total financing revenues	827	824	0.4
Less:			
Effect of CPI	(116)	(165)	
Revenues from collection of interest on problematic debt	10	9	
Gain from realized debentures available for sale and from debentures held for trade, net	31	97	
Effect of accounting treatment of derivatives at fair value and others[(2)]	(20)	37	
Total effects other than current operations	(95)	(22)	
Total financing revenues from current operations	922	846	9.0

(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:
- Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.
- Effect of early repayment commissions In the first quarter of 2016, revenues with respect to early repayment commissions decreased by NIS 44 million compared to the corresponding period last year.

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

			First Quarter	
Operating segment	2016	2015	Change amount	Change rate (In %)
Individuals:				
Households – housing loans	254	228	26	11.4
Households – other	262	242	20	8.3
Private banking	11	8	3	37.5
Total - individuals	527	478	49	10.3
Business operations:				
Small and micro business	185	170	15	8.8
Medium business	46	46	-	-
Large business	101	101	-	-
Institutional investors	40	39	1	2.6
Total - business operations	372	356	16	4.5
Financial management	(106)	(36)	(70)	-
Total activity in Israel	793	798	(5)	(0.6)
Overseas operations	34	26	8	30.8
Total	827	824	3	0.4

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.C.1 to the financial statements.

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

		First Quarter	
Linkage segment	2016	2015	Change in %
Israeli currency - non-linked	130,422	112,441	16.0
Israeli currency - linked to the CPI	52,029	52,747	(1.4)
Foreign currency (including Israeli currency linked to foreign currency)	12,454	14,032	(11.2)
Total	194,905	179,220	8.8

The increase in average balance 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:

	First Quarter	
Linkage segments	2016	2015
Israeli currency - non-linked	2.05	2.49
Israeli currency - linked to the CPI	0.25	0.22
Foreign currency	1.22	1.55
Total	1.44	1.60

(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 overall interest spread - and in particular in NIS, non-linked - is due to the effect of early repayment commissions compared to the corresponding period last year, as noted above.
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 3 million in the first quarter of 2016, or an annualized rate of 0.01% of total loans to the public, net, compared with NIS 35 million in the corresponding period last year – an annualized rate of 0.09% of total loans to the public, net in the corresponding period last year - a decrease of NIS 32 million in total.

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

	First Quarter	
	2016	2015
Provision for credit losses on individual basis (including accounting write-offs)	52	(14)
Provision for credit losses on Group basis:		
By extent of arrears	(17)	(7)
Other	(32)	56
Total expenses with respect to credit losses	3	35
Expense with respect to credit losses as percentage of total loans to the public, net (annualized)	0.01%	0.09%
Of which: With respect to commercial loans other than housing loans	0.09%	0.30%
Of which: With respect to housing loans	(0.03%)	(0.02%)

In the corresponding period last year, the Bank recognized a significant collection from previously written-off clients. The decrease in provision for credit losses on a group basis is due to changes in the observed average historical provision rates for the Bank. In the corresponding period last year, the average rates which affect the group-based provision increased, compared to a decrease in the current quarter

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

	First Quarter	
Operating segment	2016	2015
Individuals:		
Households – housing loans	(9)	(4)
Households – other	16	4
Total - individuals	7	-
Business operations:		
Small and micro business	32	42
Medium business	(11)	4
Large business	(32)	(18)
Institutional investors	8	6
Total - business operations	(3)	34
Financial management	(1)	1
Total activity in Israel	3	35
Total	3	35

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.C.1 to the financial statements.

Net interest revenues after expenses with respect to credit losses in the first quarter of 2016 amounted to NIS 757 million (including non-interest financing revenues - NIS 824 million), compared to NIS 664 million in the corresponding period last year (including non-interest financing revenues - NIS 789 million). Net interest revenues after expenses with respect to credit losses and including non-interest financing revenues, increased in the first quarter of 2016 by 4.4% 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 expenses for the Group amounted to NIS 521 million in the first quarter of 2016, compared with NIS 502 million in the corresponding period last year - a year-over-year increase of 3.8%. See explanation below.

Non-interest financing expenses in the first quarter of 2016 amounted to NIS 67 million, compared to NIS 125 million in the corresponding period last year.

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

Commission revenues amounted to NIS 365 million in the first quarter of 2016, compared with NIS 356 million in the corresponding period last year - an increase of 2.5%, due to further growth of operations and despite the negative impact of various regulatory directives.

Other revenues in the first quarter of 2016 amounted to NIS 89 million, compared to NIS 21 million in the corresponding period last year, an increase of NIS 68 million.

This quarter includes capital gain amounting to NIS 78 million before tax, from realization of assets in conjunction with asset re-organization and streamlining of the Bank's branch network, compared to NIS 11 million in the corresponding period last year.

Operating and other expenses amounted to NIS 779 million in the first quarter of 2016, compared with NIS 761 million[(1)] in the corresponding period last year - a year-over-year increase of 2.4% - see explanation below.

Payroll and associated expenses amounted to NIS 477 million in the first quarter of 2016, compared with NIS 466 million[(1)] in the corresponding period last year - an increase of 2.4%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 174 million in the first quarter of 2016, similar to the corresponding period last year[(1)]. 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 re-organization and improvements to the branch network.

Other expenses in the first quarter of 2016, amounted to NIS 128 million compared with NIS 121 million in the corresponding period last year - an increase of NIS 7 million.

Cost-Income ratio information is as follows[(2)] (in percent):

	2016	2015			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-income ratio	60.8	61.3	56.9	58.4	[(1)]63.4

Pre-tax profit for the Group in the first quarter of 2016 amounted to NIS 499 million, compared to NIS 405 million[(1)] in the corresponding period last year – an increase of 23.2%. See detailed explanation above.

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

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

Provision for taxes in the first quarter of 2016 amounted to NIS 203 million, compared to NIS 147 million[1] in the corresponding period last year.

The rate of provision for taxes on pre-tax profit in the first quarter of 2016 was 40.7% - compared to 36.3% in the corresponding period last year.

the provision for taxes on profit 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 to 35.82%. As of January 1, 2016, the corporate tax rate decreased from 26.5% to 25%.

The total provision for taxes also increased due to the increase in Group pre-tax profit.

Bank share of after-tax profit of associates – in the first quarter of 2016 there was no profit with respect to associates, compared to a loss of NIS 1 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 quarter of 2016 amounted to NIS 8 million, compared to NIS 9 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank amounted to NIS 288 million in the first quarter of 2016, compared with NIS 248 million[1] in the corresponding period last year - an increase of 16.1%.

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 flow hedges and changes in adjustments with respect to employee benefits.

In the first quarter of 2016, other comprehensive income attributable to shareholders of the Bank increased by NIS 12 million compared to the corresponding period last year. The change in Other Comprehensive Income attributable to shareholders of the Bank compared to the corresponding period last year is primarily due to adjustments with respect to employee benefits. See Note 4 to the financial statements for details.

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

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			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	10.0	8.4	11.5	12.4	[6]9.4
Ratio of Tier I capital to risk elements at end of quarter	9.65	9.50	9.30	9.30	[6]9.10
(Quarterly) liquidity coverage ratio[4]	97	91	84	84	-
Leverage ratio at end of quarter[5]	5.23	5.32	5.32	5.24	-

(1) Annualized return.

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

(3) For more information about Proper Banking Conduct of Directive329 concerning "Restrictions on provision of housing loans" on Tier I equity as from January 1, 2015, see Note 9.L. 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 in the reported period.

(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 The decrease in the leverage ratio compared to the fourth quarter of 2015 is due to the significant increase in total assets, by 3.6%. For this matter, see debentures issued by Mizrahi Tefahot Issuance, in the chapter "Sources and Financing" (overview, targets and strategy).

(6) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

Earnings per share

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

	First Quarte		For the year ended December 31,
	2016	2015	2015
Basic earnings per share	1.24	[1]1.07	4.90
Diluted earnings per share	1.24	[1]1.07	4.89

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

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

Assets and liabilities

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

				Change in % ove	
	March 31,		December 31,	March 31,	December 31,
	2016	2015	2015	2015	2015
Balance sheet total	216,809	(1) 200,972	209,158	7.9	3.7
Cash and deposits with banks	38,193	25,455	30,489	50.0	25.3
Loans to the public, net	162,073	150,694	159,204	7.6	1.8
Securities	9,013	13,802	11,845	(34.7)	(23.9)
Buildings and equipment	1,546	(1) 1,544	1,583	0.1	(2.3)
Deposits from the public	165,001	153,002	162,380	7.8	1.6
Deposits from banks	1,416	1,472	1,166	(3.8)	21.4
Debentures and subordinated notes	26,859	20,804	23,719	29.1	13.2
Shareholder equity	12,098	(1) 11,033	11,847	9.7	2.1

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

Cash and deposits with banks - the balance of cash and deposits with banks increased in the first quarter of 2016 by NIS 7.7 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 March 31, 2016 accounted for 75% of total assets, compared to 76% at the end of 2015. Loans to the public, net for the Group increased in the first quarter of 2016 by NIS 2.9 billion, an increase of 1.8%.

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

				Change in % over	
		March 31,	December 31,	March 31,	December 31,
	2016	2015	2015	2015	2015
Israeli currency					
Non-linked	99,891	86,673	95,814	15.3	4.3
CPI- linked	51,054	51,936	51,836	(1.7)	(1.5)
Foreign currency and foreign currency linked	11,128	12,085	11,554	(7.9)	(3.7)
Total	162,073	150,694	159,204	7.6	1.8

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

				Change in % ove	
	March 31,		December 31,	March 31,	December 31,
	2016	2015	2015	2015	2015
Individuals:					
Households – housing loans	108,846	98,280	106,374	10.8	2.3
Households – other	16,738	15,301	16,507	9.4	1.4
Private banking	59	60	67	(1.7)	(11.9)
Total - individuals	125,643	113,641	122,948	10.6	2.2
Business operations:					
Small and micro business	13,867	13,061	13,714	6.2	1.1
Medium business	4,915	4,894	4,800	0.4	2.4
Large business	12,456	14,378	12,765	(13.4)	(2.4)
Institutional investors	1,994	2,239	1,900	(10.9)	4.9
Total - business operations	33,232	34,572	33,179	(3.9)	0.2
Total activity in Israel	158,875	148,213	156,127	7.2	1.8
Overseas operations	3,198	2,481	3,077	28.9	3.9
Total	162,073	150,694	159,204	7.6	1.8

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.C.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 debt, credit risk and provision for credit loss:

Reported amounts	As of March 31, 2016			As of March 31, 2015			As of 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	852	165	1,017	820	165	985	817	169	986
Inferior credit risk	109	-	109	78	-	78	82	-	82
Credit risk under special supervision[2]	1,222	252	1,474	1,311	67	1,378	1,318	329	1,647
Total troubled credit risk	2,183	417	2,600	2,209	232	2,441	2,217	498	2,715
Of which: Non-impaired debt in arrears 90 days or longer[2]	934			1,050			1,012		
2. Non-performing assets[3]	814			767			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 877 million (as of March 31, 2015 - NIS 994 million; as of December 31, 2015 - NIS 957 million).

(3) Non-interest accruing assets.

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

Credit risk for loans to the public is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities. Total credit risk for the Bank Group as of March 31, 2016 amounted to NIS 220 billion, compared to NIS 217 billion as of December 31, 2015 - an increase of 1.4%.

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

				Change in % over	
	March 31,		December 31,	March 31,	December 31,
	2016	2015	2015	2015	2015
Off balance sheet financial instruments other than derivatives [1]:					
Documentary credit	488	387	472	26.1	3.4
Loan guarantees	2,308	2,310	2,245	(0.1)	2.8
Guarantees to home buyers	12,361	10,893	11,597	13.5	6.6
Guarantees and other liabilities	4,559	4,306	4,546	5.9	0.3
Unutilized revolving credit card facilities	8,047	7,595	7,848	6.0	2.5
Unutilized debitory account and other credit facilities in accounts available on demand	17,045	19,448	16,588	(12.4)	2.8
Irrevocable commitments for loans approved but not yet granted	12,971	12,687	12,901	2.2	0.5
Commitments to issue guarantees	4,849	7,080	5,629	(31.5)	(13.9)
Financial instruments[2]:					
Total par value of derivative financial instruments	239,825	293,486	237,147	(18.3)	1.1
(On-balance sheet) assets with respect to derivative instruments	3,924	5,694	3,527	(31.1)	11.3
(On-balance sheet) liabilities with respect to derivative instruments	4,878	7,260	3,634	(32.8)	34.2

(1) Contract 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 "Risk" below and the Detailed Risk Management Report on the Bank website.

Securities - the balance of investment in securities decreased in the first quarter of 2016 by NIS 2.8 billion, and decreased by NIS 4.8 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:

					March 31, 2016
	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
Securities held to maturity	3,221	3,221	94	-	3,315
Securities available for sale	5,282	5,269	[2]29	[2](16)	5,282
Securities held for trade	510	510	-	-	510
Total securities	9,013	9,000	123	(16)	9,107

					March 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	5,152	5,152	205	-	5,357
Securities available for sale	7,996	7,923	[2]84	[2] (11)	7,996
Securities held for trade	654	652	[3]2	-	654
Total securities	13,802	13,727	291	(11)	14,007

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

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

				Change in % ove	
	March 31,		December 31,	March 31,	December 31,
	2016	2015	2015	2015	2015
Israeli currency					
Non-linked	5,473	9,940	7,002	(44.9)	(21.8)
CPI- linked	130	230	66	(43.5)	97.0
Foreign currency and foreign currency linked	3,310	3,528	4,679	(6.2)	(29.3)
Non-monetary items	100	104	98	(3.8)	2.0
Total	9,013	13,802	11,845	(34.7)	(23.9)

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

	March 31,		December 31,
	2016	2015	2015
Government debentures:			
Government of Israel	8,593	12,490	9,788
Government of USA	168	796	1,624
South Korea Government	39	-	40
Total government debentures	8,800	13,286	11,452
Debentures of banks in developed nations:			
UK	75	99	79
Israel	-	124	-
Germany	-	119	117
Other - Euro Zone	-	-	78
Other	19	4	-
Total debentures of banks in developed nations	94	346	274
Corporate debentures (composition by sector):			
Industry and production	-	10	10
Construction and real estate	-	16	-
Public and community services	11	12	11
Financial services	8	28	-
Total corporate debentures	19	66	21
Shares	100	104	98
Total securities	9,013	13,802	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 quarter of 2016 by NIS 37 million, or 23%. The change in balance of buildings and equipment is due to new investments, primarily investments in technology, depreciation and realized assets as part of asset reorganization and improvements to the branch network.

Deposits from the public - these account for 76% of total consolidated balance sheet as of March 31, 2016, compared with 78% at the end of 2015. In the first quarter of 2016, deposits from the public with the Bank Group increased by NIS 2.6 billion, or 1.6% (increase by 7.8% over the end of the corresponding period last year).

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

				Change in % over	
	March 31,		December 31,	March 31,	December 31,
	2016	2015	2015	2015	2015
Israeli currency					
Non-linked	112,071	98,101	109,091	14.2	2.7
CPI- linked	16,996	18,794	16,764	(9.6)	1.4
Foreign currency and foreign currency linked	35,934	36,107	36,525	(0.5)	(1.6)
Total	165,001	153,002	162,380	7.8	1.6

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

				Change in % over	
		March 31,	December 31,	March 31,	December 31,
	2016	2015	2015	2015	2015
Individuals:					
Households – other	68,286	61,791	66,637	10.5	2.5
Private banking	10,618	9,728	10,243	9.1	3.7
Total - individuals	78,904	71,519	76,880	10.3	2.6
Business operations:					
Small and micro business	13,658	12,193	13,376	12.0	2.1
Medium business	6,139	6,127	6,098	0.2	0.7
Large business	28,990	19,445	26,044	49.1	11.3
Institutional investors	32,679	39,278	35,942	(16.8)	(9.1)
Total - business operations	81,466	77,043	81,460	5.7	-
Total activity in Israel	160,370	148,562	158,340	7.9	1.3
Overseas operations	4,631	4,440	4,040	4.3	14.6
Total	165,001	153,002	162,380	7.8	1.6

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

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

	March 31,		December 31,
	2016	2015	2015
Maximum deposit			
Up to 1	56,782	51,109	55,171
Over 1 to 10	35,330	31,751	34,787
Over 10 to 100	18,234	16,337	17,311
Over 100 to 500	14,891	15,960	16,776
Above 500	39,764	37,845	38,335
Total	165,001	153,002	162,380

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

Debentures and subordinated notes - the balance of debentures and subordinated notes as of March 31, 2016 amounted to NIS 26.9 billion, compared to NIS 23.7 billion as of December 31, 2015 and NIS 20.8 billion as of March 31, 2015, an increase by 13.2% and 29.1%, respectively. See also chapter "Developments in financing sources" above.

Capital, capital adequacy and leverage

Equity attributable to shareholders of the Bank - the balance of equity attributable to shareholders of the Bank as of March 31, 2016 amounted to NIS 12.1 billion, compared to NIS 11.8 billion as of December 31, 2015 and NIS 11.0 billion as of March 31, 2015, an increase by 2.1% and 9.7%, respectively.

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

	March 31,		December 31,
	2016	2015	2015
Share capital and premium	2,224	2,200	2,222
Capital reserve from benefit from share-based payment transactions	66	67	68
Treasury shares	(76)	(76)	(76)
Cumulative other comprehensive income (loss)(1)	(98)	(88)	(97)
Retained earnings	9,982	(2)8,930	9,730
Total	12,098	11,033	11,847

The ratio of shareholders' equity to balance sheet total for the Group as of March 31, 2016 was 5.58%, compared to 5.66% as of December 31, 2015 and 5.49% as of March 31, 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) Comparative figures for previous periods were restated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

Capital adequacy

Supervisory capital

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

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

	March 31, 2016	March 31, 2015	December 31, 2015
Capital for purpose of calculating minimum capital ratio			
Tier I capital	12,490	(1)11,476	12,299
Tier I capital	12,490	(1)11,476	12,299
Tier II capital	4,598	4,485	4,916
Total capital	17,088	15,961	17,215
Weighted risk asset balances			
Credit risk	120,752	(1)117,791	120,793
Market risk	957	871	950
Operating risk	7,744	7,435	7,743
Total weighted risk asset balances	129,453	126,097	129,486

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

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 01, 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 01, 2017, on consolidated basis, in conformity with data as of the reporting date, are 9.8% and 13.3%, 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 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 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, 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 9.8% and 13.3%, 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 dividend 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 %):

	March 31, 2016	March 31, 2015	December 31, 2015
Ratio of Tier I capital to risk elements	9.65	9.10	9.50
Ratio of total capital to risk elements	13.20	12.66	13.29
Minimum Tier I capital ratio required by Supervisor of Banks(1)	9.42	9.00	9.30
Total minimum capital ratio required by the directives of the Supervisor of Banks(1)	12.92	12.50	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 9.84% and 13.34%, 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 March 31, 2016 is 5.23%, compared to 5.32% as of December 31, 2015. The decrease in the leverage ratio is due to the significant increase in total assets, by 3.6%.

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 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 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 the chapter "Capital, capital adequacy and leverage" on the annual financial statements as of December 31, 2015.

In conformity with the revised dividends policies, as noted above, the Bank’s Board of Directors resolved, on February 24, 2016, to distribute dividends amounting to NIS 36.0 million with respect to earnings in the fourth quarter of 2015. The aforementioned dividends were paid on March 21, 2016.

On May 18, 2016, to distribute dividends amounting to NIS 43.2 million with respect to earnings in the first quarter of 2016[(1)].

Below are details of dividends distributed by the Bank since 2014 (in reported amounts):

Declaration date	Payment date	Dividends per share (Agorot)	Total dividends paid (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

(1) The dividend amount is 186.3% of issued share capital, i.e. NIS 0.1863 per NIS 0.1 par value share. The effective date for dividend payment is June 05, 2016 and the payment date is June 21, 2016. The final dividends per share is subject to change 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 % ove	
	March 31,		December 31,	March 31,	December 31,
	2016	2015	2015	2015	2015
Securities[1]	208,295	224,031	208,514	(7.0)	(0.1)
Assets of provident funds for which the Group provides operating services	73,956	74,695	74,269	(1.0)	(0.4)
Assets of mutual funds for which the Bank provides operating services	15,017	21,608	16,219	(30.5)	(7.4)
Assets held in trust by the Bank Group	66,564	75,677	72,977	(12.0)	(8.8)
Other assets under management[2]	9,467	13,834	9,964	(32.1)	(5.8)

(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 there to.

In fact, there is a strong 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, 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 – individual, 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 business – businesses with turnover amounting up to NIS 50 million.

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

Large business – 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 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 Business 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 business – total assets on client balance sheet amount up to NIS 50 million.

  Medium business – business where total assets on the client balance sheet amount to between NIS 50 million and NIS 215 million.

  Large business – business 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 management 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 625 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking - 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.

Some 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.

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, 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 the Financial Management segment.
- Profit and loss from Bank investment in securities and from strategic positions are attributed to the Financial Management segment.
- Expenses with respect to credit losses are directly attributed to clients on behalf of whom they were made.
- Commission revenues 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.
- 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.
- 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.

