Condensed Financial Statements as of June 30, 2017

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

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

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

Introduction

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on August 28, 2017, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risks Management Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of June 30, 2017.

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

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

For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting principles for US banks (see also Note 1 to these financial statements as of December 31, 2016 and Note 1 to these condensed financial statements).

In conformity with the reporting structure stipulated by the Supervisor of Banks, additional information to these financial statements is provided on the Bank website:

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

This additional information includes a detailed Risks Report in conformity with disclosure requirements of Basel Pillar 3 and in conformity with additional recommendations by the Financial Stability Board (FSB), as well as information on capital instruments issued by the Bank.

Forward-Looking Information

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

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

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

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

Overview, targets and strategy

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

Condensed financial information and key performance indicators for the Bank Group

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

	For the six months ended June 30,		For the year ended December 31,
	2017	2016	2016
			NIS in millions
Statement of profit and loss – highlights			
Interest revenues, net	2,200	1,774	3,778
Non-interest financing revenues	20	136	295
Commissions and other revenues	734	817	1,567
Total revenues	2,954	2,727	5,640
Expenses with respect to credit losses	91	60	200
Operating and other expenses	1,700	1,615	3,299
Of which: Payroll and associated expenses	1,066	997	2,071
Pre-tax profit	1,163	1,052	2,141
Provision for taxes on profit	423	403	833
Net profit(1)	721	628	1,266

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

Group net profit in the second quarter of 2017 amounted to NIS 400 million, compared to NIS 340 million in the corresponding period last year – an increase of 17.6%. This reflects annualized return on equity of 12.7%, compared to 11.6% in the corresponding period last year**.**

According to the Bank's current dividends policy, dividends of 30% would be distributed with respect to earnings of this quarter (NIS 120 million). For more information see chapter "Dividends", on page 37.

Group net profit in the first half of 2017 amounted to NIS 721 million, compared to NIS 628 million in the corresponding period last year – an increase of 14.8%. This reflects annualized return on equity of 11.4%, compared to 10.6% in the corresponding period last year and 10.2% for all of 2016.

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

- Total revenues increased in the second quarter of 2017 by 7.8% compared to the corresponding period last year (increased by 8.3% in the first half compared to the corresponding period last year).

  For more information on the effect of the Consumer Price Index and other non-linear effects on revenues, see "Analysis of development of financing revenues from current operations" below.
- Total operating and other expenses increased in the second quarter of 2017 by 4.9% compared to the corresponding period last year (increased by 5.3% in the first half compared to the corresponding period last year). See below for explanation of each component of operating expenses.

	As of					
	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
						NIS in millions
Balance sheet – key items						
Balance sheet total	235,056	234,071	230,455	225,520	217,758	216,809
Loans to the public, net	177,133	173,068	171,341	168,620	165,515	162,073
Cash and deposits with banks	39,146	41,683	41,725	40,753	36,842	38,193
Securities	10,560	11,791	10,262	9,407	8,419	9,013
Buildings and equipment	1,391	1,550	1,585	1,537	1,545	1,546
Deposits from the public	180,680	180,722	178,252	173,748	169,621	165,001
Debentures and subordinated notes	27,851	26,924	27,034	27,253	24,337	26,859
Deposits from banks	1,454	1,474	1,537	1,255	1,183	1,416
Shareholders' equity(1)	13,276	13,015	12,714	12,726	12,384	12,098

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

- Total assets as of June 30, 2017 amounted to NIS 235.1 billion, an increase of NIS 17.3 billion (or 7.9%) compared to June 30, 2016 (an increase of NIS 4.6 billion compared to the end of 2016).
- Loans to the public, net as of June 30, 2017 amounted to NIS 177.1 billion, an increase of NIS 11.6 billion (or 7.0%) compared to June 30, 2016 (an increase of NIS 5.8 billion compared to the end of 2016).
  In the second quarter of 2017, loans to the public increased significantly, by NIS 4.0 billion. In addition to growth in the housing loan portfolio, business loans also increased by NIS 1.1 billion, in line with the strategic plan outline.
- Deposits from the public as of June 30, 2017 amounted to NIS 180.7 billion, an increase of NIS 11.1 billion (or 6.5%) compared to June 30, 2016 (an increase of NIS 2.4 billion compared to the end of 2016). Deposits from the public were impacted by devaluation of the USD by 9.1% in the first half of 2017.
- Shareholders' equity as of June 30, 2017 amounted to NIS 13.3 billion, an increase of NIS 0.9 billion (or 7.2%) compared to June 30, 2016 (an increase of NIS 0.6 billion compared to the end of 2016).

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

Key financial ratios (in percent)

	For the quarter ended					
	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Key performance benchmarks						
Net profit return on equity(1)(2)	12.7	10.4	8.6	12.4	11.6	10.0
Net profit return on risk assets(2)(3)	1.19	0.97	0.80	1.13	1.05	0.89
Deposits from the public to loans to the public, net	(4)102.0	104.4	104.0	103.0	102.5	101.8
Ratio of Tier I capital to risk elements	10.15	10.12	10.10	9.85	9.72	9.65
Ratio of total capital to risk elements	13.42	13.44	13.80	13.52	13.23	13.20
Leverage ratio(5)	5.42	5.27	5.27	5.31	5.33	5.23
liquidity coverage ratio(6) (Quarterly)	122	118	117	105	99	97
Cost income ratio(7)	56.3	59.0	60.5	55.2	57.8	60.8
Basic earnings per share (in NIS)	1.72	1.38	1.14	1.61	1.47	1.24
Key credit quality benchmarks						
Ratio of provision for credit losses to total loans to the public	0.82	0.84	0.83	0.83	0.84	0.84
Ratio of impaired debts or debts in arrears 90 days or longer to total loans to the public	0.89	0.95	0.95	0.94	1.11	1.09
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.09	0.12	0.19	0.14	0.14	0.01
Of which: With respect to commercial loans other than housing loans	0.20	0.35	0.53	0.37	0.34	0.09
Of which: With respect to housing loans	0.04	0.00	0.02	0.02	0.04	(0.03)
Additional information						
Share price (in NIS) at end of the quarter	63.50	61.44	56.35	47.65	44.40	44.07
Dividends per share (in Agorot)	41.5	17.1	24.1	22.0	18.6	15.5

Financial ratios indicate:
- Net profit return on equity in the second quarter of 2017 was 12.7%, higher than 11.6% in the corresponding period last year and higher than 10.2% for all of 2016.
- In the first half of 2017, the Bank maintained a cost-income ratio lower than 60% (for each quarter and for the entire period). In the current quarter, this ratio reached 56.3%.
- Credit quality benchmarks show low credit losses and indicate a high-quality credit portfolio.
- The leverage ratio increased in the most recent quarter to 5.42%.

	For the six months ended June 30,		For the year ended December 31,
	2017	2016	2016
			NIS in millions
Key performance benchmarks (in %)			
Net profit return on equity(1)(2)	11.4	10.6	10.2
Net profit return on risk assets(2)(3)	1.08	0.97	0.97
Cost income ratio(7)	57.5	59.2	58.5
Basic earnings per share (in NIS)	3.10	2.71	5.46
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.10	0.07	0.12
Of which: With respect to commercial loans other than housing loans	0.27	0.22	0.33
Of which: With respect to housing loans	0.02	0.00	0.01
Additional information			
Dividends per share (in Agorot)	58.6	34.1	80.3

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Calculated on annualized basis.
(3) Net profit to average risk assets.
(4) Deposits from the public were impacted by devaluation of the USD by 9.1% in the first half of 2017.
(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
(6) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations during the reported quarter.
(7) Total operating and other expenses to total operating and financing revenues before expenses with respect to credit losses.

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

Major risks

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

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

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

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

Business goals and strategy

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

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

Other than that, since publication of the annual financial statements as of December 31, 2016, there were no changes to the Bank's business goals and strategy.

Developments in capital structure

Investments in Bank Capital and Transactions in Bank Shares

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

Developments in financing sources

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

Obligatory notes and debentures issued to the public

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

As of the balance sheet date, all obligatory notes, including subordinated notes, issued to the public by Tefahot Issue, amounted to NIS 24.4 billion in total par value (as of December 31, 2016: NIS 23.5 billion), of which NIS 0.5 billion in subordinated notes (included in Tier II capital for maintaining minimum capital ratio and gradually reduced subject to transition provisions).

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

Complex capital instruments

For more information about issue of subordinated notes by Bank Yahav after the balance sheet date, see Note 9N to the financial statements.

Significant developments in management of business operations

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

On July 31, the Bank announced it was in discussions of potentially formulating an outline in principle for a transaction (hereinafter: "the transaction") to acquire all of the issued share capital of Bank Igud Le-Israel Ltd. (hereinafter: "Bank Igud"), including shares of the controlling shareholders of Bank Igud and shares held by another group (hereinafter jointly: "the controlling shareholders of Bank Igud") at the price per share on the Tel Aviv Stock Exchange Ltd. (hereinafter: "the stock exchange"), not to exceed 60% of shareholder equity on Bank Igud accounts against allocation of shares in the Bank's share capital, to shareholders of Bank Igud, in order to merge Bank Igud with and into the Bank.
Currently, the Bank has yet to conduct relevant tests for a contract for the transaction (including required legal review) and the Bank has yet to formulate an agreed outline for the transaction.
Legal review is also under way with regard to implications of a contract for the transaction as to restrictions applicable on controlling shareholders of the Bank, in conformity with the Competition Enhancement and Concentration Reduction Act, 2013, including with regard to transitional provisions of this Act.

A contract for this transaction, should it materialize, is subject to approval by the competent organs of the Bank. Moreover, should the transaction be agreed, it would be subject to approvals and consents by regulatory authorities and third parties as required by law. Consequently, it is uncertain whether the parties will reach agreement on terms and conditions of the transaction or whether negotiations between the parties will result in signing or whether the required approvals and consents would be granted or whether the transaction would close.
This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Significant developments in human resources and administration

Developments in labor relations

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

Developments in logistics, administration and streamlining

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

Streamlining program at Bank Yahav

On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program and reduction of real estate areas. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive.
Pursuant to the retirement program, early retirement of 35 Bank Yahav employees in 2017-2019 would be authorized subject to criteria set forth in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 34 million before tax (NIS 22 million after tax).
As directed by the Bank of Israel, supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis over a five-year period. See Note 8 to the financial statements for additional information.

Significant developments in IT

Project to replace the core banking system at Bank Yahav

In 2008, Bank Mizrahi-Tefahot acquired a controlling interest in Bank Yahav (50% of shares) from Bank HaPoalim Ltd. (hereinafter: "Bank HaPoalim"). Through December 31, 2016, Bank Yahav received computer and operating services from Bank HaPoalim. These services were provided to Bank Yahav in conformity with approval by the Supervisor of Banks and by the Anti-Trust Supervisor.

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

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

In 2017, Bank Yahav will continue to follow the work plan in order to complete development according to the schedule agreed during system development – and make additional developments as planned.

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

Developments in international geographic deployment

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

Other matters

Legal Proceedings

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

Inquiry by the US Department of Justice

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

Explanation and analysis of results and business standing

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

Trends, phenomena and material changes

Significant Events in the Bank Group's Business

Plan to relocate Bank headquarters units

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

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

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

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

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

Developments in labor relations

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

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

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

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

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

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

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

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

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

Furthermore, the signing of such a collective bargaining agreement is subject to approval by the Bank's Board of Directors and subject to a recommendation of the Bank's Remuneration Committee. Below are the key understandings reached:

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

Based on understandings reached and subject to obtaining the required approvals for signing a collective bargaining agreement between the parties and to signing the actual collective bargaining agreement, the initial estimate of cost to be charged on the financial statements for the third quarter of 2017, including all relevant components through the third quarter of 2017, amounts to NIS 160 million before tax (NIS 104 million after tax).

For more information about the effect of the understandings reached on the actuarial liability for salary payments, see Note 38. to the financial statements.

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

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

Major developments in the banking industry in Israel and overseas

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

  Further to the directive with regard to operating streamlining of the banking system in Israel, the Bank of Israel issued a letter expanding the scope of streamlining and promoting further streamlining steps, including reducing real estate and maintenance costs of headquarters units, by providing relief for capital adequacy requirements.

  For more information about the letter from the Bank of Israel, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Legislation and Supervisory Directives) of these annual financial statements.

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

Developments in the Israeli and global economy in the first half of 2017

Israeli economy

Real Developments

In the first half of 2017, GDP grew at an annualized 2.1%, compared to 4.6% in the corresponding period of 2016 and 4.0% in all of 2016. The GDP growth rate was more moderate due to the following effects: More moderate growth in current private consumption; sharp decrease in consumption of durable goods, after previous periods saw excessive growth rate in this area, due to increased purchasing of vehicles following changes to green taxation rules, lower investment in the economy, exports of goods and services continued to grow in the first half of this year, but at a lower pace than in the previous 12 months.

According to Bank of Israel estimates, the labor market is nearly at full employment. The average unemployment rate in the first half of 2017 was 4.4%, compared to 4.8% in the previous year. The employment rate remained at 64.1%.

Inflation and exchange rates

In the first half of 2017, the Consumer Price Index remained unchanged, similar to the corresponding period last year. The CPI was primarily impacted by higher housing (rental) prices, home maintenance prices, food prices and prices of education, culture and entertainment. The higher prices were offset by lower prices clothing and footwear, transportation and communication. In the twelve months ended June 2017, the CPI decreased by 0.2%.

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

	June 30, 2017	December 31, 2016	Change in %
Exchange rate of:			
USD (in NIS)	3.496	3.845	(9.1)
EUR (in NIS)	3.986	4.044	(1.4)

On August 23, 2017, the USD/NIS exchange rate was 3.618 - a 3.5% devaluation since June 30, 2017. The EUR/NIS exchange rate on this date was 4.268 - a devaluation of 7.1% since June 30, 2017.

Monetary policy

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

Fiscal policy

In January-July 2017, the government budget recorded a NIS 9.2 billion cumulative deficit, compared to a NIS 2.6 billion cumulative budget deficit in the corresponding period last year. The deficit rate in relation to the GDP for the 12 months ended in July 2017 was 2.6%, similar to 2.1% for all of 2016.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first half of 2017 demand for new apartments (apartments sold and apartments constructed not for sale) was 21.1 thousand apartments, a decrease of 21% over the corresponding period last year and an increase of 24% over the corresponding period in 2015. The decrease compared to the corresponding period last year, is due, *inter alia*, to a decrease in demand for apartments from investors. In the first six months of 2017, housing loans given to the public amounted to NIS 26.2 billion, compared to NIS 30.7 billion in the corresponding period last year and NIS 32.2 billion in the corresponding period in 2015.

According to data from the Central Bureau of Statistics, housing prices in terms of twelve months ended in June 2017, increased by 4.5%, compared to 6.7% in 2016 and to 7.8% in 2015.

Capital market

Trading in equity markets in Israel and world-wide in the second quarter of 2017 continued to be positive, spearheaded by stock exchanges in the USA.
Equity market – the major indices, Tel Aviv 35 and Tel Aviv 125, rose in the second quarter of 2017 by 2.6% and 3.0%, respectively following declines by 5.0% and 2.4% in the first quarter of this year. The Tel Aviv 90 Index increased by 4.2% in the second quarter of 2017, following an increase of 8.4% in the first quarter of this year.
Average daily trading volume in equities and convertible securities in the second quarter of 2017 was NIS 1.41 billion, compared to a NIS 1.37 billion daily average for the previous four quarters and a NIS 1.65 billion daily average for the first quarter, in which trading volumes were higher due to changes made to composition of equity benchmarks.
Debenture market – In the second quarter of 2017, the rally started in the first quarter in the debenture market continued, although it slowed down late in this quarter. CPI-linked Government debentures rallied in the first half of this quarter, in line with higher inflationary expectations, but this trend was reversed in the latter half of this quarter. NIS-denominated Government debentures and corporate debentures continued to yield positive returns for investors.
The General Debenture Index rose by 1.1% in the second quarter of 2017, following an increase of 0.6% in the first half of this year. The CPI-Linked Government Debenture Index rose by 0.8%, after rising by 0.6% in the first quarter of 2017. The Non-Linked Government Debenture Index rose in the second quarter of 2017 by 0.7%, after rising by 0.6% in the first quarter. The Tel Bond 20 Index was up 1.7% in the second quarter of 2017, following an increase of 1.6% in the first quarter of 2017. The Tel Bond 40 Index was up 1.5% in the second quarter of 2017, following an increase of 0.7% in the first quarter of 2017.

Global economy

The US economy's growth rate accelerated in the second quarter of 2017, with US GDP increasing by an annualized 2.6%, compared to 1.2% in the first quarter of this year and to 1.5% in 2016. In the first half of this year, the industrial output benchmark was higher and the purchasing manager index continued to indicate economic expansion. Conversely, retail trade growth slowed down. The labor market showed positive trends: The average number of jobs added in the US economy in the first half of this year was higher than expected and unemployment continued to decline, along with a slight increase in the participation rate. However, the growth rate of salaried in real terms slowed down. Following the positive data in the labor market, the Fed raised its interest rate in June by 0.25%, to 1.0%-1.25%.

The annualized GDP growth rate in the Euro Zone in the second quarter of 2017 was 2.2%, compared to 1.9% in the first quarter of this year and to 1.7% in 2016. In the first half of 2017, the growth rate of the industrial output and retail trade benchmarks improved somewhat. The purchasing manager index continues to indicate economic growth and the economic sentiment, business confidence and consumer confidence benchmarks are at their highest levels in recent years. Unemployment continued to decline, albeit at a moderate pace.

In the second quarter of 2017, GDP in China grew at an annualized 6.9%, similar to the previous quarter and compared to 6.7% for all of 2016. The higher growth rate was primarily due to improved exports, industrial output and retail trade.

Positive macro-economic indicators and absence of investment alternatives pushed equity indexes around the world higher. The Dow Jones and S&P 500 indexes rose by 3.3% and 2.6%, respectively in the second quarter of 2017 – after rising by 4.6% and 5.5% in the first quarter. The NASDAQ 100 Index rose by 3.9% in the second quarter of 2017, following an increase of 11.8% in the first quarter of this year.

The German DAX Index increased by 0.1% in the second quarter of 2017, following an increase of 7.2% in the first quarter of this year. The British FTSE Index and the French CAC Index were down in the second quarter of 2017 by 0.1% and 0.04%, respectively – after an increase by 2.5% and 5.4%, respectively in the first quarter of this year. The Japanese Nikkei Index rose by 5.9% in the second quarter of 2017, following a decline by 1.1% in the first quarter of 2017.

Key and emerging risks

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

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

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

For more information about a strike by Bank employees represented by the Bank's Employee Association, see chapter "Significant Events in the Bank Group's Business" above.

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

Independent Auditors' review report

The Independent Auditor has drawn attention in their review report to Note 38, to Note 10.B.2.H. and to Note 10.B.3(a-c) to the financial statements, with regard to contingent liabilities at the Bank, including lawsuits filed against the Bank and motions for class action status, as well as to Note 10.B.4 with regard to the US DOJ inquiry with regard to Bank Group business with its US clients.

Events after the balance sheet date

- For more information about dividend distribution with respect to earnings of the second quarter of 2017, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below and the statement of changes to shareholder equity and the Note "Events after the balance sheet date" of these condensed financial statements.
- For more information about issue of subordinated notes by Bank Yahav after the balance sheet date, see Note 9N to the financial statements.

Changes to critical accounting policies and to critical accounting estimates

Deferred taxes

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

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

See Note 1 to the financial statements for additional information.

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

Material developments in revenues, expenses and other comprehensive income

Group net profit in the second quarter of 2017 amounted to NIS 400 million, compared to NIS 340 million in the corresponding period last year – an increase of 17.6%.

Net profit for the Group in the first half of 2017 amounted to NIS 721 million, compared to NIS 628 million in the corresponding period last year – an increase of 14.8%.

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 second quarter of 2017 amounted to NIS 1,071 million, as described below, compared to NIS 946 million in the corresponding period last year, an increase of 13.2%.

Net interest revenues and non-interest financing revenues from current operations in the first half of 2017 amounted to NIS 2,118 million, as described below, compared to NIS 1,868 million in the corresponding period last year, an increase of 13.4%.

Net interest revenues and non-interest financing revenues in the second quarter of 2017 amounted to NIS 1,194 million, as described on these financial statements, compared to NIS 1,083 million in the corresponding period last year, an increase of 10.2%.

Net interest revenues and non-interest financing revenues in the first half of 2017 amounted to NIS 2,220 million, as described on these financial statements, compared to NIS 1,910 million in the corresponding period last year, an increase of 16.2%.

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

	2017		2016				Change in %
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Second quarter of 2017 to second quarter of 2016
Interest revenues, net	1,173	1,027	948	1,056	1,014	760	
Non-interest financing revenues (expenses)[1]	21	(1)	119	40	69	67	
Total financing revenues	1,194	1,026	1,067	1,096	1,083	827	10.2
Less:							
Effect of CPI	105	(21)	(29)	43	57	(119)	
Revenues from collection of interest on problematic debts	9	13	7	13	10	10	
Gain from realized debentures and from debentures held for trade, net	18	7	1	17	23	31	
Effect of accounting treatment of derivatives at fair value and others[2]	(9)	(20)	70	33	47	(17)	
Total effects other than current operations	123	(21)	49	106	137	(95)	
Total financing revenues from current operations	1,071	1,047	1,018	990	946	922	13.2

			First half of
	2017	2016	Change in %
Total financing revenues	2,220	1,910	16.2
Less: Total effects other from than current operations	102	42	
Total financing revenues from current operations	2,118	1,868	13.4

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

(2) The effect of the accounting treatment of derivatives at fair value is due to the difference between the accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.
Other effects include:
- Following the decrease in early mortgage repayment, in the second quarter and in the first half of 2017, revenues decreased by NIS 23 million and NIS 49 million, respectively, compared to the corresponding period last year.
- Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

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

				Second Quarter
Operating segment	2017	2016	Change amount	Change rate (In %)
Individuals:				
Households – housing loans	318	270	48	17.8
Households – other	300	262	38	14.5
Private banking	15	14	1	7.1
Total – individuals	633	546	87	15.9
Business operations:				
Small and micro businesses	215	191	24	12.6
Medium businesses	54	47	7	14.9
Large businesses	119	119	–	–
Institutional investors	30	25	5	20.0
Total – business operations	418	382	36	9.4
Financial management	104	114	(10)	(8.8)
Total activity in Israel	1,155	1,042	113	10.8
Overseas operations	39	41	(2)	(4.9)
Total	1,194	1,083	111	10.2

				First half of
Operating segment	2017	2016	Change amount	Change rate (In %)
Individuals:				
Households – housing loans	623	527	96	18.2
Households – other	594	518	76	14.7
Private banking	29	25	4	16.0
Total – individuals	1,246	1,070	176	16.4
Business operations:				
Small and micro businesses	420	380	40	10.5
Medium businesses	102	90	12	13.3
Large businesses	231	227	4	1.8
Institutional investors	54	49	5	10.2
Total – business operations	807	746	61	8.2
Financial management	88	15	73	–
Total activity in Israel	2,141	1,831	310	16.9
Overseas operations	79	79	–	–
Total	2,220	1,910	310	16.2

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

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

	Second Quarter			First half of		
Linkage segment	2017	2016	Change in %	2017	2016	Change in %
Israeli currency – non-linked	154,436	135,787	13.7	152,070	132,643	14.6
Israeli currency – linked to the CPI	50,826	50,952	(0.2)	50,419	51,490	(2.1)
Foreign currency (including Israeli currency linked to foreign currency)	12,574	12,215	2.9	12,272	12,334	(0.5)
Total	217,836	198,954	9.5	214,761	196,467	9.3

Change in average balances of interest-bearing assets in the various segments is primarily due to growth in loans to the public, primarily in the NIS-denominated segment. Growth in average balances in foreign currency due to higher liquidity was offset by the lower USD/NIS exchange rate.