Financial Information by Supervisory Operating Segments:

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

	Net profit		Share of total net profit (in %)	
	In the first quarter		In the first quarter	
	2016	2015	2016	2015
Individuals:				
Households – housing loans	123	123	39.6	41.1
Households – other	15	9	4.7	3.0
Private banking	1	1	0.3	0.3
Total - individuals	139	133	44.5	44.5
Business operations:				
Small and micro business	51	51	16.5	17.1
Medium business	19	17	6.2	5.7
Large business	68	67	21.9	22.4
Institutional investors	17	19	5.4	6.4
Total - business operations	155	154	50.0	51.5
Financial management	(23)	(51)	-	-
Total activity in Israel	271	236	94.5	96.0
Overseas operations	17	12	5.5	4.0
Total	288	248	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 three months ended March 31,					
	2016			2015		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	262	254	516	242	228	470
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	127	38	165	134	45	179
Total revenues	389	292	681	376	273	649
Expenses with respect to credit losses	16	(9)	7	4	(4)	-
Operating and other expenses	334	94	428	343	84	427
Profit before provision for taxes	39	207	246	29	193	222
Provision for taxes	16	84	100	11	70	81
After-tax profit	23	123	146	18	123	141
Net profit (loss):						
Attributable to non-controlling interests	(8)	-	(8)	(9)	-	(9)
Attributable to shareholders of the banking corporation	15	123	138	9	123	132
Balance sheet - key items:						
Loans to the public, net (end balance)	16,738	108,846	125,584	15,301	98,280	113,581
Deposits from the public, net (ending balance)	68,286	-	68,286	61,791	-	61,791
Average balance of loans to the public	16,297	108,087	124,384	14,724	97,860	112,584
Average balance of deposits from the public	67,773	-	67,773	61,508	-	61,508
Average balance of risk assets	15,290	59,206	74,496	14,350	53,651	68,001
Credit margins and deposit margins:						
Margin from credit granting operations	198	251	449	187	221	408
Margin from deposit operations	63	-	63	47	-	47
Other	1	3	4	8	7	15
Total interest revenues, net	262	254	516	242	228	470

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in the first three months of 2016 amounted to NIS 138 million, compared to NIS 132 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 three months of 2016 amounted to NIS 123 million, similar to the corresponding period last year. Total interest revenues, net amounted to NIS 254 million, compared to NIS 228 million in the corresponding period last year, an increase of 11.4% - primarily due to an increase in mortgage business volume - reflected in an increase of NIS 10.2 billion in the average loan balance. Expenses with respect to credit losses decreased by NIS 5 million compared to the corresponding period last year. This decrease is due to significant collection of loans in arrears. Commission and other revenues decreased by NIS 7 million, due, *inter alia*, to regulatory effects. The provision for taxes in the first quarter of 2016 includes the effect of change in the statutory tax rate applicable to the Bank group - see Note 16 to the financial statements.

Contribution of households - other operations (other than housing loans) in the first quarter of 2016 amounted to NIS 15 million, compared to NIS 9 million in the corresponding period last year - an increase of NIS 6 million. Interest revenues, net increased by NIS 20 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 7 million, due to regulatory effects. Operating expenses decreased by NIS 9 million, due to Bank streamlining of the branch network. The provision for taxes in the first quarter of 2016 includes the effect of change in the statutory tax rate applicable to the Bank group - see Note 16 to the financial statements.

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 private banking segment

	For the three months ended March 31,	
	2016	2015
	NIS in millions	
Profit and profitability		
Total interest revenues, net	11	8
Non-interest financing revenues	-	-
Commissions and other revenues	3	3
Total revenues	14	11
Expenses with respect to credit losses	-	-
Operating and other expenses	13	10
Profit before provision for taxes	1	1
Provision for taxes	-	-
Net profit	1	1
Balance sheet - key items:		
Loans to the public, net (end balance)	59	60
Deposits from the public, net (ending balance)	10,618	9,728
Average balance of loans to the public	66	67
Average balance of deposits from the public	10,353	9,516
Average balance of risk assets	24	20
Credit margins and deposit margins:		
Margin from credit granting operations	-	-
Margin from deposit operations	11	8
Other	-	-
Total interest revenues, net	11	8

Contribution of the private banking segment (according to supervisory definitions) to Group profit in the first three months of 2016 amounted to NIS 1 million, similar to the corresponding period last year.

Total net interest revenues increased by NIS 3 million, due to increase in deposits from the public.

Concurrently, operating expenses increased by a similar amount.

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 March 31,	
	2016	2015
		NIS in millions
Profit and profitability		
Total interest revenues, net	185	170
Non-interest financing revenues	-	-
Commissions and other revenues	63	63
Total revenues	248	233
Expenses with respect to credit losses	32	42
Operating and other expenses	130	111
Profit before provision for taxes	86	80
Provision for taxes	35	29
Net profit	51	51
Balance sheet - key items:		
Loans to the public, net (end balance)	13,867	13,061
Deposits from the public, net (ending balance)	13,658	12,193
Average balance of loans to the public	13,733	12,788
Average balance of deposits from the public	13,736	12,120
Average balance of risk assets	11,825	11,300
Credit margins and deposit margins:		
Margin from credit granting operations	169	159
Margin from deposit operations	13	9
Other	3	2
Total interest revenues, net	185	170

Contribution of the micro and small business segment (according to supervisory definitions) to Group profit in the first three months of 2016 amounted to NIS 51 million, similar to the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 185 million, compared to NIS 170 million in the corresponding period last year - an increase of 8.8%, attributed to significant increase in lending and deposit volume.

Expenses with respect to credit losses amounted to NIS 32 million, compared to NIS 42 million in the corresponding period last year, a decrease of NIS 10 million - primarily attributed to the effect of group-based provision in this segment.

Operating expenses increased by NIS 19 million due to a significant increase in business volume in this segment.

The provision for taxes in the first quarter of 2016 includes the effect of change in the statutory tax rate applicable to the Bank group. See also Note 16 to the financial statements.

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 medium business segment

	For the three months ended March 31,	
	2016	2015
		NIS in millions
Profit and profitability		
Total interest revenues, net	46	46
Non-interest financing revenues	-	-
Commissions and other revenues	16	18
Total revenues	62	64
Expenses with respect to credit losses	(11)	4
Operating and other expenses	41	33
Profit before provision for taxes	32	27
Provision for taxes	13	10
Net profit	19	17
Balance sheet - key items:		
Loans to the public, net (end balance)	4,915	4,894
Deposits from the public, net (ending balance)	6,139	6,127
Average balance of loans to the public	4,894	4,780
Average balance of deposits from the public	5,986	5,812
Average balance of risk assets	6,667	6,199
Credit margins and deposit margins:		
Margin from credit granting operations	40	42
Margin from deposit operations	5	3
Other	1	1
Total interest revenues, net	46	46

Contribution of the medium business segment (in conformity with supervisory definitions) to Group profit in the first three months of 2016 amounted to NIS 19 million, compared to NIS 17 million in the corresponding period last year, an increase by 11.8%.

Below are key factors affecting the change in segment contribution:

Total revenues were essentially unchanged.

Expenses with respect to credit losses amounted to revenues of NIS 11 million, compared to expenses of NIS 4 million in the corresponding period last year.

The change in credit losses was primarily due to reduced observed historical provision rates in this segment, which impact the group-based provision.

Operating and other expenses increased bu NIS 8 million in the first quarter of 2016, which includes the effect of change in the statutory tax rate applicable to the Bank group. See also Note 16 to the financial statements.

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 March 31,	
	2016	2015
		NIS in millions
Profit and profitability		
Total interest revenues, net	101	101
Non-interest financing revenues	-	-
Commissions and other revenues	41	49
Total revenues	142	150
Expenses with respect to credit losses	(32)	(18)
Operating and other expenses	59	63
Profit before provision for taxes	115	105
Provision for taxes	47	38
Net profit	68	67
Balance sheet - key items:		
Loans to the public, net (end balance)	12,456	14,378
Deposits from the public, net (ending balance)	28,990	19,445
Average balance of loans to the public	13,220	14,611
Average balance of deposits from the public	27,546	18,734
Average balance of risk assets	24,332	27,700
Credit margins and deposit margins:		
Margin from credit granting operations	92	98
Margin from deposit operations	8	3
Other	1	-
Total interest revenues, net	101	101

Contribution of the large business segment (in conformity with supervisory definitions) to Group profit in the first three months of 2016 amounted to NIS 68 million, compared to NIS 67 million in the corresponding period last year, an increase by 1.5%.

Total interest revenues, net amounted to NIS 101 million, similar to the corresponding period last year.

Commissions and other revenues decreased by NIS 8 million, due to specific large commissions charged in the corresponding period last year.

Expenses with respect to credit losses amounted to revenues of NIS 32 million, compared to revenues of NIS 18 million in the corresponding period last year.

The change in credit losses was primarily due to reduced observed historical provision rates in this segment, which impact the group-based provision.

Operating and other expenses decreased by NIS 4 million. The decrease in operating and other expenses is due to lower lending volume in this segment. The provision for taxes in the first quarter of 2016 includes the effect of change in the statutory tax rate applicable to the Bank group. See also Note 16 to the financial statements.

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 March 31,	
	2016	2015
		NIS in millions
Profit and profitability		
Total interest revenues, net	40	39
Non-interest financing revenues	-	-
Commissions and other revenues	20	24
Total revenues	60	63
Expenses with respect to credit losses	8	6
Operating and other expenses	24	27
Profit before provision for taxes	28	30
Provision for taxes	11	11
Net profit	17	19
Balance sheet - key items:		
Loans to the public, net (end balance)	1,994	2,239
Deposits from the public, net (ending balance)	32,679	39,278
Average balance of loans to the public	1,695	1,765
Average balance of deposits from the public	33,515	40,310
Average balance of risk assets	3,189	3,296
Credit margins and deposit margins:		
Margin from credit granting operations	11	14
Margin from deposit operations	28	24
Other	1	1
Total interest revenues, net	40	39

Contribution of the institutional investor segment (in conformity with supervisory definitions) to Group profit in the first three months of 2016 amounted to NIS 17 million, compared to NIS 19 million in the corresponding period last year, a decrease by 10.5%.

Below are key factors affecting the change in segment contribution:

Total interest revenues, net, were essentially unchanged.

Commissions and other revenues decreased by NIS 4 million compared to the corresponding period last year.

Operating and other expenses decreased by NIS 3 million. The decrease in operating and other expenses is due to lower deposit volume in this segment. The provision for taxes in the first quarter of 2016 includes the effect of change in the statutory tax rate applicable to the Bank group. See also Note 16 to the financial statements.

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 the financial management segment

	For the three months ended March 31,	
	2016	2015
		NIS in millions
Profit and profitability		
Total interest revenues, net	(173)	(161)
Non-interest financing revenues	67	125
Commissions and other revenues	138	33
Total revenues	32	(3)
Expenses with respect to credit losses	(1)	1
Operating and other expenses	70	75
Profit before provision for taxes	(37)	(79)
Provision for taxes	(14)	(29)
After-tax profit	(23)	(50)
Share of banking corporation in earnings of associates	-	(1)
Net profit before attribution to non-controlling interests	(23)	(51)
Net profit attributed to non-controlling interests	-	-
Net profit attributable to shareholders of the banking corporation	(23)	(51)
Balance sheet - key items:		
Loans to the public, net (end balance)	-	-
Deposits from the public, net (ending balance)	-	-
Average balance of loans to the public	-	-
Average balance of deposits from the public	-	-
Average balance of risk assets	5,321	5,695
Credit margins and deposit margins:	-	-
Margin from credit granting operations	-	-
Margin from deposit operations	-	-
Other	(173)	(161)
Total interest revenues, net	(173)	(161)

Contribution of the financial management segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2016 amounted to a loss of NIS 23 million, compared to a loss of NIS 51 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 70 million compared to the corresponding period last year, primarily due to lower gain from realized debentures available for sale and a decrease in the effect of accounting calculation of derivatives at fair value and others. Conversely, the effect of the negative CPI in the corresponding period last year was higher. For further analysis of current financing operations, 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 67 million due to results of the Bank's continued effort to re-organize assets and to improve the branch network.

The provision for taxes in the first quarter of 2016 includes the effect of change in the statutory tax rate applicable to the Bank group. See also Note 16 to the financial statements.

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 overseas operations

	For the three months ended March 31,	
	2016	2015
		NIS in millions
Profit and profitability		
Total interest revenues, net	34	26
Non-interest financing revenues	-	-
Commissions and other revenues	8	8
Total revenues	42	34
Expenses with respect to credit losses	-	-
Operating and other expenses	14	15
Profit before provision for taxes	28	19
Provision for taxes	11	7
Net profit	17	12
Balance sheet - key items:		
Loans to the public, net (end balance)	3,198	2,481
Deposits from the public, net (ending balance)	4,631	4,440
Average balance of loans to the public	3,038	2,500
Average balance of deposits from the public	3,804	4,381
Average balance of risk assets	3,619	2,801
Credit margins and deposit margins:		
Margin from credit granting operations	26	19
Margin from deposit operations	5	3
Other	3	4
Total interest revenues, net	34	26

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.

Major Investees

The contribution of investees to net operating profit in the first quarter of 2016 amounted to NIS 26 million, compared with NIS 43 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 30 million, compared to NIS 31 million in the corresponding period last year - see explanation under Investees below.

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

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

Bank Yahav's contribution to Group net profit in the first quarter of 2016 amounted to NIS 8 million, compared to NIS 9 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first quarter of 2016 was 5.8% on annualized basis, compared to 7.5% in the corresponding period last year. Bank Yahav's balance sheet total as of March 31, 2016 amounted to NIS 22,693 million, compared to NIS 22,651 million as of December 31, 2015 – an increase of NIS 42 million, or 0.2%. Net loans to the public as of March 31, 2016 amounted to NIS 8,161 million, compared to NIS 7,943 million as of December 31, 2015 – an increase of NIS 218 million, or 2.7%. Net deposits from the public as of March 31, 2016 amounted to NIS 19,490 million, compared to NIS 19,415 million as of December 31, 2015 – an increase of NIS 75 million, or 0.4%.

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

Tefahot Insurance is an insurance agency wholly owned by the Bank, which sells life insurance policies and property insurance policies of clients obtaining mortgages from the Bank. Tefahot Insurance's contribution to Group net profit in the first quarter of 2016 amounted to NIS 11.9 million, compared to NIS 12.4 million in the corresponding period last year.

Net profit return on equity in the first quarter of 2016 was 8.5%, compared to 9.4% 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 profit in the first quarter of 2016 NIS 5 million, net, compared with net profit of NIS 4 million in the first quarter of 2015. Of this, NIS 3 million (in the corresponding period last year - similar) from trustee operations of the subsidiary, Mizrahi Tefahot Trust Company Ltd.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first quarter of 2016 amounted to CHF 0.2 million, similar to the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of March 31, 2016 amounted to CHF 198 million, compared to CHF 196 million at the end of 2015.

The balance of loans to the public as of March 31, 2016 amounted to CHF 77 million, compared to CHF 72 million at end of 2015. The deposits with banks as of March 31, 2016 amounted to CHF 117 million, compared to CHF 119 million at end of 2015. Deposits from the public as of March 31, 2016 amounted to CHF 133 million, compared to CHF 124 million at end of 2015. Deposits from banks as of March 31, 2016 amounted to CHF 4 million, compared to CHF 10 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 quarter of 2016, net of exchange rate effects, amounted to net profit of NIS 0.8 million, compared with NIS 0.4 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 thus invested were acquired for the purpose of earning capital gains, and are listed at fair value on the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. About 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 March 31, 2016 amounted to NIS 103 million, compared to NIS 101 million at end of 2015.

Net gain from investments in non-banking corporations, after provision for impairment, for the Bank amounted in the first quarter of 2016 to NIS 1 million, similar to the corresponding period last year.

Risk 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" on 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 policies, in various aspects, is designed 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 Risk 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 policy documents which are approved annually by the Board of Directors. In the policy documents, the Board of Directors specified the risk appetite, or the maximum qualitative or quantitative exposure, allowed for Bank units. The Bank has a master policy 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. Recently, the Bank continued to upgrade its handling of the risk appetite specified by the Board of Directors and in particular, has created a dedicated policy 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. In December 2012, the Bank of Israel issued Proper Conduct of Banking Business Directives 310, 333, 311, 350 and 314 with regard to risks management, as well as an update to Regulation 339 "Market risks management". The Bank applies these regulations, which stipulate standards for risks management and control frameworks at the Bank. These standards are included in the Bank's policy 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 first quarter of 2016, there was no material change to the Bank's risks profile compared to its risk profile in 2015; continuous monitoring of the risks profile indicates that the Bank has low risk with regard to strategic, reputation and operating risk - and low-medium with regard to credit, market and interest risk. In particular, 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 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. In similar fashion, 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 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 first quarter of 2016, the Bank continued to make progress on its framework for handing 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.

The Bank has specified its risk profile with regard to addressing information security and cyber risk as medium, due to increased cyber threats recently. The Bank 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 of risks 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 strategy set by the Bank. In the first quarter 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, operating 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 the first quarter of 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 Risk 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 March 31, 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 March 31, 2016 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	-	848	848
2.	Construction and real estate	116	684	800
3.	Construction and real estate	52	723	775
4.	Construction and real estate	173	486	659
5.	Construction and real estate	247	361	608
6	Construction and real estate	110	429	539

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.

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. Borrowers flagged for one or more of the criteria specified by the Bank of Israel 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 financing equity transactions (NIS in millions):

	March 31, 2016				March 31, 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 loss	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit loss	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit loss
Construction and real estate	-	-	-	-	188	-	188	-	178	-	178	-
Commerce	106	-	106	-	89	-	89	-	112	1	113	-
Total	106	-	106	-	277		277		290	1	291	-

Credit to leveraged companies (NIS in millions):

	March 31, 2016				March 31, 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 loss	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit loss	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit loss
Construction and real estate	76	190	266	-	21	-	21	-	193	280	473	-
Commerce	57	63	120	-	185	73	258	-	128	38	166	-
Financial services	-	-	-	-	39	-	39	-	-	-	-	-
Information and communications	58	95	153	-	72	97	169	-	61	96	157	-
Industry and production	62	5	67	-	-	-	-	-	-	-	-	-
Total	253	353	606	-	317	170	487	-	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 debt, credit risk and provision for credit loss (NIS in millions):

			Total credit risk
	March 31, 2016	March 31, 2015	December 31, 2015
Problematic credit risk			
Impaired credit risk	1,017	985	986
Inferior credit risk	109	78	82
Credit risk under special supervision - housing	877	994	957
Credit risk under special supervision - other	597	384	690
Total problematic credit risk	2,600	2,441	2,715

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

	March 31, 2016	March 31, 2015	December 31, 2015
Ratio of impaired loans to the public to total loans to the public	0.5	0.5	0.5
Ratio of impaired loans to the public to total non-housing loans	1.5	1.5	1.5
Ratio of problematic loans to the public to total non-housing loans	2.4	2.2	2.3
Ratio of housing loans in arrears 90 days or longer to total loans to the public[(1)(2)]	0.5	0.7	0.6
Ratio of problematic credit risk to total credit risk with respect to the public	1.2	1.2	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 December 31, 2015	697	614	195	1,506	3	1,509
Expenses with respect to credit losses	-	(9)	13	4	(1)	3
Accounting write-offs	(49)	(2)	(33)	(84)	-	(84)
Recovery of debts written off for accounting purposes in previous years	22	-	16	38	-	38
Net accounting write-offs	(27)	(2)	(17)	(46)	-	(46)
Balance of provision as of March 31, 2016	670	603	191	1,464	2	1,466

	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	32	(4)	6	34	1	35
Accounting write-offs	(28)	-	(28)	(56)	-	(56)
Recovery of debts written off for accounting purposes in previous years	21	-	16	37	-	37
Net accounting write-offs	(7)	-	(12)	(19)	-	(19)
Balance of provision as of March 31, 2015	657	620	183	1,460	6	1,466

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

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

	March 31, 2016	March 31, 2015	December 31, 2015
Ratio of provision for credit losses to total loans to the public	0.9	1.0	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	0.0	0.1	0.1
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.0	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.0	0.1	0.1
Of which: With respect to commercial loans other than housing loans(1)	0.2	0.4	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 March 31, 2016

Reported amounts (NIS in millions)

	Off balance sheet debts[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debts[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Public – commercial					
Agriculture, forestry and fishing	653	289	942	-	1
Mining and excavation	417	300	717	-	30
Industry and production	5,070	2,875	7,945	-	94
Construction and real estate - construction[7]	8,840	16,943	25,783	-	2
Construction and real estate - real estate operations	2,197	195	2,392	-	-
Electricity and water delivery	775	428	1,203	-	310
Commerce	7,917	2,082	9,999	-	55
Hotels, dining and food services	796	256	1,052	-	-
Transport and storage	957	454	1,411	-	1
Information and communications	650	460	1,110	-	11
Financial services	3,639	6,834	10,473	-	642
Other business services	1,969	922	2,891	-	6
Public and community services	1,266	290	1,556	-	11
Total commercial credit	35,146	32,328	67,474	-	1,163
Private individuals - housing loans	107,991	7,815	115,806	-	-
Private individuals – other	16,443	11,210	27,653	-	46
Total	159,580	51,353	210,933	-	1,209
For borrowers' activities overseas	3,871	1,568	5,439	19	42
Total loans to the public	163,451	52,921	216,372	19	1,251
Banking corporations	4,276	328	4,604	94	2,671
Governments	323	-	323	8,951	-
Total credit	168,050	53,249	221,299	9,064	3,922

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivative instruments.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Includes borrowed securities amounting to NIS 151 million.
(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies. In conformity with the Supervisor of Banks' directives, the directive is to be applied prospectively as from the 2014 financial statements.
(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(7) Includes on-balance sheet credit risk amounting to NIS 1,374 million and off-balance sheet credit risk amounting to NIS 1,575 million, extended to certain purchase groups which are in the process of construction.

			Total problematic credit risk		Problematic off balance sheet debt[1] and credit risk (other than derivatives)		
					Credit losses[3]		
Futures transactions	Total	Credit performance rating[5]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
1	944	931	13	12	(2)	(2)	6
10	757	757	-	-	(1)	-	5
129	8,168	8,021	147	79	13	8	92
-	25,785	25,231	554	234	(44)	14	86
-	2,392	2,265	127	125	13	1	90
102	1,615	1,610	5	3	5	3	5
33	10,087	9,674	413	347	(2)	3	155
-	1,052	1,018	34	20	2	1	18
2	1,414	1,391	23	16	-	1	5
3	1,124	1,055	69	4	5	1	27
1,665	12,780	12,748	32	20	8	(6)	98
26	2,923	2,873	50	20	8	2	36
40	1,607	1,576	31	18	3	1	12
2,011	70,648	69,150	1,498	898	8	27	635
-	115,806	114,902	904	27	(9)	1	603
51	27,750	27,255	185	79	13	17	191
2,062	214,204	211,307	2,587	1,004	12	45	1,429
32	5,532	5,519	13	13	(8)	1	35
2,094	219,736	216,826	2,600	1,017	4	46	1,464
730	8,099	8,099	-	-	(1)	-	2
-	9,274	9,274	-	-	-	-	-
2,824	237,109	234,199	2,600	1,017	3	46	1,466

Credit Risk by Economic Sector - Consolidated - continued

As of March 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
Agriculture, forestry and fishing	635	194	829	-	1
Mining and excavation	468	380	848	-	54
Industry and production	5,506	3,210	8,716	-	207
Construction and real estate - construction[7]	9,089	17,561	26,650	15	1
Construction and real estate - real estate operations	2,265	316	2,581	-	1
Electricity and water delivery	572	420	992	-	369
Commerce	7,985	2,379	10,364	-	142
Hotels, dining and food services	648	175	823	-	5
Transport and storage	968	339	1,307	-	4
Information and communications	1,055	419	1,474	-	39
Financial services	3,932	8,202	12,134	-	1,064
Other business services	1,982	798	2,780	-	5
Public and community services	910	331	1,241	-	39
Total commercial credit risk	36,015	34,724	70,739	15	1,931
Private individuals - housing loans	97,357	7,482	104,839	-	-
Private individuals – other	15,055	10,976	26,031	-	308
Total	148,427	53,182	201,609	15	2,239
For borrowers' activities overseas	3,622	1,238	4,860	51	106
Total credit risk to public	152,049	54,420	206,469	66	2,345
Banking corporations	4,453	267	4,720	346	3,349
Government	299	-	299	13,586	-
Total credit risk	156,801	54,687	211,488	13,998	5,694

(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 300 million.
(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policy. In conformity with the Supervisor of Banks' directives, the directive is to be applied prospectively as from the 2014 financial statements.
(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(7) Includes on-balance sheet credit risk amounting to NIS 1,377 million and off-balance sheet credit risk amounting to NIS 1,636 million, extended to certain purchase groups which are in the process of construction.

		Total problematic credit risk		Problematic off balance sheet debt[1] and credit risk (other than derivatives)				
								Credit losses[3]
Futures transactions	Total	Credit performance rating[5]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
1	831	820	11	9	-	-	5
14	916	916	-	-	2	-	5
129	9,052	8,933	119	68	17	1	96
1	26,667	26,333	334	245	(5)	(1)	143
-	2,582	2,332	250	240	(19)	-	71
81	1,442	1,441	1	1	-	-	2
48	10,554	10,262	292	150	26	5	134
8	836	815	21	7	4	1	17
3	1,314	1,296	18	15	-	-	8
7	1,520	1,514	6	1	1	-	7
1,775	14,973	14,862	111	103	6	(1)	100
4	2,789	2,734	55	34	-	3	32
42	1,322	1,299	23	17	(1)	(1)	9
2,113	74,798	73,557	1,241	890	31	7	629
-	104,839	103,847	992	3	(4)	-	619
-	26,339	26,026	195	84	6	12	183
2,113	205,976	203,430	2,428	977	33	19	1,431
27	5,044	5,031	13	8	1	-	29
2,140	211,020	208,461	2,441	985	34	19	1,460
550	8,965	8,965	-	-	1	-	6
-	13,885	13,885	-	-	-	-	-
2,690	233,870	231,311	2,441	985	35	19	1,466

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. In conformity with the Supervisor of Banks' directives, the directive is to be applied prospectively as from the 2014 financial statements.
(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(7) Includes on-balance sheet credit risk amounting to NIS 1,285 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 debt[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
													As of March 31, 2016
USA	3,010	1,029	1,283	464	464	-	5,322	5	1	505	-	3,981	1,341
Others [5]	43	1,656	4,052	1,017	347	670	6,421	38	-	1,084	-	2,548	3,203
Total exposure to foreign countries	3,053	2,685	5,335	1,481	811	670	11,743	43	1	1,589	-	6,529	4,544
Of which: Total exposure to LDC countries	6	28	527	-	-	-	561	2	-	65	-	205	356
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	30	53	-	-	-	83	-	-	75	-	16	67
													As of March 31, 2015
USA	1,005	1,180	1,145	362	362	-	3,330	14	2	3,441	-	1,169	2,161
UK	-	173	611	913	344	569	1,353	9	-	916	-	425	359
Other	-	681	1,968	-	-	-	2,649	7	-	2,700	-	1,397	1,252
Total exposure to foreign countries	1,005	2,034	3,724	1,275	706	569	7,332	30	2	7,057	-	2,991	3,772
Of which: Total exposure to LDC countries	-	-	653	-	-	-	653	2	-	105	-	261	392
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	4	45	-	-	-	49	-	-	22	-	19	30

See remarks below.

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

Reported amounts (NIS in millions)

													As of 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	916	1,297	405	405	-	4,848	13	1	407	-	2,083	2,765
Other	46	1,769	3,685	1,063	370	693	6,193	34	1	975	-	2,206	3,294
Total exposure to foreign countries	2,681	2,685	4,982	1,468	775	693	11,041	47	2	1,382	-	4,289	6,059
Of which: Total exposure to LDC countries	6	-	394	-	-	-	400	1	-	68	-	136	264
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	34	49	-	-	-	83	-	-	14	-	18	65

- 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:

	March 31, 2016		March 31, 2015		December 31, 2015	
	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure
France	1,719	229	1,400	396	1,727	138
UK	1,610	208	-	-	1,588	250
Germany	-	-	401	1,378	-	-

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

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

	For the three months ended March 31, 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 March 31, 2015			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	14	-	14
Net change in short-term exposure	-	4	-	4
Exposure at end of reported period	-	18	-	18

	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	On-balance sheet credit risk[(3)] After offset of deposits with respect to master netting agreements[(5)]	Off balance sheet credit risk[(4)]	Current credit exposure Before offset of deposits with respect to master netting agreements	Current credit exposure After offset of deposits with respect to master netting agreements[(5)]
					As of March 31, 2016
AAA to AA-	1,018	867	2	1,020	869
A+ to A-	1,280	842	159	1,439	1,001
BBB+ to BBB-	39	15	-	39	15
BB+ to B-	14	-	14	28	14
Lower than B-	-	-	-	-	-
Unrated	4	4	-	4	4
Total credit exposure to foreign financial institutions	2,355	1,728	175	2,530	1,903
					As of March 31, 2015
AAA to AA-	678	515	1	679	516
A+ to A-	2,443	1,437	66	2,509	1,503
BBB+ to BBB-	-	-	-	-	-
BB+ to B-	-	-	11	11	11
Lower than B-	-	-	-	-	-
Unrated	-	-	-	-	-
Total credit exposure to foreign financial institutions	3,121	1,952	78	3,199	2,030
					As of December 31, 2015
AAA to AA-	981	874	2	983	876
A+ to A-	1,309	778	76	1,385	854
BBB+ to BBB-	38	25	-	38	25
BB+ to B-	-	-	14	14	14
Lower than B-	-	-	-	-	-
Unrated	34	34	-	34	34
Total credit exposure to foreign financial institutions	2,362	1,711	92	2,454	1,803

As of March 31, 2016, March 31, 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) 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)		
	First Quarter		
	2016	2015	Change (in %)
Mortgages issued (for housing and any purpose)			
From the Bank's funds	6,267	5,403	16.0
From the Treasury's funds			
Directed loans	24	25	(4.0)
Standing loans and grants	45	36	25.0
Total new loans	6,336	5,464	16.0
Refinanced loans	804	1,173	(31.5)
Total loans originated	7,140	6,637	7.6
Number of borrowers (includes refinanced loans)	13,680	14,140	(3.3)

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of March 31, 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 March 31, 2016 was 55.0%, 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 109.2 million, some 94% 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.

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 circular 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 2.7 billion is insured by credit insurance - 44.1%.

In recent years, due to measures taken by the Bank to mitigate risk in the mortgage portfolio and the aforementioned restrictions imposed by the Bank of Israel, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 0.7% for loans granted 1-2 years ago, 0.6% for loans granted 3-12 months ago and 0.3% for loans granted in the first 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 28.0%. Some 79.1% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.6%). Some 16.7% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40.2%). Some 3.8% of mortgages were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.8%), and only 0.4% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.4%).

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 a circular concerning restrictions on provision of housing loans, which incorporates, *inter alia*, the directives described above, dated August 29, 2013. The circular 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 circular 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.

Note that the repayment capacity of clients who obtained loans in the period when the prime lending rate was high is reviewed using the high interest rate. In recent years, when interest rates were low, these clients benefited significantly from lower loan costs.

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 billion, or only 9.1% of the housing loan portfolio.

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

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 4.6 billion on March 31, 2016, or only 4.2% of the Bank's housing loan portfolio.

Below are details of various risk attributes of the housing loan portfolio(1) as of March 31, 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%	2,835	8,690	9,098	16,624	11,810	3,916	52,973
	35%-50%	405	1,124	1,503	4,834	2,875	773	11,514
	50%-80%	-	-	16	1,378	1,040	292	2,726
	Over 80%	-	-	-	118	158	54	330
60%-75%	Up to 35%	1,837	5,043	4,851	10,543	5,732	975	28,981
	35%-50%	250	601	583	2,332	1,425	250	5,441
	50%-80%	-	-	2	466	482	93	1,043
	Over 80%	-	-	-	25	47	14	86
Over 75%	Up to 35%	13	87	101	1,224	1,820	1,339	4,584
	35%-50%	2	6	14	285	408	461	1,176
	50%-80%	-	-	-	32	119	157	308
	Over 80%	-	-	-	2	26	32	60
Total		5,342	15,551	16,168	37,863	25,942	8,356	109,222
Of which:								
Loans granted with original amount over NIS 2 million		237	711	665	1,836	1,068	49	4,566
Percentage of total housing loans		4.4%	4.6%	4.1%	4.8%	4.1%	0.6%	4.2%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,368	4,158	4,435	10,490	12,038	1,502	33,991
CPI-linked(3)		7	45	86	901	4,721	1,556	7,316
In foreign currency(3)		59	230	527	1,857	1,069	343	4,085
Total		1,434	4,433	5,048	13,248	17,828	3,401	45,392
Non-linked loans at prime lending rate, as percentage of total housing loans		25.6%	26.7%	27.4%	27.7%	46.4%	18.0%	31.1%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.1%	0.3%	0.5%	2.4%	18.2%	18.6%	6.7%
Loans with LTV over 75% as percentage of total housing loans		0.3%	0.6%	0.7%	4.1%	9.1%	23.8%	5.6%

(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 re-financing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date.
This treatment also applies to re-financing 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 March 31, 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	5	10	10	10	198	228	57	290
Of which: Balance of provision for interest[1]	-	-	-	-	97	97	6	103
Recorded debt balance	315	375	135	66	153	729	152	1,196
Balance of provision for credit losses [2]	-	-	19	31	111	161	77	238
Debt balance, net	315	375	116	35	42	568	75	958

(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 risk 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 risk, 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):

	First Quarter	First Quarter	All of
	2016	2015	2015
At end of period	245	310	195
Maximum value during period	(MAR) 245	(FEB) 320	(May) 379
Minimum value during period	(JAN) 235	(JAN) 303	(OCT) 193

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 5.5 million, was primarily due to a sharp increase in the CPI-linked curve, in response to the CPI being published and to lower inflationary expectations. This number of cases is within the criteria specified by the Basel Committee. Therefore, the Bank's VaR model is valid.

Below are exceptions during the reviewed period (NIS in millions):

Exception date	Exception value
July 17, 2013	5.5

Analysis of interest risk in bank portfolio

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

						March 31, 2016
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(817)	330	125	(22)	(1)	(385)
Decrease of 2%	1,084	(498)	(125)	24	1	486

						March 31, 2015
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(1,502)	515	124	(8)	(4)	(875)
Decrease of 2%	1,682	(714)	(115)	9	4	866

						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)

	As of March 31, 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]	108,626	1,725	3,717	8,710	7,176	6,458
Financial derivative instruments (other than options)	8,986	10,107	21,583	12,772	8,116	8,589
Options (in terms of underlying asset)	1,713	1,013	1,312	251	205	152
Total fair value	119,325	12,845	26,612	21,733	15,497	15,199
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[1]	73,963	11,003	14,504	7,745	7,755	7,910
Financial derivative instruments (other than options)	20,646	20,966	13,846	9,793	8,253	8,624
Options (in terms of underlying asset)	2,864	553	1,770	253	213	62
Total fair value	97,473	32,522	30,120	17,791	16,221	16,596
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	21,852	(19,677)	(3,508)	3,942	(724)	(1,397)
Cumulative exposure in sector	21,852	2,175	(1,333)	2,609	1,885	488

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.

			As of March 31, 2016			As of March 31, 2015			As of 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
2,789	147	424	139,772	3.40	1.03	[3]120,701	3.23	0.93	131,739	3.19	1.04
-	-	-	70,153		1.98	86,418		1.16	66,214		1.23
-	-	-	4,646		0.76	7,440		0.73	2,763		0.73
2,789	147	424	214,571		1.33	214,559		1.02	200,716		1.10
621	171	-	123,672	1.10	0.90	[3]106,346	0.74	0.55	[3]119,611	1.18	0.82
-	-	-	82,128		1.93	94,791		1.35	77,724		1.42
-	-	-	5,715		0.55	8,870		0.85	3,729		0.85
621	171	-	211,515		1.29	210,007		0.92	201,064		1.05
2,168	(24)	424	3,056			4,552			(348)		
2,656	2,632	3,056	3,056								

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

Reported amounts (NIS in millions)

	As of March 31, 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]	1,302	2,643	10,718	21,116	10,548	3,647
Financial derivative instruments (other than options)	6	10	446	1,029	1,173	471
Total fair value	1,308	2,653	11,164	22,145	11,721	4,118
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[1]	2,763	1,254	4,093	13,252	8,679	7,881
Financial derivative instruments (other than options)	310	118	3,212	3,573	1,507	265
Total fair value	3,073	1,372	7,305	16,825	10,186	8,146
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(1,765)	1,281	3,859	5,320	1,535	(4,028)
Cumulative exposure in sector	(1,765)	(484)	3,375	8,695	10,230	6,202

Specific remarks:

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

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

			As of March 31, 2016			As of March 31, 2015			As of 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
1,056	36	76	51,142	2.88	2.60	54,164	1.98	2.69	52,284	2.64	2.64
-	-	-	3,135		2.73	3,520		3.39	3,221		3.08
1,056	36	76	54,277		2.61	57,684		2.73	55,505		2.67
2,495	-	2	40,419	1.28	3.56	41,366	0.70	3.78	37,438	1.59	3.54
-	-	-	8,985		0.76	12,381		1.60	8,958		1.61
2,495	-	2	49,404		3.05	53,747		3.28	46,396		3.17
(1,439)	36	74	4,873			3,937			9,109		
4,763	4,799	4,873	4,873								

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

Reported amounts (NIS in millions)

	As of March 31, 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]	9,238	4,831	2,484	277	359	973
Financial derivative instruments (other than options)	35,044	28,655	15,784	3,848	3,839	3,645
Options (in terms of underlying asset)	1,868	1,746	1,902	239	189	52
Total fair value	46,150	35,232	20,170	4,364	4,387	4,670
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[2]	19,138	7,997	8,691	400	92	147
Financial derivative instruments (other than options)	23,594	18,092	20,587	4,446	3,376	3,849
Options (in terms of underlying asset)	1,755	1,162	1,458	238	182	134
Total fair value	44,487	27,251	30,736	5,084	3,650	4,130
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	1,663	7,981	(10,566)	(720)	737	540
Cumulative exposure in sector	1,663	9,644	(922)	(1,642)	(905)	(365)

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

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

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

				As of March 31, 2016			As of March 31, 2015			As of 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
201	523	277	19,163	2.39	1.02	20,024	1.78	0.69	19,218	1.66	1.53
202	-	-	91,017		1.72	98,014		1.50	81,065		1.50
-	-	-	5,996		0.52	9,459		0.42	4,215		0.42
403	523	277	116,176		1.54	127,497		1.29	104,498		1.46
5	-	454	36,924	0.61	0.35	37,240	0.61	0.36	37,401	0.63	0.34
202	-	-	74,146		1.01	82,529		0.84	64,073		0.94
-	-	-	4,929		0.69	7,846		0.44	3,101		0.44
207	-	454	115,999		0.79	127,615		0.68	104,575		0.71
196	523	(177)	177			(118)			(77)		
(169)	354	177	177								

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

Reported amounts (NIS in millions)

	As of March 31, 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)	119,166	9,199	16,919	30,103	18,083	11,078
Financial derivative instruments (other than options)	44,036	38,772	37,813	17,649	13,128	12,705
Options (in terms of underlying asset)	3,581	2,759	3,214	490	394	204
Total fair value	166,783	50,730	57,946	48,242	31,605	23,987
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities(1)	95,864	20,254	27,288	21,397	16,526	15,938
Financial derivative instruments (other than options)	44,550	39,176	37,645	17,812	13,136	12,738
Options (in terms of underlying asset)	4,619	1,715	3,228	491	395	196
Total fair value	145,033	61,145	68,161	39,700	30,057	28,872
Financial instruments, net						
Total exposure to interest rate fluctuations	21,750	(10,415)	(10,215)	8,542	1,548	(4,885)
Total cumulative exposure	21,750	11,335	1,120	9,662	11,210	6,325

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.

				As of March 31, 2016			As of March 31, 2015			As of 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
4,046	706	777	210,077	3.10	1.41	[3]194,889	2.48	1.40	203,241	2.79	1.50
202	-	-	164,305		1.85	187,952		1.38	150,500		1.42
-	-	-	10,642		0.63	16,899		0.56	6,978		0.54
4,248	706	777	385,024		1.58	399,740		1.35	360,719		1.45
3,121	171	456	201,015	1.17	1.33	[3]184,952	0.70	1.24	[3]194,450	1.38	1.25
202	-	-	165,259		1.46	189,701		1.14	150,755		1.23
-	-	-	10,644		0.61	16,716		0.66	6,830		0.66
3,323	171	456	376,918		1.37	391,369		1.17	352,035		1.23
925	535	321	8,106			8,371			8,684		
7,250	7,785	8,106	8,106								

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

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

	Israeli currency		Foreign currency[2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
March 31, 2016						
Financial assets[1]	139,772	51,142	13,676	3,411	2,076	210,077
Amounts receivable with respect to financial derivative instruments[3]	74,799	3,135	75,539	14,012	7,462	174,947
Financial liabilities[1]	(123,672)	(40,419)	(28,101)	(6,172)	(2,651)	(201,015)
Amounts payable with respect to financial derivative instruments[3]	(87,843)	(8,985)	(60,875)	(11,221)	(6,979)	(175,903)
Total	3,056	4,873	239	30	(92)	8,106
December 31, 2015						
Financial assets[1]	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[1]	(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[2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
March 31, 2016								
Change in interest rates:								
Concurrent immediate increase of 1%	2,891	5,145	248	47	(96)	8,235	129	1.6
Concurrent immediate increase of 0.1%	3,041	4,902	240	32	(93)	8,122	16	0.2
Concurrent immediate decrease of 1%	3,240	4,562	235	17	(89)	7,965	(141)	(1.7)
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 March 31, 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	657.6	328.8	(328.8)	(657.6)	96.0	(56.6)
Dollar	10.6	0.7	6.4	9.8	1.0	2.5
Pound Sterling	0.6	0.2	(0.1)	(0.2)	0.1	(0.1)
Yen	(2.3)	(1.0)	0.6	1.4	(1.0)	0.5
Euro	5.4	2.8	2.0	4.0	1.8	0.5
Swiss Franc	0.1	0.1	0.1	0.3	0.1	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 policy specifies 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 in order to identify and map operating risk in different divisions, as an on-going process. Over the past year, these surveys have been expanded and they include mapping of material risk for each unit, stress tests, Key Risk Indicators, testing of IT systems in the relevant area and fraud and embezzlement risk. 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 operating risk inherent therein, in conformity with the Bank's current framework, 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 control 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. As part of the integrated view of all internal controls risks, the Bank launched in the past year a process to create and deploy a new module in the operating risk portal, to include all information and actions relevant for the unit with regard to such risk.

The Bank framework for handling operating risk is reviewed quarterly, as part of the Bank's Risk 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 the first quarter of 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 Banking Conduct of Directive no. 355. In the first quarter of 2016, the Business Impact Analysis (BIA) processes were refreshed and adjustments were made to the business continuity plan based thereon.

The Bank diligently maintains and conducts a multi-year training and drill program which includes conducting technology-related drills and trials to test and improve the readiness and awareness of Bank management and employees to dealing with disaster scenarios. In the first quarter of 2016, the Bank started delivering training at banking courses of the Training Center, to continue throughout the year.

In accordance with the Bank's multi-annual training plan, in this quarter the Bank started making progress on the annual exercise, scheduled for May, which this year would include an exercise of war scenarios and a material computer malfunction.