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:

	Second Quarter		First half of	
Linkage segments	2017	2016	2017	2016
Israeli currency – non-linked	1.93	2.01	1.97	2.02
Israeli currency – linked to the CPI	1.08	0.64	0.89	0.42
Foreign currency	1.38	1.22	1.59	1.23
Total	1.69	1.67	1.68	1.54

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

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

In the NIS-denominated segment, the interest spread in the reported period is 1.93, after a decrease in early repayment commissions offset the increase in interest spread for current operations. The increase in interest spread in CPI-linked NIS is due to continued improvement in interest spreads and to lower average cost of CPI-linked sources.

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

Expenses with respect to credit losses for the Group amounted to NIS 42 million in the second quarter of 2017, or an annualized rate of 0.09% of total loans to the public, net, compared with NIS 57 million in the corresponding period last year – an annualized rate of 0.14% of total loans to the public, net in the corresponding period last year – a decrease of NIS 15 million in total.

Expenses with respect to credit losses for the Group in the first half of 2017 amounted to NIS 91 million. An annualized rate of 0.10% of total loans to the public, net, compared with NIS 60 million, or an annualized rate of 0.07% of total loans to the public, net in the corresponding period last year – for an increase of NIS 31 million in total.

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

	Second Quarter		First half of	
	2017	2016	2017	2016
Provision for credit losses on individual basis (including accounting write-offs)	(1)	38	40	90
Provision for credit losses on Group basis:				
By extent of arrears	4	1	(1)	(16)
Other	39	18	52	(14)
Total expenses with respect to credit losses	42	57	91	60
Expense with respect to credit losses as percentage of total loans to the public, net (annualized)	0.09%	0.14%	0.10%	0.07%
Of which: With respect to commercial loans other than housing loans	0.20%	0.34%	0.27%	0.22%
Of which: With respect to housing loans	0.04%	0.04%	0.02%	0.00%

The provision for credit losses on individual basis in the second quarter of 2017 was impacted by significant collection from previously written-off clients.
The provision for credit losses by extent of arrears in the first half of 2016 was affected by significant arrears collection from clients.
Changes in the other group-based provision are explained by the difference in the range of years for the past loss rate used to calculate the provision in these periods, in conformity with directives of the Supervisor of Banks. In 2017, the historic range consists of 7 years. The other group-based provision was also impacted by significant growth in commercial and individual loans, other than housing loans, in the previous quarter (NIS 1.7 billion).

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

	Second Quarter		First half of	
Operating segment	2017	2016	2017	2016
Individuals:				
Households – housing loans	12	10	12	1
Households – other(1)	36	24	60	36
Private banking	1	–	1	–
Total – individuals	49	34	73	37
Business operations:				
Small and micro businesses(1)	38	39	70	63
Medium businesses	(11)	–	(14)	(2)
Large businesses	(32)	(9)	(30)	(37)
Institutional investors	(4)	(3)	(10)	3
Total – business operations	(9)	27	16	27
Financial management	1	–	–	(1)
Total activity in Israel	41	61	89	63
Overseas operations	1	(4)	2	(3)
Total	42	57	91	60

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

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

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

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

Non-interest revenues amounted to NIS 386 million in the second quarter of 2017, compared with NIS 432 million in the corresponding period last year – a decrease of NIS 46 million.

Non-interest revenues for the Group in the first half of 2017 amounted to NIS 754 million, compared to NIS 953 million in the corresponding period last year, a decrease of NIS 199 million. See explanation below**.**

Non-interest financing expenses in the first quarter of 2017 amounted to NIS 21 million, compared to NIS 69 million in the corresponding period last year.

Non-interest financing revenues in the fourth half of 2017 amounted to NIS 20 million, compared to NIS 136 million in the corresponding period last year.

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

Commission revenues in the second quarter of 2017, amounted to NIS 353 million compared with NIS 352 million in the corresponding period last year – an increase of NIS 1 million.

Commission revenues in the first half of 2017, amounted to NIS 710 million compared with NIS 717 million in the corresponding period last year – a decrease of NIS 7 million.

Current growth in most commission items was offset by a decrease in revenues from Sales Act guarantee commissions, due to sale of the risk by insurance policies obtained for such guarantees.

Other revenues in the second quarter of 2017, amounted to NIS 12 million compared with NIS 11 million in the corresponding period last year – an increase of NIS 1 million.

Other revenues in the first half of 2017, amounted to NIS 24 million compared with NIS 100 million in the corresponding period last year – a decrease of NIS 76 million. For the first half of 2017, this includes capital gains amounting to NIS 1 million before tax, from realization of assets in conjunction with asset reorganization and improvements to the Bank's branch network, compared to NIS 78 million in the corresponding period last year.

Operating and other expenses amounted to NIS 877 million in the second quarter of 2017, compared with NIS 836 million in the corresponding period last year – an increase by 4.9%.

Operating and other expenses amounted to NIS 1,700 million in the first half of 2017, compared with NIS 1,615 million in the corresponding period last year – a year-over-year increase of 5.3% – see explanation below.

Payroll and associated expenses amounted to NIS 568 million in the second quarter of 2017, compared with NIS 520 million in the corresponding period last year – an increase of 9.2%. This increase is due to higher expenses for paid leave, an increase in the provision with respect to employee remuneration and the effect of charging expenses with respect to a streamlining plan in 2017.

Payroll and associated expenses amounted to NIS 1,066 million in the first half of 2017, compared with NIS 997 million in the corresponding period last year – an increase by 6.9%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 181 million in the second quarter of 2017, compared with NIS 171 million in the corresponding period last year – an increase of 5.8%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 367 million in the first half of 2017, compared with NIS 345 million in the corresponding period last year – an increase by 6.4%.

Maintenance and depreciation expenses for buildings and equipment were affected by deployment of the new core banking system at Bank Yahav as from January 1, 2017, some of which expenses are non-recurring. Excluding the effect of higher expenses at Bank Yahav, the increase in the second quarter and in the first half of 2017 was only 1.0% and 1.4%, respectively.

Other expenses in the second quarter of 2017, amounted to NIS 128 million compared with NIS 145 million in the corresponding period last year – a decrease of NIS 17 million, primarily due to lower legal and consulting expenses compared to the corresponding period last year.

Other expenses in the first half of 2017, amounted to NIS 267 million compared with NIS 273 million in the corresponding period last year – a decrease of NIS 6 million.

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

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

	First half of		Annual
	2017	2016	2016
Cost-income ratio	57.5	59.2	58.5

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

Pre-tax profit for the Group in the second quarter of 2017 amounted to NIS 640 million, compared to NIS 553 million in the corresponding period last year – an increase of 15.7%.

Pre-tax profit for the Group amounted to NIS 1,163 million in the first half of 2017, compared with NIS 1,052 million in the corresponding period last year – an increase of 10.6%. See detailed explanation above.

The provision for taxes in the second quarter of 2017 amounted to NIS 231 million, compared to NIS 200 million in the corresponding period last year – an increase of 15.5%. The rate of provision for taxes on pre-tax profit in the second quarter of 2017 was 36.1% – compared to 36.2% in the corresponding period last year.

The provision for taxes amounted to NIS 423 million in the first half of 2017, compared with NIS 403 million in the corresponding period last year – an increase of 5.0%. The rate of provision for taxes on pre-tax profit in the first half of 2017 was 36.4% – compared to 38.3% in the corresponding period last year.

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

In the second quarter and in the first half of 2017, the provision for taxes includes the effect of application of US GAAP with regard to taxes on income. In conformity with the rules, the Bank recognizes deferred tax liabilities with respect to undistributed earnings of investees. See Note 1 to the financial statements for details.

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

In the first half of 2017 there were no profits with respect to associates, similar to the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the second quarter of 2017 amounted to NIS 10 million, compared to NIS 13 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 half of 2017 amounted to NIS 19 million, compared to NIS 21 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the second quarter of 2017 amounted to NIS 400 million, compared to NIS 340 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the first half of 2017 amounted to NIS 721 million, compared to NIS 628 million in the corresponding period last year.

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

In the second quarter and in the first half of 2017, other comprehensive income attributable to shareholders of the Bank decreased by NIS 28 million and NIS 8 million, respectively, compared to the corresponding period last year. The change in Other Comprehensive Income attributable to shareholders of the Bank compared to the corresponding period last year is primarily due to adjustments with respect to employee benefits and presentation of securities available for sale at fair value. See Note 4 to the financial statements for details.

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

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

	First half of		All of
	2017	2016	2016
Net return on equity	11.4	10.6	10.2

(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 capital as from January 1, 2015, see Note 9D to the financial statements.
(4) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations during the reported quarter.
(5) Leverage Ratio – ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218

Earnings and dividends per share

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

	Second Quarter		First half of		All of
	2017	2016	2017	2016	2016
Basic earnings per share	1.72	1.47	3.10	2.71	5.46
Diluted earnings per share	1.71	1.47	3.08	2.71	5.46
Dividends per share (in Agorot)	41.45	18.62	58.60	34.15	80.26

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

Assets and liabilities

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

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2017	2016	2016	2016	2016
Balance sheet total	235,056	217,758	230,455	7.9	2.0
Cash and deposits with banks	39,146	36,842	41,725	6.3	(6.2)
Loans to the public, net	177,133	165,515	171,341	7.0	3.4
Securities	10,560	8,419	10,262	25.4	2.9
Buildings and equipment	1,391	1,545	1,585	(10.0)	(12.2)
Deposits from the public	180,680	169,621	178,252	6.5	1.4
Deposits from banks	1,454	1,183	1,537	22.9	(5.4)
Debentures and subordinated notes	27,851	24,337	27,034	14.4	3.0
Shareholder equity	13,276	12,384	12,714	7.2	4.4

Cash and deposits with banks – the balance of cash and deposits with banks decreased in the first half of 2017 by NIS 2.6 billion. The decrease in cash balance is part of on-going management of Bank liquidity.

Loans to the public, net – loans to the public, net on the consolidated balance sheet as of June 30, 2017 accounted for 75% of total assets, compared to 74% at the end of 2016. Loans to the public, net for the Group increased in the first half of 2017 by NIS 5.8 billion, an increase of 3.4%.

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

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

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2017	2016	2016	2016	2016
Israeli currency					
Non-linked	117,137	104,449	111,144	12.1	5.4
CPI-linked	49,978	49,741	49,369	0.5	1.2
Foreign currency and foreign currency linked	10,018	11,325	10,828	(11.5)	(7.5)
Total	177,133	165,515	171,341	7.0	3.4

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

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2017	2016	2016	2016	2016
Individuals:					
Households – housing loans	117,585	110,007	114,076	6.9	3.1
Households – other	19,797	17,533	18,943	12.9	4.5
Private banking	88	86	81	2.3	8.6
Total – individuals	137,470	127,626	133,100	7.7	3.3
Business operations:					
Small and micro businesses	16,169	14,551	15,121	11.1	6.9
Medium businesses	5,615	4,720	4,786	19.0	17.3
Large businesses	13,129	13,906	13,577	(5.6)	(3.3)
Institutional investors	1,585	1,444	1,534	9.8	3.3
Total – business operations	36,498	34,621	35,018	5.4	4.2
Overseas operations	3,165	3,268	3,223	(3.2)	(1.8)
Total	177,133	165,515	171,341	7.0	3.4

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

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

Reported amounts	As of June 30, 2017			As of June 30, 2016			As of December 31, 2016		
(NIS in millions)	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Problematic credit risk									
Impaired credit risk	576	183	759	885	160	1,045	681	212	893
Inferior credit risk	429	–	429	109	–	109	428	–	428
Credit risk under special supervision(2)	1,613	34	1,647	1,127	225	1,352	1,381	229	1,610
Total problematic credit risk	2,618	217	2,835	2,121	385	2,506	2,490	441	2,931
Of which: Non-impaired debts in arrears 90 days or longer(2)	1,010			962			958		
2. Non-performing assets(3)	546			851			653		

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

(2) Including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer, amounting to NIS 937 million (as of June 30, 2016 – NIS 871 million; as of December 31, 2016 – NIS 853 million).

(3) Assets not accruing interest.

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

Credit risk for loans to the public is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivatives purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities. Total credit risk for the Bank Group as of June 30, 2017 amounted to NIS 232 billion, compared to NIS 227 billion as of December 31, 2016 – an increase of 2.1%.

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

				Change in % ove	
	June 30,		December 31,	June 30,	December 31,
	2017	2016	2016	2016	2016
Off balance sheet financial instruments other than derivatives[(1)]:					
Unutilized debitory account and other credit facilities in accounts on demand[(1)]	15,825	16,671	16,688	(5.1)	(5.2)
Guarantees to home buyers	11,471	12,406	12,461	(7.5)	(7.9)
Irrevocable commitments for loans approved but not yet granted	11,416	12,805	10,651	(10.8)	7.2
Unutilized revolving credit card facilities	6,413	8,193	7,559	(21.7)	(15.2)
Commitments to issue guarantees	6,723	5,611	5,797	19.8	16.0
Guarantees and other liabilities	5,373	4,869	4,869	10.4	10.4
Loan guarantees	2,225	2,462	2,606	(9.6)	(14.6)
Documentary credit	263	566	384	(53.5)	(31.5)
Financial derivatives[(2)]:					
Total par value of financial derivatives	211,417	238,451	233,901	(11.3)	(9.6)
(On-balance sheet) assets with respect to derivatives	4,384	3,460	3,581	26.7	22.4
(On-balance sheet) liabilities with respect to derivatives	4,093	3,787	3,568	8.1	14.7

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

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

Securities – the balance of investment in securities increased in the first half of 2017 by NIS 0.3 billion, and increased by NIS 2.1 billion compared to the corresponding period last year. The increase in total investment in securities is within asset and liability management of the Bank.

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

					June 30, 2017
	Carrying amount	Amortized cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value(1)
Securities held to maturity	3,245	3,245	77	–	3,322
Securities available for sale	7,166	7,167	(2)35	(2)(36)	7,166
Securities held for trade	149	149	–	–	149
Total securities	10,560	10,561	112	(36)	10,637
					June 30, 2016
Securities held to maturity	3,215	3,215	100	–	3,315
Securities available for sale	4,984	4,972	(2)37	(2)(25)	4,984
Securities held for trade	220	218	(3)2	–	220
Total securities	8,419	8,405	139	(25)	8,519
					December 31, 2016
Securities held to maturity	3,236	3,236	75	–	3,311
Securities available for sale	6,678	6,724	(2)30	(2)(76)	6,678
Securities held for trade	348	347	(3)1	–	348
Total securities	10,262	10,307	106	(76)	10,337

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

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

				Change in % ove	
	June 30,		December 31,	June 30,	December 31,
	2017	2016	2016	2016	2016
Israeli currency					
Non-linked	5,076	4,665	6,006	8.8	(15.5)
CPI-linked	679	180	146	–	–
Foreign currency and foreign currency linked	4,709	3,473	4,010	35.6	17.4
Non-monetary items	96	101	100	(5.0)	(4.0)
Total	10,560	8,419	10,262	(25.4)	2.9

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

	Carrying amount as of		
	June 30, 2017	June 30, 2016	December 31, 2016
Government debentures:			
Government of Israel	8,825	7,988	8,586
Government of USA	1,552	176	1,479
South Korea Government	52	38	59
Total government debentures	10,429	8,202	10,124
Debentures of banks in developed nations:			
UK	–	78	–
USA	18	–	19
Other	–	19	–
Total debentures of banks in developed nations	18	97	19
Corporate debentures (composition by economic sector):			
Public and community services	10	11	11
Financial services	7	8	8
Total corporate debentures	17	19	19
Shares	96	101	100
Total securities	10,560	8,419	10,262

For more information about investments in securities and impairment of a temporary nature of securities available for sale, listing the duration of impairment and its 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 half of 2017 by NIS 194 million. The decrease is due to sale of interest in the headquarters building in Ramat Gan. For more information see chapter "Significant Events in the Bank Group's Business" above and Note 9 to the financial statements.

Deposits from the public – these account for 77% of total consolidated balance sheet as of June 30, 2017, similar to their weight at the end of 2016. In the first half of 2017, deposits from the public with the Bank Group increased by NIS 2.4 billion, or 1.4% (increase by 6.5% over the end of the corresponding period last year).

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

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2017	2016	2016	2016	2016
Israeli currency					
Non-linked	128,904	116,532	122,611	10.6	5.1
CPI-linked	17,312	17,424	17,039	(0.6)	1.6
Foreign currency and foreign currency linked	34,464[(1)]	35,665	38,602	(3.4)	(10.7)
Total	180,680	169,621	178,252	6.5	1.4

(1) The balance was impacted by devaluation of the USD by 9.1% in the first half of 2017.

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

				Change in % ove	
		June 30,	December 31,	June 30,	December 31,
	2017	2016	2016	2016	2016
Individuals:					
Households – other	73,263	69,456	71,334	5.5	2.7
Private banking	11,804	10,864	11,167	8.7	5.7
Total – individuals	85,067	80,320	82,501	5.9	3.1
Business operations:					
Small and micro businesses	18,394	14,742	15,738	24.8	16.9
Medium businesses	7,465	6,254	7,378	19.4	1.2
Large businesses	24,390	28,817	32,101	(15.4)	(24.0)
Institutional investors	40,309	34,814	35,285	15.8	14.2
Total – business operations	90,558	84,627	90,502	7.0	0.1
Overseas operations	5,055	4,674	5,249	8.2	(3.7)
Total	180,680	169,621	178,252	6.5	1.4

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

	June 30,		December 31,
	2017	2016[(1)]	2016
Maximum deposit			
Up to 1	60,695	57,842	59,606
Over 1 to 10	40,629	36,890	38,805
Over 10 to 100	26,528	23,599	25,042
Over 100 to 500	25,716	22,653	24,120
Above 500	27,112	28,637	30,679
Total	180,680	169,621	178,252

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

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

Deposits from banks – deposits from banks as of June 30, 2017 amounted to NIS 1.5 billion, similar to the end of 2016.

Debentures and subordinated notes - the balance of debentures and subordinated notes as of June 30, 2017 amounted to NIS 27.9 billion, compared to NIS 27.0 billion as of December 31, 2016, an increase by 3.0%. 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 June 30, 2017 amounted to NIS 13.3 billion, compared to NIS 12.7 billion as of December 31, 2016 and NIS 12.4 billion as of June 30, 2016, an increase by 4.4% and 7.2%, respectively.

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

	June 30,		December 31,
	2017	2016	2016
Share capital and premium(1)	2,249	2,224	2,239
Capital reserve from benefit from share-based payment transactions	48	68	58
Treasury shares	(76)	(76)	(76)
Total cumulative other loss(2)(3)	(339)	(111)	(317)
Retained earnings(4)	11,394	10,279	10,810
Total	13,276	12,384	12,714

(1) For more information about share issuance, see condensed statement of changes to shareholders' equity.
(2) For more information about other comprehensive income (loss), see Note 4 to the financial statements.
(3) Other comprehensive income (loss) as of June 30, 2017 and as of December 31, 2016 includes adjustments with respect to employee benefits. For more information about the effect of the streamlining plan approved by the Bank Board of Directors on December 27, 2016, see Notes 22 and 25 to the 2016 financial statements.
(4) For more information about developments in revenues and expenses accumulated to retained earnings in the reported period, see chapter "Material developments in revenues, expenses and other comprehensive income".

The ratio of shareholders' equity to total assets for the Group as of June 30, 2017 was 5.65%, compared to 5.52% as of December 31, 2016 and 5.69% as of June 30, 2016.

Capital adequacy

Supervisory capital

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

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

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

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

Tier II capital consists of the group-based provision for credit losses and CoCo (Contingent Convertible) capital instruments, which include a provision for absorbing loss of principal when the Tier I Capital ratio drops below the specified quantitative trigger level,

or upon receiving notice from the Supervisor of Banks, whereby activating the provision for absorbing loss of principal is required to ensure stability of the banking corporation (a Bank "non existence" event).

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

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

	June 30, 2017	June 30, 2016	December 31, 2016
Capital for purpose of calculating minimum capital ratio			
Tier I shareholders' equity	13,920	12,792	13,318
Tier I capital	13,920	12,792	13,318
Tier II capital	4,488	4,619	4,888
Total capital	18,408	17,411	18,206
Weighted risk asset balances			
Credit risk	127,530	122,596	122,605
Market risks	1,411	1,191	1,184
Operating risk	8,210	7,851	8,113
Total weighted risk asset balances	137,151	131,638	131,902

Ratio of capital to risk elements

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

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

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

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

	June 30, 2017	June 30, 2016	December 31, 2016
Ratio of Tier I capital to risk elements	10.15	9.72	10.10
Ratio of total capital to risk elements	13.42	13.23	13.80
Minimum Tier I capital ratio required by Supervisor of Banks	9.87	9.52	9.76
Total minimum capital ratio required by the directives of the Supervisor of Banks	13.37	13.02	13.26

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

	As of June 30, 2017		As of June 30, 2016		As of December 31, 2016	
Exposure group	Weighted risk asset balances	Capital requirement[1]	Weighted risk asset balances	Capital requirement[2]	Weighted risk asset balances	Capital requirement[3]
Sovereign debts	637	85	610	79	549	73
Public sector entity debts	864	116	482	63	640	85
Banking corporation debts	783	105	724	94	770	101
Corporate debts	36,943	4,939	38,673	5,035	35,119	4,657
Debts secured by commercial real estate	2,113	283	2,210	288	2,312	307
Retail exposure to individuals	13,489	1,803	12,453	1,621	13,180	1,748
Loans to small businesses	6,683	893	6,145	800	6,307	836
Residential mortgages	60,560	8,097	56,311	7,332	58,597	7,770
Other assets	4,769	638	4,405	574	4,495	596
Total	126,841	16,959	122,013	15,886	121,969	16,173

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

	As of June 30, 2017		As of June 30, 2016		As of December 31, 2016	
	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(2)	Weighted risk asset balances	Capital requirement(3)
Market risk	1,411	189	1,191	155	1,184	157
CVA risk with respect to derivatives(4)	689	92	583	76	636	84
Operating Risk(5)	8,210	1,097	7,851	1,022	8,113	1,076
Total	10,310	1,378	9,625	1,253	9,933	1,317
Total risk assets	137,151	18,337	131,638	17,139	131,902	17,490

(1) The capital requirement was calculated at 13.37% of risk asset balances.
(2) The capital requirement was calculated at 13.02% of risk asset balances.
(3) The capital requirement was calculated at 13.26% of risk asset balances.
(4) Credit Value Adjustments – mark to market with respect to counter-party credit risk, in conformity with Basel III provisions.
(5) Capital allocation with respect to operating risk was calculated using the standard approach.

Leverage ratio

On April 28, 2015, the Supervisor of Banks issued a new Proper Banking Conduct Directive 218 concerning "Leverage ratio". This directive adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.
The leverage ratio is reflected in percent, defined as the ratio of Tier I capital to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items.
According to the directive, banking corporations shall maintain a leverage ratio of 5% or higher on a consolidated basis, as from January 1, 2018. Banking corporations which comply with the requirement upon publication of the directive may not drop below the threshold stated in the regulation. Any banking corporation which does not meet the requirements of this directive is required to increase its leverage ratio at fixed quarterly steps by January 1, 2018.
Below is the Bank's leverage ratio (in %):

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

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

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

Dividends

Dividend distribution policies

On November 21, 2016, the Bank’s Board of Directors approved a new five-year strategic plan for 2017-2021 and resolved to approve a revised dividends policy as from 2017.
The Bank's dividends policy is to distribute dividends with respect to quarterly earnings, at 30% of net profit attributable to equity holders of the Bank.
The Bank has received approval from the Supervisor of Banks for the aforementioned outline of its dividends policies.
The Bank’s Board of Directors would monitor execution of the new strategic plan in order to consider optional increase of the aforementioned dividends rate by a further step as from 2018. This would be subject to approval by the Supervisor of Banks.
The dividends policy is subject to the Bank achieving a ratio of Tier I capital to risk elements as required by the Supervisor of Banks and maintaining appropriate safety margins.

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

- On April 28, 2006, the Board decided on annual dividend distribution at 40% of net operating profit and 80% of net profit from extraordinary items.
- On July 23, 2012, the Board decided that during the five-year plan for 2013-2017, the Bank would retain its dividend distribution policies.

- On August 14, 2013, a guideline was stipulated whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.
- On December 23, 2014, the Bank Board of Directors resolved to approve the dividend distribution policy for 2015-2016.
- The dividends policy calls for dividends to be distributed with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015), at a rate of up to 15% of net profit attributable to shareholders.
- On this date and prior to the resolution effective as from November 21, 2016, as noted above, it was resolved that in 2017 the dividends policy would continue to be annual distribution of 40% of net operating profit and 80% from extraordinary items.

Dividend distribution

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

Declaration date	Payment date	Dividends per share	Total dividends paid
		(Agorot)	(NIS in millions)
May 18, 2015	June 14, 2015	15.84	36.6
August 16, 2015	September 17, 2015	21.35	49.5
Total dividends distributed in 2015			86.1
February 24, 2016	March 21, 2016	15.52	36.0
May 18, 2016	June 21, 2016	18.62	43.2
August 10, 2016	September 11, 2016	21.99	51.0
November 14, 2016	December 12, 2016	24.12	56.0
Total dividends distributed in 2016			186.2
March 20, 2017	April 26, 2017	17.12	39.8
May 15, 2017	June 20, 2017	41.45	96.3

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

On August 28, 2017, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 120 million, or 30% of earnings in the second quarter of 2017, in conformity with the aforementioned revised dividend policy.

The dividends amount is 516.3% of issued share capital, i.e. NIS 0.5163 per NIS 0.1 par value share. The effective date for dividends payment is September 10, 2017 and the payment date is September 26, 2017. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

Other Off Balance Sheet Activity

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

				Change in % ove	
	June 30,		December 31,	June 30,	December 31,
	2017	2016	2016	2016	2016
Securities(1)	223,871	211,431	217,310	5.9	3.0
Assets of provident funds for which the Group provides operating services	76,240	74,564	75,515	2.2	1.0
Assets held in trust by the Bank Group	75,614	67,869	71,564	11.4	5.7
Assets of mutual funds for which the Bank provides operating services	16,343	14,045	13,896	16.4	17.6
Other assets under management(2)	11,285	10,644	11,055	6.0	2.1

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

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

Financial Information by Operating Segments

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

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

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

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

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

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

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

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

Large businesses – businesses with turnover higher than NIS 250 million

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

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

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

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

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

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

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

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

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

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

For more information and detailed description of the segments, see chapter "Other Information about the Bank and Management thereof" on the 2016 financial statements.

Financial Information by Supervisory Operating Segments:

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

	Net profit		Share of total net profit (in %)	
	First half of		First half of	
	2017	2016	2017	2016
Individuals:				
Households – housing loans	270	230	37.5	36.5
Households – other	8	11	1.1	1.7
Private banking	5	6	0.7	1.0
Total – individuals	283	247	39.3	39.1
Business operations:				
Small and micro businesses	128	120	17.8	19.0
Medium businesses	65	48	9.0	7.6
Large businesses	164	173	22.8	27.4
Institutional investors	15	7	2.1	1.1
Total – business operations	372	348	51.6	55.2
Financial management	27	(3)	3.7	–
Total activity in Israel	682	592	94.6	94.3
Overseas operations	39	36	5.4	5.7
Total	721	628	100.0	100.0

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

Household segment

Supervisory definition

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

Differences between the management approach and the supervisory definition

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

Operating results in the household segment

						For the six months ended June 30
	2017			2016		
						NIS in millions
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	594	623	1,217	518	527	1,045
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	264	76	340	262	74	336
Total revenues	858	699	1,557	780	601	1,381
Expenses with respect to credit losses	60	12	72	36	1	37
Operating and other expenses	755	263	1,018	692	227	919
Profit before provision for taxes	43	424	467	52	373	425
Provision for taxes	16	154	170	20	143	163
After-tax profit	27	270	297	32	230	262
Net profit:						
Attributable to non-controlling interests	(19)	–	(19)	(21)	–	(21)
Attributable to shareholders of the banking corporation	8	270	278	11	230	241
Balance sheet – key items:						
Loans to the public (end balance)	20,027	118,212	138,239	17,681	110,626	128,307
Loans to the public, net (end balance)	19,797	117,585	137,382	17,533	110,007	127,540
Deposits from the public (end balance)	73,263	–	73,263	69,456	–	69,456
Average balance of loans to the public	19,174	116,594	135,768	17,346	108,233	125,579
Average balance of deposits from the public	72,448	–	72,448	67,842	–	67,842
Average balance of risk assets	17,016	64,162	81,178	15,443	59,655	75,098
Credit margins and deposit margins:						
Margin from credit granting operations	402	601	1,003	365	512	877
Margin from activities of receiving deposits	190	–	190	153	–	153
Other	2	22	24	–	15	15
Total interest revenues, net	594	623	1,217	518	527	1,045

Contribution of the household segment (in conformity with the supervisory definitions) to Group profit in the first half of 2017 amounted to NIS 278 million, compared to NIS 241 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 half of 2017 amounted to NIS 270 million, compared to NIS 230 million in the corresponding period last year. Interest revenues, net amounted to NIS 623 million, compared to NIS 527 million in the corresponding period last year – an increase of 18.2%, attributed to increase in lending and in lending margin.
In the current period, expenses with respect to credit losses amounted to expenses of NIS 12 million, compared to a provision of NIS 1 million in the corresponding period last year. The provision for credit losses by extent of arrears in the first half of 2016 was affected by significant arrears collection from clients.
Commissions and other revenues increased by NIS 2 million.
Operating expenses amounted to NIS 263 million, compared to NIS 227 million in the corresponding period last year – an increase by 15.9%, lower than the 16.3% increase in total revenues.
Contribution of households – other operations (other than housing loans) in the first half of 2017 amounted to NIS 8 million, compared to NIS 11 million in the corresponding period last year – a decrease by NIS 3 million, primarily due to higher group-based provision for individuals. Interest revenues, net increased by NIS 76 million. The increase is due to increase in lending margins and to increase in margin from deposit operations, due to higher volumes of both lending and deposits. Commissions and other revenues increased by NIS 2 million.
Expenses with respect to credit losses increased by NIS 24 million. Given the risk attributes of this segment, the Bank increases its qualitative group-based provision for individuals, as directed by the Supervisor of Banks.
Moreover, the increase in expenses with respect to credit losses is due, *inter alia*, to the impact of legislation which reduces debt repayment by individual clients who are in difficulties. For more information about credit risk to individuals, see chapter "Risks" below for detailed analysis of risk evolution.
Operating expenses amounted to NIS 755 million, compared to NIS 692 million in the corresponding period last year, an increase of 9.1%, primarily due to deployment of a new core banking system at Bank Yahav as from January 1, 2017; these expenses are non-recurring in part. Payroll and associated expenses also increased. See also chapter "Explanation and analysis of results and business standing".
For more details and extensive information about results of this segment and operating results in conformity with management ‘s approach - see Note 12 to the financial statements.

Operating results in the household segment

	For the three months ended June 30					
	2017			2016		
						NIS in millions
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	300	318	618	262	270	532
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	130	39	169	130	37	167
Total revenues	430	357	787	392	307	699
Expenses with respect to credit losses	36	12	48	24	10	34
Operating and other expenses	378	134	512	355	113	468
Profit before provision for taxes	16	211	227	13	184	197
Provision for taxes	6	76	82	4	67	71
After-tax profit	10	135	145	9	117	126
Net profit:						
Attributable to non-controlling interests	(10)	–	(10)	(13)	–	(13)
Attributable to shareholders of the banking corporation	–	135	135	(4)	117	113
Balance sheet – key items:						
Loans to the public (end balance)	20,027	118,212	138,239	17,681	110,626	128,307
Loans to the public, net (end balance)	19,797	117,585	137,382	17,533	110,007	127,540
Deposits from the public (end balance)	73,263	–	73,263	69,456	–	69,456
Average balance of loans to the public	19,594	117,523	137,117	17,484	109,497	126,981
Average balance of deposits from the public	72,972	–	72,972	68,488	–	68,488
Average balance of risk assets	17,078	64,619	81,697	15,618	60,101	75,719
Credit margins and deposit margins:	–	–	–	–	–	–
Margin from credit granting operations	203	304	507	190	260	450
Margin from activities of receiving deposits	97	–	97	72	–	72
Other	–	14	14	–	10	10
Total interest revenues, net	300	318	618	262	270	532

Private Banking Segment

Supervisory definition

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

Differences between the management approach and the supervisory definition

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

Operating results of private banking segment

	For the six months ended June 30,		For the three months ended June 30,	
	2017	2016	2017	2016
				NIS in millions
Profit and profitability				
Total interest revenues, net	29	25	15	14
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	5	7	3	3
Total revenues	34	32	18	17
Expenses with respect to credit losses	1	–	1	–
Operating and other expenses	25	23	13	12
Profit before provision for taxes	8	9	4	5
Provision for taxes	3	3	1	2
Net profit	5	6	3	3
Balance sheet – key items:				
Loans to the public (end balance)	91	87	91	87
Loans to the public, net (end balance)	88	86	88	86
Deposits from the public (end balance)	11,804	10,864	11,804	10,864
Average balance of loans to the public	71	69	70	72
Average balance of deposits from the public	11,152	10,485	11,232	10,617
Average balance of risk assets	30	26	32	23
Credit margins and deposit margins:				
Margin from credit granting operations	–	1	–	1
Margin from activities of receiving deposits	29	24	15	13
Other	–	–	–	–
Total interest revenues, net	29	25	15	14

Contribution of the private banking segment (in conformity with supervisory definitions) to Group profit in the first half of 2017 amounted to NIS 5 million, compared to NIS 6 million in the corresponding period last year.

Total interest revenues, net increased by NIS 4 million, due to increase in deposits from the public. Commissions and other revenues decreased by NIS 2 million.

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

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

Micro and Small Business Segment

Supervisory definition

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

Differences between the management approach and the supervisory definition

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

Operating results of micro and small business segment

	For the six months ended June 30,		For the three months ended June 30,	
	2017	2016	2017	2016
				NIS in millions
Profit and profitability				
Total interest revenues, net	420	380	215	191
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	159	156	79	79
Total revenues	579	536	294	270
Expenses with respect to credit losses	70	63	38	39
Operating and other expenses	308	278	158	145
Profit before provision for taxes	201	195	98	86
Provision for taxes	73	75	35	31
Net profit	128	120	63	55
Balance sheet – key items:				
Loans to the public (end balance)	16,456	14,811	16,456	14,811
Loans to the public, net (end balance)	16,169	14,551	16,169	14,551
Deposits from the public (end balance)	18,394	14,742	18,394	14,742
Average balance of loans to the public	15,625	14,586	15,894	14,703
Average balance of deposits from the public	17,814	14,149	18,606	14,496
Average balance of risk assets	14,486	12,930	14,747	13,314
Credit margins and deposit margins:				
Margin from credit granting operations	379	347	195	173
Margin from activities of receiving deposits	36	25	18	13
Other	5	8	2	5
Total interest revenues, net	420	380	215	191

Contribution of the micro and small business segment (in conformity with supervisory definitions) to Group profit in the first half of 2017 amounted to NIS 128 million, compared to NIS 120 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Interest revenues, net amounted to NIS 420 million, compared to NIS 380 million in the corresponding period last year – an increase of 10.5%, primarily due to increase in lending and deposit business.
Commissions and other revenues amounted to NIS 159 million, compared to NIS 156 million in the corresponding period last year – an increase by 1.9%.
Expenses with respect to credit losses amounted to NIS 70 million, compared to NIS 63 million in the corresponding period last year – an increase due to higher loans to the public.

Operating expenses amounted to NIS 308 million, compared to NIS 278 million in the corresponding period last year – an increase by NIS 30 million, in line with growth of business.
For more details and extensive information about results of this segment and operating results in conformity with management 's approach - see Note 12 to the financial statements.

Medium business segment

Supervisory definition

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

Differences between the management approach and the supervisory definition

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

Operating results of medium business segment

	For the six months ended June 30,		For the three months ended June 30,	
	2017	2016	2017	2016
				NIS in millions
Profit and profitability				
Total interest revenues, net	102	90	54	47
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	35	32	20	17
Total revenues	137	122	74	64
Reduced expenses with respect to credit losses	(14)	(2)	(11)	–
Operating and other expenses	49	46	26	26
Profit before provision for taxes	102	78	59	38
Provision for taxes	37	30	21	14
Net profit	65	48	38	24
Balance sheet – key items:				
Loans to the public (end balance)	5,694	4,797	5,694	4,797
Loans to the public, net (end balance)	5,615	4,720	5,615	4,720
Deposits from the public (end balance)	7,465	6,254	7,465	6,254
Average balance of loans to the public	5,152	4,826	5,384	4,862
Average balance of deposits from the public	6,909	6,075	6,750	6,149
Average balance of risk assets	6,147	6,221	6,261	6,288
Credit margins and deposit margins:				
Margin from credit granting operations	82	79	42	41
Margin from activities of receiving deposits	13	10	7	5
Other	7	1	5	1
Total interest revenues, net	102	90	54	47

Contribution of the medium business segment (in conformity with supervisory definitions) to Group profit in the first half of 2017 amounted to NIS 65 million, compared to NIS 48 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Interest revenues, net increased by NIS 12 million, primarily due to increase in credit and deposit volumes in this segment.
Commission and other revenues increased by NIS 3 million compared to the corresponding period last year. Expenses with respect to credit losses amounted to a decrease in provision of NIS 14 million, compared to a decrease in provision of NIS 2 million in the corresponding period last year.
The change in provision is due to the effect of collection from several individual clients previously written off.

Operating expenses amounted to NIS 49 million, compared to NIS 46 million in the corresponding period last year – an increase by NIS 3 million, in line with growth of business.
For more details and extensive information about results of this segment and operating results in conformity with management 's approach - see Note 12 to the financial statements.

Large business segment

Supervisory definition

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

Differences between the management approach and the supervisory definition

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

Operating results of large business segment

	For the six months ended June 30,		For the three months ended June 30,	
	2017	2016	2017	2016
				NIS in millions
Profit and profitability				
Total interest revenues, net	231	227	119	119
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	68	86	32	44
Total revenues	299	313	151	163
Reduced expenses with respect to credit losses	(30)	(37)	(32)	(9)
Operating and other expenses	72	69	37	34
Profit before provision for taxes	257	281	146	138
Provision for taxes	93	108	53	50
Net profit	164	173	93	88
Balance sheet – key items:				
Loans to the public (end balance)	13,303	14,142	13,303	14,142
Loans to the public, net (end balance)	13,129	13,906	13,129	13,906
Deposits from the public (end balance)	24,390	28,817	24,390	28,817
Average balance of loans to the public	14,458	14,330	14,184	14,532
Average balance of deposits from the public	28,588	28,067	28,237	28,799
Average balance of risk assets	20,976	24,298	21,058	23,646
Credit margins and deposit margins:				
Margin from credit granting operations	197	192	102	98
Margin from activities of receiving deposits	29	29	14	15
Other	5	6	3	6
Total interest revenues, net	231	227	119	119

Contribution of the large business segment (in conformity with supervisory definitions) to Group profit in the first half of 2017 amounted to NIS 164 million, compared to NIS 173 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Total interest revenues, net amounted to NIS 231 million, compared to NIS 227 million in the corresponding period last year, due to the higher lending spread.

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

Expenses with respect to credit losses were impacted by significant collection from clients previously written off and by the group-based provision.

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

Operating expenses were essentially unchanged.

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

Institutional investor segment

Supervisory definition

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

Differences between the management approach and the supervisory definition

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

Operating results of institutional investor segment

	For the six months ended June 30,		For the three months ended June 30,	
	2017	2016	2017	2016
				NIS in millions
Profit and profitability				
Total interest revenues, net	54	48	30	24
Non-interest financing revenues	–	1	–	1
Commissions and other revenues	27	33	13	13
Total revenues	81	82	43	38
Expenses (reduced expenses) with respect to credit losses	(10)	3	(4)	(3)
Operating and other expenses	67	68	32	37
Profit before provision for taxes	24	11	15	4
Provision for taxes	9	4	5	1
Net profit	15	7	10	3
Balance sheet – key items:				
Loans to the public (end balance)	1,616	1,474	1,616	1,474
Loans to the public, net (end balance)	1,585	1,444	1,585	1,444
Deposits from the public (end balance)	40,309	34,814	40,309	34,814
Average balance of loans to the public	1,570	1,278	1,529	1,032
Average balance of deposits from the public	37,618	34,252	38,178	34,594
Average balance of risk assets	2,431	2,643	2,459	2,541
Credit margins and deposit margins:				
Margin from credit granting operations	17	19	9	10
Margin from activities of receiving deposits	36	29	21	14
Other	1	–	–	–
Total interest revenues, net	54	48	30	24

Contribution of the institutional investor segment (in conformity with supervisory definitions) to Group profit in the first half of 2017 amounted to NIS 15 million, compared to NIS 7 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 54 million, compared to NIS 48 million in the corresponding period last year – an increase of NIS 6 million, primarily due to increase in total deposits.

Commission and other revenues decreased by NIS 6 million compared to the corresponding period last year.

Expenses with respect to credit losses amounted to a reduction in revenues of NIS 10 million, compared to expenses of NIS 3 million in the corresponding period last year, due to the effect of group-based provision in this segment.

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

Financial management segment

Supervisory definition

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

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

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

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

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

Differences between the management approach and the supervisory definition

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

Operating results of the financial management segment

	For the six months ended June 30,		For the three months ended June 30,	
	2017	2016	2017	2016
				NIS in millions
Profit and profitability				
Total interest revenues (expenses), net	72	(116)	85	45
Non-interest financing revenues	16	131	19	69
Commissions and other revenues	81	152	40	33
Total revenues	169	167	144	147
Reduced expenses with respect to credit losses	–	(1)	1	–
Operating and other expenses	126	173	83	95
Profit before provision for taxes	43	(5)	60	52
Provision for taxes	16	(2)	23	19
After-tax profit	27	(3)	37	33
Share of banking corporation in earnings of associates	–	–	1	–
Net profit before attribution to non-controlling interests	27	(3)	38	33
Net profit attributed to non-controlling interests	–	–	–	–
Net profit attributable to shareholders of the banking corporation	27	(3)	38	33
Balance sheet – key items:	–	–	–	–
Average balance of risk assets	5,549	5,353	5,686	5,342
Credit margins and deposit margins:	–	–	–	–
Margin from credit granting operations				
Margin from activities of receiving deposits	–	–	–	–
Other	72	(116)	85	45
Total interest expenses, net	72	(116)	85	45

Contribution of the financial management segment (in conformity with supervisory definitions) to Group profit in the first half of 2017 amounted to a gain of NIS 27 million, compared to a loss of NIS 3 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Results of financing operations (net interest revenues and non-interest financing revenues) increased by NIS 73 million compared to the corresponding period last year, primarily due to impact of the Consumer

Price Index. See also analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".

Commissions and other revenues amounted to NIS 81 million, compared to NIS 152 million in the corresponding period last year. The corresponding period last year included pre-tax capital gains from realized assets in conjunction with asset reorganization and improvements to the branch network, amounting to NIS 78 million.

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

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

Overseas operations

Supervisory definition

The Bank's overseas operations are presented separately, divided into operations involving individuals and business operations.

Differences between the management approach and the supervisory definition

Business and individual clients at overseas branches classified into the various operating segments in conformity with the management approach, are classified into the overseas operations segment in the disclosure of supervisory operating segments.

Business and individual clients at overseas branches are presented as a separate segment under supervisory operating segments and under the management approach are managed by the various operating segments – mostly private and business banking.

Operating results of overseas operations

	For the six months ended June 30,		For the three months ended June 30,	
	2017	2016	2017	2016
				NIS in millions
Profit and profitability				
Total interest revenues, net	75	75	37	42
Non-interest financing revenues	4	4	2	(1)
Commissions and other revenues	19	15	9	7
Total revenues	98	94	48	48
Expenses with respect to credit losses	2	(3)	1	(4)
Operating and other expenses	35	39	16	19
Profit before provision for taxes	61	58	31	33
Provision for taxes	22	22	11	12
Net profit	39	36	20	21
Balance sheet – key items:				
Loans to the public (end balance)	3,194	3,296	3,194	3,296
Loans to the public, net (end balance)	3,165	3,268	3,165	3,268
Deposits from the public (end balance)	5,055	4,674	5,055	4,674
Average balance of loans to the public	3,029	3,140	2,978	3,242
Average balance of deposits from the public	5,114	4,589	4,876	4,755
Average balance of risk assets	3,481	3,623	3,526	3,672
Credit margins and deposit margins:				
Margin from credit granting operations	46	42	20	22
Margin from activities of receiving deposits	6	6	3	2
Other	23	27	14	18
Total interest revenues, net	75	75	37	42

Contribution of overseas operations to Group profit in the first half of 2017 amounted to NIS 39 million, compared to NIS 36 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 75 million, similar to the corresponding period last year.

Commission revenues from current operations increased by NIS 4 million. In the current period, a provision for credit losses was recorded, amounting to NIS 2 million, compared to a decrease in provision of NIS 3 million in the corresponding period last year.

Operating expenses decreased by NIS 4 million compared to the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management ‘s approach - see Note 12 to the financial statements.

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

Major Investees

The contribution of investees to net operating profit in the first half of 2017 amounted to NIS 52 million, compared with NIS 66 million in the corresponding period last year. These data include impact of changes in exchange rates on the balance of investment in overseas investees, covered by the Bank's own sources.

Excluding the aforementioned effect of exchange rates, contribution of investees amounted to NIS 68 million, compared to NIS 67 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 half of 2017 amounted to NIS 19 million, compared to NIS 21 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first half of 2017 was 6.1% on annualized basis, compared to 7.3% in the corresponding period last year. Bank Yahav's balance sheet total as of June 30, 2017 amounted to NIS 24,166 million, compared to NIS 23,854 million as of December 31, 2016 – an increase of NIS 312 million, or 1.3%. Net loans to the public as of June 30, 2017 amounted to NIS 9,149 million, compared to NIS 8,931 million as of December 31, 2016 – an increase of NIS 218 million, or 2.4%. Net deposits from the public as of June 30, 2017 amounted to NIS 20,560 million, compared to NIS 20,273 million as of December 31, 2016 – an increase of NIS 287 million, or 1.4%.

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 half of 2017 (excluding net financing revenues from excess cash) amounted to NIS 27 million, compared to NIS 23 million in the corresponding period last year.

Net profit return on equity in the first half of 2017 was 8.2%, similar to the corresponding period last year.

Other investees operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in the first half of 2017 NIS 13 million, net – compared to NIS 11 million in the corresponding period last year. Of this, NIS 6 million (compared to NIS 5 million in the corresponding period last year) from trustee operations of the subsidiary, Mizrahi Tefahot Trust Company Ltd.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first half of 2017 amounted to CHF 0.3 million, compared to CHF 0.4 million in the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of June 30, 2017 amounted to CHF 176 million, compared to CHF 193 million at the end of 2016.

The balance of loans to the public as of June 30, 2017 amounted to CHF 72 million, compared to CHF 69 million at end of 2016. Deposits with banks as of June 30, 2017 amounted to CHF 100 million, compared to CHF 121 million at end of 2016. Deposits from the public as of June 30, 2017 amounted to CHF 113 million, compared to CHF 131 million at end of 2016.

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

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

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. Shares of non-banking corporations in which the Bank invested are presented at fair value in the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. 2.3% of these investments are negotiable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management assessment, a provision for impairment of the investment is recorded as a loss in the Bank's accounts.

Bank investments in non-banking corporations as of June 30, 2017 amounted to NIS 93 million, compared to NIS 103 million and NIS 101 million as of June 30, 2016 and as of December 31, 2016, respectively.