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, Risk 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 first quarter of 2016, there were several attempted cyber attacks on the Bank. The prevention and control mechanisms have alerted and prevented these attacks, These events were duly reported and caused no financial damage to the Bank.

Legal risk

Proper Banking Conduct Directive 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 risk arising from legislative and regulatory provisions, rulings by judiciary or quasi-judiciary authorities as well as legal risk 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 risk 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 risk 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". 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. 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 quarter of 2016.

In the first quarter of 2016, the Bank raised the alert status to Higher Alert on several occasions (i.e. close monitoring of model parameters and indicators); in all cases, the cause was external or systemic, such as the dramatic decline in European banking shares, when in actual fact, in all cases there was no impact to Bank liquidity.

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 uniques attributes, which allow clients to benefit from relatively high interest over the long term with optional liquidity during the deposit term. In the first quarter of 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 01, 2015, 80% as from January 01, 2016 and 100% as from January 01, 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 on 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 Regulation 342, as described above.

Soliciting sources and Bank liquidity status - In the first quarter 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 165 billion on March 31, 2016, an increase of 1.6%.

In the non-linked segment, total deposits from the public amounted to NIS 112 billion, an increase of 2.7% compared to end of 2015. In the CPI-linked sector, deposits from the public amounted to NIS 17 million, an increase of 1.4%, and in the foreign currency sector - to NIS 35.9 billion, a decrease of 1.6% compared to end of 2015.

As of March 31, 2016, the balance of the three largest depositor groups at the Bank Group amounted to NIS 10.2 billion.

The average (consolidated) liquidity coverage ratio for the first quarter of 2016 was 97% (the minimum ratio required by the Supervisor of Banks was 80%). As of March 31, 2016, the liquidity coverage ratio was at 99%. The increase in the average ratio over the previous quarter is also due to net sources in excess of added uses and further improvement of the composition of Bank sources structure, by raising stable financing sources. There were no deviations from the limitations for this ratio recorded in the first quarter 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.

Compliance risk has continued to decrease in the first quarter of 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 Risk 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.

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.

After increased risk last year, cross-border risk moderately decreased in the first quarter of 2016. The moderate decrease is due to implementation of the first stages of preparation for risk management.

For more information see the Detailed Risk 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 the first quarter of 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 risk 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 quarter of 2016 there were no events which negatively impacted the Bank's reputation.

For more information see the Detailed Risk 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 once, 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, s. 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
Operating risk	Low	Manager, Risks Control Division
Cyber and information security	Intermediate	Manager, Risk Control Division
Legal risk	Low-medium	Chief Legal Counsel
Compliance and regulatory risk	Intermediate	Manager, Risk Control Division
Cross-border risk	Intermediate	Manager, Risk Control Division
Anti-money laundering risk	Low-medium	Manager, Risk Control Division
Reputation risk[2]	Low	Manager, Marketing, Promotion and Business Development Division
Strategic-business risk	Low	President & CEO

(1) Assessment of the effect of the aforementioned risk factors takes into account the 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.

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.

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.

Int he first quarter of 2016 there were no changes to accounting policy 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 quarter 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 March 31, 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 March 31, 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 first 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
Chairman of the
Board of Directors

Eldad Fresher
President & CEO

Approval date:
Ramat Gan,
May 18, 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 March 31, 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

May 18, 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 March 31, 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
May 18, 2016

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

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

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated interim balance sheet as of March 31, 2016, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information for the interim period of certain consolidated subsidiaries, whose assets included in consolidation constitute 7.4% of total consolidated assets as of March 31, 2016, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 11.91% of total consolidated net interest revenues before expenses with respect to credit losses for the three-month period then ended. Furthermore, we did not review the condensed financial information for the interim period of an equity-accounted associate, the investment in which amounted to NIS 19 million as of March 31, 2016. The condensed financial information for the interim period of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

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

Conclusion

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

Without qualifying our aforementioned opinion, we draw your attention to:

1. Note 10.B.2.(j) and 10.B.3.(a-f) 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.

Certified Public Accountants

Tel Aviv, May 18, 2016

Condensed financial statements

Table of Contents

Condensed consolidated statement of profit and loss	118
condensed consolidated statement of comprehensive income	120
condensed consolidated balance sheet	121
statement of changes in shareholders' equity	122
statement of cash flows	124
note 1 - reporting principles and accounting policies	126
note 2 - interest revenues and expenses	135
note 3 - non-interest financing revenues	136
note 4 - cumulative other comprehensive income (loss)	138
note 5 - securities	140
note 6 - credit risk, loans to the public and provision for credit losses	144
note 7 - deposits from the public	148
note 8 - employee rights	149
note 9 – capital adequacy, liquidity and leverage pursuant to directives of the supervisor of banks	152
note 10 - contingent liabilities and special commitments	160
note 11 - derivative instruments and hedging activities	172
note 12 – operating segments	182
note 13 - additional information about credit risk, loans to the public and provision for credit losses	194
note 14 - assets and liabilities by linkage basis	211
note 15 – balances and estimates of fair value of financial instruments	214
note 16 – other matters	227
note 17 – events after the balance sheet date	227

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended March 31,		For the year ended December 31,
		2016	2015	2015
		(unaudited)		(audited)
interest revenues	2	868	550	4,906
Interest expenses	2	108	(149)	1,372
Interest revenues, net		760	699	3,534
Expenses with respect to credit losses	6,13	3	35	211
Interest revenues, net after expenses with respect to credit losses		757	664	3,323
Non-interest revenues				
Non-interest financing revenues		67	125	358
Commissions		365	356	1,426
Other revenues		89	21	74
Total non-interest revenues		521	502	1,858
Operating and other expenses				
Payroll and associated expenses		477	(1) 466	1,944
Maintenance and depreciation of buildings and equipment		174	(1) 174	692
Other expenses		128	121	590
Total operating and other expenses		779	761	3,226
Pre-tax profit		499	405	1,955
Provision for taxes on profit		203	(1) 147	761
After-tax profit		296	258	1,194
Share in profit (loss) of associates, after tax		-	(1)	-
Net profit:				
Before attribution to non-controlling interests		296	257	1,194
Attributable to non-controlling interests		(8)	(9)	(60)
Attributable to shareholders of the Bank		288	248	1,134

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

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

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President & CEO

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, May 18, 2016

Condensed consolidated statement of profit and loss - continued

(Reported amounts)

	For the three months ended March 31,		For the year ended December 31,
	2016	2015[2]	2015
Earnings per share[1]			
Basic earnings per share (in NIS)			
Net profit attributable to shareholders of the Bank	1.24	1.07	4.90
Diluted earnings per share (in NIS)			
Net profit attributable to shareholders of the Bank	1.24	1.07	4.89

(1) Share of NIS 0.1 par value.

(2) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

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

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	Note	For the three months ended	March 31,	For the year ended December 31,
		2016	2015[(1)]	2015
		(unaudited)		(audited)
Net profit:				
Before attribution to non-controlling interests		296	257	1,194
Attributable to non-controlling interests		(8)	(9)	(60)
Net profit attributable to shareholders of the Bank		288	248	1,134
Other comprehensive income (loss) before taxes	4			
Adjustments for presentation of available-for-sale securities at fair value, net		34	63	(27)
Adjustments from translation of financial statements of investments in associates[(2)]		-	-	(1)
Adjustment of liabilities with respect to employee benefits[(3)]		(29)	(78)	(3)
Net gains (losses) with respect to cash flows hedging		(6)	(15)	(6)
Total other comprehensive income (loss), before tax		(1)	(30)	(37)
Related tax effect		(2)	13	13
Other comprehensive income (loss) after taxes[(4)]				
Other comprehensive income (loss), before attribution to non-controlling interest		(3)	(17)	(24)
Less other comprehensive income (loss) attributable to non-controlling interest		2	1	(1)
Other comprehensive income (loss) attributable to equity holders of the Bank, after taxes		(1)	(16)	(25)
Comprehensive income:				
Before attribution to non-controlling interests		293	240	1,170
Attributable to non-controlling interests		(6)	(8)	(61)
Comprehensive income attributable to shareholders of the Bank		287	232	1,109

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.
(2) Adjustments from translation of financial statements of associates.
(3) 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.
(4) 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 March 31,		As of December 31
		2016	2015	2015
		(unaudited)		(audited)
Assets				
Cash and deposits with banks		38,193	25,455	30,489
Securities[1][2]	5	9,013	13,802	11,845
Securities loaned or purchased in resale agreements		151	300	71
Loans to the public	6,13	163,451	152,049	160,604
Provision for credit losses	6,13	(1,378)	(1,355)	(1,400)
Loans to the public, net		162,073	150,694	159,204
Loans to Governments		323	299	316
Investments in associates		36	45	36
Buildings and equipment		1,546	[4] 1,544	1,583
Intangible assets and goodwill		87	87	87
Assets with respect to derivative instruments	10	3,922	5,694	3,527
Other assets		1,465	3,052	2,000
Total assets		216,809	200,972	209,158
Liabilities and Equity				
Deposits from the public	7	165,001	153,002	162,380
Deposits from banks		1,416	1,472	1,166
Deposits from the Government		55	59	58
Securities loaned or sold in conjunction with repurchase agreements		-	240	-
Debentures and subordinated notes		26,859	20,804	23,719
Liabilities with respect to derivative instruments	10	4,878	7,260	3,634
Other liabilities[3]		5,928	[4]6,587	5,786
Total liabilities		204,137	189,424	196,743
Shareholders' equity attributable to shareholders of the Bank		12,098	[4]11,033	11,847
Non-controlling interests		574	515	568
Total equity		12,672	11,548	12,415
Total liabilities and equity		216,809	200,972	209,158

(1) Of which: NIS 5,695 million at fair value on consolidated basis (March 31, 2015 - NIS 8,548 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) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 86 million (on March 31, 2015 - NIS 105 million, on December 31, 2015 - NIS 106 million).

(4) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

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

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 March 31, 2016 (unaudited)
Balance as of December 31, 2015	2,222	68	(76)	2,214
Net profit for the period	-	-	-	-
Dividends paid[6]	-	-	-	-
Benefit from share-based payment transactions	-	1	-	1
Related tax effect	-	(1)	-	(1)
Realization of share-based payment transactions[2]	2	(2)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of March 31, 2016	2,224	66	(76)	2,214
				For the three months ended March 31, 2015 (unaudited)
Balance as of December 31, 2014[5]	2,197	66	(76)	2,187
Net profit for the period[5]	-	-	-	-
Benefit from share-based payment transactions	-	4	-	4
Related tax effect	-	-	-	-
Realization of share-based payment transactions[2]	3	(3)	-	-
Other comprehensive income (loss), net, after tax[5]	-	-	-	-
Balance as of March 31, 2015	2,200	67	(76)	2,191
				For the year ended December 31, 2015 (audited)
Balance as of December 31, 2014[5]	2,197	66	(76)	2,187
Net profit for the period	-	-	-	-
Dividends paid[7]	-	-	-	-
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[5]	-	-	-	-
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 quarter of 2016, 45,063 ordinary NIS 0.1 par value shares were issued (In the first quarter of 2015, 81,837 ordinary NIS 0.1 par value shares were issued) for exercise of options pursuant to the Employee Stock Option Plan.
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 74,647 ordinary NIS 0.1 par value shares to the President each.
(3) For details see Note 4 - Cumulative Other Comprehensive Income.
(4) For more information about various limitations on dividend distributions, see Note 24 to the 2015 financial statements.
(5) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.
(6) On March 21, 2016, dividends amounting to NIS 36.0 million with respect to earnings in the fourth quarter of 2015 were distribute in conformity with a resolution by the Bank's Board of Directors.
(7) On June 14, 2015 and September 17, 2015, the Bank paid, in conformity with a decision by the Bank 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.
(8) On May 18, 2016, after the balance sheet date, the Bank Board of Directors resolved to distribute dividends amounting to NIS 43.2 million with respect to earnings in the first quarter of 2016. According to accounting rules, this amount would be deducted from retained earnings in the second quarter of 2016.

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

Cumulative other comprehensive income (loss)[3]	Retained earnings[4][8]	Total shareholder equity	Non-controlling interests	Total equity
(97)	9,730	11,847	568	12,415
-	288	288	8	296
-	(36)	(36)		(36)
-	-	1	-	1
-	-	(1)	-	(1)
-	-	-	-	-
(1)	-	(1)	(2)	(3)
(98)	9,982	12,098	574	12,672
(72)	8,682	10,797	507	11,304
-	248	248	9	257
-	-	4	-	4
-	-	-	-	-
-	-	-	-	-
(16)	-	(16)	(1)	(17)
(88)	8,930	11,033	515	11,548
(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

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2016	2015	2015
	(unaudited)		(audited)
Cash flows provided by current operations			
Net profit	296	[1]257	1,194
Adjustments			
Bank's share of undistributed (earnings) loss of associates	-	1	-
Depreciation of buildings and equipment	55	[1]56	223
Expenses with respect to credit losses	3	35	211
Loss (gain) from sale of securities available for sale	(31)	(92)	(118)
Loss (gain) from sale of securities held to maturity[2]	-	-	(67)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	-	(5)	5
Gain from sale of buildings and equipment	(78)	(10)	(36)
Expenses arising from share-based payment transactions	1	4	20
Deferred taxes, net	26	(79)	27
Change in net liabilities with respect to employee rights	(9)	74	(10)
Effect of changes in exchange rate on cash balances	194	(104)	183
Proceeds from sale of loan portfolios	(15)	-	(1)
Net change in current assets			
Deposits with banks	(1,282)	(224)	2,967
Loans to the public	(3,374)	(3,160)	(12,453)
Loans to Governments	(7)	8	(9)
Securities loaned or purchased in resale agreements	(80)	(193)	36
Assets with respect to derivative instruments	(401)	(112)	2,069
Securities held for trade	(288)	385	807
Other assets, net	604	(769)	191
Net change in current liabilities			
Deposits from banks	250	214	(92)
Deposits from the public	2,621	623	10,001
Deposits from the Government	(3)	4	3
Securities loaned or sold in conjunction with repurchase agreements	-	17	(223)
Liabilities with respect to derivative instruments	1,244	763	(2,863)
Other liabilities	124	219[1]	(464)
Accrual differences included under investment and financing operations	(58)	(403)	(399)
Net cash provided by current operations	(208)	(2,491)	1,202

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

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

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

Statement of cash flows - continued

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2016	2015	2015
		(unaudited)	(audited)
Cash flows provided by investment operations			
Proceeds from sale of debentures held to maturity	-	-	1,917
Acquisition of securities available for sale	(1,877)	(4,917)	(10,497)
Proceeds from sale of securities available for sale	4,780	4,678	9,603
Proceeds from redemption of securities available for sale	189	364	761
Proceeds from sale of loan portfolios	518	-	590
Acquisition of buildings and equipment	(38)	(26)(1)	(233)
Proceeds from sale of buildings and equipment	-	4	55
Proceeds from realized investments in associates	-	6	15
Net cash provided by investment operations	3,572	109	2,211
Cash flows provided by financing operations			
Issuance of debentures and subordinated notes	3,304	3,150	7,502
Redemption of debentures and subordinated notes	(16)	(2,439)	(3,988)
Dividends paid to shareholders	(36)	-	(86)
Net cash provided by financing operations	3,252	711	3,428
Increase (decrease) in cash	6,616	(1,671)	6,841
Cash balance at beginning of the period	30,309	26,189	23,651
Effect of changes in exchange rate on cash balances	(194)	104	(183)
Cash balance at end of the period	36,731	24,622	30,309
Interest and taxes paid / received			
Interest received	680	774	5,080
Interest paid	148	98	1,591
Dividends received	2	2	10
Taxes on income received	72	59	69
Taxes on income paid	142	145	738
Appendix A - Non-cash Transactions During the Period			
Acquisition of buildings and equipment	2	10	22

(1) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

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

Note 1 - Reporting Principles and Accounting Policies

A. Overview

The condensed financial statements as of March 31, 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.

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

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

The Bank Board of Directors authorized publication of these condensed financial statements on May 18, 2016.

B. Restatement of the financial statements

Information in these financial statements as of March 31, 2015 include restatement of balances, results and notes, in conformity with the Supervisor of Banks' directives with regard to capitalization of software costs:

On May 21, 2015, the Bank of Israel issued a letter to the Bank, containing instructions concerning capitalization of in-house software development cost).

The letter noted that the process of capitalization of in-house software development costs is a material process for the financial reporting by the Bank and given the accounting complexity associated with this process, reinforcement of internal controls over this process are required.

Note that the Bank applies IAS 38 "Intangible Assets" as well as provisions of SOP 98-I - "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use".

Below are key directives included in the letter, to be applied as from the financial statements as of June 30, 2015.

- Setting of a materiality threshold for each software development project; The materiality threshold specified by the Bank is NIS 450 thousand.
- Revision of the useful life of capitalized software costs, so as not to exceed 5 years.

Note 1 - Reporting Principles and Accounting Policies – continued

- With respect to software development projects for which the total software cost which may be capitalized is higher than the specified materiality threshold, capitalization factors would be specified for work hours - factors which would take into account the potential for deviation in recording work hours and for economic inefficiency.
- Other directives to reinforce control over the process of software cost capitalization.

According to the letter, the Bank may treat the aforementioned requirements as a change in accounting policy, including retroactive application of the policy to comparative figures.

According to the directive, the Bank retroactively applies the directives as from the financial statements as of June 30, 2015, including by restatement of comparative figures (similar directives have been implemented by several other banking corporations on their 2014 financial statements).

Below is information about the effect of restatement on the consolidated profit & loss information, balances on the consolidated balance sheet, capital adequacy information and consolidated cash flow statement information.

Note that there was no change in comparative figures for 2015 from the financial results as presented on the 2015 financial statements. As noted, the accounting policy on capitalization of software costs was applied retroactively as from June 30, 2015, thus the financial results published for 2015 are in conformity with the new rules.

Consolidated statement of profit and loss data:

	For the three months ended March 31, 2015		
	(unaudited)		
	Amount presented in these financial statements	Impact of retroactive application	In conformity with previous provisions
Profit and loss			
Payroll and associated expenses	466	1	465
Maintenance and depreciation of buildings and equipment	174	(7)	181
Provision for taxes on profit	147	2	145
Net profit before attribution to non-controlling interests	257	4	253
Net profit attributable to shareholders of the Bank	248	4	244
Basic earnings per share attributable to shareholders of the Bank	1.07	0.01	1.06
Diluted earnings per share attributable to shareholders of the Bank	1.07	0.02	1.05

Note 1 - Reporting Principles and Accounting Policies – continued

Consolidated balance sheet data:

			As of March 31, 2015 (unaudited)
	Amount presented in these financial statements	Impact of retroactive application	In conformity with previous provisions
Buildings and equipment	1,544	(124)	1,668
Other liabilities	6,587	(31)	6,618
Retained earnings	8,930	(93)	9,023
Shareholders' equity attributable to shareholders of the Bank	11,033	(93)	11,126
Total equity	11,548	(93)	11,641
Ratio of Tier I capital to risk elements	9.10	(0.07)	9.17
Total ratio of capital to risk elements	12.66	(0.06)	12.72

Cash flow data:

			For the three months ended March 31, 2015 (unaudited)
	Amount presented in these financial statements	Effect of retroactive application with respect to capitalization of software cost	In conformity with previous provisions
Statement of cash flows			
Net cash provided by current operations	(2,491)	(2)	(2,489)
Net cash provided by investment operations	109	2	107

Note 1 - Reporting Principles and Accounting Policies - continued

C. 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.

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

1. 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.

Note 1 - Reporting Principles and Accounting Policies - continued

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 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 strong 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, at this stage, 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 in formation, see Note 12 to the financial statements.

Scope

The new rules applied in a limited manner 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.

Note 1 - Reporting Principles and Accounting Policies - continued

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 11 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:

- 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 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 had no 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".

Note 1 - Reporting Principles and Accounting Policies - continued

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.

D. 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 circular containing amendments to Public Reporting Directives concerning reporting by banking corporations and credit card companies in Israel, in conformity with US GAAP with regard to income taxes.

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

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

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

Adoption of US GAAP may affect recognition of deferred taxes with respect to retained earnings of investees. The Bank is preparing to apply these amendments. The Bank is currently unable to estimate the impact of adopting these amendments on its 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 1, 2017. Upon initial application, action should be taken in conformity with transitional provisions included in US GAAP for these matters, *mutatis mutandis*, including retroactive amendment of comparative figures, if required by US GAAP for these matters. Note that when applying provisions of topic 830 of the codification "Foreign currency matters", banks would not include exchange rate differentials with regard to available-for-sale debentures as part of fair value adjustments of such debentures, but would continue to treat these as required by the Public Reporting Directives prior to adoption of this topic.

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

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

Note 1 - Reporting Principles and Accounting Policies - continued

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. Banks are required to apply these updates as from January 1, 2016 in conformity with transitional provisions specified in the USA, *mutatis mutandis*.