Net gain from investments in non-banking corporations, after provision for impairment, amounted in the first half of 2017 to NIS 6 million for the Bank, compared to NIS 3 million in the corresponding period last year.

Risks overview

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

Developments in risks and risks management

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

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

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

Risks description

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

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

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

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

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

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

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

The Bank Group is exposed to the effect of regulatory changes and macro-economic changes in Israel and world-wide on its business, in conformity with the strategic plan outline. The Bank reviews, monitors and prepares for these effects as part of its regular operations and estimates risk under stress scenarios, as well.

The Bank has in place an extensive framework for management and control of the risks to which the Bank is exposed, including an organizational structure to support management and control of such risks. Risks are managed at the Group in conformity with Bank of Israel's Proper Business Conduct Directive 310 "Risks management" and in conformity with the framework specified in Basel II, Pillar 2 – including required changes upon Basel III coming into effect.

The Bank’s Board of Directors and the Board’s Risks Management Committee are responsible for setting the required principles for management and control of the various risks to which the Bank is exposed in its operations, including setting the risk appetite and supervision of Bank compliance with the specified guidelines and risk appetite.

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

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

Description of risk appetite and risks management

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

Stress testing

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

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

Risk factor assessment

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

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

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

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

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

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

Credit risk

Risk description and development

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

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

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

The Bank is reviewing these directives.

Analysis of developments in credit quality and problematic credit risk

Significant exposure to groups of borrowers

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

As of June 30, 2017, the Bank had no borrower group which meets the aforementioned criteria.

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

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of June 30, 2017 (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk(1)	Off balance sheet credit risk(1)	Total credit risk
1.	Construction and real estate	118	659	777
2.	Construction and real estate	272	359	631
3.	Construction and real estate	15	591	606
4.	Transport and storage	602	–	602
5.	Construction and real estate	122	472	594
6.	Construction and real estate	130	464	594

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

Leveraged financing

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

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

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

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

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

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

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

Credit for equity transactions (NIS in millions):

	June 30, 2017				June 30, 2016				December 31, 2016			
Economic sector of acquired company	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Indivisual provision for credit losses
Commerce	–	–	–	–	102	–	102	–	81	15	96	–
Total	–	–	–	–	102	–	102	–	81	15	96	–

Credit to leveraged companies (NIS in millions):

	June 30, 2017				June 30, 2016				December 31, 2016			
Economic sector of borrower	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses
Construction and real estate	–	–	–	–	73	190	263	–	64	210	274	–
Commerce	380	22	402	–	56	63	119	–	404	161	565	–
Financial services	309	–	309	–	–	–	–	–	309	–	309	–
Information and communications	142	90	232	–	54	95	149	–	–	95	95	–
Total	831	112	943	–	183	348	531	–	777	466	1,243	–

Developments in problematic credit risk

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

			Total credit risk
	June 30, 2017	June 30, 2016	December 31, 2016
Problematic credit risk			
Impaired credit risk	759	1,045	893
Inferior credit risk	429	109	428
Credit risk under special supervision – housing	937	871	853
Credit risk under special supervision – other	710	481	757
Total problematic credit risk	2,835	2,506	2,931

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

	June 30, 2017	June 30, 2016	December 31, 2016
Ratio of impaired loans to the public to total loans to the public	0.3	0.5	0.4
Ratio of impaired loans to the public to total non-housing loans	1.0	1.5	1.2
Ratio of problematic loans to the public to total non-housing loans	2.8	2.2	2.8
Ratio of housing loans in arrears 90 days or longer to total loans to the public(1)(2)	0.5	0.5	0.5
Ratio of problematic credit risk to total credit risk with respect to the public	1.2	1.0	1.3

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

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

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

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision as of March 31, 2017	730	612	216	1,558	1	1,559
Expenses with respect to credit losses	(7)	12	36	41	1	42
Accounting write-offs	(117)	(3)	(29)	(149)	–	(149)
Recovery of debts written off for accounting purposes in previous years	89	–	14	103	–	103
Net accounting write-offs	(28)	(3)	(15)	(46)	–	(46)
Balance of provision as of June 30, 2017	695	621	237	1,553	2	1,555

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision as of March 31, 2016	670	603	191	1,464	2	1,466
Expenses with respect to credit losses	24	10	23	57	–	57
Accounting write-offs	(44)	(2)	(30)	(76)	–	(76)
Recovery of debts written off for accounting purposes in previous years	25	–	15	40	–	40
Net accounting write-offs	(19)	(2)	(15)	(36)	–	(36)
Balance of provision as of June 30, 2016	675	611	199	1,485	2	1,487

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision as of December 31, 2016	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	19	12	60	91	–	91
Accounting write-offs	(154)	(6)	(59)	(219)	–	(219)
Recovery of debts written off for accounting purposes in previous years	106	–	28	134	–	134
Net accounting write-offs	(48)	(6)	(31)	(85)	–	(85)
Balance of provision as of June 30, 2017	695	621	237	1,553	2	1,555

	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	24	1	36	61	(1)	60
Accounting write-offs	(93)	(4)	(63)	(160)	–	(160)
Recovery of debts written off for accounting purposes in previous years	47	–	31	78	–	78
Net accounting write-offs	(46)	(4)	(32)	(82)	–	(82)
Balance of provision as of June 30, 2016	675	611	199	1,485	2	1,487

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):

	June 30, 2017	June 30, 2016	December 31, 2016
Ratio of provision for credit losses to total loans to the public	0.9	0.9	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7	0.7
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.1	0.1	0.1
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.1	0.1	0.1
Of which: With respect to commercial loans other than housing loans(1)	0.3	0.2	0.3
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1	0.1

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

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

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

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

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

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

Below is information about credit risk to individuals – balances and various risk (NIS in millions):

	As of June 30,		As of December 31
	2017	2016	2016
Debts[1]			
Checking accounts and credit cards	5,578	5,464	5,553
Auto loans[5]	2,085	1,758	1,883
Other loans and credit	11,207	9,266	10,477
Total debt (on-balance sheet credit)	18,870	16,488	17,913
Unutilized facilities, guarantees and other commitments			
Checking account and credit cards – unutilized facilities	9,051	10,807	10,097
Guarantees	204	187	195
Other liabilities	39	101	61
Total unutilized facilities, guarantees and other commitments (off-balance sheet credit)	9,294	11,095	10,353
Total credit risk to individuals	28,164	27,583	28,266
Of which:			
Part of loans maturing in over 5 years[2]	2,186	1,429	1,920
On-balance sheet credit over NIS 300 thousand	1,258	1,015	1,198
Financial asset portfolio and other collateral against credit risk[3]			
Financial assets portfolio	3,475	3,318	3,442
Other collateral[4]	1,194	925	1,200
Total financial assets portfolio and other collateral against credit risk	4,669	4,243	4,642

(1) As defined in Proper Banking Conduct Directive 451.
(2) Primarily loans to salaried Government employees, where loan repayment is directly deducted from the client's pay check and which bear significantly lower risk than similar loans for the same term.
(3) Amounts presented are the financial assets portfolio and other collateral, only up to client indebtedness amount.
(4) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit.
(5) On July 6, 2017, the Supervisor of Banks sent a letter to the Bank and the entire banking system, requesting credit risks analysis for the "automobile trading" sector and for consumer credit for automobile purchase, under various stress scenarios. Based on the results, the Bank is required to consider adjustments to its business operations and associated controls The Bank is reviewing these directives.

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

	As of June 30, 2017			As of June 30, 2016			As of December 31, 2016		
	Credit risk[1]			Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Balance of problematic credit risk	217	3	220	173	3	176	183	3	186
Problematic credit risk rate[2]	1.14%	0.03%	0.78%	1.05%	0.03%	0.64%	1.02%	0.03%	0.66%

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

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

	For the six months ended June 30[1],		For the year ended December 31,
	2017	2016	2016
Expense with respect to credit losses as percentage of total loans to the public to individuals	0.61%	0.44%	0.51%

(1) Calculated on annualized basis.

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 15% compared to June 30, 2016 and by 6% compared to December 31, 2016, primarily due to increase in loans and other credit.
- There was no significant change to composition of debts by individuals in the first half of 2017. As of June 30, 2017:

Checking accounts and credit cards	- 30%
Auto loans	- 11%
Other loans and credit	- 59%

- Of all debts (on-balance sheet credit) as of June 30, 2017, 25% is secured by financial assets and other collateral in the client's account (similar to rates as of June 30, 2016 and as of December 31, 2016).

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

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

Credit risk in construction and real estate economic sector in Israel

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

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

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

	June 30, 2017						
	Credit risk to the public[1]						
	Credit risk			Total problematic credit risk		Balance of provision for credit losses	
	On balance sheet[2]	Off balance sheet[3]	Total	Impaired	Other problematic[4]	Balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	6,830	14,304	21,134	152	41	50	27
Commercial and industrial	3,812	951	4,763	41	13	49	2
Total secured by real estate in Israel:	10,642	15,255	25,897	194	54	99	29
Not secured by real estate in Israel	2,771	2,950	5,721	95	40	41	14
Total for construction and real estate economic sector in Israel	13,413	18,205	31,618	289	94	139	43
Of which: Designated for project assistance	6,672	13,531	20,203	11	14	57	28

	June 30, 2016						
Secured by real estate in Israel:							
Housing	4,987	14,382	19,369	141	218	64	10
Commercial and industrial	3,661	955	4,616	56	5	58	2
Total secured by real estate in Israel:	8,648	15,337	23,985	196	223	121	12
Not secured by real estate in Israel	2,685	2,578	5,263	159	55	41	4
Total for construction and real estate economic sector in Israel	11,333	17,915	29,248	355	278	163	16
Of which: Designated for project assistance	4,841	13,268	18,110	2	189	10	10

	December 31, 2016						
Secured by real estate in Israel:							
Housing	6,144	14,445	20,589	170	211	48	32
Commercial and industrial	3,667	977	4,644	63	8	60	4
Total secured by real estate in Israel:	9,811	15,422	25,233	233	219	108	36
Not secured by real estate in Israel	2,435	2,330	4,765	159	39	42	13
Total for construction and real estate economic sector in Israel	12,246	17,752	29,998	392	258	150	49
Of which: Designated for project assistance	5,740	13,309	19,049	30	223	48	33

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

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

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

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

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

	June 30, 2017			June 30, 2016			December 31, 2016		
	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	4,658	2,613	7,271	2,854	1,683	4,537	3,860	1,074	4,934
Real estate under construction	3,749	12,158	15,907	3,539	13,131	16,670	3,870	13,828	17,699
Real estate completely constructed	2,235	484	2,719	2,255	523	2,778	2,081	520	2,601
Total credit secured by real estate in Israel	10,642	15,255	25,897	8,648	15,337	23,985	9,811	15,422	25,233
Not secured by real estate in Israel	2,771	2,950	5,721	2,685	2,578	5,263	2,435	2,330	4,765
Total credit risk for construction and real estate	13,413	18,205	31,618	11,333	17,915	29,248	12,246	17,752	29,998

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

Credit risk data for the construction and real estate clients sector as of June 30, 2017 show that 50% of the on-balance sheet credit risk and 74% of the off-balance sheet credit risk is associated with closed assistance to real estate projects, mostly for residential construction in areas of strong demand in Central Israel and in Jerusalem. Most of the off-balance sheet credit is due to guarantees provided to home buyers pursuant to the Sale Act.

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

The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of June 30, 2017, as presented in chapter "Risks" below (Credit Risk by Economic Sector) is 13.6%.

Note that according to Proper Banking Conduct Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 9.70% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of Sales Act guarantees for which the Bank has obtained an insurance policy).

Credit Risk by Economic Sector – Consolidated

As of June 30, 2017

Reported amounts (NIS in millions)

	Off balance sheet debts[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debts[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Public – commercial					
Agriculture, forestry and fishing	607	204	811	–	–
Mining and excavation	204	341	545	–	24
Industry and production	4,925	3,342	8,267	–	61
Construction and real estate – construction[7]	11,439	17,581	29,020	–	3
Construction and real estate – real estate operations	1,974	612	2,586	–	3
Electricity and water delivery	568	543	1,111	–	495
Commerce	7,881	2,600	10,481	–	100
Hotels, dining and food services	901	248	1,149	–	1
Transport and storage	1,683	353	2,036	–	3
Information and communications	607	493	1,100	–	3
Financial services	3,045	4,821	7,866	–	757
Other business services	2,538	1,088	3,626	–	6
Public and community services	1,479	376	1,855	–	59
Total commercial credit	37,851	32,602	70,453	–	1,515
Private individuals – housing loans	118,212	6,066	124,278	–	–
Private individuals – other	18,870	9,294	28,164	–	16
Total	174,933	47,962	222,895	–	1,531
For borrowers' activities overseas	3,660	1,609	5,269	17	213
Total loans to the public	178,593	49,571	228,164	17	1,744
Banking corporations	6,054	230	6,284	18	2,640
Governments	312	–	312	10,435	–
Total credit	184,959	49,801	234,760	10,470	4,384

(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 6 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 1,470 million and off-balance sheet credit risk amounting to NIS 1,523 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 6,079 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

			Total problematic credit risk	Problematic off balance sheet debts[1] and credit risk (other than derivatives)			
							Credit losses[3]
Futures transactions	Total	Credit performance rating[5]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
–	811	792	19	6	3	–	11
10	579	579	–	–	(2)	–	2
100	8,428	8,245	183	94	6	6	92
1	29,024	28,667	357	269	10	8	142
5	2,594	2,568	26	20	(64)	(45)	40
103	1,709	1,682	27	3	3	–	7
43	10,624	10,100	524	152	39	59	180
–	1,150	1,127	23	11	7	4	22
7	2,046	2,020	26	10	6	5	10
5	1,108	1,098	10	4	2	1	8
1,205	9,828	9,488	340	34	(2)	(19)	93
39	3,671	3,586	85	39	14	8	47
42	1,956	1,932	24	17	2	6	4
1,560	73,528	71,884	1,644	659	24	33	658
–	124,278	123,316	962	25	12	6	620
71	28,251	27,791	222	68	57	45	240
1,631	226,057	222,991	2,828	752	93	84	1,518
25	5,524	5,517	7	7	(2)	1	35
1,656	231,581	228,508	2,835	759	91	85	1,553
761	9,703	9,703	–	–	–	–	2
–	10,747	10,747	–	–	–	–	–
2,417	252,031	248,958	2,835	759	91	85	1,555

Credit Risk by Economic Sector – Consolidated – continued

As of June 30, 2016

Reported amounts (NIS in millions)

	Off balance sheet debts[1] and credit risk (other than derivatives)[2]				Total credit risk
	Debts[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Public – commercial					
Agriculture, forestry and fishing	639	303	942	–	–
Mining and excavation	352	303	655	–	26
Industry and production	5,155	3,018	8,173	–	72
Construction and real estate – construction[7]	9,155	17,708	26,863	–	2
Construction and real estate – real estate operations	2,178	203	2,381	–	1
Electricity and water delivery	500	598	1,098	–	240
Commerce	8,239	2,267	10,506	–	48
Hotels, dining and food services	818	276	1,094	–	2
Transport and storage	895	1,045	1,940	–	1
Information and communications	578	503	1,081	–	7
Financial services	3,550	6,017	9,567	–	681
Other business services	2,487	991	3,478	–	7
Public and community services	1,311	316	1,627	–	9
Total commercial credit	35,857	33,548	69,405	–	1,096
Private individuals – housing loans	110,581	7,547	118,128	–	–
Private individuals – other	16,488	11,095	27,583	–	51
Total	162,926	52,190	215,116	–	1,147
For borrowers' activities overseas	3,988	1,398	5,386	19	93
Total loans to the public	166,914	53,588	220,502	19	1,240
Banking corporations	5,755	241	5,996	97	2,220
Governments	363	69	432	8,248	–
Total credit	173,032	53,898	226,930	8,364	3,460

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Includes borrowed securities amounting to NIS 46 million.
(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank 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 1,269 million and off-balance sheet credit risk amounting to NIS 1,525 million, extended to certain purchase groups which are in the process of construction.

			Total problematic credit risk		Problematic off balance sheet debts[1] and credit risk (other than derivatives)		
							Credit losses[3]
Futures transactions	Total	Credit performance rating[5]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
–	942	916	26	12	4	1	9
10	691	691	–	–	(2)	(1)	5
114	8,359	8,197	162	114	17	15	89
–	26,865	26,363	502	228	(35)	16	93
1	2,383	2,252	131	127	10	2	86
101	1,439	1,434	5	3	2	1	4
33	10,587	10,173	414	339	22	12	170
–	1,096	1,066	30	18	4	4	17
5	1,946	1,927	19	14	1	1	6
2	1,090	1,077	13	4	(14)	1	8
1,555	11,803	11,774	29	16	2	(24)	110
33	3,518	3,462	56	29	14	7	37
44	1,680	1,653	27	24	5	5	10
1,898	72,399	70,985	1,414	928	30	40	644
–	118,128	117,221	907	34	1	4	610
63	27,697	27,279	176	74	36	32	199
1,961	218,224	215,485	2,497	1,036	67	76	1,453
31	5,529	5,520	9	9	(6)	6	32
1,992	223,753	221,005	2,506	1,045	61	82	1,485
598	8,911	8,911	–	–	(1)	–	2
–	8,680	8,680	–	–	–	–	–
2,590	241,344	238,596	2,506	1,045	60	82	1,487

Credit Risk by Economic Sector – Consolidated – continued

As of December 31, 2016

Reported amounts (NIS in millions)

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

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

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

Exposure to Foreign Countries – Consolidated[1]

Reported amounts (NIS in millions)

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

	Balance sheet exposure[2]									Off-balance sheet exposure[2][3][6]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of Bank affiliates in foreign country to local residents								Cross-border balance sheet exposure	
	To governments[4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	On-balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which: Off-balance sheet problematic credit risk	Maturing in under 1 year	Maturing in over 1 year
													June 30, 2017
USA	6,409	521	1,197	366	366	–	8,127	18	–	1,368	–	5,605	2,522
UK	–	126	421	1,069	457	612	1,159	12	–	3,179	–	175	372
Others[5]	112	410	3,262	–	–	–	3,784	24	–	4,474	–	1,305	2,479
Total exposure to foreign countries	6,521	1,057	4,880	1,435	823	612	13,070	54	–	9,021	–	7,085	5,373
Of which: Total exposure to LDC countries	–	–	560	–	–	–	560	3	–	144	–	199	361
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	–	2	49	–	–	–	51	–	–	[6]448	–	14	37
													June 30, 2016
USA	4,397	505	1,199	452	452	–	6,101	8	1	428	–	4,804	1,297
Others[5]	44	849	4,140	1,061	492	569	5,602	26	–	1,085	–	1,650	3,383
Total exposure to foreign countries	4,441	1,354	5,339	1,513	944	569	11,703	34	1	1,513	–	6,454	4,680
Of which: Total exposure to LDC countries	6	–	509	–	–	–	515	1	–	60	–	218	297
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	–	2	54	–	–	–	56	–	–	73	–	16	40

See remarks below.

Exposure to foreign countries – consolidated[(1)] – continued

Reported amounts (NIS in millions)

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

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

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

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

(4) Governments, official institutions and central banks.

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

(6) The balance of off-balance sheet exposure includes NIS 6,079 million with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel. (as of December 31, 2016: NIS 6,111 million), of which NIS 380 million to international reinsurers from Ireland, rated A (as of December 31, 2016: NIS 767 million).

Exposure to foreign countries – consolidated[1] – continued

Reported amounts (NIS in millions)

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

	June 30, 2017		June 30, 2016		December 31, 2016	
	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure
France	1,338	903	1,527	184	–	–

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 six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
	Ireland	Ireland	Ireland	Ireland	Ireland
Exposure at start of reported period	15	16	12	17	16
Net change in short-term exposure	(2)	–	1	(1)	(1)
Exposure at end of reported period	13	16	13	16	15

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

Credit exposure to foreign financial institutions

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

External credit rating	On-balance sheet credit risk(3)		Off balance sheet credit risk(4)	Current credit exposure	
	Before offset of deposits with respect to master netting agreements(5)	After offset of deposits with respect to master netting agreements(6)		Before offset of deposits with respect to master netting agreements(5)	After offset of deposits with respect to master netting agreements(6)
	June 30, 2017				
AAA to AA-	485	432	2,682	3,167	3,114
A+ to A-	420	145	4,631	5,051	4,776
BBB+ to BBB-	9	7	–	9	7
BB+ to B-	–	–	19	19	19
Lower than B-	–	–	–	–	–
Unrated	1	1	–	1	1
Total credit exposure to foreign financial institutions	915	585	7,332	8,247	7,917
	June 30, 2016				
AAA to AA-	444	397	–	444	397
A+ to A-	217	217	75	292	292
BBB+ to BBB-	16	16	–	16	16
BB+ to B-	–	–	17	17	17
Lower than B-	–	–	–	–	–
Unrated	3	3	–	3	3
Total credit exposure to foreign financial institutions	680	633	92	772	725
	December 31, 2016				
AAA to AA-	597	409	1,698	2,295	2,107
A+ to A-	628	419	5,425	6,053	5,844
BBB+ to BBB-	25	7	–	25	7
BB+ to B-	–	–	18	18	18
Lower than B-	–	–	–	–	–
Unrated	1	1	–	1	1
Total credit exposure to foreign financial institutions	1,251	836	7,141	8,392	7,977

As of June 30, 2017, June 30, 2016 and December 31, 2016 there was no problematic commercial credit risk, net. Problematic credit risk – credit risk for impaired, inferior credit or credit under special supervision.

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
(2) After deduction of provision for credit losses.
(3) Bank deposits, loans to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivatives.
(4) Primarily guarantees and commitments to grant credit, including guarantees to secure indebtedness of third parties. The balance of off-balance sheet exposure to financial institutions includes NIS 6,079 million as of June 30, 2017 (as of December 31, 2016: NIS 6,111 million) with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel.
(5) Presented net of fair value of liabilities with respect to derivatives for counter-parties which have signed master netting agreements. Comparative figures were reclassified.
(6) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivatives.

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

Housing credit risk and its development

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

Risk appetite and risk profile in mortgage segment

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

The Bank constantly monitors the risk profile of the mortgage portfolio and its development over time, in view of the specified risk appetite. In particular, this monitoring is conducted through the Bank's quarterly risks document which is presented to and approved by the Board of Directors and its Risks Management Committee. Such monitoring reveals that leading risk benchmarks continue to remain relatively low. These benchmarks include: LTV ratios, repayment ratio, rate of obligo in default and, in particular, the rate of arrears for new loans (one year since origination), which is constantly dropping to very low rates, which is testimony to the high quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of June 2017) was 54.3% (reflecting the LTV ratio upon loan origination – see more details below). The Bank also estimates the "actual" LTV ratio for the portfolio, based on changes to property values, based on estimates by the Central Bureau of Statistics against the outstanding portfolio balances. This ratio is significantly lower than the original LTV ratio due to the constantly higher housing prices. These data support the Bank's estimate that the potential for loss due to the Bank's mortgage portfolio, even in scenarios involving material decline in housing prices, is low. In addition, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using multiple methodologies. The outcome of stress testing indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low.

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

	Loans granted (NIS in millions)		
	First half of		Rate of change
	2017	2016	In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	10,043	12,470	(19.5)
From funds of the Finance Ministry			
Directed loans	80	46	73.9
Standing loans and grants	38	73	(47.9)
Total new loans	10,161	12,589	(19.3)
Refinanced loans	702	1,316	(46.7)
Total loans originated	10,863	13,905	(21.9)
Number of borrowers (includes refinanced loans)	21,044	25,820	(18.5)

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

LTV ratio		Loan age[(2)] (time elapsed since loan grant)						
	Repayment as percentage of regular income	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%	2,569	8,809	11,454	19,671	14,462	4,307	61,272
	35%-50%	385	1,277	1,679	4,378	3,858	886	12,463
	50%-80%	–	–	1	685	1,318	335	2,339
	Over 80%	–	–	–	70	128	63	261
60%-75%	Up to 35%	911	3,789	7,365	12,193	6,559	991	31,808
	35%-50%	108	520	920	1,925	1,680	265	5,418
	50%-80%	–	–	–	175	509	103	787
	Over 80%	–	–	–	2	48	15	65
Over 75%	Up to 35%	21	127	112	622	1,763	1,205	3,850
	35%-50%	4	13	14	129	402	404	966
	50%-80%	–	–	–	5	88	132	225
	Over 80%	–	–	–	2	10	31	43
Total		3,998	14,535	21,545	39,857	30,825	8,737	119,497
Of which:								
Loans granted with original amount over NIS 2 million		330	852	1,101	1,829	1,366	79	5,557
Percentage of total housing loans		8.3%	5.9%	5.1%	4.6%	4.4%	0.9%	4.7%
Loans bearing variable interest:								
Non-linked, at prime lending rate		913	3,393	6,064	11,214	12,348	2,075	36,007
CPI-linked[(3)]		10	24	32	322	4,358	1,498	6,244
In foreign currency[(3)]		124	300	392	1,392	1,296	290	3,794
Total		1,047	3,717	6,488	12,928	18,002	3,863	46,045
Non-linked loans at prime lending rate, as percentage of total housing loans		22.8%	23.3%	28.1%	28.1%	40.1%	23.7%	30.1%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.3%	0.2%	0.1%	0.8%	14.1%	17.1%	5.2%
Loans with LTV over 75% as percentage of total housing loans		0.6%	1.0%	0.6%	1.9%	7.3%	20.3%	4.3%

(1) Balance of housing loans after provision by extent of arrears.
(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date. Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date.
This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.
(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted up to once every 5 years.(Not included)

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 June 30, 2017).

LTV ratio

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

The average loan-to-value ratio for the Bank's mortgage portfolio as of June 30, 2017 was 54.3%, compared to 54.9% in the corresponding period last year and to 54.7% on December 31, 2016. Out of the total loan portfolio of the Bank, amounting to NIS 119.5 million, some 96% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

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

Note, in this regard, that the Bank's average LTV ratio as of June 30, 2017, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago – by 4%. For loans originated one to 5 years ago – by 7%; and for loans originated over 5 years ago – by 19%. For all loans – by 10%.

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

These directives stipulate that the LTV ratio may not exceed:

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

Up to 70% – for second home buyers buying an alternative apartment (an apartment bought by an Israeli citizen who owns a residential apartment which would be a single apartment if not for the apartment being purchased, where the borrower commits to sell their existing apartment as 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 2.1 billion is insured by credit insurance – 41.3%.

In recent years, due to measures taken by the Bank to mitigate risk in the mortgage portfolio and the aforementioned restrictions imposed by the Bank of Israel, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 0.6% for loans granted 1-2 years ago, 1.0% for loans granted 3-12 months ago and 0.6% for loans granted in the first half of 2017.

Repayment as percentage of regular income

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

The average repayment ratio for the Bank's housing loan portfolio is 27.3%. Some 81% 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 15.9% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.3%). Some 2.8% of mortgages were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.6%), and only 0.3% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.5%).

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

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

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

Loans bearing variable interest

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

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

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

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

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 10.4 billion, or only 8.7% of the housing loan portfolio.

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

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 5.6 billion on June 30, 2017, or only 4.7% of the Bank's housing loan portfolio.

Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, as of June 30, 2017, in accordance with appendix to Proper Banking Conduct Directive 314. (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to refinanced loans in arrears[4]	Total
	In arrears 30 to 89 days[3]	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	6	12	12	9	198	231	49	286
Of which: Balance of provision for interest[1]	–	–	–	–	99	99	4	103
Recorded debt balance	383	425	196	63	130	814	125	1,322
Balance of provision for credit losses [2]	–	–	27	29	96	152	60	212
Debt balance, net	383	425	169	34	34	662	65	1,110

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

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

Market risk and interest risk

Risk description and development

Market risk – This is the risk of loss from on- and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).
Interest rate risk in the banking book is the risk to Bank profit (change in revenues) or to the Bank's economic value, primarily due to changes in the structure of interest rate curves relevant for Bank operations, non-identical fluctuations of various curves used by the Bank for pricing and management of its exposures, or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates.
The market risk in the negotiable portfolio is minimal, in line with Bank policy. The bank portfolio is exposed to increase in the interest rate curve due to the relatively long-term structure of uses (the mortgage portfolio) and continuing decrease in early mortgage repayment rates. Bank exposure to interest risks in the first half of 2017 is estimated as Medium. Note that in this half, the Bank revised the method of risk measurement due to implementation of the Basel position paper dated April 2016 with regard to interest risk management. Exposure is monitored using various benchmarks in the normal course of business and under stress conditions. The risk profile is a reasonable distance away from the risk appetite redefined in the first quarter of 2017, in line with the manner of measurement.

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

		First half of	All of
	2017	2016	2016
At end of period	509	292	386
Maximum value during period	781 (Apr.)	292 (JUN)	386 (DEC)
Minimum value during period	388 (Feb.)	235 (JAN)	235 (JAN)

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

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

Analysis of interest risk in bank portfolio

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

						June 30, 2017
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(869)	(1,266)	(10)	(31)	5	(2,171)
Decrease of 2%	1,354	1,541	36	36	(4)	2,964
						June 30, 2016
2% increase	(1,026)	327	193	(17)	5	(518)
Decrease of 2%	1,359	(453)	(189)	19	(5)	731
						December 31, 2016
2% increase	(1,221)	421	(55)	(25)	5	(875)
Decrease of 2%	1,710	(574)	75	29	(5)	1,235

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the prepayment rate and manner are taken into account. Market risk in the Bank's negotiable portfolio, primarily composed of portfolios managed in the trading room, is managed by means of quantitative limitations specified for each portfolio based on its activity.

The increase in risk values reflects the continuing decline in early mortgage repayment rates.

Note that as noted above, the Bank revised the method of risk measurement in the first half of 2017, implementing recommendations made in the Basel position paper dated April 2016 with regard to interest risk management.

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

Reported amounts (NIS in millions)

						June 30, 2017
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Israeli currency – non-linked						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)	120,846	1,857	5,037	11,123	7,917	7,113
Financial derivatives (other than options)	5,287	5,990	26,237	10,637	8,932	7,298
Options (in terms of underlying asset)	946	1,268	1,247	372	191	59
Total fair value	127,079	9,115	32,521	22,132	17,040	14,470
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	79,130	9,257	22,956	16,843	10,645	5,414
Financial derivatives (other than options)	15,948	13,216	20,915	9,741	8,603	7,374
Options (in terms of underlying asset)	991	966	1,193	376	151	34
Total fair value	96,069	23,439	45,064	26,960	19,399	12,822
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	31,010	(14,324)	(12,543)	(4,828)	(2,359)	1,648
Cumulative exposure in sector	31,010	16,686	4,143	(685)	(3,044)	(1,396)

Specific remarks:

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

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

					June 30, 2017			June 30, 2016			As of December 31, 2016
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	in years		In %	in years		In %	in years
3,425	342	305	157,965	4.12	1.02	140,760	3.51	1.07	157,045	3.99	1.25
57	–	–	64,438		1.07	72,669		1.08	67,969		1.06
–	–	–	4,083		1.33	4,828		0.66	3,466		1.56
3,482	342	305	226,486		1.04	218,257		1.06	228,480		1.20
750	48	–	145,043	1.01	1.13	128,120	1.04	0.95	134,532	0.93	0.90
18	–	–	75,815		1.05	82,489		0.91	85,522		0.90
–	–	–	3,711		1.09	4,803		0.61	3,104		1.39
768	48	–	224,569		1.10	215,412		0.93	223,158		0.91
2,714	294	305	1,917			2,845			5,322		
1,318	1,612	1,917	1,917			2,845			5,322		

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

Reported amounts (NIS in millions)

	June 30, 2017					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Israeli currency – linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets[1]	2,217	2,438	11,610	16,000	11,748	3,502
Financial derivatives (other than options)	17	12	443	2,103	513	389
Total fair value	2,234	2,450	12,053	18,103	12,261	3,891
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[1]	200	2,615	4,804	14,014	6,896	6,550
Financial derivatives (other than options)	12	86	3,266	2,621	851	325
Total fair value	212	2,701	8,070	16,635	7,747	6,875
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	2,022	(251)	3,983	1,468	4,514	(2,984)
Cumulative exposure in sector	2,022	1,771	5,754	7,222	11,736	8,752

Specific remarks:

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

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

			June 30, 2017			June 30, 2016			As of December 31, 2016		
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	in years		In %	in years		In %	in years
1,516	157	13	49,201	2.83	2.85	49,791	2.91	2.53	48,935	2.80	2.35
–	–	–	3,477		2.74	3,607		2.78	3,569		2.75
1,516	157	13	52,678		2.84	53,398		2.55	52,504		2.38
2,374	–	1	37,454	1.20	3.36	38,486	1.01	3.72	40,185	1.33	3.58
44	–	–	7,205		1.78	9,783		1.83	8,995		1.80
2,418	–	1	44,659		3.11	48,269		3.34	49,180		3.25
(902)	157	12	8,019			5,129			3,324		
7,850	8,007	8,019	8,019			5,129			3,324		

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

Reported amounts (NIS in millions)

	June 30, 2017					
	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 derivatives and to complex financial assets						
Financial assets[2]	10,257	4,706	1,181	1,261	1,109	1,918
Financial derivatives (other than options)	26,068	18,337	22,869	7,841	1,889	2,304
Options (in terms of underlying asset)	1,328	969	1,321	338	130	30
Total fair value	37,653	24,012	25,371	9,440	3,128	4,252
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[2]	18,946	6,379	9,331	664	87	14
Financial derivatives (other than options)	16,063	11,117	24,527	8,222	1,896	2,290
Options (in terms of underlying asset)	1,124	1,273	1,345	336	160	47
Total fair value	36,133	18,769	35,203	9,222	2,143	2,351
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	1,520	5,243	(9,832)	218	985	1,901
Cumulative exposure in sector	1,520	6,763	(3,069)	(2,851)	(1,866)	35

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

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

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

					June 30, 2017			June 30, 2016			As of December 31, 2016
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(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
50	–	420	20,902	1.93	0.93	20,791	2.80	0.78	17,487	1.20	1.23
–	–	–	79,308		0.45	90,668		0.38	91,892		0.41
–	–	–	4,116		0.10	5,632		0.23	3,671		0.08
50	–	420	104,326		0.53	117,091		0.44	113,050		0.53
1	–	461	35,883	0.78	0.32	36,453	0.62	0.34	39,907	0.68	0.32
–	–	–	64,115		0.62	75,051		0.63	68,991		0.59
–	–	–	4,285		0.36	5,605		0.25	3,937		0.32
1	–	461	104,283		0.51	117,109		0.52	112,835		0.49
49	–	(41)	43			(18)			215		
84	84	43	43			(18)			215		

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

Reported amounts (NIS in millions)

	June 30, 2017					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets[(1)]	133,320	9,001	17,828	28,384	20,774	12,533
Financial derivatives (other than options)	31,372	24,339	49,549	20,581	11,334	9,991
Options (in terms of underlying asset)	2,274	2,237	2,568	710	321	89
Total fair value	166,966	35,577	69,945	49,675	32,429	22,613
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[(1)]	98,276	18,251	37,091	31,521	17,628	11,978
Financial derivatives (other than options)	32,023	24,419	48,708	20,584	11,350	9,989
Options (in terms of underlying asset)	2,115	2,239	2,538	712	311	81
Total fair value	132,414	44,909	88,337	52,817	29,289	22,048
Financial instruments, net						
Total exposure to interest rate fluctuations	34,552	(9,332)	(18,392)	(3,142)	3,140	565
Total cumulative exposure	34,552	25,220	6,828	3,686	6,826	7,391

Specific remarks:

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

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

General remarks:

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

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)
			June 30, 2017			June 30, 2016			As of December 31, 2016		
				In %	in years		In %	in years		In %	in years
4,991	499	738	228,068	3.44	1.39	211,342	3.21	1.38	223,467	3.40	1.49
57	–	–	147,223		0.77	166,944		0.73	163,430		0.73
–	–	–	8,199		0.71	10,460		0.43	7,137		0.80
5,048	499	738	383,490		1.14	388,746		1.09	394,034		1.16
3,125	48	462	218,380	1.08	1.40	203,059	1.01	1.36	214,624	1.13	1.29
62	–	–	147,135		0.90	167,323		0.84	163,508		0.82
–	–	–	7,996		0.70	10,408		0.42	7,041		0.80
3,187	48	462	373,511		1.19	380,790		1.12	385,173		1.08
1,861	451	276	9,979			7,956			8,861		
9,252	9,703	9,979	9,979			7,956			8,861		

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

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

	Israeli currency		Foreign currency(1)			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
June 30, 2017						
Financial assets(2)	157,965	49,201	16,672	2,423	1,807	228,068
Amounts receivable with respect to financial derivatives(3)	68,521	3,477	66,576	11,134	5,714	155,422
Financial liabilities(2)	(145,043)	(37,454)	(28,577)	(4,727)	(2,579)	(218,380)
Amounts payable with respect to financial derivatives(3)	(79,526)	(7,205)	(54,541)	(8,838)	(5,021)	(155,131)
Total	1,917	8,019	130	(8)	(79)	9,979
December 31, 2016						
Financial assets(2)	157,045	48,935	12,728	2,877	1,882	223,467
Amounts receivable with respect to financial derivatives(3)	71,435	3,569	76,490	13,753	5,320	170,567
Financial liabilities(2)	(134,532)	(40,185)	(29,860)	(7,376)	(2,671)	(214,624)
Amounts payable with respect to financial derivatives(3)	(88,626)	(8,995)	(59,188)	(9,217)	(4,523)	(170,549)
Total	5,322	3,324	170	37	8	8,861

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

	Israeli currency		Foreign currency(1)				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
June 30, 2017								
Change in interest rates:								
Concurrent immediate increase of 1%	1,866	8,116	63	(50)	(81)	9,914	(65)	(0.7)
Concurrent immediate increase of 0.1%	1,910	8,026	123	(12)	(79)	9,968	(11)	(0.1)
Concurrent immediate decrease of 1%	1,964	7,937	204	37	(76)	10,066	87	0.9
December 31, 2016								
Change in interest rates:								
Concurrent immediate increase of 1%	5,021	4,033	(88)	(145)	–	8,821	(40)	(0.5)
Concurrent immediate increase of 0.1%	5,290	3,686	142	27	7	9,152	291	3.3
Concurrent immediate decrease of 1%	5,670	3,210	495	155	16	9,546	685	7.7

(1) Includes Israeli currency linked to foreign currency.

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

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

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

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

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

Analysis of CPI and exchange rate exposures

Below is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI(before tax effect) as of June 30, 2017, capital increase (erosion) (NIS in millions):

				Scenarios	Historical stress scenario[1]	
	10% increase	5% increase	Decrease of 5%	Decrease of 10%	Maximum increase	Maximum decrease
CPI	1,047.7	536.7	(706.7)	(1,413.5)	175.2	(109.1)
Dollar	15.3	1.9	0.8	(1.5)	(0.1)	0.5
Pound Sterling	0.2	0.1	0.2	1.0	0.1	0.4
Yen	0.7	(0.5)	1.4	2.2	(0.4)	1.1
Euro	0.3	1.7	1.6	3.8	1.4	0.0
Swiss Franc	(0.3)	(0.2)	0.1	0.2	(0.4)	0.2

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

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

Share price risk

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

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

Operating risk

Risk description and development

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

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

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

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

Legal risk – Risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk includes risks arising from legal exposure due to Bank conduct with its various interested parties (such as: clients, suppliers and other third parties).
In the first half of 2017, there were no significant events in the various operating risk areas.

The Bank applies Proper Banking Conduct Directive 355 concerning "Management of business continuity". On April 9, 2017, the Bank of Israel issued a revision of Proper Banking Conduct Directive 355, elaborating aspects related to significant operating disruption, including strikes and highlighting the importance of maintaining proper function of the payment and settlement systems. The Bank is preparing with improved response to these scenarios.
In the first half of 2017, the Bank continued to implement its annual work plan, including delivery of training on business continuity at banking courses offered by the training center, refreshing the divisions' emergency files, internal operating procedures in emergency and validation of basic documents of the

business continuity plan. These processes are supervised by the Business Continuity Steering Committee.

For more information about a strike by Bank employees represented by the Bank's Employee Association, see "Developments in labor relations" in chapter "Significant Events in the Bank Group's Business" above.

Information security and cyber security

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

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

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

In the third quarter of this year, Bank Yahav management received a demand for ransom payment in order to avoid disclosure and sale of Bank Yahav client data. Bank Yahav has provided all information to the police, to the National Cyber Defense Authority and to the Bank of Israel for further handling. The Bank has been informed that a suspect has been arrested in this case.

Information technology risk

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

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

Legal risk

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

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

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

Liquidity and financing risk

Risk description and development

Liquidity risk – risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.
Financing risk – risk resulting from shortage of financing sources or too high costs to raise such sources.
Liquidity risk is managed subject to the limitations of the Board of Directors and Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.
There were no deviations from the Board of Directors' limitations recorded in the first half of 2017.

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

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

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

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

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

Liquidity coverage ratio

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

The average (consolidated) liquidity coverage ratio for the second quarter of 2017 was 122%, compared to an average ratio of 118% in the first quarter of 2017. There were no deviations from the limitations for this ratio recorded in the first half of 2017.

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

As of June 30, 2017, the balance of the three largest depositor groups at the Bank Group amounted to NIS 9.1 billion.

Soliciting sources and Bank liquidity status – In the first half of 2017, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 178.3 billion on December 31, 2016 to NIS 180.7 billion on June 30, 2017, an increase of 1.4%.

In the non-linked segment, total deposits from the public amounted to NIS 128.9 billion, an increase of 5.1% compared to end of 2016. In the CPI-linked sector, deposits from the public amounted to NIS 17.3 billion, an increase of 1.6%, and in the foreign currency sector – to NIS 34.5 billion, a decrease of 10.7% compared to end of 2016.

Other risks

Compliance and regulatory risk

Risk description and its development

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

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

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

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

Cross-border and AML risk

Risk description and its development

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

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

Cross-border risk includes the risk arising from obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Act – "FATCA"). This risk is also due to obligations stipulated by the Common Reporting Standard (CRS) issued by the OECD.

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

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

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

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

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

AML risk remained unchanged in the first half of 2017. The higher risk due to addition of severe tax offenses, as noted above, to the Prohibition of Money Laundering Act was reduced by expanding control processes, deployment and regular activities at business units.

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

Reputation risk

Risk description and its development

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

During the labor disruption at the Bank in the first half of August, the Bank continuously monitored the reputation benchmarks and the Reputation Committee held multiple special sessions.
During this period there was a non-significant decrease in image-related parameters among those aware of the dispute and in particular among Bank clients, with the general public's awareness of the dispute being not very high.

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

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

Strategic risk

Risk description and its development

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

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

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

Policies and critical accounting estimates, controls and procedures

Policies and critical accounting estimates

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

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

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

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

Provisions for legal claims

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

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

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

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

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

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

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

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

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

Controls and Procedures

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

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

Evaluation of controls and procedures with regard to disclosure

Further to adjustment of controls and procedures with regard to disclosure concerning the change in layout of the financial statements, made in 2016, in the first half of 2017 additional adjustments were made with regard to quarterly financial statements. Bank management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures as of June 30, 2017. Based on this evaluation, the Bank President & CEO and the Chief Accountant of the Bank concluded that at the end of the period ended June 30, 2017, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

Changes to internal controls

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

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President & CEO

Approval date:
Ramat Gan,
August 28, 2017

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended June 30, 2017 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure[1] and to the Bank's internal controls over financial reporting[1]. Furthermore:
    - A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
    - B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
    - C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
    - D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
    - A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
    - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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

Eldad Fresher
President & CEO
August 28, 2017

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

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended June 30, 2017 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1). Furthermore:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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

Menahem Aviv
Vice-president,
Chief Accountant
August 28, 2017

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

Deloitte.

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

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated interim balance sheet as of June 30, 2017, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.53% of total consolidated assets as of June 30, 2017, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 8.8% and 8.15% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the six-month and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an equity-accounted associate, the investment in which amounted to NIS 19 million as of June 30, 2017. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors. We have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

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

Conclusion

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

Without qualifying our conclusion, we draw your attention to:

1. Note 8.3, Note 10.B.2.(h) and Note 10.B.3.(a-c) with regard to contingent liabilities at the Bank, including lawsuits filed against the Bank and its subsidiary and motions for class action status.
2. Note 10.B.4. with regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients.

Brightman Almagor Zohar & Co.

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

Certified Public Accountants
Tel Aviv, August 28, 2017

Tel Aviv - Main Office
1 Azrieli Center Tel Aviv, 6701101 P.O.B. 16593
Tel Aviv, 6116402 I Tel: +972 (3) 608 5555 I Fax: +972 (3) 609 4022 I info@deloitte.co.il

Jerusalem
3 Kiryat Ha'Mada
Har Hotzvim Tower
Jerusalem, 9777603
P.O.B. 45396
Jerusalem, 9145101
Tel: +972 (2) 501 8888
Fax: +972 (2) 537 4173
info-jer@deloitte.co.il

Haifa
5 Ma'aleh Hashichrur
P.O.B. 5648
Haifa, 3105502
Tel: +972 (4) 860 7333
Fax: +972 (4) 867 2528
info-haifa@deloitte.co.il

Beer Sheva
12 Alumot
Omer Industrial Park
P.O.B. 1369
Omer, 8496500
Tel: +972 (8) 690 9500
Fax: +972 (8) 690 9600
info-beersheva@deloitte.co.il

Eilat
The City Center
P.O.B. 583
Eilat, 8810402
Tel: +972 (8) 637 5676
Fax: +972 (8) 637 1628
info-eilat@deloitte.co.il

Deloitte
3 Azrieli Center
Tel Aviv, 6701101
Tel: +972 (3) 607 0500
Fax: +972 (3) 607 0501
info@deloitte.co.il

Deloitte Analytics
7 Hasivim
P.O.B. 7796
Petah Tikva, 4959368
Tel: +972 (77) 8322221
Fax: +972 (3) 9190372
info@deloitte.co.il

Seker - Deloitte
7 Giborey Israel St.
P.O.B. 8458
Netanya, 4250407
Tel: +972 (9) 892 2444
Fax: +972 (9) 892 2440
info@deloitte.co.il

Condensed Financial Statements

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Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
		2017	2016	2017	2016	2016
			(unaudited)		(unaudited)	(audited)
Interest revenues	2	1,915	1,588	3,271	2,456	5,311
Interest expenses	2	742	574	1,071	682	1,533
Interest revenues, net		1,173	1,014	2,200	1,774	3,778
Expenses with respect to credit losses	6,13	42	57	91	60	200
Interest revenues, net after expenses with respect to credit losses		1,131	957	2,109	1,714	3,578
Non-interest revenues						
Non-interest financing revenues	3	21	69	20	136	295
Commissions		353	352	710	717	1,433
Other revenues		12	11	24	100	134
Total non-interest revenues		386	432	754	953	1,862
Operating and other expenses						
Payroll and associated expenses		568	520	1,066	997	2,071
Maintenance and depreciation of buildings and equipment		181	171	367	345	693
Other expenses		128	145	267	273	535
Total operating and other expenses		877	836	1,700	1,615	3,299
Pre-tax profit		640	553	1,163	1,052	2,141
Provision for taxes on profit		231	200	423	403	833
After-tax profit		409	353	740	649	1,308
Share in profits of associates, after tax		1	-	-	-	-
Net profit:						
Before attribution to non-controlling interests		410	353	740	649	1,308
Attributable to non-controlling interests		(10)	(13)	(19)	(21)	(42)
Attributable to shareholders of the Bank		400	340	721	628	1,266

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

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President & CEO

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, August 28, 2017

Condensed consolidated statement of profit and loss - Continued

(Reported amounts)

	Note	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
		2017	2016	2017	2016	2016
			(unaudited)		(unaudited)	(audited)
Earnings per share[1]						
Basic earnings per share (in NIS)						
Net profit attributable to shareholders of the Bank		1.72	1.47	3.10	2.71	5.46
Diluted earnings per share (in NIS)						
Net profit attributable to shareholders of the Bank		1.71	1.47	3.08	2.71	5.46

(1) Share of NIS 0.1 par value each.