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

Note 2 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2016	2015	2015
	(unaudited)		(audited)
A. Interest revenues[1]			
From loans to the public	839	493	4,691
From loans to Governments	1	2	9
From deposits with the Bank of Israel and from cash	9	9	29
From deposits with banks	1	3	6
From debentures	18	43	171
Total interest revenues	868	550	4,906
B. Interest expenses			
On deposits from the public	115	(44)	962
On deposits from governments	-	1	2
On deposits from banks	1	1	12
On debentures and subordinated notes	(8)	(97)	392
On other liabilities	-	(10)	4
Total interest expenses	108	(149)	1,372
Total interest revenues, net	760	699	3,534
C. Details of net effect of hedging financial derivatives on interest revenues	(17)	71	44
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	7	13	75
Available for sale	9	25	92
Held for trading	2	5	4
Total included under interest revenues	18	43	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 March 31,		For the year ended December 31,
	2016	2015	2015
	(unaudited)		(audited)
A. Non-interest financing revenues (expenses) with respect to non-trading operations			
1. From activity in derivative instruments			
Non-effective element of hedging ratios[1]	-	4	5
Net revenues (expenses) with respect to ALM derivatives[2]	(168)	272	37
Total from activity in derivative instruments	(168)	276	42
2. From investment in debentures			
Gains from sale of debentures held to maturity[3]	-	-	67
Gains on sale of debentures available for sale	31	92	118
Total from investment in debentures	31	92	185
3. exchange rate differences, net	338	(234)	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	2	2	7
Total from investment in shares	2	2	7
5. Net gains (losses) with respect to loans sold	15	-	1
Total non-interest financing revenues with respect to non-trade operations	218	136	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 gain 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 March 31,		For the year ended December 31,
	2016	2015	2015
	(unaudited)		(audited)
B. Non-interest financing revenues (expenses)with respect to trading operations[1]			
Net revenues (expenses) with respect to other derivative instruments	(151)	(16)	(8)
Realized gains (losses) from adjustment to fair value of debentures held for trade, net	2	9	(9)
Unrealized gains (losses) from adjustment to fair value of debentures held for trade, net	(2)	(4)	4
Total from trading operations[2]	(151)	(11)	(13)
Details of non-interest financing revenues (expenses) with respect to trade operations, by risk exposure			
Interest exposure	(1)	6	(2)
Foreign currency exposure	(150)	(26)	(42)
Exposure to shares	(1)	9	24
Exposure to commodities and others	1	-	7
Total	(151)	(11)	(13)

(1) Includes exchange rate differentials resulting from trading operations.
(2) For interest revenues from investments in debentures held for trading, see Note 2.D.

Note 4 - Cumulative other comprehensive income (loss)

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 interest	Other comprehensive income attributable to shareholders of the Bank
							For the three months ended March 31, 2016
							(unaudited)
Balance as of December 31, 2015	(12)	-	14	(104)	(102)	(5)	(97)
Net change in the period	21	-	(4)	(20)	(3)	(2)	(1)
Balance as of March 31, 2016	9	-	10	(124)	(105)	(7)	(98)
							For the three months ended March 31, 2015
							(unaudited)
Balance as of December 31, 2014	5	1	18	(102)	(78)	(6)	(72)
Net change in the period	40	-	(10)	(47)	(17)	(1)	(16)
Balance as of March 31, 2015	45	1	8	(149)	(95)	(7)	(88)
							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

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

	For the three months ended March 31,						For the year ended December 31,		
	2016			2015			2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income (loss), before attribution to non-controlling interest:									
Adjustments for presentation of securities available for sale at fair value									
Net unrealized gains (losses) from adjustments to fair value	65	(24)	41	155	(58)	97	91	(34)	57
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(31)	11	(20)	(92)	35	(57)	(118)	44	(74)
Net change in the period	34	(13)	21	63	(23)	40	(27)	10	(17)
Translation adjustments									
Adjustments from translation of financial statements(2)	-	-	-	-	-	-	(1)	-	(1)
Net change in the period	-	-	-	-	-	-	(1)	-	(1)
Cash flows hedges									
Net gains (losses) with respect to cash flows hedging	(6)	2	(4)	(15)	5	(10)	(1)	1	-
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss(3)	-	-	-	-	-	-	(5)	1	(4)
Net change in the period	(6)	2	(4)	(15)	5	(10)	(6)	2	(4)
Employee benefits									
Net actuarial gain (loss) for the period	(31)	10	(21)	(79)	31	(48)	(7)	3	(4)
Net losses reclassified to the statement of profit and loss	2	(1)	1	1	-	1	4	(2)	2
Net change in the period	(29)	9	(20)	(78)	31	(47)	(3)	1	(2)
Total net change in the period	(1)	(2)	(3)	(30)	13	(17)	(37)	13	(24)
Total net change in the period attributable to non-controlling interests	2	-	2	3	(2)	1	(1)	-	(1)
Total net change in the period attributable to shareholders of the Bank	1	(2)	(1)	(27)	11	(16)	(38)	13	(25)

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

Note 5 - Securities

As of March 31, 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	3,221	3,221	94	-	3,315
Total debentures held to maturity	3,221	3,221	94	-	3,315

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

	Carrying amount	Amortized cost (for shares - cost)	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	510	510	-	-	510
Total securities held for trade	510	510	-	-	510
Total securities	9,013	9,000	123	(16)	9,107

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

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

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

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

(5) Primarily US government debentures.

Remarks:

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

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

Note 5 - Securities – continued

As of March 31, 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) Government of Israel debentures held to maturity	5,152	5,152	205	-	5,357

	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)	6,684	6,614	79	(9)	6,684
Of foreign governments(2)(6)	796	793	3	-	796
Of banks and financial institutions in Israel	124	122	2	-	124
Of banks and financial institutions overseas	222	222	-	-	222
Of others overseas	66	66	-	-	66
Total debentures available for sale	7,892	7,817	84	(9)	7,892
Shares(3)	104	106	-	(2)	104
Total securities available for sale	7,996	7,923	(4)84	(4) (11)	7,996

	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	654	652	2	-	654
Total securities held for trade	654	652	(5)2	-	654
Total securities	13,802	13,727	291	(11)	14,007

(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 859 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 102 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) Primarily US government debentures.

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

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

As of March 31, 2015								
	Less than 12 months				12 months or more			
	Fair	Unrealized losses			Fair	Unrealized losses		
	value(1)	0%-20%	20%-40%	Total	value(1)	0%-20%	20%-40%	Total
Debentures -								
of Government of Israel	-	-	-	-	122	7	2	9
Shares	2	-	2	2	-	-	-	-
Total securities available for sale	2	-	2	2	122	7	2	9

As of December 31, 2015								
	Less than 12 months				12 months or more			
	Fair	Unrealized losses			Fair	Unrealized losses		
	value(1)	0%-20%	20%-40%	Total	value(1)	0%-20%	20%-40%	Total
Debentures -								
of Government of Israel	1,048	14	-	14	114	12	2	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	14	2	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.

(5) Asset-backed and mortgage-backed securities

As of March 31, 2016, March 31, 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

						March 31, 2016
	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	29,574	27	778	30,379	4,599	34,978
reviewed on group basis	8,778	108,296	15,998	133,072	-	133,072
Of which: By extent of arrears[3]	1,130	107,716	-	108,846	-	108,846
Total debts	38,352	108,323[2]	16,776	163,451	4,599	168,050
Of which:						
Impaired debts under restructuring	166	-	51	217	-	217
Other impaired debts	580	27	28	635	-	635
Total impaired debts	746	27	79	852	-	852
Debts in arrears 90 days or longer	38	877	19	934	-	934
Other problematic debts	310	-	87	397	-	397
Total problematic debts	1,094	904	185	2,183	-	2,183
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	509	1	18	528	2	530
reviewed on group basis	83	602	165	850	-	850
Of which: Provision by extent of arrears[3]	4	602	-	606	-	606
Total provision for credit losses	592	603	183	1,378	2	1,380
Of which: With respect to impaired debts	127	1	12	140	-	140

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

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,467 million.

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 376 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

						March 31, 2015
	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Recorded debt balance of debts[1] reviewed on individual basis	30,786	3	663	31,452	4,752	36,204
Reviewed on group basis[4]	8,138	97,765	14,694	120,597	-	120,597
Of which: By extent of arrears[4]	1,138	97,112	-	98,250	-	98,250
Total debts	38,924	97,768	15,357	152,049	4,752	156,801
Of which:						
Impaired debts under restructuring	348	-	56	404		404
Other impaired debts	386	3	27	416	-	416
Total impaired debts	734	3	83	820	-	820
Debts in arrears 90 days or longer	36	994	20	1,050	-	1,050
Other problematic debts	987	-	169	1,156	-	1,156
Total problematic debts	1,757	997	272	3,026	-	3,026
Provision for credit losses with respect to debts [1] reviewed on individual basis	473	-	21	494	6	500
Reviewed on group basis[4]	88	620	153	861	-	861
Of which: Provision by extent of arrears[3][4]	5	620	-	625	-	625
Total provision for credit losses	561	620	174	1,355	6	1,361
Of which: With respect to impaired debts	92	-	8	100	-	100

(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 5,333 million.

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 342 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 debts[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	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) 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 extent of arrears, 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

						March 31, 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	-	(9)	13	4	(1)	3
Accounting write-offs	(49)	(2)	(33)	(84)	-	(84)
Recovery of debts written off for accounting purposes in previous years	22	-	16	38	-	38
Net accounting write-offs	(27)	(2)	(17)	(46)	-	(46)
Balance of provision for credit losses at end of period	670	603	191	1,464	2	1,466
Of which: With respect to off balance sheet credit instruments	78	-	8	86	-	86

						March 31, 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	32	(4)	6	34	1	35
Accounting write-offs	(28)	-	(28)	(56)	-	(56)
Recovery of debts written off for accounting purposes in previous years	21	-	16	37	-	37
Net accounting write-offs	(7)	-	(12)	(19)	-	(19)
Balance of provision for credit losses at end of period	657	620	183	1,460	6	1,466
Of which: With respect to off balance sheet credit instruments	96	-	9	105	-	105

Note 7 - Deposits from the Public

As of December 31

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	March 31,		December 31,
	2016	2015	2015
	(unaudited)		(audited)
In Israel			
On-call			
Non interest-bearing	35,222	28,664	33,973
Interest-bearing	7,703	7,374	7,117
Total on-call	42,925	36,038	41,090
Term deposits	117,467	112,548	117,271
Total deposits in Israel(1)	160,392	148,586	158,361
Outside of Israel			
On-call			
Non interest-bearing	615	978	556
Interest-bearing	6	8	7
Total on-call	621	986	563
Term deposits	3,988	3,430	3,456
Total deposits overseas	4,609	4,416	4,019
Total deposits from the public	165,001	153,002	162,380

(1) Of which:

Deposits from individuals	77,884	71,525	76,291
Deposits from institutional investors	34,346	40,786	37,523
Deposits from corporations and others	48,162	36,275	44,547

B. Deposits from the public by size

	March 31,		December 31,
	2016	2015	2015
	(unaudited)		(audited)
Maximum deposit			
Up to 1	56,782	51,109	55,171
Over 1 to 10	35,330	31,751	34,787
Over 10 to 100	18,234	16,337	17,311
Over 100 to 500	14,891	15,960	16,776
Above 500	39,764	37,845	38,335
Total	165,001	153,002	162,380

Note 8 - Employee Rights

1. Employment terms of most 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 provided 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 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 entitled to a monthly salary at NIS 220 thousand, fully linked to 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 contribution 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 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 notice period in 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").

   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 their 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 their 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").

Note 8 - Employee Rights - continued

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 bonus pursuant to the additional employment agreement and that payment of the retirement bonus to the Chairman pf the Board of Directors upon termination of his employment would be in conformity with his eligibility for a retirement bonus 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 aw, gross (hereinafter: "Statutory severance pay"), then the aforementioned retirement bonus (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 bonus 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, after the balance sheet date, 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.

3. 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 March 31,		For the year ended December 31,
	2016	2015	2015
		(unaudited)	(audited)
Cost of service[(1)]	6	6	26
Cost of interest[(2)]	7	7	31
Expected return on plan assets[(3)]	(1)	(1)	(4)
Deduction of non-allowed amounts:			
Net actuarial loss (gain)[(4)]	2	1	4
Total benefit cost, net	14	13	57
Total expense with respect to defined-contribution pension	28	25	112
Total expenses included in payroll and associated expenses	42	38	169

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

	Forecast	Actual deposits		
	Forecast for[(5)]	For the three months ended March 31,		For the year ended December 31,
	2016	2016	2015	2015
			(unaudited)	(audited)
Deposits	5	1	1	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"

	As of March 31,		As of December 31
	2016	2015	2015
	(unaudited)		(audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I capital	12,490	(1)11,476	12,299
Tier I capital	12,490	11,476	12,299
Tier II capital	4,598	4,485	4,916
Total capital	17,088	15,961	17,215
B. Weighted risk asset balances			
Credit risk	120,752	(1)117,791	120,793
Market risk	957	871	950
Operating risk	7,744	7,435	7,743
Total weighted risk asset balances	129,453	126,097	129,486
C. Ratio of capital to risk elements			
Bank data:			
Ratio of Tier I capital to risk elements	9.65	(1) 9.10	9.50
Ratio of Tier I capital to risk elements	9.65	(1) 9.10	9.50
Ratio of total capital to risk elements	13.20	(1)12.66	13.29
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.42	9.00	9.30
Total minimum capital ratio required by the Supervisor of Banks(2)	12.92	12.50	12.80
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Ratio of Tier I capital to risk elements	10.53	9.67	9.97
Ratio of Tier I capital to risk elements	10.53	9.67	9.97
Ratio of total capital to risk elements	13.66	13.31	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	13.00	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	9.52%	(1)8.92%	9.32%
Effect of transitional provisions	0.13%	(1)0.18%	0.18%
Ratio of Tier I equity to risk elements before application of transitional provisions	9.65%	(1)9.10%	9.50%

(1) Comparative figures were re-stated. For information about retroactive application of the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

(2) Capital ratios required by the Supervisor of Banks as from January 1, 2015. As from January 1, 2015, an additional capital requirement was added to these ratios at 1% of the housing loan balance as of the reporting date. This requirement 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 9.84% and 13.34%, respectively.

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"

	As of March 31, 2016	As of December 31, 2015
	(unaudited)	(audited)
	In %	
1. Consolidated data[1]		
Liquidity coverage ratio	97	91
Minimum liquidity coverage ratio required by the Supervisor of Banks[2]	80	60
2. Bank data		
Liquidity coverage ratio	97	90
Minimum liquidity coverage ratio required by the Supervisor of Banks[2]	80	60
3. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and subsidiaries thereof		
Liquidity coverage ratio	808	382
Minimum liquidity coverage ratio required by the Supervisor of Banks[3]	100	100

(1) In terms of simple average of daily observations during the reported quarter. The liquidity coverage ratio as of March 31, 2016 was 99%.

(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.

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

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

	As of March 31, 2016	As of December 31, 2015
	(unaudited)	(audited)
1. Consolidated data		
Tier I capital	12,490	12,299
Total exposure	238,693	231,291
		In %
Leverage ratio[1]	5.23	5.32
Minimum leverage ratio required by the Supervisor of Banks[2]	5.00	5.00
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and subsidiaries thereof		
Leverage ratio	4.93	4.89
Minimum leverage ratio required by the Supervisor of Banks	[3]4.70	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 The decrease in the leverage ratio compared to the fourth quarter of 2015 is due to the significant increase in total assets, by 3.6%. For this matter, see debentures issued by Mizrahi Tefahot Issuance, in the chapter "Sources and Financing" (overview, targets and strategy).

(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:	
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

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

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.

- **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.

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

- **Adjustments to and deductions from supervisory capital**
  - Deferred taxes due to temporary differences would be accounted for as follows:
    Up to 10% of Tier I equity - weighted at 250% risk weighting.
    Over 10% of Tier I equity - would be deducted from capital.
  - Investments in equity components of financial institutions - banks, insurance companies and any company doing business in the capital market segment - would be accounted for as a deduction from capital or by risk weighting, subject to specified tests.
  - The accumulated gain with respect to cash flow hedging of items not listed at fair value on the balance sheet - would be deducted from capital. This means that positive amounts would be deducted from capital and negative amounts would be added to capital.
  - Accounting adjustments with respect to liabilities of derivatives arising from a change in the Bank's credit risk (Debit Valuation Adjustment - DVA) would be deducted from capital.
- **Capital allocation with respect to CVA loss (Credit Value Adjustments) - loss due to revaluation at market value with respect to counter-party credit risk.**

  In addition to capital requirement with respect to default risk arising from counter-party credit risk under the standard approach, an additional capital allocation is required to cover the risk of potential loss which may arise from marking to market value of OTC derivatives.

  In order to comply with the new requirements in conjunction with application of the Basel III directives, a graduated transition period of several years was specified, until these directives are completely applied.

  – Supervisory adjustments and deductions from capital and non-controlling interest not qualified for inclusion under supervisory capital - an annual 20% deduction as from January 1, 2014.
  – Capital instruments not qualified as supervisory capital - recognition of 80% of the balance of such instruments as from the effective start date and a 10% deduction annually through January 1, 2022.

  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.

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

After checking with the Supervisor of Banks, the Bank's Board of Directors resolved, on August 14, 2013, to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to bringing forward the implementation of the Supervisor of Banks' directives, dated March 28, 2012, with the intention of implementing these, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

L. On August 29, 2013, the Supervisor of Banks issued directives with regard to "Restrictions on provision of housing loans". According to the directives, as from September 1, 2013 a bank may not approve nor originate housing loans where the ratio of monthly repayment to borrower income exceeds 50%.

Furthermore, loans with a ratio of monthly repayment to borrower income in excess of 40% will have a 100% risk weighting in calculation of capital allocation.

M. On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Banking Conduct Directive no. 329, as well as a Q&A file on this issue. The circular consists of two amendments to the directive:

- Increase to the capital target – the target Tier I capital to risk elements ratio is to include an addition equal to 1% of the housing loan portfolio balance. The equity targets would be increased by fixed quarterly steps from January 1, 2015 to January 1, 2017 (over eight quarters).
- Risk weighting of leveraged loans bearing variable interest – the risk weighting of leveraged loans bearing variable interest would be reduced from 100% to 75%.

Following implementation of this directive, the target ratio of Tier I capital to risk elements 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 0.8% when implementation is complete. This target may change based on actual data for the housing loan portfolio and for total risk assets.

N. 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.

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

O. 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.

P. 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.

The effective start date of this directive is July 1, 2016.

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

Note that the directive 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.

Q. 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.

Note that according to the Bank's capital planning forecast, the issue of contingent subordinated notes should fulfill the Bank's need for supervisory capital at least through 2017. Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-.

Note 10 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

		March 31,	December 31,
	2016	2015	2015
		(unaudited)	(audited)
Obligations with respect to:			
Long-term leases[(1)]	736	631	730
Computerization and software service contracts	224	164	203
Acquisition and renovation of buildings	4	8	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):

		March 31,	December 31,
	2016	2015	2015
		(unaudited)	(audited)
First year	65	59	62
Second year	63	57	60
Third year	61	50	52
Fourth year	53	46	50
Fifth year	50	44	47
Sixth year and thereafter	444	375	459
Total	736	631	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 is concurrently on-going 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 recently resumed in an attempt to reached an agreed arrangement.

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 November 2012, the parties launched a reconciliation process designed to try and settle their disagreements. The reconciliation process is concurrently on-going 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 recently resumed in an attempt to reached an agreed arrangement.

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 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 is scheduled for September 12, 2016.

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 their 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 Attorney General has yet to file a response to this motion. On December 30, 2015, another preliminary hearing took place and a further hearing is scheduled for May 3, 2016. At the request of the Attorney General, the hearing was rescheduled to July 13, 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 set forth in sections A. and B. above.

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, the Bank was granted an extension to file its response to the motion, by May 30, 2016. .

Note 10 - Contingent Liabilities and Special Commitments - continued

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.

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 and the parties should file their summations.

Note 10 - Contingent Liabilities and Special Commitments - continued

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 plaintiffs claim 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 claimed 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 out of hand. Another hearing is scheduled for June 2016.

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.

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, the Bank of Israel should file its position by December 15, 2015. On December 16, 2015, another pre-trial hearing took place - at which the parties were urged to negotiate a potential settlement agreement. A pre-trial hearing took place on March 29, 2016 and an evidentiary hearing is scheduled for July 12, 2016.

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".

Note 10 - Contingent Liabilities and Special Commitments - continued

The Bank and other respondents filed their response to the motion on November 19, 2015.

On February 3, the Court ordered disclosure of documents, including correspondence between the Bank and the Supervisor of Banks and/or ISA, with regard to the inquiry by the US DOJ and/or with regard to provisions recorded by the Bank with respect to said inquiry - and instructed the Bank to provide these documents to the plaintiffs. The decision was given following the plaintiff's motion to attach documents to the claims and, alternatively, to disclose them. On February 16, 2016, the Bank filed a notice and motion with regard to disclosing the content of documents and/or correspondence for reasons of privilege and lack of relevance. The plaintiff filed their response to the notice and motion on behalf of the bank on March 1, 2016. The Bank filed its response to this response on March 8, 2016. On April 4, 2016, the Court accepted the Bank's motion dated March 6, 2016 and granted an extension to file an appeal motion with regard to the Court decision about document disclosure, by May 31, 2016.

The preliminary hearing of the motion was rescheduled for May 17, 2016.

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

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 11 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 171 million.

3. Motions for class action status are pending against the Bank and subsidiaries thereof, 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.

Note 10 - Contingent Liabilities and Special Commitments - continued

On March 24, 2015, a Bank shareholder filed a motion in conjunction with the aforementioned proceeding, seeking to join as a party to said proceeding and to delay the hearing or, alternatively, to dismiss it out of hand, given the motion for document discovery filed by that shareholder in December 2014 with the Tel Aviv District Court against the Bank and its officers pursuant to provisions of Section 198a of the Companies Law 1999 ("the motion for discovery"). In conjunction with the motion for discovery, the plaintiff asked the Court to instruct the Bank and the other defendants to provide to the plaintiff various documents with regard to on-going proceedings in the USA, so as to allow the plaintiff to review potential filing of a motion for derivative defense (on behalf of the Bank in the USA) or filing of a motion for approval of derivative claim (against executives and employees of the Bank). The plaintiff claims in the motion for discovery that the process of the motion for discovery is a pending process which has priority over the motion for approval - which is why hearing of the motion for approval should be delayed and even dismissed out of hand.