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

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
		(unaudited)		(unaudited)	(audited)
Net profit:					
Before attribution to non-controlling interests	410	353	740	649	1,308
Attributable to non-controlling interests	(10)	(13)	(19)	(21)	(42)
Net profit attributable to shareholders of the Bank	400	340	721	628	1,266
Other comprehensive income (loss) before taxes					
Adjustments for presentation of available-for-sale securities at fair value, net	33	(2)	45	32	(26)
Adjustments from translation of financial statements of investments in associates(1)	-	-	(1)	-	1
Net gains (losses) with respect to cash flows hedging	1	(1)	-	(7)	(9)
Adjustment of liabilities with respect to employee benefits(2)	(4)(113)	(16)	(4)(92)	(45)	(3)(294)
Total other comprehensive income (loss), before tax	(79)	(19)	(48)	(20)	(328)
Related tax effect	26	6	14	4	108
Other comprehensive income (loss) after taxes(5)					
Other comprehensive income (loss), before attribution to non-controlling interest	(53)	(13)	(34)	(16)	(3)(220)
Less other comprehensive income (loss) attributable to non-controlling interest	12	-	12	2	-
Other comprehensive income (loss) attributable to equity holders of the Bank, after taxes	(41)	(13)	(22)	(14)	(220)
Comprehensive income:					
Before attribution to non-controlling interests	357	340	706	633	1,088
Attributable to non-controlling interests	2	(13)	(7)	(19)	(42)
Comprehensive income attributable to shareholders of the Bank	359	327	699	614	1,046

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

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

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

(4) Includes the effect of the streamlining program at Bank Yahav on the Bank's shareholder equity, amounting to NIS 11 million, and the effect of revision of the pay increase assumption and revision of the growth rate in remuneration on the actuarial liability with respect to employee rights, amounting to NIS 69 million, net of tax. See Note 8 to the financial statements for additional information.

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

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

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

	Note	As of June 30, 2017	As of June 30, 2016	As of December 31 2016
Assets				
Cash and deposits with banks		39,146	36,842	41,725
Securities[2][1]	5	10,560	8,419	10,262
Securities loaned or purchased in resale agreements		6	46	9
Loans to the public	6,13	178,593	166,914	172,779
Provision for credit losses	6,13	(1,460)	(1,399)	(1,438)
Loans to the public, net		177,133	165,515	171,341
Loans to Governments		312	363	330
Investments in associates		33	35	34
Buildings and equipment		1,391	1,545	1,585
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	11	4,384	3,460	3,584
Other assets		2,004	1,446	1,498
Total assets		235,056	217,758	230,455
Liabilities and Equity				
Deposits from the public	7	180,680	169,621	178,252
Deposits from banks		1,454	1,183	1,537
Deposits from the Government		57	53	50
Debentures and subordinated notes		27,851	24,337	27,034
Liabilities with respect to derivatives	11	4,093	3,787	3,566
Other liabilities[3]		7,028	5,806	6,692
Total liabilities		221,163	204,787	217,131
Shareholders' equity attributable to shareholders of the Bank		13,276	12,384	12,714
Non-controlling interests		617	587	610
Total equity		13,893	12,971	13,324
Total liabilities and equity		235,056	217,758	230,455

(1) Of which: NIS 7,221 million at fair value on consolidated basis (June 30, 2016 - NIS 5,106 million; December 31, 2016 - NIS 6,928 million).

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

(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 93 million (on June 30, 2016 - NIS 86 million, on December 31, 2016 - NIS 109 million).

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

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended June 30, 2017 (unaudited)			
	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of March 31, 2017	2,246	52	(76)	2,222
Net profit for the period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	-	-	-
Related tax effect	-	(1)	-	(1)
Realization of share-based payment transactions[2]	3	(3)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of June 30, 2017	2,249	48	(76)	2,221

	For the three months ended June 30, 2016 (unaudited)			
Balance as of March 31, 2016	2,224	66	(76)	2,214
Net profit for the period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	2	-	2
Related tax effect	-	-	-	-
Realization of share-based payment transactions[2]	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of June 30, 2016	2,224	68	(76)	2,216

(1) Share premium generated prior to March 31, 1986.
(2) In the second quarter of 2017, 83,317 ordinary NIS 0.1 par value shares were issued for exercise of options pursuant to the Employee Stock Option Plan (in the second quarter of 2016, 31,035 ordinary shares were issued to the Bank President & CEO of NIS 0.1 par value each, for exercise of options pursuant to the Employee Stock Option Plan.
(3) For details see Note 4 - Cumulative Other Comprehensive Income.
(4) For more information about various limitations on dividend distributions, see Note 24 to the 2016 financial statements.
(5) On August 28, 2017, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 120 million, or 30% of earnings in the second quarter of 2017. According to accounting rules, this amount would be deducted from retained earnings in the third quarter of 2017.
(6) Includes the effect of the streamlining program at Bank Yahav on the Bank's shareholder equity, amounting to NIS 11 million, and the effect of revision of the pay increase assumption and revision of the growth rate in remuneration on the actuarial liability with respect to employee rights, amounting to NIS 69 million, net of tax. See Note 8 to the financial statements for additional information.

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

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total shareholder equity	Non-controlling interests	Total equity
(298)	11,091	13,015	619	13,634
-	400	400	10	410
-	(97)	(97)	-	(97)
-	-	-	-	-
-	-	(1)	-	(1)
-	-	-	-	-
[6](41)	-	(41)	(12)	(53)
(339)	11,394	13,276	617	13,893
(98)	9,982	12,098	574	12,672
-	340	340	13	353
-	(43)	(43)	-	(43)
-	-	2	-	2
-	-	-	-	-
-	-	-	-	-
(13)	-	(13)	-	(13)
(111)	10,279	12,384	587	12,971

Condensed Statement of Changes in Shareholders' Equity - Continued

	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 six months ended June 30, 2017 (unaudited)			
Balance as of December 31, 2016	2,239	58	(76)	2,221
Net profit for the period	-	-	-	-
Dividends paid[(5)]	-	-	-	-
Benefit from share-based payment transactions	-	-	-	-
Related tax effect	-	-	-	-
Realization of share-based payment transactions[(2)]	10	(10)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of June 30, 2017	2,249	48	(76)	2,221
	For the six months ended June 30, 2016 (unaudited)			
Balance as of December 31, 2015	2,222	68	(76)	2,214
Net profit for the period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	3	-	3
Related tax effect	-	(1)	-	(1)
Realization of share-based payment transactions[(2)]	2	(2)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of June 30, 2016	2,224	68	(76)	2,216
	For the year ended December 31, 2016 (audited)			
Balance as of December 31, 2015	2,222	68	(76)	2,214
Net profit for the period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	8	-	8
Related tax effect	-	(1)	-	(1)
Realization of share-based payment transactions[(2)]	17	(17)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of December 31, 2016	2,239	58	(76)	2,221

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

(2) In the third quarter of 2017, 295,640 ordinary NIS 0.1 par value shares were issued (In the first half of 2016, 45,063 ordinary shares were issued of NIS 0.1 par value each) for exercise of options pursuant to the Employee Stock Option Plan, and issued to the Bank President & CEO 9,137 ordinary shares of NIS 0.1 par value each.
In 2016, the Bank issued 157,119 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employee Stock Option Plan, and issued to the Bank President & CEO 31,065 ordinary NIS 0.1 par value shares. each.

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

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

(5) On August 28, 2017, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 120 million, or 30% of earnings in the second quarter of 2017. According to accounting rules, this amount would be deducted from retained earnings in the third quarter of 2017.

(6) Includes the effect of the streamlining program at Bank Yahav on the Bank's shareholder equity, amounting to NIS 11 million, and the effect of revision of the pay increase assumption and revision of the growth rate in remuneration on the actuarial liability with respect to employee rights, amounting to NIS 69 million, net of tax. See Note 8 to the financial statements for additional information.

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

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

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total shareholder equity	Non-controlling interests	Total equity
(317)	10,810	12,714	610	13,324
-	721	721	19	740
-	(137)	(137)		(137)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
[6](22)	-	(22)	(12)	(34)
(339)	11,394	13,276	617	13,893
(97)	9,730	11,847	568	12,415
-	628	628	21	649
-	(79)	(79)	-	(79)
-	-	3	-	3
-	-	(1)	-	(1)
-	-	-	-	-
(14)	-	(14)	(2)	(16)
(111)	10,279	12,384	587	12,971
(97)	9,730	11,847	568	12,415
-	1,266	1,266	42	1,308
-	(186)	(186)	-	(186)
-	-	8	-	8
-	-	(1)	-	(1)
-	-	-	-	-
[7](220)	-	(220)		(220)
(317)	10,810	12,714	610	13,324

Condensed statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
		(unaudited)		(unaudited)	(audited)
Cash flows provided by current operations					
Net profit	410	353	740	649	1,308
Adjustments					
Share of the Bank in undistributed earnings of associates	(1)	-	-	-	-
Depreciation of buildings and equipment	59	54	122	109	223
Expenses with respect to credit losses	42	57	91	60	200
Gain from sale of securities available for sale	(14)	(21)	(25)	(52)	(61)
Realized and unrealized gain from adjustment to fair value of securities held for trading	(4)	(2)	(1)	(2)	(14)
Gain from sale of buildings and equipment	-	-	-	(78)	(92)
Expenses arising from share-based payment transactions	-	2	-	3	8
Deferred taxes, net	(15)	(24)	(43)	2	(3)
Change in employee provisions and liabilities	3	20	6	10	4
Effect of changes in exchange rate on cash balances	53	(130)	117	64	195
Proceeds from sale of loan portfolios	-	(31)	(1)	(46)	(45)
Net change in current assets					
Deposits with banks	227	810	406	(472)	(50)
Loans to the public	(3,947)	(4,488)	(6,378)	(7,862)	(14,670)
Loans to Governments	-	(40)	18	(47)	(14)
Securities loaned or purchased in resale agreements	40	105	3	25	62
Assets with respect to derivatives	(432)	461	(800)	60	(66)
Securities held for trade	57	292	200	4	(112)
Other assets, net	(139)	(31)	(161)	573	613
Net change in current liabilities					
Deposits from banks	(20)	(233)	(83)	17	371
Deposits from the public	(42)	4,620	2,428	7,241	15,872
Deposits from the Government	1	(2)	7	(5)	(8)
Liabilities with respect to derivatives	(50)	(1,091)	527	153	(68)
Other liabilities	(319)	(175)	88	(48)	576
Accrual differences included with investment and financing operations	(38)	(125)	(15)	(183)	110
Net cash provided by current operations	(4,129)	381	(2,754)	175	4,339

Condensed statement of cash flows - Continued

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
		(unaudited)		(unaudited)	(audited)
Cash flows provided by investment operations					
Acquisition of debentures held to maturity	-	-	(111)	-	-
Acquisition of securities available for sale	(469)	(1,645)	(2,824)	(3,522)	(6,902)
Proceeds from sale of securities available for sale	1,511	1,973	2,027	6,753	7,546
Proceeds from redemption of securities available for sale	183	-	404	189	1,083
Proceeds from sale of loan portfolios	26	1,012	918	1,530	2,662
Purchase of loan portfolios	(180)	-	(398)	-	(265)
Acquisition of buildings and equipment	(66)	(48)	(87)	(88)	(245)
Proceeds from sale of buildings and equipment	-	100	-	100	125
Proceeds from realized investment in associates	1	1	-	1	2
Net cash provided by investment operations	1,006	1,393	(71)	4,963	4,006
Cash flows provided by financing operations					
Issuance of debentures and subordinated notes	2,703	-	2,703	3,304	6,318
Redemption of debentures and subordinated notes	(1,740)	(2,402)	(1,797)	(2,418)	(3,096)
Dividends paid to shareholders	(97)	(43)	(137)	(79)	(186)
Net cash provided by financing operations	866	(2,445)	769	807	3,036
Increase (decrease) in cash	(2,257)	(671)	(2,056)	5,945	11,381
Cash balance at beginning of year	41,632	36,731	41,495	30,309	30,309
Effect of changes in exchange rate on cash balances	(53)	130	(117)	(64)	(195)
Cash balance at end of year	39,322	36,190	39,322	36,190	41,495
Interest and taxes paid / received					
Interest received	1,884	1,584	3,401	2,264	5,204
Interest paid	714	752	844	900	1,676
Dividends received	2	1	6	3	35
Taxes on income received	4	3	64	75	81
Taxes on income paid	280	219	431	361	800
Appendix A - Non-cash Transactions					
Acquisition of buildings and equipment	6	5	6	5	13
Sale of buildings and equipment	(278)	-	(278)	-	-

Note 1 - Reporting Principles and Accounting Policies

A. Overview

On August 28, 2017, the Bank Board of Directors authorized publication of these condensed financial statements as of June 30, 2017.

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

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

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

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

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

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

As from reporting periods starting on January 01, 2017 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. Reporting by Israeli banking corporations in conformity with US GAAP with regard to income taxes
2. Reporting by banking corporations in Israel in conformity with US GAAP on these topics: foreign currency issues, accounting policies, changes in accounting estimates and errors and events subsequent to the balance sheet date
3. Updates to standards concerning share-based payment.
4. Relief with regard to capital adequacy with respect to implementation of a real estate streamlining program. For more information about directives by the Supervisor of Banks with regard to the Bank's contracting the sale and lease-back of interest in the headquarters building in Ramat Gan, see Note 9 "Capital adequacy, liquidity and leverage".

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

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

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

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

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

The provisions listed in the circular would apply as from January 5, 2017.

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

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

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

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

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

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

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

The provisions stipulated by the circular apply as from January 1, 2017. Upon initial application, action should be taken in conformity with transitional provisions included in US GAAP for these matters, *mutatis mutandis*, including retroactive amendment of comparative figures, if required by US GAAP for these matters. Note that when applying provisions of topic 830 of the codification "Foreign currency matters", banks would not include exchange rate differentials with regard to available-for-sale debentures as part of fair value adjustments of such debentures, but would continue to treat these as required by the Public Reporting Directives prior to adoption of this topic.

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

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

3. Updates to standards concerning share-based payment

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

According to the revision:

- All tax effects associated with share-based payment transactions should be recognized upon discharge (or expiration) through profit and loss. Prior to the Revision, excess tax benefits in excess of the expense recognized on the statement of profit and loss (known as "windfall") would be recognized in equity and any tax benefit shortfalls lower than the expense recognized on the statement of profit and loss (known as "shortfall") would be recognized in equity, up to elimination of any previous balances from excess tax benefits. In absence of such windfall, any shortfall would be recognized on the statement of profit and loss. The Revision is expected to increase volatility in income tax expenses.

  This change should be applied prospectively.
- Excess tax benefits would be recognized when they occur, unlike the current provisions of US GAAP, whereby recognition of these task benefits was postponed until such date when they would have reduced taxable income. This change will be applied retroactively and the cumulative effect would be charged to the opening balance of retained earnings.
- All cash flows associated with taxes with respect to share-based payment would be classified under current operations on the statement of cash flows. The provision may be applied retroactively or prospectively.
- A policy choice may be made with regard to the effect of forfeitures on recognition of expenses with respect to share-based payments. Forfeitures may be estimated or, alternatively, the effect of these forfeiture may only be recognized when they occur. However, in some cases, expected forfeitures should be further evaluated. In case of change in accounting policy on this matter, the change would be applied retroactively with the cumulative effect charged to the opening balance of retained earnings.

These revised standard came into effect on January 1, 2017.
Application of this update has no material impact on the Bank's financial statements.

Note 1 - Reporting Principles and Accounting Policies - continued

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

1. Recognition of revenues from contracts with clients

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

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

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

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

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

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

- US GAAP with regard to topic 205-20 of the codification "Discontinued operations".
- US GAAP with regard to topic 360 and 360-10 of the codification "Fixed assets".
- US GAAP with regard to topic 260 of the codification "Earnings per share".
- US GAAP with regard to topic 230-10 of the codification "Statement of cash flows".
- US GAAP with regard to topic 270 of the codification "Interim period reporting".
- US GAAP with regard to topic 835-20 of the codification "Interest capitalization".
- US GAAP with regard to topic 460 of the codification "Guarantees".

The provisions stipulated by the circular would apply as from January 01, 2018. Upon initial application, action should be taken in conformity with transitional provisions included in US GAAP for these matters, *mutatis mutandis*, including retroactive amendment of comparative figures, if required by US GAAP for these matters.

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

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

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

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

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

These changes would apply as from July 1, 2017.

Application of these clarifications to Q&A should not materially impact the financial statements.

4. Share-based payment

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

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

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

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

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

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

These changes would apply as from December 15, 2017.

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

5. Limit on sector indebtedness

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

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

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

These changes would apply as from January 1, 2018.

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

Note 2 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
		(unaudited)		(unaudited)	(audited)
A. Interest revenues					
from loans to the public[1]	1,854	1,545	3,155	2,382	5,157
From loans to Governments	3	3	6	6	10
From deposits with the Bank of Israel and from cash	17	12	34	21	46
From deposits with banks	2	1	5	2	5
From securities loaned or acquired in resale agreements	-	-	-	-	-
From debentures[1]	39	27	71	45	93
Total interest revenues	1,915	1,588	3,271	2,456	5,311
B. Interest expenses					
On deposits from the public	449	365	676	480	1,045
On deposits from governments	-	1	-	1	2
On deposits from banks	3	3	6	4	12
On debentures and subordinated notes	289	204	387	196	472
On other liabilities	1	1	2	1	2
Total interest expenses	742	574	1,071	682	1,533
Total interest revenues, net	1,173	1,014	2,200	1,774	3,778
C. Details of net effect of hedging derivatives on interest revenues	(4)	(35)	(8)	(52)	(24)
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	12	14	22	21	40
Available for sale	26	11	47	20	49
Held for trading	1	2	2	4	4
Total included under interest revenues	39	27	71	45	93

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

Note 3 - Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
		(unaudited)		(unaudited)	(audited)
A. Non-interest financing revenues (expenses) with respect to non-trade operations					
1. From activity in derivatives					
Non-effective element of hedging ratios[1]	3	3	-	3	8
Net revenues (expenses) with respect to ALM derivatives[2]	(425)	194	(1,210)	26	(244)
Total from activity in derivatives	(422)	197	(1,210)	29	(236)
2. From investment in debentures					
Gains on sale of debentures available for sale	14	21	24	52	58
Total from investment in debentures	14	21	24	52	58
3. Exchange rate differences, net	394	(255)	1,193	83	364
4. Gain from investment in shares					
Gains on sale of available-for-sale shares	-	-	1	-	3
Dividends from available-for-sale shares	2	1	5	3	3
Total from investment in shares	2	1	6	3	6
5. **Net gain with respect to loans sold**	-	31	1	46	45
Total non-interest financing revenues with respect to non-trade operations	(12)	(5)	14	213	237

Note 3 - Non-interest financing revenues - Continued

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
		(unaudited)		(unaudited)	(audited)
B. Non-interest financing revenues (expenses) with respect to trading operations[1]					
Net revenues (expenses) with respect to other derivatives	29	72	5	(79)	44
Realized gains (losses) from adjustment to fair value of debentures held for trade, net	3	2	1	4	(1)
Unrealized gains (losses) from adjustment to fair value of debentures held for trade, net	1	-	-	(2)	15
Total from trading operations[2]	33	74	6	(77)	58
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	-	-	2	(1)	(3)
Foreign currency exposure	33	75	5	(75)	65
Exposure to shares	-	2	1	1	1
Exposure to commodities and others	-	(3)	(2)	(2)	(5)
Total	33	74	6	(77)	58

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

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

Note 4 - Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

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

	Other comprehensive income (loss), before attribution to non-controlling interest						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments[1]	Net gain from cash flow hedges	Adjustments with respect to employee benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributable to shareholders of the Bank
							For the three months ended June 30, 2017 (unaudited)
Balance as of March 31, 2017	(22)	-	8	(289)	(303)	(5)	(298)
Net change in the period	21	-	1	[3](75)	(53)	(12)	(41)
Balance as of June 30, 2017	(1)	-	9	(364)	(356)	(17)	(339)
							For the three months ended June 30, 2016 (unaudited)
Balance as of March 31, 2016	9	-	10	(124)	(105)	(7)	(98)
Net change in the period	(1)	-	(1)	(11)	(13)	-	(13)
Balance as of June 30, 2016	8	-	9	(135)	(118)	(7)	(111)
							For the six months ended June 30, 2017 (unaudited)
Balance as of December 31, 2016	(29)	1	9	(303)	(322)	(5)	(317)
Net change in the period	28	(1)	-	[3](61)	(34)	(12)	(22)
Balance as of June 30, 2017	(1)	-	9	(364)	(356)	(17)	(339)
							For the six months ended June 30, 2016 (unaudited)
Balance as of December 31, 2015	(12)	-	14	(104)	(102)	(5)	(97)
Net change in the period	20	-	(5)	(31)	(16)	(2)	(14)
Provision balance as of June 30, 2016	8	-	9	(135)	(118)	(7)	(111)
							For the year ended December 31, 2016 (audited)
Balance as of December 31, 2015	(12)	-	14	(104)	(102)	(5)	(97)
Net change in the period	(17)	1	(5)	[2](199)	(220)	-	(220)
Balance as of December 31, 2016	(29)	1	9	(303)	(322)	(5)	(317)

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

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

(3) Includes the effect of the streamlining program at Bank Yahav on the Bank's shareholders' equity, amounting to NIS 11 million, and the effect of revision of the pay increase assumption and revision of the growth rate in remuneration on the actuarial liability with respect to employee rights, amounting to NIS 69 million, net of tax. See Note 8 to the financial statements for additional information.

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

Reported amounts (NIS in millions)

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

	For the three months ended June 30					
			2017			2016
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:						
Adjustments for presentation of securities available for sale at fair value						
Net unrealized gains (losses) from adjustments to fair value	47	(17)	30	19	(7)	12
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[1]	(14)	5	(9)	(21)	8	(13)
Net change in the period	33	(12)	21	(2)	1	(1)
Translation adjustments						
Adjustments from translation of financial statements[2]	-	-	-	-	-	-
Net change in the period	-	-	-	-	-	-
Cash flows hedges						
Net gains (losses) with respect to cash flows hedging	1	-	1	(1)	-	(1)
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[3]		-	-	-	-	-
Net change in the period	1	-	1	(1)	-	(1)
Employee benefits						
Net actuarial gain (loss) for the period	(116)	39	(77)	(18)	5	(13)
Net losses reclassified to the statement of profit and loss	3	(1)	2	2	-	2
Net change in the period	(113)	38	(75)	(16)	5	(11)
Total net change in the period	(79)	26	(53)	(19)	6	(13)
Total net change in the period attributable to non-controlling interests	16	(4)	12	-	-	-
Total net change in the period attributable to shareholders of the Bank	(63)	22	(41)	(19)	6	(13)

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

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

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

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

(5) Includes the effect of the streamlining program at Bank Yahav on the Bank's shareholders' equity, amounting to NIS 11 million, and the effect of revision of the pay increase assumption and revision of the growth rate in remuneration on the actuarial liability with respect to employee rights, amounting to NIS 69 million, net of tax. See Note 8 to the financial statements for additional information.

	For the six months ended June 30						For the year ended December 31,		
			2017			2016			2016
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	69	(24)	45	84	(31)	53	32	(11)	21
	(24)	7	(17)	(52)	19	(33)	(58)	20	(38)
	45	(17)	28	32	(12)	20	(26)	9	(17)
	(1)	-	(1)	-	-	-	1	-	1
	(1)	-	(1)	-	-	-	1	-	1
	-	-	-	(7)	2	(5)	(9)	4	(5)
	-	-	-	-	-	-	-	-	-
	-	-	-	(7)	2	(5)	(9)	4	(5)
	(97)	33	[5](64)	(49)	15	(34)	[4](303)	98	(205)
	5	(2)	3	4	(1)	3	9	(3)	6
	(92)	31	(61)	(45)	14	(31)	(294)	95	(199)
	(48)	14	(34)	(20)	4	(16)	(328)	108	(220)
	16	(4)	12	3	(1)	2	-	-	-
	(32)	10	(22)	(17)	3	(14)	(328)	108	(220)

Note 5 - Securities

June 30, 2017 (unaudited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	3,245	3,245	77	-	3,322
Total debentures held to maturity	3,245	3,245	77	-	3,322

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[1]
			Gains	Losses	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[2]	5,431	5,405	35	(9)	5,431
Of foreign governments [2][5]	1,604	1,630	-	(26)	1,604
Of foreign financial institutions	18	18	-	-	18
Of others overseas	17	18	-	(1)	17
Total debentures available for sale	7,070	7,071	35	(36)	7,070
Shares[3]	96	96	-	-	96
Total securities available for sale	7,166	7,167	35[4]	(36)[4]	7,166

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
of Government of Israel	149	149	-	-	149
Total securities held for trade	149	149	-	-	149
Total securities	10,560	10,561	112	(36)	10,637

(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 423 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 94 million.

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

(5) Primarily US government debentures.

Remarks:

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

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

Note 5 - Securities - Continued

June 30, 2016 (unaudited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value(1)
(1) Debentures held to maturity					
of Government of Israel	3,215	3,215	100	-	3,315
Total debentures held to maturity	3,215	3,215	100	-	3,315

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value(1)
			Gains	Losses	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel(2)	4,553	4,542	36	(25)	4,553
Of foreign governments (2)(5)	214	213	1	-	214
Of foreign financial institutions	97	97	-	-	97
Of others overseas	19	19	-	-	19
Total debentures available for sale	4,883	4,871	37	(25)	4,883
Shares(3)	101	101	-	-	101
Total securities available for sale	4,984	4,972	(4)37	(4)(25)	4,984

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value(1)
(3) Securities held for trade					
Debentures -					
of Government of Israel	220	218	2	-	220
Total securities held for trade	220	218	2(5)	-	220
Total securities	8,419	8,405	139	(25)	8,519

(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 450 million.

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

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

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

(6) Primarily US government debentures.

Remarks:

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

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

Note 5 - Securities - Continued

As of December 31, 2016 (audited)

Reported amounts (NIS in millions)

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

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

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
of Government of Israel	348	347	1	-	348
Total securities held for trade	348	347	1[5]	-	348
Total securities	10,262	10,307	106	(76)	10,337

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

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

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

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

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

(6) Primarily US government debentures.

Remarks:

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

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

Note 5 - Securities - Continued

Reported amounts (NIS in millions)

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

	As of June 30, 2017							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
Debentures -								
of Government of Israel	1,452	9	-	9	-	-	-	-
Of foreign governments	1,383	26	-	26		-	-	-
Of others overseas	-	-	-	-	10	1	-	1
Total securities available for sale	2,835	35	-	35	10	1	-	1

	As of June 30, 2016							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
Debentures -								
of Government of Israel	976	8	-	8	106	14	3	17
Total securities available for sale	976	8	-	8	106	14	3	17

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

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

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

(5) Asset-backed and mortgage-backed securities

As of June 30, 2017, June 30, 2016 and December 31, 2016, there was no balance of asset-backed or mortgage-backed securities.

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

Reported amounts (NIS in millions)

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

						June 30, 2017
	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	31,144	25	736	31,905	6,366	38,271
reviewed on group basis	9,752	118,532	18,404	146,688	-	146,688
Of which: By extent of arrears[3]	1,152	117,863	-	119,015	-	119,015
Total debts	40,896	118,557[2]	19,140	178,593	6,366	184,959
Of which:						
Impaired debts under restructuring	95	-	47	142	-	142
Other impaired debts	388	25	21	434	-	434
Total impaired debts	483	25	68	576	-	576
Debts in arrears 90 days or longer	51	937	22	1,010	-	1,010
Other problematic debts	905	-	127	1,032	-	1,032
Total problematic debts	1,439	962	217	2,618	-	2,618
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	505	3	28	536	2	538
reviewed on group basis	106	618	200	924	-	924
Of which: Provision by extent of arrears[3]	5	618	-	623	-	623
Total provision for credit losses	611	621	228	1,460	2	1,462
Of which: With respect to impaired debts	90	3	11	104	-	104

						June 30, 2016
Recorded debt balance of debts[1]						
reviewed on individual basis	29,846	34	849	30,729	6,118	36,847
reviewed on group basis	9,312[4]	110,849	16,024[4]	136,185	-	136,185
Of which: By extent of arrears[3]	1,029	110,269	-	111,298	-	111,298
Total debts	39,158	110,883[2]	16,873	166,914	6,118	173,032
Of which:						
Impaired debts under restructuring	164	-	49	213	-	213
Other impaired debts	613	34	25	672	-	672
Total impaired debts	777	34	74	885	-	885
Debts in arrears 90 days or longer	139	873	22	1,034	-	1,034
Other problematic debts	127	-	77	204	-	204
Total problematic debts	1,043	907	173	2,123	-	2,123
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	516	1	19	536	2	538
reviewed on group basis	81	610	172	863	-	863
Of which: Provision by extent of arrears[3]	4	610	-	614	-	614
Total provision for credit losses	597	611	191	1,399	2	1,401
Of which: With respect to impaired debts	129	1	11	141	-	141

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,952 million (as of June 30, 2016 - NIS 5,557 million).
(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 414 million (as of June 30, 2016: NIS 385 million).
(4) Reclassified.

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

Reported amounts (NIS in millions)

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

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

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

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

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

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

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

	Commercial	Housing	Individual - other	Total to the public	Banks and governments	Total
						For the three months ended June 30, 2017
Balance of provision for credit losses at start of period	730	612	216	1,558	1	1,559
Expenses with respect to credit losses	(7)	12	36	41	1	42
Accounting write-off(1)	(117)	(3)	(29)	(149)	-	(149)
Recovery of debts written off in previous years(1)	89	-	14	103	-	103
Net accounting write-offs	(28)	(3)	(15)	(46)	-	(46)
Balance of provision for credit losses at end of period	695	621	237	1,553	2	1,555
Of which: With respect to off balance sheet credit instruments	84	-	9	93	-	93
						For the three months ended June 30, 2016
Balance of provision for credit losses at start of period	670	603	191	1,464	2	1,466
Expenses with respect to credit losses	24	10	23	57	-	57
Accounting write-off(1)	(44)	(2)	(30)	(76)	-	(76)
Recovery of debts written off in previous years(1)	25	-	15	40	-	40
Net accounting write-offs	(19)	(2)	(15)	(36)	-	(36)
Balance of provision for credit losses at end of period	675	611	199	1,485	2	1,487
Of which: With respect to off balance sheet credit instruments	78	-	8	86	-	86
						For the six months ended June 30, 2017
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	19	12	60	91	-	91
Accounting write-off(1)	(154)	(6)	(59)	(219)	-	(219)
Recovery of debts written off in previous years(1)	106	-	28	134	-	134
Net accounting write-offs	(48)	(6)	(31)	(85)	-	(85)
Balance of provision for credit losses at end of period	695	621	237	1,553	2	1,555
Of which: With respect to off balance sheet credit instruments	84	-	9	93	-	93
						For the six months ended June 30, 2016
Balance of provision for credit losses at start of period	697	614	195	1,506	3	1,509
Expenses with respect to credit losses	24	1	36	61	(1)	60
Accounting write-off(1)	(93)	(4)	(63)	(160)	-	(160)
Recovery of debts written off in previous years(1)	47	-	31	78	-	78
Net accounting write-offs	(46)	(4)	(32)	(82)	-	(82)
Balance of provision for credit losses at end of period	675	611	199	1,485	2	1,487
Of which: With respect to off balance sheet credit instruments	78	-	8	86	-	86

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

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

A. Deposit types by location and depositor type

	June 30,		December 31,
	2017	2016	2016
	(unaudited)		(audited)
In Israel			
On-call			
Non interest-bearing	41,440	37,769	40,470
Interest-bearing	20,804	18,116	18,935
Total on-call	62,244	55,885	59,405
Term deposits	113,381	109,062	113,598
Total deposits in Israel	175,625	164,947	173,003
Outside of Israel			
On-call			
Non interest-bearing	469	626	694
Interest-bearing	7	7	7
Total on-call	476	633	701
Term deposits	4,579	4,041	4,548
Total deposits overseas	5,055	4,674	5,249
Total deposits from the public	180,680	169,621	178,252
(1) Of which:			
Deposits from individuals	85,067	80,320	82,501
Deposits from institutional investors	40,309	34,814	35,964
Deposits from corporations and others	50,249	49,813	54,538

B. Deposits from the public by size

	June 30,		December 31,
	2017	2016[(1)]	2016
	(unaudited)		(audited)
Maximum deposit			
Up to 1	60,695	57,842	59,606
Over 1 to 10	40,629	36,890	38,805
Over 10 to 100	26,528	23,599	25,042
Over 100 to 500	25,716	22,653	24,120
Above 500	27,112	28,637	30,679
Total	180,680	169,621	178,252

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

Note 8 - Employee Rights

Description of benefits

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

2. Remuneration policy for all Bank employees other than officers
   On March 20, 2017, the Bank's Board of Directors, based on recommendations by the Remuneration Committee, approved a remuneration policy for all Bank employees other than officers. The remuneration policy is based on Proper Banking Conduct Directive 301A with regard to remuneration policy at banking corporations (hereinafter: "the remuneration policy").
   The remuneration policy discusses remuneration terms of key employees at the Bank (including senior managers other than key employees) and those of other managers at the Bank and of other Bank employees for 2017-2019.
   The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

3. Developments in labor relations
   In late 2015,an economic arbitration process ("arbitration") was launched between the Bank and the Mizrahi Tefahot Employees Union ("the employees union"), to discuss the demands made by the employees union for 2005-2015.
   In 2016, an attempt was made to refer the discussion of employees union demands to a mediation framework, however this attempt was un-successful and in late 2016, the issue was once again being discussed in arbitration.
   Management believes, based on the opinion of legal counsel, that exposure with respect to this arbitration cannot be estimated.
   Concurrently with the arbitration, in recent months there have been negotiations taking place to renew the payroll agreement between Bank management and the employees union for 2016-2020.
   On June 13, 2017, the employees union declared a labor dispute.
   On June 25, 2017, Bank management and the employees union jointly announced they would negotiate in order to reach agreement by the end of July 2017. These negotiations did not result in a comprehensive payroll agreement for the aforementioned years.
   On August 1, 2017, the employees union announced a strike by Bank employees represented by the employees union, starting on August 2, 2017.
   During the strike, the Bank provided regular services in as much as possible.
   On August 16, 2017, the Bank announced that management and the employees union have reached understandings and consequently, the employees terminated the strike. According to the announcement, the parties would continue to hold discussions through September 12, 2017, in order to reach agreements which would allow them to sign a collective bargaining agreement.
   Based on understandings reached and subject to obtaining the required approvals for signing a collective bargaining agreement between the parties and to signing the actual collective bargaining agreement, the initial estimate of cost to be charged on the financial statements for the third quarter of 2017, including all relevant components through the third quarter of 2017, amounts to NIS 160 million before tax (NIS 104 million after tax).
   Moreover, the effect of expected implications of implementation of the agreement on the balance of actuarial liability on the financial statements for the second quarter of 2017 is an increase in liability by NIS 106 million.
   The assumption of remuneration growth rate used to determine the actuarial liability was 2.24% as of June 30, 2017.

4. Streamlining program at Bank Yahav

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

Pursuant to the retirement program, early retirement of 35 Bank Yahav employees in 2017-2019 would be authorized subject to criteria set forth in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 34 million before tax (NIS 22 million after tax).

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

Note 8 - Employee Rights

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

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
					NIS in millions
Cost of service[1]	10	7	23	13	26
Cost of interest[2]	9	8	21	15	31
Expected return on plan assets[3]	(1)	(1)	(2)	(2)	(4)
Deduction of non-allowed amounts:					
Net actuarial loss[4]	3	2	5	4	9
Total benefit cost, net	21	16	47	30	62
Total expense with respect to defined-contribution pension	30	28	58	57	114
Total expenses included in payroll and associated expenses	51	44	105	87	176

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

	Forecast	Actual deposits				
	For[5]	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2017	2016	2017	2016	2016
			(unaudited)		(unaudited)	(audited)
Deposits	3	2	2	3	3	6

(1) Cost of service is the current accrual of future employee benefits in the period.

(2) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.

(3) Expected return is the expected return on plan assets, determined based on expected long-term rates of return on plan assets and based on the established market value of plan assets.

(4) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.

(5) Estimated deposits to be paid into defined-benefit pension plans through end of 2017.

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

Reported amounts (NIS in millions)

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

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

	June 30,		December 31,
	2017	2016	2016
	(unaudited)		(audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I shareholders' equity	13,920	12,792	13,318
Tier I capital	13,920	12,792	13,318
Tier II capital	4,488	4,619	4,888
Total capital	18,408	17,411	18,206
B. Weighted risk asset balances			
Credit risk	127,530	122,596	122,605
Market risks	1,411	1,191	1,184
Operating risk	8,210	7,851	8,113
Total weighted risk asset balances(1)	137,151	131,638	131,902
			In %
C. Ratio of capital to risk elements			
Bank data:			
Ratio of Tier I shareholders' equity to risk elements	10.15	9.72	10.10
Ratio of Tier I capital to risk elements	10.15	9.72	10.10
Ratio of total capital to risk elements	13.42	13.23	13.80
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.87	9.52	9.76
Total minimum capital ratio required by the Supervisor of Banks(2)	13.37	13.02	13.26
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Ratio of Tier I shareholders' equity to risk elements	9.65	10.14	9.41
Ratio of Tier I capital to risk elements	9.65	10.14	9.41
Ratio of total capital to risk elements	13.60	13.12	13.27
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks(3)	12.50	12.50	12.50

(1) Of the total weighted balance of risk assets, NIS 318 million was deducted due to adjustments with respect to the streamlining plan (on December 31, 2016: NIS 230 million).

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

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

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

Reported amounts (NIS in millions)

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

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

	June 30,		December 31,
	2017	2016	2016
	(unaudited)		(audited)
3. Capital components for calculation of capital ratio (on consolidated basis)			
A. Tier I capital			
Shareholders' equity	13,893	12,971	13,324
Differences between shareholder equity and Tier I capital	(164)	(80)	(91)
Total Tier I capital before regulatory adjustments and deductions	13,729	12,891	13,233
Regulatory adjustments and deductions:			
Goodwill	(87)	(87)	(87)
Regulatory adjustments and other deductions	(19)	(12)	(16)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining program - Tier I capital	(106)	(99)	(103)
Total adjustments with respect to the streamlining program(1)	297	-	188
Total Tier I capital after regulatory adjustments and deductions	13,920	12,792	13,318
B. Tier II capital			
Tier II capital: Instruments, before deductions	3,047	3,278	3,491
Tier II capital: Provisions, before deductions	1,441	1,341	1,397
Total Tier II capital, before deductions	4,488	4,619	4,888
Deductions:			
Total deductions - Tier II capital	-	-	-
Total Tier II capital	4,488	4,619	4,888
4. **Effect of transitional provisions on Tier I capital ratio (for details see sections K and M below):**			
Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements, before effect of transition provision of Directive 299 and before effect of adjustments with respect to the streamlining programs(2)	9.85%	9.59%	9.83%
Effect of transition provisions, before effect of adjustments with respect to the streamlining programs	0.06%	0.13%	0.13%
Effect of adjustments with respect to the streamlining programs	0.24%	-	0.14%
Ratio of Tier I capital to risk elements before application of transitional provisions	10.15%	9.72%	10.10%

(1) Of which, NIS 214 million with respect to streamlining program concerning employees and NIS 83 million with respect to streamlining program concerning real estate.
For more information about relief concerning capital adequacy with respect to streamlining programs concerning employees and real estate, see Note 9.K. and Note 9.M.

(2) Before effect of transitional provisions concerning adoption of US GAAP with regard to employee rights.

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

Reported amounts (NIS in millions)

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

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

	June 30,		December 31,
	2017	2016	2016
	(unaudited)		(audited)
	In %		
1. Consolidated data[1]			
Liquidity coverage ratio	122	99	117
Minimum liquidity coverage ratio required by the Supervisor of Banks[2]	100	80	80
2. Bank data			
Liquidity coverage ratio	123	98	117
Minimum liquidity coverage ratio required by the Supervisor of Banks[2]	100	80	80
3. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Liquidity coverage ratio	413	407	286
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100

(1) In terms of simple average of daily observations during the reported quarter.
(2) As from January 1, 2017, the minimum liquidity coverage ratio required by the Supervisor of Banks is 100%.

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

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

	June 30,		December 31,
	2017	2016	2016
	(unaudited)		(audited)
1. Consolidated data			
Tier I capital[1]	13,920	12,792	13,318
Total exposure	257,012	239,941	252,489
Leverage ratio	5.42	5.33	5.27
Minimum leverage ratio required by the Supervisor of Banks[2]	5.00	5.00	5.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Leverage ratio	5.07	4.96	5.00
Minimum leverage ratio required by the Supervisor of Banks[2]	4.70	4.70	4.70

(1) For effect of transition provisions and effect of adjustments with respect to the streamlining program, see sections A.3, A.4 above.
(2) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018.

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

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

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

Following implementation of this directive, the target ratio of Tier I capital to risk elements increased by 0.1%, according to data as of the reporting date, in each of the seven quarters as from the implementation date of this directive, for a total increase of 0.87% when implementation is complete. This target may change based on actual data for the housing loan portfolio and for total risk assets.

E. On December 23, 2014, the Bank's Board of Directors resolved to approve the revised dividend distribution policy for 2015 and 2016. The revised dividends policy calls for dividends to be distributed with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015), at a rate of up to 15% of net profit attributable to shareholders.

The revised dividends policies are subject to the Bank's maintaining proper safety margins, as specified for this matter, so that the Bank's Tier I capital ratio would not be lower than the target required by the Supervisor of Banks' directives, as adopted by the Board of Directors.

F. As from January 1, 2015, the Bank has adopted US GAAP with regard to employee rights.

In conformity with transition provisions specified in Proper Banking Conduct Directive 299, a cumulative other comprehensive loss balance and amounts directly charged to retained earnings as of January 1, 2013 with respect to remeasurement of net liabilities or net assets with respect to defined benefit to employees, would not be immediately taken into account for calculation of the capital requirements, but would rather be subject to transitional provisions, so that the impact would be applied at equal rates of 20% as from January 1, 2014, 40% as from January 1, 2015 and through to full application as from January 1, 2018.

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

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

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

H. On October 22, 2015, the Supervisor of Banks issued a circular concerning capital requirements with respect to exposure to central counter-parties (CCP). The circular includes an amendment to Proper Banking Conduct Directive 203 with regard to capital measurement and adequacy, in conformity with directives of the Basel Committee on this matter.

The directive stipulates rules for treatment of exposure to clearinghouses, arising from trading of OTC derivatives, from transactions in negotiable derivatives and from transactions for financing securities.

Below are highlights of the amended directive:

- A central counter-party has been defined as a clearinghouse operating as a financial broker between counter-parties to contracts traded on a financial market.
- The trading exposure of a bank which is a member of the clearinghouse to a qualified central counter-party (QCCP) would be weighted at a risk weighting of 2% (compared to zero exposure currently). The trading exposure of a bank which is a member of the clearinghouse, that makes transfers to the clearinghouse's risks fund would be weighted in conformity with a formula specified in the directive.
- The trading exposure of a bank which is a member of the clearinghouse to clients active on a stock exchange in Israel would be calculated based on the calculation method for bi-lateral transactions (compared to current calculation according to rules of the stock exchange in Israel).
- The trading exposure of a bank acting through a member of the clearinghouse would carry a risk weighting of 2% or 4%, subject to compliance with business, operational and legal conditions specified in the directive.
- The trading exposure of a bank to a Non-Qualified Central Counter-Party would carry a risk weighting as applicable to that counter-party.

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

On December 28, 2016, the Supervisor of Banks' issued a letter whereby, notwithstanding the foregoing, calculation of exposure with respect to clients with activities on the MAOF stock exchange would continue to be based on the scenario method.

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

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

The Bank is applying this directive.

I. In December 2015 and in January 2016, the Bank issued contingent subordinated notes (Contingent Convertibles - CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 600 million.

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

The notes include loss-absorption provisions if the Bank's Tier I capital should drop below 5% or in case of another event leading to non-sustainability of the Bank, in conformity with the Supervisor of Banks' decision.

In such case, the notes would be partially or completely written off.

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

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

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

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

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

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

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

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

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

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

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

K. On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017-2021, at improved conditions.
Bank management is in negotiations with the employee union with regard to the retirement program and as a first step, has started implementation of the plan in the Technology Division Ltd., pending agreement with the employee union at the Bank.
The cost of update to the actuarial liability with respect to the streamlining program, recorded on the financial statements as of December 31, 2016, amounts to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity (under Other Comprehensive Income).
In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system, the Supervisor of Banks allowed capital relief with respect to this plan. The Bank applies this capital relief so that supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining (a decrease by 0.14%) would be applied on a straight line basis as from 2017, over a five-year period.
For more information on the streamlining program approved by the Bank Board of Directors on December 27, 2016, see Notes 22 and 25 to the 2016 financial statements.

L. On December 28, 2016, the Bank acquired an insurance policy for credit exposure due to guarantees provided by the Bank pursuant to the Sale Act (Apartments) (Securing Investments of Home Buyers), 1974 and obligations to issue such guarantees.

The insurance policy covers 80% of the guarantees amounting to NIS 15.5 billion and is effective as from December 31, 2016.

Obtaining this insurance resulted in a reduction of NIS 3.3 billion in the Bank's risk assets and in an increase of 0.25% in the Bank's Tier I capital ratio.

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

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

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

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

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

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

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

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

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

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

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

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

As directed by the Supervisor of Banks, the capital gain would be recognized over the lease term, in conformity with existing US standards for sale and lease-back transactions (section 840-40-25-2 of topic 840-40 of the codification concerning "Sale and lease-back transactions").

On July 20, 2017, the Supervisor of Banks allowed the Bank to recognize the capital gain (of NIS 83 million) generated by sale of the headquarters building in Ramat Gan as regulatory capital. The capital relief is to be amortized over the term of the streamlining program.

N. In August 2017, after the balance sheet date, Bank Yahav issued contingent subordinated notes (Contingent Convertibles - CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 120 million. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

Note 10 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

		June 30,	December 31,
	2017	2016	2016
		(unaudited)	(audited)
Obligations with respect to:			
Long-term leases[(1)(3)]	[(2)]2,518	826	[(2)]2,401
Computerization and software service contracts	272	283	233
Acquisition and renovation of buildings	5	11	6

(1) The Bank and subsidiaries have long-term leases on buildings and equipment for which the rental payments are as follows (subject to linkage conditions):

		June 30,	December 31,
	2017	2016	2016
		(unaudited)	(audited)
First year	178	68	162
Second year	175	68	155
Third year	173	62	153
Fourth year	164	56	145
Fifth year	162	53	143
Sixth year and thereafter	1,666	517	1,643
Total	2,518	826	2,401

(2) Includes IT and operating services provided to Bank Yahav by an international Tata Group company as from January 1, 2017. The company specializes, *inter alia*, in providing IT services to financial institutions and banking corporations world-wide. In this regard, Bank Yahav uses a core banking system which includes banking services in various channels, based on the bank's lines of business. Bank Yahav also receives operating services from the company with respect to IT systems it provides, as well as additional outsourced services.