On May 10, 2015, the Court approved, in conjunction with the motion for approval, a hearing arrangement agreed by the parties in this case, with regard to dates for filing statements of claim whereby, *inter alia*, at this stage the deadlines for filing the defendants' responses to the motion for approval would be suspended and soon after a decision is given, *inter alia*, with regard to the aforementioned motion to join and subject to it, the schedule for filing these responses would be set considering, *inter alia*, the progress made in proceedings with the Department of Justice in the USA.

It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed.

On April 18, 2016, a hearing on the motion for discovery took place and the Court handed down its order to delay hearing of this case 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.

Note 10 - Contingent Liabilities and Special Commitments - continued

B) 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.

C) 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 response of the plaintiff banks has yet to be filed.

D) 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 has yet to file its response.

Note 10 - Contingent Liabilities and Special Commitments - continued

E) 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 has yet to file its response.

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.

4. Further to section C.12) of Note 26 to the financial statements as of December 31, 2015 ("the annual report"), soon after the approval date of the annual report, the validation work by the external experts and advisors with regard to quantitative data about the Bank's US clients, which were stores at that time in the computer database created by the Bank, was completed. This data was delivered on March 14, 2016 to the US DOJ.

   As noted in the annual report, additional quantitative information about accounts of US clients in Israel should be delivered by May 31, 2016.

   Furthermore, the process of collection of electronic messages with regard to US clients at the Bank branches in Israel has been completed. However, they are still being reviewed by the Bank experts and advisors.

   According to the letters, a Court order and additional discussions, the Bank should provide additional information and documents. The Bank is diligently working on providing the data and documents as required.

   Moreover, meetings 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 investigation.

   However, also at this stage negotiation with the US DOJ has not started yet, with regard to the investigation outcome or to its implications in terms of any agreement and in terms of any monetary implications for the Bank Group, if any, of such an agreement when formulated.

   According to the opinion of the Bank's legal counsel, based on data in the computer-based repository which has been validated, as noted above, in this quarter and considering agreements made by the US DOJ with other banks with regard to investigations concerning un-disclosed 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 investigation amounts to USD 39 million (NIS 148 million).

Note 10 - Contingent Liabilities and Special Commitments - continued

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 investigation, the relevant exposure amount nor the exposure range for the Bank Group. This is due, *inter alia*, to the fact that based on the professional experience of US legal counsel, such conclusions cannot be made prior to analysis of all of all data and information to be provided and because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start.

Because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start, it may transpire in future that the realized loss significantly exceeds the provision made to date.

Note 11 - Derivative instruments and hedging activities

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	As of March 31, 2016					
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives(1)						
Forward contracts	1,851	-	-	-	-	1,851
Other option contracts:						
Options written	-	56	-	-	-	56
Swaps	-	1,572	-	-	-	1,572
Total	1,851	1,628	-	-	-	3,479
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,572	-	-	-	1,572
B. ALM derivatives(1)(2)						
Forward contracts	6,646	1,000	90,796	-	28	98,470
Option contracts traded on stock exchange:						
Options written	-	-	2,122	85	-	2,207
Options purchased	-	-	826	85	-	911
Other option contracts:						
Options written	-	-	12,146	-	-	12,146
Options purchased	-	-	11,946	-	-	11,946
Swaps	1,786	34,592	8,312	-	-	44,690
Total	8,432	35,592	126,148	170	28	170,370
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,517	19,447	-	-	-	20,964
C. Other derivatives(1)						
Forward contracts	-	-	1,527	-	-	1,527
Option contracts traded on stock exchange:						
Options written	-	-	5,059	14,963	-	20,022
Options purchased	-	-	5,059	14,963	-	20,022
Other option contracts:						
Options written	-	-	-	1	-	1
Options purchased	-	-	-	1	-	1
Swaps	-	3	29	8,629	-	8,661
Total	-	3	11,674	38,557	-	50,234
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	3	-	-	-	3

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

						As of March 31, 2016
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	660	660
Foreign currency spot swap contracts	-	-	15,082	-	-	15,082
Total	-	-	15,082	-	660	15,742
Total stated amounts of derivative instruments	10,283	37,223	152,904	38,727	688	239,825
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	54	-	-	-	-	54
Negative fair value, gross	1	159	-	-	-	160
B. ALM derivatives(1)(2)						
Positive fair value, gross	434	1,263	1,755	15	1	3,468
Negative fair value, gross	219	1,599	2,343	-	1	4,162
C. Other derivatives(1)						
Positive fair value, gross	-	-	77	323	-	400
Negative fair value, gross	-	-	66	488	-	554
D. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	2	2
Negative fair value, gross	-	-	-	-	2	2
Total						
Positive fair value, gross(3)	488	1,263	1,832	338	3	3,924
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	488	1,263	1,832	338	3	3,924
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	154	223	642	257	3	1,279
Total						
Negative fair value, gross	220	1,758	2,409	488	3	4,878
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	220	1,758	2,409	488	3	4,878
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	14	245	1,644	331	3	2,237

(1) Except for credit derivatives.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Of which: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 2 million.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

						As of March 31, 2015
	Interest contracts			Contracts	Commodities	
			Currency	for	and other	
	NIS – CPI	Other	contracts	shares	contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[(1)]						
Forward contracts	4,185	-	-	-	-	4,185
Swaps	-	1,778	-	-	-	1,778
Total	4,185	1,778	-	-	-	5,963
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,778	-	-	-	1,778
B. ALM derivatives[(1)(2)]						
Forward contracts	6,729	800	115,853	-	19	123,401
Option contracts traded on stock exchange:						
Options written	-	-	4,366	869	-	5,235
Options purchased	-	-	4,574	872	-	5,446
Other option contracts:						
Options written	-	-	17,513	-	-	17,513
Options purchased	-	-	15,504	-	-	15,504
Swaps	1,889	34,285	9,817	-	-	45,991
Total	8,618	35,085	167,627	1,741	19	213,090
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,619	17,763	-	-	-	19,382
C. Other derivatives[(1)]						
Forward contracts	-	-	1,355	-	-	1,355
Option contracts traded on stock exchange:						
Options written	-	-	9,215	17,227	1	26,443
Options purchased	-	-	9,215	17,227	1	26,443
Other option contracts:						
Options written	-	436	-	58	-	494
Options purchased	-	338	-	74	-	412
Swaps	-	4	117	9,393	-	9,514
Total	-	778	19,902	43,979	2	64,661
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 which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

						As of March 31, 2015
	Interest contracts			Contracts	Commodities	
			Currency	for	and other	
	NIS – CPI	Other	contracts	shares	contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	371	371
Foreign currency spot swap contracts	-	-	9,401	-	-	9,401
Total	-	-	9,401	-	371	9,772
Total stated amounts of derivative instruments	12,803	37,641	196,930	45,720	392	293,486
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	106	-	-	-	-	106
Negative fair value, gross	-	184	-	-	-	184
B. ALM derivatives(1)(2)						
Positive fair value, gross	344	1,578	2,774	147	-	4,843
Negative fair value, gross	227	1,834	4,278	-	-	6,339
C. Other derivatives(1)						
Positive fair value, gross	-	2	143	612	-	757
Negative fair value, gross	-	2	142	595	-	739
Total						
Positive fair value, gross(3)	450	1,580	2,917	759	-	5,706
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivative instruments	450	1,580	2,917	759	-	5,706
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	146	142	1,041	540	-	1,869
Total						
Negative fair value, gross	227	2,020	4,420	595	-	7,262
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivative instruments	227	2,020	4,420	595	-	7,262
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	4	137	1,339	546	-	2,026

(1) Except for credit derivatives.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Of which: positive fair value, gross of assets with respect to embedded derivative instruments amounting to NIS 12 million and negative fair value, gross of liabilities with respect to embedded derivative instruments amounting to NIS 2 million.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of December 31, 2015					
	Interest contracts				Commodities and other contracts	
	NIS – CPI	Other	Currency contracts	Contracts for shares		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 which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of December 31, 2015					
	Interest contracts				Commodities	
			Currency	Contracts	and other	
	NIS – CPI	Other	contracts	for shares	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 which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Of which: 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

						As of March 31, 2016
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(1)]	**166**	**2,671**	**30**	**-**	**1,057**	**3,924**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(2,127)	-	-	(64)	(2,191)
Mitigation of credit risk with respect to cash collateral received	-	(209)	-	-	(32)	(241)
Net amount of assets with respect to derivative instruments	166	335	30	-	961	1,492
Off-balance sheet credit risk on derivative instruments[(2)]	-	1,406	146	-	1,157	2,709
Mitigation of off-balance sheet credit risk	-	(657)	-	-	(81)	(738)
Net off-balance sheet credit risk with respect to derivative instruments	-	749	146	-	1,076	1,971
Total credit risk on derivative instruments	166	1,084	176	-	2,037	3,463
Carrying amount of liabilities with respect to derivative instruments	**215**	**2,817**	**-**	**8**	**1,838**	**4,878**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(2,127)	-	-	(64)	(2,191)
Pledged cash collateral	-	(516)	-	-	-	(516)
Net amount of liabilities with respect to derivative instruments	215	174	-	8	1,774	2,171

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 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.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

b) Credit risk on financial derivatives according to counter-party to the contract - Consolidated - continued

	As of March 31, 2015					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [1]	**[4]182**	**3,571**	**36**	**-**	**[4]1,917**	**5,706**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(3,039)	-	-	(91)	(3,130)
Mitigation of credit risk with respect to cash collateral received	-	(335)	-	-	(56)	(391)
Net amount of assets with respect to derivative instruments	692	197	36	-	1,260	2,185
Off-balance sheet credit risk on derivative instruments[2]	-	1,982	55	-	946	2,983
Mitigation of off-balance sheet credit risk	-	(905)	-	-	(65)	(970)
Net off-balance sheet credit risk with respect to derivative instruments	-	1,077	55	-	881	2,013
Total credit risk on derivative instruments	692	1,274	91	-	2,141	4,198
Carrying amount of liabilities with respect to derivative instruments [3]	**[4]8**	**5,067**	**-**	**42**	**[4] 2,145**	**7,262**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(3,039)	-	-	(91)	(3,130)
Pledged cash collateral	-	(1,903)	-	-	(12)	(1,915)
Net amount of liabilities with respect to derivative instruments	518	125	-	42	1,532	2,217

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 12 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 2 million.

(4) Reclassified.

Note 11 - Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

b) Credit risk on financial derivatives according to counter-party to the contract - Consolidated - continued

	As of December 31, 2015					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(1)]	[(3)]**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	538	95	28	-	966	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	538	692	144	-	2,138	3,512
Carrying amount of liabilities with respect to derivative instruments	[(3)]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	429	169	-	33	531	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.

(3) Reclassified.

In the three-month period ended March 31, 2016, the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments, amounting to NIS 3 million (in the three-month period ended March 31, 2015 the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments amounting to NIS 6 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

	As of March 31, 2016				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	411	3,454	6,088	330	10,283
Other	2,346	8,110	16,442	10,325	37,223
Foreign currency contracts	104,555	36,389	9,077	2,883	152,904
Contracts for shares	33,247	5,470	10	-	38,727
Commodities and other contracts	19	9	444	216	688
Total	140,578	53,432	32,061	13,754	239,825

	As of March 31, 2015				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	691	4,079	6,948	1,085	12,803
Other	2,537	6,973	17,396	10,735	37,641
Foreign currency contracts	124,554	59,459	10,224	2,693	196,930
Contracts for shares	37,593	8,078	49	-	45,720
Commodities and other contracts	15	123	254	-	392
Total	165,390	78,712	34,871	14,513	293,486

	As of 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
Foreign 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 there to.

In fact, there is a strong 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, 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 – individual, 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 business – businesses with turnover amounting up to NIS 50 million.

Note 12 - Operating segments - continued

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

Large business – 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 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 Business 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 business – total assets on client balance sheet amount up to NIS 50 million.

Medium business – business where total assets on the client balance sheet amount to between NIS 50 million and NIS 215 million.

Large business – business 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, building maintenance and other expenses attributed specifically to branches, are loaded on branch clients.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases.
- Expenses attributed directly to Bank branches, including salary and benefits, rent and maintenance are attributed to different segments as inter-segment expenses, based on segment affiliation of clients services by the branches.
- 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 three months ended March 31, 2016 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – housing loans	Private banking	Small and micro business	Medium business	Large business	Institutional investors	Financial Management Segment	**Total – operations in Israel**	Private individuals	Business operations	**Total - operations overseas**	**Total**
Interest revenues, net from externals	165	246	(12)	190	45	94	(2)	(1)	725	4	31	35	760
Interest revenues, net - inter-segment	97	8	23	(5)	1	7	42	(172)	1	-	(1)	(1)	-
Total interest revenues, net	262	254	11	185	46	101	40	(173)	726	4	30	34	760
Total non-interest revenues	127	38	3	63	16	41	20	205(3)	513	6	2	8	521
Total revenues	389	292	14	248	62	142	60	32	1,239	10	32	42	1,281
Expenses with respect to credit losses	16	(9)	-	32	(11)	(32)	8	(1)	3	-	-	-	3
Operating and other expenses to externals	361	94	11	145	29	42	14	69	765	2	12	14	779
Operating and other expenses - inter-segment	(27)	-	2	(15)	12	17	10	1	-	-	-	-	-
Total operating and other expenses	334	94	13	130	41	59	24	70	765	2	12	14	779
Pre-tax profit	39	207	1	86	32	115	28	(37)	471	8	20	28	499
Provision for taxes on profit	16	84	-	35	13	47	11	(14)	192	3	8	11	203
After-tax profit	23	123	1	51	19	68	17	(23)	279	5	12	17	296
Share of banking corporation in earnings of associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	23	123	1	51	19	68	17	(23)	279	5	12	17	296
Net profit attributed to non-controlling interests	(8)	-	-	-	-	-	-	-	(8)	-	-	-	(8)
Net profit attributable to shareholders of the banking corporation	15	123	1	51	19	68	17	(23)	271	5	12	17	288
Average balance of assets	31,016	108,087	66	13,733	4,894	13,220	1,695	34,583	207,294	1,383	6,886	8,269	215,563
Of which: Investments in associates	-	-	-	-	-	-	-	36	36	-	-	-	36
Average balance of loans to the public	16,297	108,087	66	13,733	4,894	13,220	1,695	-	157,992	548	2,490	3,038	161,030
Balance of loans to the public at end of reported period	16,738	108,846	59	13,867	4,915	12,456	1,994	-	158,875	707	2,491	3,198	162,073
Balance of impaired debts	79	27	-	282	62	387	9	-	846	-	6	6	852
Balance of debt in arrears 90 days or longer	37	863	-	32	1	-	-	-	933	-	-	-	933
Average balance of liabilities	89,707	41	10,459	13,376	6,119	28,005	50,335	-	198,402	1,142	3,040	4,182	202,584
Of which: Average balance of deposits from the public	67,773	-	10,353	13,736	5,986	27,546	33,515	-	158,909	764	3,040	3,804	162,713
Balance of deposits from the public at end of reported period	68,286	-	10,618	13,658	6,139	28,990	32,679	-	160,370	919	3,712	4,631	165,001
Average balance of risk assets(1)	15,290	59,206	24	11,825	6,667	24,332	3,189	5,321	125,854	404	3,215	3,619	129,473
Balance of risk assets at end of reported period(1)	15,491	59,671	17	12,788	6,129	23,578	2,991	5,075	125,740	404	3,314	3,718	129,458
Average balance of assets under management(2)	26,519	-	1,705	16,168	5,473	14,912	138,657	21	203,455	-	-	-	203,455
Composition of interest revenues, net:													
Margin from credit granting operations	198	251	-	169	40	92	11	-	761	4	22	26	787
Margin from activities of receiving deposits	63	-	11	13	5	8	28	-	128	-	5	5	133
Other	1	3	-	3	1	1	1	(173)	(163)	-	3	3	(160)
Total interest revenues, net	262	254	11	185	46	101	40	(173)	726	4	30	34	760

(1) Risk assets - as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

(2) Asset under management - includes clients' provident funds, study funds, mutual funds and securities.

(3) Includes capital gain under Other Revenues amounting to NIS 78 million before tax, from realization of assets in conjunction with asset re-organization 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 three months ended March 31, 2015 (unaudited)

Reported amounts (NIS in millions)

	House-holds – other	House-holds – housing loans	Private banking	Small and micro business	Medium business	Large business	Institu-tional investors	Financial Mana-gement Segment	**Total – operat-ions in Israel**	Private individuals	Business opera-tions	**Total - operations overseas**	**Total**
Interest revenues, net from externals	226	(123)	-	185	50	107	106	124	675	3	21	24	699
Interest revenues, net - inter-segment	16	351	8	(15)	(4)	(6)	(67)	(285)	(2)	-	2	2	-
Total interest revenues, net	242	228	8	170	46	101	39	(161)	673	3	23	26	699
Total non-interest revenues	134	45	3	63	18	49	24	158	494	7	1	8	502
Total revenues	376	273	11	233	64	150	63	(3)	1,167	10	24	34	1,201
Expenses with respect to credit losses	4	(4)	-	42	4	(18)	6	1	35	-	-	-	35
Operating and other expenses to externals	345	107	10	124	23	48	15	74	746	2	13	15	761
Operating and other expenses - inter-segment	(2)	(23)	-	(13)	10	15	12	1	-	-	-	-	-
Total operating and other expenses	343	84	10	111	33	63	27	75	746	2	13	15	761
Pre-tax profit	29	193	1	80	27	105	30	(79)	386	8	11	19	405
Provision for taxes on profit	11	70	-	29	10	38	11	(29)	140	3	4	7	147
After-tax profit	18	123	1	51	17	67	19	(50)	246	5	7	12	258
Share of banking corporation in earnings of associates	-	-	-	-	-	-	-	(1)	(1)	-	-	-	(1)
Net profit before attribution to non-controlling interests	18	123	1	51	17	67	19	(51)	245	5	7	12	257
Net profit attributed to non-controlling interests	(9)	-	-	-	-	-	-	-	(9)	-	-	-	(9)
Net profit attributable to shareholders of the banking corporation	9	123	1	51	17	67	19	(51)	236	5	7	12	248
Average balance of assets	24,040	97,860	67	12,788	4,780	14,611	1,765	33,743	189,654	1,301	5,965	7,266	196,920
Of which: Investments in associates	-	-	-	-	-	-	-	49	49	-	-	-	49
Average balance of loans to the public	14,724	97,860	67	12,788	4,780	14,611	1,765	-	146,595	516	1,984	2,500	149,095
Balance of loans to the public at end of reported period	15,301	98,280	60	13,061	4,894	14,378	2,239	-	148,213	513	1,968	2,481	150,694
Balance of impaired debts	83	3	-	210	60	379	77	-	812	-	8	8	820
Balance of debt in arrears 90 days or longer	20	994	-	27	-	1	-	-	1,042	-	-	-	1,042
Average balance of liabilities	83,620	105	9,745	12,138	5,829	19,286	51,879	-	182,602	1,086	3,302	4,388	186,990
Of which: Average balance of deposits from the public	61,508	-	9,516	12,120	5,812	18,734	40,310	-	148,000	1,079	3,302	4,381	152,381
Balance of deposits from the public at end of reported period	61,791	-	9,728	12,193	6,127	19,445	39,278	-	148,562	1,053	3,387	4,440	153,002
Average balance of risk assets (1)	14,350	53,651	20	11,300	6,199	27,700	3,296	5,695	122,211	349	2,452	2,801	125,012
Balance of risk assets at end of reported period(1)	14,736	53,748	25	11,651	6,043	28,379	3,324	5,505	123,411	359	2,326	2,685	126,096
Average balance of assets under management(2)	29,803	-	1,966	17,248	4,606	14,738	145,137	236	213,734	-	-	-	213,734
Composition of interest revenues, net:													
Margin from credit granting operations	187	221	-	159	42	98	14	-	721	2	17	19	740
Margin from activities of receiving deposits	47	-	8	9	3	3	24	-	94	-	3	3	97
Other	8	7	-	2	1	-	1	(161)	(142)	1	3	4	(138)
Total interest revenues, net	242	228	8	170	46	101	39	(161)	673	3	23	26	699

(1) Risk assets - as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

(2) Asset 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 business	Medium business	Large business	Institutional investors	Financial Management Segment	**Total – operations in Israel**	Private individuals	Business operations	**Total - operations overseas**	**Total**
Interest revenues, net from externals	424	2,253	(69)	722	176	461	(521)	(20)	3,426	13	95	108	3,534
Interest revenues, net - inter-segment	552	(1,269)	104	(13)	(8)	(7)	683	(39)	3	-	(3)	(3)	-
Total interest revenues, net	976	984	35	709	168	454	162	(59)	3,429	13	92	105	3,534
Total non-interest revenues	512	170	8	250	61	207	56	562	1,826	26	6	32	1,858
Total revenues	1,488	1,154	43	959	229	661	218	503	5,255	39	98	137	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	1,391	369	37	437	97	151	62	624	3,168	4	54	58	3,226
Operating and other expenses - inter-segment	(107)	(1)	6	(57)	44	66	43	6	-	-	-	-	-
Total operating and other expenses	1,284	368	43	380	141	217	105	630	3,168	4	54	58	3,226
Pre-tax profit	181	772	-	477	75	386	120	(125)	1,886	35	34	69	1,955
Provision for taxes on profit	70	301	-	186	29	150	47	(49)	734	14	13	27	761
After-tax profit	111	471	-	291	46	236	73	(76)	1,152	21	21	42	1,194
Share of banking corporation in earnings of associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	111	471	-	291	46	236	73	(76)	1,152	21	21	42	1,194
Net profit attributed to non-controlling interests	(60)	-	-	-	-	-	-	-	(60)	-	-	-	(60)
Net profit attributable to shareholders of the banking corporation	51	471	-	291	46	236	73	(76)	1,092	21	21	42	1,134
Average balance of assets	23,821	101,920	73	13,213	4,797	14,215	1,689	34,572	194,300	1,151	6,358	7,509	201,809
Of which: Investments in associates	-	-	-	-	-	-	-	37	37	-	-	-	37
Average balance of loans to the public	15,271	101,920	73	13,213	4,797	14,215	1,689	-	151,178	533	2,132	2,665	153,843
Balance of loans to the public at end of reported period	16,507	106,374	67	13,714	4,800	12,765	1,900	-	156,127	686	2,391	3,077	159,204
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	-	-	-	-	1,011	-	-	-	1,011
Average balance of liabilities	85,642	78	9,953	13,105	5,927	21,752	45,382	-	181,839	1,023	2,020	3,043	184,882
Of which: Average balance of deposits from the public	63,664	-	9,828	13,105	5,927	21,489	37,447	-	151,460	762	2,212	2,974	154,434
Balance of deposits from the public at end of reported period	66,637	-	10,243	13,376	6,098	26,044	35,942	-	158,340	840	3,200	4,040	162,380
Average balance of risk assets (1)	14,912	56,944	28	10,555	6,625	26,731	3,356	5,537	124,688	382	2,721	3,103	127,791
Balance of risk assets at end of reported period(1)	15,088	58,740	31	10,858	7,207	25,084	3,388	5,568	125,964	405	3,116	3,521	129,485
Average balance of assets under management(2)	29,029	-	1,888	18,111	5,245	15,068	146,172	146	215,659	-	-	-	215,659
Composition of interest revenues, net:													
Margin from credit granting operations	774	945	1	661	158	404	47	-	2,990	13	70	83	3,073
Margin from activities of receiving deposits	199	-	34	36	8	5	106	-	388	-	8	8	396
Other	3	39	-	12	2	45	9	(59)	51	-	14	14	65
Total interest revenues, net	976	984	35	709	168	454	162	(59)	3,429	13	92	105	3,534

(1) Risk assets - as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

(2) Asset 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.C.9 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 management 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 three months ended March 31, 2016 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households mortgages	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	206	195	6	146	42	156	9	760
Inter-segment	93	20	12	-	-	20	(145)	-
Total interest revenues, net	299	215	18	146	42	176	(136)	760
Non-interest financing revenues	2	-	-	-	-	3	62	67
Commissions and other revenues	138	37	15	64	13	64	123(3)	454
Total revenues	439	252	33	210	55	243	49	1,281
Expenses with respect to credit losses	18	(9)	3	27	4	(39)	(1)	3
Operating and other expenses	340	88	21	126	28	77	99	779
Pre-tax profit	81	173	9	57	23	205	(49)	499
Provision for taxes on profit	32	70	3	23	8	83	(16)	203
After-tax profit	49	103	6	34	15	122	(33)	296
Share in net profits of associates, after tax	-	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	49	103	6	34	15	122	(33)	296
Attributable to non-controlling interests	(8)	-	-	-	-	-	-	(8)
Net profit attributable to shareholders of the Bank	41	103	6	34	15	122	(33)	288
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	11.7%	7.7%	31.1%	20.2%	13.3%	14.8%	-	10.0%
Average balance of loans to the public, net	20,900	102,485	1,041	9,998	4,539	21,641	-	160,604
Average balance of deposits from the public	72,460	-	7,810	14,313	5,537	50,878	14,627	165,625
Average balance of assets	20,904	102,833	1,875	10,182	4,664	26,051	49,054	215,563
Average balance of risk assets (2)	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) Includes capital gain under Other Revenues amounting to NIS 78 million before tax, from realization of assets in conjunction with asset re-organization and streamlining of the Bank's branch network, compared to NIS 11 million in the corresponding period last year.

Note 12 - Operating segments - continued
Operating segments in conformity with management approach.
For the three months ended March 31, 2015 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	251	(159)	6	144	41	184	232	699
Inter-segment	28	349	9	(13)	-	7	(380)	-
Total interest revenues, net	279	190	15	131	41	191	(148)	699
Non-interest financing revenues	1	-	-	-	-	7	117	125
Commissions and other revenues	138	44	18	63	14	61	39	377
Total revenues	418	234	33	194	55	259	8	1,201
Expenses with respect to credit losses	4	(4)	1	29	8	(4)	1	35
Operating and other expenses[3]	322	104	22	109	27	71	106	761
Pre-tax profit	92	134	10	56	20	192	(99)	405
Provision for taxes on profit	34	48	4	20	7	70	(36)	147
After-tax profit	58	86	6	36	13	122	(63)	258
Share in net profits of associates, after tax	-	-	-	-	-	-	(1)	(1)
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	58	86	6	36	13	122	(64)	257
Attributable to non-controlling interests	(9)	-	-	-	-	-	-	(9)
Net profit attributable to shareholders of the Bank	49	86	6	36	13	122	(64)	248
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[1]	16.2%	7.4%	30.9%	26.8%	12.6%	14.6%	-	9.4%
Average balance of loans to the public, net	20,124	92,212	1,012	8,958	4,312	22,477	-	149,095
Average balance of deposits from the public	65,923	-	8,658	11,919	4,807	46,488	14,586	152,381
Average balance of assets	20,142	92,225	1,950	9,030	4,365	26,718	42,490	196,920
Average balance of risk assets [2]	16,883	52,149	943	6,431	4,702	38,486	5,854	125,448

(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 year ended December 31, 2015 (audited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small business	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	425	(1,245)	55	22	(1)	126	618	-
Total interest revenues, net	1,153	821	64	553	165	743	35	3,534
Non-interest financing revenues	2	-	1	2	-	32	321	358
Commissions and other revenues	550	163	66	248	52	246	175	1,500
Total revenues	1,705	984	131	803	217	1,021	531	5,392
Expenses with respect to credit losses	42	10	3	104	16	38	(2)	211
Operating and other expenses(3)	1,374	360	88	503	114	316	471	3,226
Pre-tax profit	289	614	40	196	87	667	62	1,955
Provision for taxes on profit	112	240	16	76	34	260	23	761
After-tax profit	177	374	24	120	53	407	39	1,194
Share in net profits of associates, after tax	-	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	177	374	24	120	53	407	39	1,194
Attributable to non-controlling interests	(39)	-	-	-	-	-	(21)	(60)
Net profit attributable to shareholders of the Bank	138	374	24	120	53	407	18	1,134
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.1%	7.3%	27.6%	18.9%	11.7%	11.3%	137.5%	10.0%
Average balance of loans to the public, net	20,764	96,373	1,018	9,340	4,376	21,972	-	153,843
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	41,781	201,809
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 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

						March 31, 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	-	(9)	13	4	(1)	3
Accounting write-offs	(49)	(2)	(33)	(84)	-	(84)
Recovery of debts written off for accounting purposes in previous years	22	-	16	38	-	38
Net accounting write-offs	(27)	(2)	(17)	(46)	-	(46)
Balance of provision for credit losses at end of period	670	603	191	1,464	2	1,466
Of which: With respect to off balance sheet credit instruments	78	-	8	86	-	86

						March 31, 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	32	(4)	6	34	1	35
Accounting write-offs	(28)	-	(28)	(56)	-	(56)
Recovery of debts written off for accounting purposes in previous years	21	-	16	37	-	37
Net accounting write-offs	(7)	-	(12)	(19)	-	(19)
Balance of provision for credit losses at end of period	657	620	183	1,460	6	1,466
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.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[(1)] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated:

						March 31, 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	29,574	27	778	30,379	4,599	34,978
reviewed on group basis	8,778	108,296	15,998	133,072	-	133,072
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[(3)]	1,130	107,716	-	108,846	-	108,846
Total debts	38,352	[(2)]108,323	16,776	163,451	4,599	168,050
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	509	1	18	528	2	530
reviewed on group basis	83	602	165	850	-	850
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[(3)]	4	602	-	606	-	606
Total provision for credit losses	592	603	183	1,378	2	1,380
						March 31, 2015
Recorded debt balance of debt s[(1)]						
reviewed on individual basis	30,786	3	663	31,452	4,752	36,204
Reviewed on group basis[(4)]	8,138	97,765	14,694	120,597	-	120,597
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[(3)(4)]	1,138	97,112	-	98,250	-	98,250
Total debts	38,942	[(2)]97,768	15,357	152,049	4,752	156,801
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	473	-	21	494	6	500
Reviewed on group basis[(4)]	88	620	153	861	-	861
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[(3)(4)]	5	620	-	625	-	625
Total provision for credit losses	561	620	174	1,355	6	1,361
						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[(3)]	1,046	105,419	-	106,465	-	106,465
Total debts	38,159	[(2)]105,946	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: Loans 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 5,467 million (as of March 31, 2015 - NIS 5,333 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 376 million (as of March 31, 2015 - NIS 342 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

	As of March 31, 2016					
		Problematic[2]			Non impaired debts - additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate - construction[8]	8,682	71	87	8,840	8	24
Construction and real estate - real estate operations	2,069	3	125	2,197	-	51
Financial services	3,608	11	20	3,639	1	8
Commercial – other	19,708	261	501	20,470	29	138
Total commercial	34,067	346	733	35,146	38	221
Private individuals - housing loans	107,087	877[7]	27	107,991	[7]877	[6]315
Private individuals – other	16,258	106	79	16,443	19	89
Total public – activity in Israel	157,412	1,329	839	159,580	934	625
Banks in Israel	229	-	-	229	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	157,642	1,329	839	159,810	934	625
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,700	-	4	1,704	-	-
Commercial – other	1,491	2	9	1,508	-	8
Total commercial	3,191	2	13	3,206	-	8
Private individuals	665	-	-	665	-	-
Total public – activity overseas	3,856	2	13	3,871	-	8
Overseas banks	4,047	-	-	4,047	-	-
Overseas governments	322	-	-	322	-	-
Total activity overseas	8,225	2	13	8,240	-	8
Total public	161,268	1,331	852	163,451	934	633
Total banks	4,276	-	-	4,276	-	-
Total governments	323	-	-	323	-	-
Total	165,867	1,331	852	168,050	934	633

(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 debt does not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 34 million was classified as problematic non-impaired debt.
(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 debt amounting to NIS 1,130 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

						As of March 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]	8,957	35	97	9,089	4	11
Construction and real estate - real estate operations	2,015	10	240	2,265	-	6
Financial services	3,821	9	102	3,932	9	6
Commercial – other	20,207	235	287	20,729	23	125
Total commercial	35,000	289	726	36,015	36	148
Private individuals - housing loans	96,360	[7]994	3	97,357	[7]994	[6]325
Private individuals – other	14,866	106	83	15,055	20	80
Total public – activity in Israel	146,226	1,389	812	148,427	1,050	553
Banks in Israel	2,249	-	-	2,249	-	-
Government of Israel	2	-	-	2	-	-
Total activity in Israel	148,477	1,389	812	150,678	1,050	553
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,415	-	5	1,420	-	-
Commercial – other	1,486	-	3	1,489	-	10
Total commercial	2,901	-	8	2,909	-	10
Private individuals	713	-	-	713	-	-
Total public – activity overseas	3,614	-	8	3,622	-	10
Overseas banks	2,204	-	-	2,204	-	-
Overseas governments	297	-	-	297	-	-
Total activity overseas	6,115	-	8	6,123	-	10
Total public	149,840	1,389	820	152,049	1,050	563
Total banks	4,453	-	-	4,453	-	-
Total governments	299	-	-	299	-	-
Total	154,592	1,389	820	156,801	1,050	563

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, 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 debt does not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 63 million was classified as problematic non-impaired debt.
(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 190 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 debt amounting to NIS 1,138 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

	As of 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 debt does not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 20 million was classified as problematic non-impaired debt.
(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 debt 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 debt

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 debt

Debt in the individual track is classified as inferior debt accruing revenues after 60 days in arrears. Debt in the group track is thus classified 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 Board of Directors' Report under "Risk Overview".

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

Consolidated

						March 31, 2016
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debt in good standing	37,258	107,419	16,591	323	4,276	165,867
Problematic non-impaired debt(1)	348	877	106	-	-	1,331
Impaired debts	746	27	79	-	-	852
Total	38,352	108,323	16,776	323	4,276	168,050
						March 31, 2015
Debt in good standing	36,763	97,909	15,168	299	4,453	154,592
Problematic non-impaired debt(1)	289	994	106	-	-	1,389
Impaired debts	734	3	83	-	-	820
Total	37,786	98,906	15,357	299	4,453	156,801
						December 31, 2015
Debt in good standing	37,113	104,965	16,309	316	3,096	161,799
Problematic non-impaired debt(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 debt

A. Impaired debt and individual provision

	March 31, 2016				
	Balance of impaired debt for which an individual provision has been made[(2)(3)]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made[(2)]	Total balance of impaired debts[(2)]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	69	14	18	87	194
Construction and real estate - real estate operations	108	12	17	125	278
Financial services	11	7	9	20	59
Commercial – other	397	94	104	501	557
Total commercial	585	127	148	733	1,088
Private individuals - housing loans	10	1	17	27	27
Private individuals – other	23	12	56	79	87
Total public – activity in Israel	618	140	221	839	1,202
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	618	140	221	839	1,202
Borrower activity overseas					
Public – commercial					
Construction and real estate	4	-	-	4	6
Commercial – other	9	-	-	9	6
Total commercial	13	-	-	13	12
Private individuals	-	-	-	-	3
Total public – activity overseas	13	-	-	13	15
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	13	-	-	13	15
Total public	631	140	221	852	1,217
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	631	140	221	852	1,217
Of which:					
Measured at present value of cash flows	533	134	163	696	
Debts under problematic debt restructuring	154	19	63	217	

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

(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 debt

A. Impaired debt and individual provision

					March 31, 2015
	Balance of impaired debt for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debt 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	79	11	18	97	278
Construction and real estate - real estate operations	239	16	1	240	378
Financial services	12	7	90	102	92
Commercial – other	171	58	116	287	415
Total commercial	501	92	225	726	1,163
Private individuals - housing loans	3	-	-	3	3
Private individuals – other	20	8	63	83	91
Total public – activity in Israel	524	100	288	812	1,257
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	524	100	288	812	1,257
Borrower activity overseas					
Public – commercial					
Construction and real estate	5	-	-	5	6
Commercial – other	3	-	-	3	6
Total commercial	8	-	-	8	12
Private individuals	-	-	-	-	3
Total public – activity overseas	8	-	-	8	15
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	8	-	-	8	15
Total public	532	100	288	820	1,272
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	532	100	288	820	1,272
Of which:					
Measured at present value of cash flows	267	84	242	509	
Debts under problematic debt restructuring	321	25	83	404	

(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 debt

A. Impaired debt and individual provision

	December 31, 2015				
	Balance of impaired debt for which an individual provision has been made[(2)(3)]	Balance of individual provision	Balance of impaired debt 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 debt 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 debt

B. Average balance and interest revenues

	March 31, 2016			March 31, 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	85	1	1	96	1	1
Construction and real estate - real estate operations	125	-	-	248	-	-
Financial services	18	-	-	80	-	-
Commercial – other	489	2	2	289	2	2
Total commercial	717	3	3	713	3	3
Private individuals - housing loans	26	-	-	2	-	-
Private individuals – other	80	1	1	78	1	1
Total public – activity in Israel	823	4	4	793	4	4
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	823	4	4	793	4	4
Borrower activity overseas						
Public – commercial						
Construction and real estate	5	-	-	5	-	-
Commercial – other	9	-	-	4	-	-
Total commercial	14	-	-	9	-	-
Private individuals	-	-	-	-	-	-
Total public – activity overseas	14	-	-	9	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	14	-	-	9	-	-
Total public	837	4	4	802	4	4
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total(4)	837	4	4	802	4	4

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

(2) Average recorded debt balance of impaired debts during reported period.

(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.

(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 16 million (as of March 31, 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 debt

C. Problematic debts under restructuring

	March 31, 2016				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	20	-	-	-	20
Construction and real estate - real estate operations	101	-	-	1	102
Financial services	3	-	-	1	4
Commercial – other	32	-	-	6	38
Total commercial	156	-	-	8	164
Private individuals - housing loans	-	-	-	-	-
Private individuals – other	22	-	1	28	51
Total public – activity in Israel	178	-	1	36	215
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	178	-	1	36	215
Borrower activity overseas					
Public – commercial					
Construction and real estate	1	-	-	1	2
Commercial – other	-	-	-	-	-
Total commercial	1	-	-	1	2
Private individuals	-	-	-	-	-
Total public – activity overseas	1	-	-	1	2
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	1	-	-	1	2
Total public	179	-	1	37	217
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	179	-	1	37	217

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debts.

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debt

C. Problematic debts under restructuring

					March 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	36	-	-	-	36
Construction and real estate - real estate operations	236	-	1	-	237
Financial services	4	-	-	2	6
Commercial – other	46	-	-	18	64
Total commercial	322	-	1	20	343
Private individuals - housing loans	-	-	-	-	-
Private individuals – other	25	-	2	29	56
Total public – activity in Israel	347	-	3	49	399
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	347	-	3	49	399
Borrower activity overseas					
Public – commercial					
Construction and real estate	4	-	-	1	5
Commercial – other	-	-	-	-	-
Total commercial	4	-	-	1	5
Private individuals	-	-	-	-	-
Total public – activity overseas	4	-	-	1	5
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	4	-	-	1	5
Total public	351	-	3	50	404
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	351	-	3	50	404

(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 debt

C. Problematic debts under restructuring

	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 March 31, 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 debt

C. Problematic debts under restructuring - continued

	Restructurings made (2)					
	March 31, 2016			March 31, 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	5	1	1	2	-	-
Construction and real estate - real estate operations	2	-	-	-	-	-
Financial services	3	-	-	1	-	-
Commercial – other	30	4	4	28	3	3
Total commercial	40	5	5	31	3	3
Private individuals - housing loans	-	-	-	-	-	-
Private individuals – other	177	9	8	221	8	8
Total public – activity in Israel	217	14	13	252	11	11
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	217	14	13	252	11	11
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	217	14	13	252	11	11
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	217	14	13	252	11	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) 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 debt

C. Problematic debts under restructuring - continued

	Restructurings made which are in default[(2)]			
	March 31, 2016		March 31, 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	3	-	1	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial – other	26	2	14	-
Total commercial	29	2	15	-
Private individuals - housing loans	-	-	-	-
Private individuals – other	65	2	51	1
Total public – activity in Israel	94	4	66	1
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	94	4	66	1
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	94	4	66	1
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	94	4	66	1

(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

					March 31, 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%	67,082	2,249	44,294	4,243
	Over 60%	41,126	441	28,021	2,217
Junior lien or no lien		115	2	89	1,483
Total		108,323	2,692	72,404	7,943
					March 31, 2015
Senior lien: LTV ratio	Up to 60%	55,780	1,862	39,681	3,775
	Over 60%	41,892	574	31,794	2,309
Junior lien or no lien		96	3	77	1,722
Total		97,768	2,439	71,552	7,806
					December 31, 2015
Senior lien: LTV ratio	Up to 60%	65,386	2,136	43,710	3,887
	Over 60%	40,447	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

C. Information about purchase and sale of debts

				For the three months ended March 31, 2016				For the three months ended March 31, 2015
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	-	-	-	-	-	-	123	123
Loans sold	503	-	-	503	135	-	-	135

Note 13 - Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

E. Off-balance sheet financial instruments

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

		March 31,	December 31,		March 31,	December 31,
	2016	2015	2015	2016	2015	2015
			Balance[1]			Provision for credit losses
		(unaudited)	(audited)		(unaudited)	(audited)
Transactions in which the balance represents a credit risk:						
- Documentary credit	488	387	472	1	2	3
- Loan guarantees	2,308	2,310	2,245	26	29	26
- Guarantees to home buyers	12,361	10,893	11,597	3	7	7
- Guarantees and other liabilities[2]	4,559	4,306	4,546	15	16	23
- Unutilized revolving credit card facilities	8,047	7,595	7,848	5	6	5
- Unutilized debitory account and other credit facilities in accounts available on demand	17,045	19,448	16,588	29	29	25
- Irrevocable commitments for loans approved but not yet granted	12,971	12,687	12,901	6	11	13
- Commitments to issue guarantees	4,849	7,080	5,629	1	5	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 112 million. (as of March 31, 2015 and December 31, 2015 - NIS 190 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 March 31, 2016

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	33,685	120	3,856	288	244	-	38,193
Securities	5,473	130	2,370	940	-	100	9,013
Securities loaned or acquired in conjunction with resale agreements	78	73	-	-	-	-	151
Loans to the public, net[3]	99,891	51,054	7,319	2,009	1,800	-	162,073
Loans to Governments	-	-	157	166	-	-	323
Investments in associates	35	-	-	-	-	1	36
Buildings and equipment	-	-	-	-	-	1,546	1,546
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	3,052	325	291	173	81	-	3,922
Other assets	1,054	294	47	1	26	43	1,465
Total assets	143,268	51,996	14,040	3,577	2,151	1,777	216,809
Liabilities							
Deposits from the public	112,071	16,996	27,318	6,019	2,597	-	165,001
Deposits from banks	400	274	592	127	23	-	1,416
Deposits from the Government	18	8	29	-	-	-	55
Debentures and subordinated notes	5,685	21,174	-	-	-	-	26,859
Liabilities with respect to derivative instruments	3,680	168	544	428	58	-	4,878
Other liabilities	4,599	841	246	31	31	180	5,928
Total liabilities	126,453	39,461	28,729	6,605	2,709	180	204,137
Difference	16,815	12,535	(14,689)	(3,028)	(558)	1,597	12,672
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	1,792	(1,792)	-	-	-	-	-
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(13,140)	(4,215)	13,883	3,114	358	-	-
Net in-the-money options (in terms of underlying asset)	(849)	-	778	(33)	104	-	-
Net out-of-the-money options (in terms of underlying asset)	(219)	-	256	(35)	(2)	-	-
Total	4,399	6,528	228	18	(98)	1,597	12,672
Net in-the-money options (capitalized par value)	(184)	-	584	(308)	(92)	-	-
Net out-of-the-money options (capitalized par value)	(118)	-	369	(272)	21	-	-

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 14 - Assets and Liabilities by Linkage Basis - continued

As of March 31, 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	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	21,250	128	3,375	389	313	-	25,455
Securities	9,940	230	2,312	1,206	10	104	13,802
Securities loaned or acquired in conjunction with resale agreements	0	300	-	-	-	-	300
Loans to the public, net[3]	86,673	51,936	8,512	1,879	1,694	-	150,694
Loans to Governments	-	-	163	136	-	-	299
Investments in associates	35	-	-	-	-	10	45
Buildings and equipment[4]	-	-	-	-	-	1,544	1,544
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivative instruments	3,171	447	1843	17	216	-	5,694
Other assets	2,550	407	31	1	21	42	3,052
Total assets	123,619	53,448	16,236	3,628	2,254	1,787	200,972
Liabilities							
Deposits from the public	98,101	18,794	27,963	5,471	2,673	-	153,002
Deposits from banks	197	317	702	153	103	-	1,472
Deposits from the Government	13	14	32	-	-	-	59
Securities loaned or sold in conjunction with repurchase agreements	240	-	-	-	-	-	240
Debentures and subordinated notes	2,399	18,405	-	-	-	-	20,804
Liabilities with respect to derivative instruments	3,366	205	3,294	185	210	-	7,260
Other liabilities[4]	4,533	1,551	113	23	133	234	6,587
Total liabilities	108,849	39,286	32,104	5,832	3,119	234	189,424
Difference	14,770	14,162	(15,868)	(2,204)	(865)	1,553	11,548
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	4,071	(4,071)	-	-	-	-	-
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(12,145)	(5,032)	14,742	1,705	730	-	-
Net in-the-money options (in terms of underlying asset)	(792)	-	595	215	(18)	-	-
Net out-of-the-money options (in terms of underlying asset)	(820)	-	601	201	18	-	-
Total	5,084	5,059	70	(83)	(135)	1,553	11,548
Net in-the-money options (capitalized par value)	408	-	(200)	(164)	(44)	-	-
Net out-of-the-money options (capitalized par value)	1,095	-	(803)	(320)	28	-	-

(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.

(4) Comparative figures were re-stated. For more information about the Supervisor of Banks' directives concerning capitalization of software costs - see Note 1.B. to the financial statements.

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-monetary items[2]	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		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

	March 31, 2016				
	Book balance	Fair value (un-audited)			
		Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	38,193	7,635	29,235	1,323	38,193
Securities[3]	9,013	6,007	2,928	172	9,107
Securities loaned or purchased in resale agreements	151	151	-	-	151
Loans to the public, net	162,073	403	10,840	[5]150,675	161,918
Loans to Governments	323	-	-	323	323
Investments in associates	35	-	-	35	35
Assets with respect to derivative instruments	3,922	324	1,669	[2]1,929	3,922
Other financial assets	448	69	-	379	448
Total financial assets	[4]214,158	14,589	44,672	154,836	214,097
Financial liabilities					
Deposits from the public	165,001	403	41,704	125,135	167,242
Deposits from banks	1,416	-	439	985	1,424
Deposits from the Government	55	-	-	62	62
Debentures and subordinated notes	26,859	26,325	-	1,459	27,784
Liabilities with respect to derivative instruments	4,878	342	1,967	[2]2,569	4,878
Other financial liabilities	4,503	150	3,531	822	4,503
Total financial liabilities	[4]202,712	27,220	47,641	131,032	205,893

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.
(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.
(4) Includes assets and liabilities amounting to NIS 53,864 million and NIS 46,907 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.
(5) Of which embedded derivatives in loans to the public, net amounting to NIS 2 million.

Note 15 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances - continued

					As of March 31, 2015 (unaudited)
	Book				Fair value
	balance	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	25,455	5,104	16,177	4,170	25,451
Securities[3]	13,802	11,168	2,519	320	14,007
Securities loaned or purchased in resale agreements	300	300	-	-	300
Loans to the public, net	150,694	460	10,636	[5]141,653	152,749
Loans to Governments	299	-	-	299	299
Investments in associates	35	-	-	35	35
Assets with respect to derivative instruments	5,694	727	3,838	[2] 1,129	5,694
Other financial assets	2,154	1,034	-	1,118	2,152
Total financial assets	[4] 198,433	18,793	33,170	148,724	200,687
Financial liabilities					
Deposits from the public	153,002	460	38,572	116,772	155,804
Deposits from banks	1,472	-	344	1,151	1,495
Deposits from the Government	59	-	-	68	68
Securities loaned or sold in conjunction with resale agreements	240	240	-	-	240
Debentures and subordinated notes	20,804	21,275	-	973	22,248
Liabilities with respect to derivative instruments	7,260	517	5,104	[2] 1,639	7,260
Other financial liabilities	[6] 5,098	880	3,349	[6]868	5,097
Total financial liabilities	[4] 187,935	23,372	47,369	121,471	192,212

(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 49,340 million and NIS 49,655 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 12 million and NIS 2 million, respectively.
(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				Fair value
	balance	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	8,840	2,784	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	(2) 725	3,527
Other financial assets	987	580	-	407	987
Total financial assets	206,474(4)	14,991	40,024	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	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

	As of March 31, 2016 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures				
of Government of Israel	1,972	2,890	-	4,862
Of foreign governments	207	-	-	207
Of banks and financial institutions overseas	-	19	75	94
Of others overseas	-	19	-	19
Shares	3	-	-	3
Securities held for trading:				
Debentures of the Government of Israel	510	-	-	510
Securities loaned or acquired in resale agreements	151	-	-	151
Credit with respect to loans to clients	403	-	-	403
Assets with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	-	211	277	488
Other	-	626	637	1,263
Foreign currency contracts	83	832	917	1,832
Contracts for shares	241	-	95	336
Commodities and other contracts	-	-	3	3
Other financial assets	69	-	-	69
Other	-	-	2	2
Total assets	3,639	4,597	2,006	10,242
Liabilities				
Deposits with respect to borrowing from clients	403	-	-	403
Liabilities with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	-	154	66	220
Other	-	947	811	1,758
Foreign currency contracts	116	866	1,427	2,409
Contracts for shares	226	-	262	488
Commodities and other contracts	-	-	3	3
Other financial liabilities	150	-	-	150
Total liabilities	895	1,967	2,569	5,431

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 15 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

				As of March 31, 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	4,235	2,449	-	6,684
Of foreign governments	796	-	-	796
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	20	202	222
Of others overseas	-	50	16	66
Shares	2	-		2
Securities held for trading:				
Debentures of the Government of Israel	654	-	-	654
Securities loaned or acquired in resale agreements	300	-	-	300
Credit with respect to loans to clients	460	-	-	460
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	275	175	450
Other	-	1,501	79	1,580
Foreign currency contracts	260	2,058	599	2,917
Contracts for shares	467	4	276	747
Other financial assets	1,034	-	-	1,034
Other	-	-	12	12
Total assets	8,332	6,357	1,359	16,048
Liabilities				
Deposits with respect to borrowing from clients	460	-	-	460
Securities loaned or acquired in resale agreements	240	-	-	240
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	217	10	227
Other	-	1,854	166	2,020
Foreign currency contracts	197	3,033	1,190	4,420
Contracts for shares	320	-	273	593
Other financial liabilities	880	-	-	880
Other	-	-	2	2
Total liabilities	2,097	5,104	1,641	8,842

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 15 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

				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	3,561	2,685	-	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
Foreign 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	6,977	5,021	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
Foreign 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.

Note 15 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

2. On non-recurring basis

	As of March 31, 2016 (unaudited)				For the three months ended March 31, 2016
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Losses
Impaired credit whose collection is contingent on collateral	-	33	70	103	(1)

	As of March 31, 2015 (unaudited)				For the three months ended March 31, 2015
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Losses
Impaired credit whose collection is contingent on collateral	-	-	53	53	-

	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.

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended March 31, 2016 (unaudited)								
		Realized / unrealized gain s(losses) included, net[1]							
	Fair value as of January 1, 2016	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Disposi-tions	Transfer to level 3	Fair value as of March 31, 2016	Unrealized gain s(losses) with respect to instruments held as of March 31, 2016
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	196	(121)	-	-	-	-	-	75	(121)
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	125	48	-	-	-	(5)	109	277	221
Other	68	568	-	1	-	-	-	637	496
Foreign currency contracts	462	249	-	565	-	(359)	-	917	556
Contracts for shares	69	15	-	33	-	(22)	-	95	-
Commodities and other contracts	1	2	-	-	-	-	-	3	1
Other	3	(1)	-	-	-	-	-	2	-
Total assets	924	760	-	599	-	(386)	109	2,006	1,153
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	18	6	-	1	-	-	41	66	62
Other	120	689	-	2	-	-	-	811	676
Foreign currency contracts	502	47	-	1,019	-	(141)	-	1,427	821
Contracts for shares	178	76	-	36	-	(28)	-	262	-
Commodities and other contracts	-	2	-	1	-	-	-	3	1
Total liabilities	818	820	-	1,059	-	(169)	41	2,569	1,560

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 15 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended March 31, 2015 (unaudited)								
		Realized / unrealized gain s(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 March 31, 2015	Unrealized gain s(losses) with respect to instruments held as of March 31, 2015
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	199	3	-	-	-	-	-	202	3
Of others overseas	16	-	-	-	-	-	-	16	-
Assets with respect to derivative instruments[(2)(3)]									
Interest contracts:									
NIS / CPI	119	68	-	7	-	(19)	-	175	65
Other	58	17	-	4	-	-	-	79	60
Foreign currency contracts	680	130	-	270	-	(481)	-	599	416
Contracts for shares	120	133	-	44	-	(21)	-	276	-
Other	10	2	-	-	-	-	-	12	-
Total assets	1,202	353	-	325	-	(521)	-	1,359	544
Liabilities									
Liabilities with respect to derivative instruments[(2)(3)]									
Interest contracts:									
NIS / CPI	10	1	-	-	-	(1)	-	10	(11)
Other	173	(10)	-	3	-	-	-	166	(12)
Foreign currency contracts	736	348	-	405	-	(299)	-	1,190	(783)
Contracts for shares	117	131	-	45	-	(20)	-	273	-
Other	6	(4)	-	-	-	-	-	2	-
Total liabilities	1,042	466	-	453	-	(320)	-	1,641	(806)

(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 gains(losses) included, net(1)							
	Fair value as of December 31, 2014	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acquisi-tions	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	126	108
Other	58	(2)	-	13	-	(1)	-	68	35
Foreign 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
Foreign 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 March 31, 2016	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
CLN	75	Cash flow discounting	Probability of default	0.64%-1.387%	1.33%
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	136	Cash flow discounting	Inflationary expectations	(0.09%)-(0.08%)	0.01%
Contracts for shares	2	Option pricing model	Standard deviation for shares	59.60% - 149.26%	119.0%
Other	1,793	Cash flow discounting	Counter-party credit quality	0.30% - 3.10%	1.93%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	8	Cash flow discounting	Inflationary expectations	(0.09%)-(0.08%)	1.48%
Other	2,561	Cash flow discounting	Counter-party credit quality	0.30% - 3.10%	1.93%

	Fair value as of March 31, 2015	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	202	Estimated recuperation rate	Recuperation rate	0.35%-1.05%	0.91%
Debentures of foreign others	16	Cash flow discounting	Discount rate	5.23%	5.23%
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	121	Cash flow discounting	Inflationary expectations	0.69% - 0.71%	0.70%
Contracts for shares	10	Option pricing model	Standard deviation for shares	85.60% - 96.75%	91.1%
Other	1,010	Cash flow discounting	Counter-party credit quality	0.30% - 3.10%	1.73%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	4	Cash flow discounting	Inflationary expectations	0.69% - 0.70%	0.69%
Other	1,637	Cash flow discounting	Counter-party credit quality	0.30% - 3.10%	1.67%

	Fair value as of December 31, 2015	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
CLN	196	Cash flow 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% - 3.10%	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 risk 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 March 31, 2016	Gain with respect to change in fair value for the three months ended March 31, 2016
Securities available for sale	-	-

	Fair value as of March 31, 2015	Gain with respect to change in fair value for the three months ended March 31, 2015
Securities available for sale	-	6

	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, respectively, 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.

B. Change in corporate tax rate
On January 4, the Knesset Plenum approved the Income Tax Ordinance Amendment Act (Amendment no. 216), 2016 which stipulates, *inter alia*, a reduction of the corporate tax rate as from 2016 by 1.5%, to 25%. (The previous rate was 26.5%).
The effect of this decrease in the corporate 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 May 18, 2016, after the balance sheet date, the Bank Board of Directors resolved to distribute dividends amounting to NIS 43.2 million with respect to earnings in the first quarter of 2016. The dividend amount is 186.3% of issued share capital, i.e. NIS 0.1863 per NIS 0.1 par value share. The effective date for dividend payment is June 5, 2016 and the payment date is June 21, 2016. The final dividends per share is subject to change due to realized convertible securities of the Bank. According to accounting rules, this amount would be deducted from retained earnings in the second quarter of 2016.

Corporate Governance, Audit, Other Information about the Bank and its Management and Appendixes to the Condensed Financial Statements

Table of Contents

Corporate governance	**231**
Board of directors and management	231
Transactions with controlling shareholders and related parties	231
Other information about the Bank and its management	**232**
Legislation and supervisory regulation of bank group operations	232
Bank's credit rating	233
Addendums to condensed financial statements	**234**

Corporate governance

Board of Directors and management

Board of Directors

During the first quarter of 2016, the Bank Board of Directors held 8 plenary meetings. During this period there were also 18 meetings of Board committees and one Board member workshop.

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 set forth 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 said date, the General Meeting of Bank shareholders resolved to amend the Bank 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, after the balance sheet date, 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.

Members of Bank management and senior officers

In the first quarter of 2016 there were no changes to members of Bank management and senior officers.

Transactions with controlling shareholders and related parties

To the best of the Bank’s knowledge, 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

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 revenues of the financial corporation, such 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.

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.

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, with due notice to the aforementioned with regard to the Remuneration of Officers in Financial Corporations Act.

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

	For the three months ended March 31, 2016			For the three months ended March 31, 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	156,053	805[7]	2.08	144,936	468[7]	1.30
Outside of Israel	3,038	34	4.55	2,501	25	4.06
Total	159,091	839	2.13	147,437	493	1.34
Loans to the Government						
In Israel	162	1	2.49	299	2	2.70
Outside of Israel	160	-	-	-	-	-
Total	322	1	1.25	299	2	2.70
Deposits with banks						
In Israel	1,692	-	-	3,222	1	0.12
Outside of Israel	312	1	1.29	443	2	1.82
Total	2,004	1	0.20	3,665	3	0.33
Deposits with central banks						
In Israel	28,560	6	0.08	18,738	9	0.19
Outside of Israel	3,085	3	0.39	3,204	-	-
Total	31,645	9	0.11	21,942	9	0.16
Securities loaned or purchased in resale agreements						
In Israel	81	-	-	399	-	-
Outside of Israel	-	-	-	-	-	-
Total	81	-	-	399	-	-
Debentures held to maturity and available for sale[4]						
In Israel	7,976	12	0.60	10,677	34	1.28
Outside of Israel	1,084	4	1.48	1,182	4	1.36
Total	9,060	16	0.71	11,859	38	1.29
Debentures held for trade[5]						
In Israel	381	2	2.12	949	5	2.12
Outside of Israel	-	-	-	-	-	-
Total	381	2	2.12	949	5	2.12
Total interest-bearing assets	202,584	868	1.72	186,550	550	1.18
Receivables for credit card operations	3,101			2,966		
Other non-interest bearing assets[6]	9,878			7,953		
Total assets	215,563			197,469		
Total interest-bearing assets attributable to operations outside of Israel	7,679	42	2.21	7,330	31	1.70

See remarks below.

Revenue and Expense Rates - of the Bank and its Subsidiaries[1] - continued

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the three months ended March 31, 2016			For the three months ended March 31, 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	6,946	(3)	(0.17)	6,654	(13)	(0.78)
Term deposits	117,733	111	0.38	114,111	(38)	(0.13)
Outside of Israel						
On-call	586	-	-	854	-	-
Term deposits	3,218	7	0.87	3,527	7	0.80
Total	128,483	115	0.36	125,146	(44)	(0.14)
Deposits from the Government						
In Israel	56	-	-	56	1	7.34
Outside of Israel	-	-	-	-	-	-
Total	56	-	-	56	1	7.34
Deposits from banks						
In Israel	1,563	1	0.26	1,507	1	0.27
Outside of Israel	6	-	-	-	-	-
Total	1,569	1	0.26	1,507	1	0.27
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	232	-	-
Outside of Israel	-	-	-	-	-	-
Total	-	-	-	232	-	-
Debentures and subordinated notes						
In Israel	24,217	(8)	(0.13)	19,404	(97)	(1.98)
Outside of Israel	-	-	-	-	-	-
Total	24,217	(8)	(0.13)	19,404	(97)	(1.98)
Other liabilities						
In Israel	108	-	-	962	(10)	(4.09)
Outside of Israel	-	-	-	-	-	-
Total	108	-	-	962	(10)	(4.09)
Total interest-bearing liabilities	154,433	108	0.28	147,307	(149)	(0.40)
Non-interest bearing deposits from the public	34,041			27,003		
Payables for credit card transactions	3,101			2,966		
Other non-interest bearing liabilities[8]	11,441			8,712		
Total liabilities	203,016			185,988		
Total equity resources	12,547			11,481		
Total liabilities and equity resources	215,563			197,469		
Interest margin			1.44			1.59
Net return[9] on interest-bearing assets						
In Israel	194,905	725	1.50	179,220	675	1.52
Outside of Israel	7,679	35	1.84	7,330	24	1.32
Total	202,584	760	1.51	186,550	699	1.51
Total interest-bearing liabilities attributable to operations outside of Israel	3,810	7	0.74	4,381	7	0.64

See remarks below.

Revenue and Expense Rates - of the Bank and its Subsidiaries[1] - continued

Reported amounts (NIS in millions)

C. Average balances and interest rates - additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended March 31, 2016			For the three months ended March 31, 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	130,422	853	2.64	112,441	854	3.07
Total interest-bearing liabilities	95,614	(141)	(0.59)	84,184	(121)	(0.58)
Interest margin			2.05			2.49
Israeli currency - linked to the CPI						
Total interest-bearing assets	52,029	(99)	(0.76)	52,747	(413)	(3.10)
Total interest-bearing liabilities	36,264	92	1.01	37,339	314	3.32
Interest margin			0.25			0.22
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	12,454	72	2.33	14,032	78	2.24
Total interest-bearing liabilities	18,745	(52)	(1.11)	21,403	(37)	(0.69)
Interest margin			1.22			1.55
Total - operations in Israel						
Total interest-bearing assets	194,905	826	1.71	179,220	519	1.16
Total interest-bearing liabilities	150,623	(101)	(0.27)	142,926	156	0.44
Interest margin			1.44			1.60

See remarks below.

Revenue and Expense Rates - of the Bank and its Subsidiaries[1] - continued

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	For the three months ended March 31, 2016 compared to the three months ended March 31, 2015		
	Increase (decrease) due to change[10]		
	Quantity	Price	Net change
Interest-bearing assets			
Loans to the public			
In Israel	57	280	337
Outside of Israel	6	3	9
Total	63	283	346
Other interest-bearing assets			
In Israel	2	(32)	(30)
Outside of Israel	-	2	2
Total	2	(30)	(28)
Total interest revenues	65	253	318
Interest-bearing liabilities			
Deposits from the public			
In Israel	3	156	159
Outside of Israel	(1)	1	-
Total	2	157	159
Other interest-bearing liabilities			
In Israel	(1)	99	98
Outside of Israel	-	-	-
Total	(1)	99	98
Total interest expenses	1	256	257

(1) Information in these tables is after effect of hedging financial derivative instruments.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment - based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of debentures available for sale, for the three-month periods ended March 31, 2016 and March 31, 2015, we deducted the average balance of unrealized gain from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS 1 million and NIS 37 million, respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended March 31, 2016 and March 31, 2015, we deducted / added the average balance of unrealized gain / loss from adjustment to fair value of debentures held for trading, amounting to NIS (10) million and NIS 3 million.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 78 million and NIS 119 million included under interest revenues for the three-month periods ended March 31, 2016 and March 31, 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 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 Risk 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
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 many times.

Term	Explanation	Location on the financial statements
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 many 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 many 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 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.	This term appears many times.
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

Term	Explanation	Location on the financial statements
Minimum capital ratio	This ratio reflects the minimum supervisory capital requirement which the Bank is required to maintain in conformity with Proper Banking Conduct Directive 201.	Chapter "Overview, targets and strategy" in the Report of the Board of Directors and Management Term included in Notes to the financial statements
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 risk 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
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

Term	Explanation	Location on the financial statements
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 many 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 many 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
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 many times.

Term	Explanation	Location on the financial statements
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
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

Term	Explanation	Location on the financial statements
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 many times.
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 many 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 many 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 reflects 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 many 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 many times.
Problematic debt	Debt classified under one of the following negative classifications: special supervision, inferior or impaired.	This term appears many 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 many 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 many times.

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