Bank Yahav's contract with the company is a long-term one and Bank Yahav may optionally extend it for additional terms of up to 30 years.

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

Note 10 - Contingent Liabilities and Special Commitments - continued

B. Contingent liabilities and other special commitments

1. For details of other contingent liabilities and special commitments by the Bank group, see Note 26 to the 2016 financial statements. Below is a description of material changes relative to the Note provided in the 2016 annual report.
2. Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

   Below are details of material claims, including motions for class action status and claims where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2016 financial statements:

   A) In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank - firstly, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount. The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the aforementioned indications on the reporting forms, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt on Court Order Execution Service files is higher than the real debt, and over-charges in payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

      The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

      On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012.

      On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

      The parties have agreed and launched a reconciliation process aimed to try and resolve their differences. The reconciliation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files.

      The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon there after, in an attempt to reached an agreed arrangement.

      On August 29, 2016, a Court hearing took place and the Court resolved that the parties to this lawsuit and to the lawsuit described in section B. below, should file a settlement agreement and motion for approval thereof, no later than October 30, 2016. The resolution dated November 7, 2016 allowed the parties an extension to file a settlement agreement and motion for approval thereof, no later than November 30, 2016.On January 16, 2017, a hearing concerning the settlement agreement took place.

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

In conformity with the Court resolution dated July 4, 2017, the parties filed on August 13, 2017 the agreed text of the settlement agreement with regard to these motions; a motion to approve the agreement and a signed agreement should be filed by September 15, 2017.

B) In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts. The plaintiff is unable to estimate the amount claimed.

The parties agreed to add this motion to the reconciliation process on-going with regard to other motions which also concern collection processes conducted by the Bank against clients in debt, as stated in section A. above and in section C. below and on January 4, 2016, a resolution was issued to refer the above claim for hearing by the same party as the above claims.

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

C) In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to "hundreds of millions of NIS". No specific amount was specified in the statement of claim. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

In February 2012, the Bank filed its response to the motion and in August 2012, the plaintiff filed their response to the Bank's response to the motion.

In November 2012, the parties launched a reconciliation process designed to try and settle their disagreements. The reconciliation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files. The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon there after, in an attempt to reached an agreed arrangement. On January 6, 2016, the Bank filed a motion seeking a preliminary ruling on its claim with regard to the statute of limitations with regard to the cause of claim of alleged class members and/or of most of them. The plaintiff's response was filed on January 26, 2016 and the Bank's response was filed on February 1, 2016. On February 14, 2016, a resolution was handed down whereby, inter alia, the claim with regard to the statute of limitations would be adjudicated at the end of the process.

Following direct negotiations between the parties, the parties reached an agreed settlement brought for approval by the Court on November 14, 2016.

On January 16, 2017, a hearing took place at which the parties agreed for the Bank to respond to questions raised at the hearing with regard to the settlement agreement and motion for approval filed by the parties. On February 8, 2017, the Bank filed its comments with the Court. On March 7, 2017, the Court ordered that within 15 days, a revised announcement text is to be filed with the Court for approval, and a copy of the settlement agreement is to be sent to the Supervisor of Banks and to the Attorney General and the parties were instructed to file their claims with regard to the issue of the statute of limitations.

On April 2, the Court approved the revised announcement text and on April 12, 2017, the announcement was published in the newspapers with regard to filing a motion for approval of a settlement agreement.

Further to the Court resolutions dated March 7, 2017 and June 13, 2017, the Bank filed additional claims with regard to the statute of limitations; a resolution is still pending.

The Attorney General filed their position with regard to the settlement agreement on July 30; the deadline for filing the parties' response to the Attorney General's position is September 15, 2017.

A hearing of the objections to the agreement is set for October 2, 2017.

D) 1. In August 2013, a claim and motion for class action status in the amount of NIS 10.5 billion were filed with the Tel Aviv District Court against the 5 major banks, including the Bank, and against bank Presidents, including the Bank President & CEO, in person - with respect to unlawful charging of commissions by the banks with regard to foreign currency conversion and transfer, which the plaintiffs allege was made without proper disclosure. The plaintiffs also claim that a restrictive trade practice exists among the banks.

In September 2013, the defendants filed a motion with the Court, seeking dismissal of the personal claim against bank Presidents, and the individual claim against them was dismissed.

A revised motion for class action status filed on February 3, 2014 set the claim amount at NIS 11.15 billion for all banks on aggregate.

2. In March 2014, a claim and motion for class action status in the amount of NIS 2.07 billion were filed with the Tel Aviv District Court against the Bank and against Bank Otzar HaChayal, Mercantile Discount Bank, Bank Igud Le Israel and Bank Yahav, alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency (this claim is identical to the aforementioned one).

A motion has been filed to combine heating of this motion with the first aforementioned motion and the Court has agreed to said motion and has combined both claims.

On December 23, 2014. the Bank filed its response to each of the motions for class action status. The plaintiffs filed their response to the combined response to the two aforementioned motions, in which they attributed part of the claim amount to each of the plaintiffs; the Bank's alleged share for both these claims amounted to NIS 1.145 billion in principal.

On March 8, 2015, a pre-trial hearing of this case took place, after which the Court set deadlines for completion of the statements of claim by all parties.

On April 23, 2015, the plaintiffs filed, in conformity with the Court decision, a summary motion for approval of class action status, based on the current motions. The Bank filed its response to the summary motion on October 18, 2015.

On October 25, 2015, another pre-trial hearing took place. In this hearing, the Court combined the hearing of motions filed against the credit card companies and the Postal Bank with those filed against the banks. Evidentiary hearings took place in March 2016. The plaintiffs filed their summations in April 2016. Given the banks' motion to dismiss the plaintiffs' summation, an extension was granted for the banks to file their summations within 60 days after the decision on the motion to dismiss. On August 10, 2016, the Court accepted the motion by the banks and ordered the summation by the plaintiffs to be dismissed; on September 4, 2016, the plaintiffs filed new summations; and on January 17, 2017, the Bank filed its summation and the plaintiffs filed their response summations. In February 2017, the banks filed a motion to reject the response summations. On February 23, the Court resolved that this motion would be addressed as part of the resolution on the motion for class action status, which has yet to be resolved.

Note 10 - Contingent Liabilities and Special Commitments - continued

E) In March 2014, a claim and motion for class action status were filed with the Central District Court against the Bank, alleging unlawful charging of warning letter commission and excessive interest charged for exceeding the authorized limit on accounts, allegedly in breach of Proper Banking Conduct Directive 325 concerning "management of credit facility in checking account". The plaintiff claims that this directive is breached, *inter alia*, by the Bank allowing charges to clients which the Bank could and should have rejected, since the Bank may not allow clients to exceed their credit facility - thereby causing them to exceed their credit facility.

The plaintiff claims to be unable to estimate the damage caused to potential class members, but believes this amounts to hundreds of millions of NIS.

The Bank filed its response to the motion in October 2014. On March 10, 2015, the plaintiff filed their response to the Bank's response to the motion. A common pre-trial hearing for the three motions filed against the Bank, Bank Leumi and Discount Bank - against which claims were filed citing similar causes - took place on March 26, 2015. On November 2, the Bank filed its motion to reject parts of the plaintiff's response to the Bank's response. The plaintiff has yet to file its response. On April 18, 2016, another preliminary hearing took place; according to the Court decision, the plaintiffs were granted an extension to file their response to the motion by the Bank to dismiss part of the plaintiff's response to the Bank's response. On October 27, 2016, another pre-trial hearing took place to discuss motions by the banks to dismiss sections in the plaintiffs' response to the banks' response to the motion; another pre-trial hearing took place on April 18, 2016. On October 27, 2016, a pre-trial hearing took place to discuss motions by the banks to dismiss sections in the plaintiffs' response to the banks' response to the motion; an evidentiary hearing is scheduled for May 4, 2017. Concurrently, the parties are negotiating an agreed withdrawal settlement. On May 1, 2017, the parties filed a motion to withdraw by agreement. On May 14, 2017, the Court issued a verdict confirming the plaintiff's withdrawal of the motion.

F) In August 2014, a counter-claim was filed with the Supreme Court in New York by a plaintiff who is subject to debt collection proceedings concerning his guarantee to secure credit obtained by a company controlled there by. The plaintiff claims it has sustained damage in excess of USD 57 million due to a breach of verbal commitment made by the Bank to the plaintiff not to enforce his personal guarantee. The plaintiff claims that deeds and omissions by the Bank have resulted in failure to meet his various obligations and in destruction of his business. In March 2015, the Bank filed a motion to dismiss. The plaintiff filed its response in May 2015. On July 10, 2015, the Bank filed its response to the plaintiff's claim and to the motion to dismiss.

On July 31, 2015, a hearing of the motion to dismiss took place. On December 14, the Court rejected the plaintiff's claim with regard to alleged Bank omissions - but left in place the cause of claim with regard to verbal termination of their guarantee.

The Bank filed its response to the plaintiff's claim on February 11, 2016 and document discovery is now under way.

On August 18, 2016, the Bank filed an appeal of the Court resolution to partially dismiss the motion to dismiss filed by the Bank, with regard to the plaintiff's claim that the Bank has verbally approved the termination of their guarantee; on November 11, 2016, the plaintiff filed their response to the appeal. In December, the Bank filed its response to the plaintiff's response. A resolution is still pending.

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

Note 10 - Contingent Liabilities and Special Commitments - continued

G) In March 2015, a counter-claim was filed against the Bank with the Central District Court, along with a motion for class action status, with respect to alleged over-charging of commissions in an "individual" account and in a "small business" account, allegedly in breach of Banking Rules (Customer Service) (Commissions), 2008. The plaintiff alleges that the breach was due, *inter alia*, to the Bank charging holders of "individual" or "small business" account commissions for certain services at higher tariffs than those set for large corporations, in contravention of the aforementioned Banking Rules.

The plaintiff claimed they were unable to estimate the damage incurred by potential class members.

The Bank filed its response to the motion on June 30, 2015. The plaintiff also filed their response to the Bank's response.

According to a Court resolution dated September 10, 2015, the Bank of Israel filed its position on December 15, 2015. On December 16, 2015, another pre-trial hearing took place - at which the parties were urged to negotiate a potential settlement agreement. A pre-trial hearing took place on March 29, 2016 and an evidentiary hearing took place on July 12, 2016. On November 8, 2016, the plaintiff filed their summation and on January 22, 2017, the Bank filed their summation, the plaintiff filed their response summation and the Court's decision on the motion is still pending.

H) In March 2015, a claim and motion for class action status was filed with the District Court in Tel Aviv against the Bank, its President, Board members and controlling shareholders, with regard to damage allegedly caused to the plaintiff and to class members due to the alleged breach of mandatory disclosure of material information to investors.

The plaintiff alleges that the defendants have allegedly acted in contravention of the Securities Act, 1968 and relevant regulations, by failing to disclose on the Bank's financial statements that a provision has been made with respect to an investigation against the Bank in the USA, the nature and amounts of such provisions and the fact that the Supervisor of Banks has required the Bank to make provisions on the Bank's financial statements with regard to exposure to investigation by authorities in the USA.

The plaintiff claims that - due to the requirement by the Supervisor of Banks - the Bank made provisions amounting to tens of millions of NIS on its financial statements for the second and third quarters of 2014, classified under "Other expenses".

The plaintiff claims that, based on information in the aforementioned financial statements, tens of thousands of investors have bought Bank shares without having the aforementioned material information. The plaintiff also claims that the price at which class members purchased those Bank shares was higher than the price they would have paid for the shares, had the proper disclosure been made.

No specific amount was specified in the statement of claim. However, the plaintiff referred to the mechanism for calculation of damage whereby, on the date when the alleged deception was made public, the Bank share under-performed the Bank Share Index by 2.19% (excluding Bank HaPoalim and Bank Mizrahi Tefahot).

The plaintiff wishes to specify, in conformity with the Class Action Lawsuit Act, that the lawsuit would be filed on behalf of "anyone who bought shares of Bank Mizrahi-Tefahot Ltd. from the publication date of the financial statements for the second quarter of 2014 (August 13, 2014) and held the shares on February 26, 2015".

The response by the Bank and other defendants was filed on November 19, 2015; discovery proceedings have been completed. On August 3, 2016, the Court approved the consent by the parties to dismiss the controlling shareholders of the Bank from the motion. The plaintiff's filed their response to the response by the Bank and other defendants to the motion on September 11, 2016; on October 9, 2016, the defendants filed a motion to dismiss the plaintiffs' response claiming, *inter alia*, a broader scope. The plaintiff also filed a motion to call the Supervisor of Banks in the relevant period to testify on the motion. The Bank filed its response to the motion on November 2, 2016.

On January 3, 2017, a resolution was given by the Court, whereby the Bank and other defendants may file their response to the plaintiff's response to the defendants' response to the motion. The Court also rules that on the date to be set for hearing of the actual motion, the then Supervisor of Banks would be invited.

On March 1, 2017, the Bank and the other defendants filed their response to the previous responses. On April 23, 2017, evidentiary hearings were scheduled for June 11, 2017.

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

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

I) In December 2015, a motion for class action status was filed against Bank Yahav, alleging that Bank Yahav charged individual clients (and small businesses) commissions whose amount and rate exceed the allowed maximum, specified in the price list for non-small businesses. This claim does not specify an estimated claim amount. The parties are in negotiations to reach an agreement.

J) In January 2016, a claim and motion for class action status was filed with the Jerusalem District Court, amounting in total to NIS 697.5 million, against the Bank, First International Bank of Israel Ltd., Bank Otzar HaChayal Ltd., Bank Yahav for Government Employees Ltd. and Bank Igud LeIsrael Ltd. (hereinafter: "the defendants"). This claim alleges discrimination of the Arab population with regard to access to banking services, in that the defendants do not maintain branches close to Arab population and do not make their banking services accessible to this population - in alleged violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000.

The plaintiff seeks a verdict stating, in conformity with the Class Action Lawsuit Act, that the claim is to be filed on behalf of all Israeli residents who are Muslim, Christian or Druze, who suffer from discrimination in access to banking services by the defendants, due to absence of bank branches of the defendants in their town.

The plaintiffs set their claim against all defendants at NIS 697.5 million, noting that each defendant's share of the damage caused to class members is based on their market share - as is their share in compensation to class members. The Bank filed its response to the motion on August 4, 2016 and the plaintiffs filed their response there to on November 13, 2016.

A pre-trial hearing took place on December 19, 2016, at which the Court recommended that the parties reach a settlement in this case. As proposed by the Court, the parties have started negotiations. On May 10, 2017, another pre-trial hearing took place where the parties informed the Court that they had not reached understandings. On May 24, 2017, the plaintiffs filed data obtained from the Bank of Israel about the banks in 2009 and thereafter, the respondents filed their own updated data. Evidentiary and summation hearings are scheduled for November 2017.

K) In May 2016, a lawsuit was filed against the Bank with the Tel Aviv Yafo District Court, along with a motion for class action status, amounting to NIS 220 million. The lawsuit alleges unlawful over-charging of commissions to clients eligible to be classified as a small business, in breach of the Bank's duties in its relations with clients.

The plaintiff claims that the Bank has not disclosed to clients who manage a small business that they are eligible for the lower commission schedule of a "small business", in order to foil the commission reform and to charge small businesses commissions other than according to the small business tariff, allegedly resulting in unlawful gain at the expense of these clients.

The Bank filed its response to the motion on November 1, 2016 and the plaintiff filed their response to the Bank's response on November 30, 2016.

On April 23, 2017, a preliminary hearing took place and resolutions were handed down with regard to questions and document discovery; the parties are to comply with these by May 23, 2017. Given the plaintiff's notice of their intention to file a motion to consolidate the hearing of this motion with a hearing of 5 other motions for class action status in lawsuits filed on the same matter, on June 22, 2017 the Bank filed a petition with the Court seeking a stay of proceedings in this lawsuit, including preliminary discovery proceedings, pending a ruling by the Supreme Court on the motion for consolidation. On June 28, 2017, a motion was filed with the Supreme Court for consolidation of the hearing of this lawsuit with the five other motions; the Bank filed its response on July 10, 2017; on July 20, 2017 the Court rejected the motion to consolidate all of these lawsuits.

L) In August 2016, a motion for class action status filed with the Tel Aviv-Yafo District Court, against the Bank and 9 other banks, alleging unlawful over-charging of fees to clients not classified as individuals or small businesses, in breach of the Bank's duties in its relations with clients.

The plaintiffs claim that the defendant banks charge any clients not classified as individuals or small businesses, fees not listed in the binding statutory price list, in conformity with the Banking Act (Customer Service), 1981 or in amounts higher than specified there in, allegedly in violation of the Act. The plaintiff claim that upon filing the motion, they are unable to demonstrate the exact size of the class or of the damage. However, they set the total damage incurred by the class at an estimated NIS 1 billion or higher, against all defendant banks together.

On March 19, 2017, the banks filed a motion, asking the Court to order the plaintiff to deposit a bond and to grant an extension for filing the response to the motion for class action status, which was accepted. One of the plaintiffs filed a motion for permission to appeal this resolution, which motion was granted. Dates for filing the banks' response and for hearing have yet to be set.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 2 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 71 million.

3. Motions for class action status are pending against the Bank and subsidiaries, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

A) In March 2015, a motion for approval of derivative claim was filed with the District Court in Tel Aviv ("the motion") on behalf of the Bank and its subsidiary, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") against past and incumbent officers of the Bank and of Mizrahi Switzerland, at a minimum amount of NIS 95 million, for damage allegedly sustained by Mizrahi Group due to the defendants' deeds and omissions with regard to providing assistance to US clients in avoiding taxes in the USA. The plaintiff claims that defendants should reimburse the Bank for the damage they have caused to Mizrahi Group in general and to the Bank in particular.

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

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

It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed. Should the discovery motion be dismissed, or should a motion for approval not be filed by 90 days after receiving the documents - the motion for approval would be considered a preliminary motion to any other motion, if filed.

On April 18, 2016, the Court resolved to postpone the hearing of the motion pending conclusion of the inquiry and reporting of its outcome.

On April 12, 2017, the Court directed the Attorney General to inform the Court in 45 days' time of their intention to join the proceeding. On June 22, 2017, the Attorney General filed a motion with the Court, seeking an extension of the deadline for the former's announcement, to be filed within 40 days after the Court resolution on this motion. The Court has approved the motion for extension and the Attorney General filed its position on August 3, 2017. As ruled by the Court, the parties should file their response to the position of the Attorney General by October 6, 2017.

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

B) In December 2016, a motion for class action status was filed with the Central District Court against the Bank, Bank HaPoalim, First International Bank Of Israel, Bank Leumi and Discount Bank, alleging charging of foreign currency-related fees not in conformity with provisions of the complete price list, as stated in Banking Regulations (Customer Service) (Fees), 2008 and in violation of Section 9 of the Banking Act (Customer Service), 1981. According to the plaintiff, the defendant banks charge minimum fees with respect to various foreign currency-related transactions, graduated according to transaction amount, allegedly in contravention of provisions of the complete price list, whereby the defendant banks must list the fee they charge for a range of transactions as "Percentage (minimum, maximum)". The plaintiff further claims that the defendant banks are in breach of the Anti-Trust Act by maintaining a restrictive arrangement.

The plaintiff notes that they do not have the final data, which are available to the defendants. However, they estimate the damage incurred to be at least NIS 500 million.

The Bank's response was filed on April 23, 2017 and the plaintiff's response was filed on May 21, 2017. On July 03, 2017, a pre-trial hearing took place after which the plaintiff was allowed to amend their motion and to file it no later than October 15, 2017.

C) In February 2017, a motion for class action status was filed against Bank Yahav with the Central District Court. The plaintiff claims that Bank Yahav's transition to a new core system caused its clients to incur damage due to impact to service levels in various service channels which, allegedly, left the clients unable to conduct transactions in their accounts.

The plaintiff estimates damages to each class member at NIS 1,000 or higher and has set the claim amount at NIS 370 million (based on 370,000 Bank Yahav clients).

On August 21, 2017 Bank Yahav filed his response to the motion.

4. Further to section (12) of Note 26 to the financial statements as of December 31, 2016 and to section 4 of Note 10 to the financial statements as of March 31, 2017 ("the financial statements"), the Bank continues to provide information and documents as requested at the recent meeting and discussions with representatives of the US DOJ.

At this stage there are no negotiations taking place with the US DOJ with regard to the inquiry or to its implications in terms of any arrangement and in terms of any monetary implications for the Bank Group, if any, of such an arrangement when formulated.

According to the opinion of the Bank's legal counsel, based on data in the computer-based repository which has been validated and considering arrangements made by the US DOJ with other banks with regard to investigations concerning undisclosed accounts of US taxpayers, certain data in the repository may be relevant to Bank Group exposure, should the Bank's position about these data not prevail.

Based on the aforementioned opinion, the provision with respect to this inquiry amounts to USD 44.3 million (NIS 155 million). This amount was calculated for data which may be relevant, according to opinion of the Bank's legal counsel and for components which, according to the opinion of the Bank's legal counsel, should be accounted for, as the case may be. The estimated tax amount which the US clients associated with said data ("the relevant clients") should have paid to the IRS in the USA, revenues accrued by the Bank due to banking activity of the relevant clients and the percentage of monetary assets of the relevant clients. As for data related to Mizrahi Switzerland business with US clients, the provision was calculated based on a theoretical assumption whereby Mizrahi Switzerland Bank is included under Category 2 of the Swiss Program.

Note that the Bank's legal counsel have expressed their opinion that at this stage, it is not possible to estimate the potential loss which the Bank Group may incur with respect to this inquiry, the relevant exposure amount nor the exposure range for the Bank Group. This is due, *inter alia*, to the fact that based on the professional experience of US legal counsel, such conclusions cannot be made prior to analysis of all of all data and information to be provided and because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start.

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

Note 11 - Derivatives and hedging activities

Reported amounts (NIS in millions)

A) Activity on consolidated basis

						As of June 30, 2017
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivatives						
A. Hedging derivatives[1]						
Forward contracts	1,382	-	-	-	-	1,382
Other option contracts:						
Options written	-	17	-	-	-	17
Swaps	-	1,120	-	-	-	1,120
Total	1,382	1,137	-	-	-	2,519
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,120	-	-	-	1,120
B. ALM derivatives[1][2]						
Forward contracts	5,937	100	86,651	-	37	92,725
Option contracts traded on stock exchange:	-	-	-	-	-	
Options written	-	-	-	-	-	-
Options purchased	-	-	77	-	-	77
Other option contracts:	-	-	-	-	-	
Options written	-	-	9,900	-	-	9,900
Options purchased	-	-	9,298	-	-	9,298
Swaps	1,725	34,976	7,871	-	-	44,572
Total	7,662	35,076	113,797	-	37	156,572
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,613	21,221	-	-	-	22,834
C. Other derivatives[1]						
Forward contracts	-	-	1,135	-	-	1,135
Option contracts traded on stock exchange:						
Options written	-	-	4,598	9,517	6,456	20,571
Options purchased	-	-	4,598	9,517	6,456	20,571
Other option contracts:						
Options written	-	-	-	38	-	38
Options purchased	-	70	-	39	-	109
Swaps	-	3	8	4,887	-	4,898
Total	-	73	10,339	23,998	12,912	47,322
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	3	-	-	-	3

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

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

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

	Interest contracts					As of June 30, 2017
	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	-	-	-	-	689	689
Foreign currency spot swap contracts	-	-	4,315	-	-	4,315
Total	-	-	4,315	-	689	5,004
Total stated amounts of derivatives	9,044	36,286	128,451	23,998	13,638	211,417
2. Fair value, gross, of derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	14	6	-	-	-	20
Negative fair value, gross	7	75	-	-	-	82
B. ALM derivatives(1)(2)						
Positive fair value, gross	326	929	2,677	-	1	3,933
Negative fair value, gross	175	1,187	2,280	-	1	3,643
C. Other derivatives(1)						
Positive fair value, gross	-	1	101	330	-	432
Negative fair value, gross	-	-	70	296	-	366
D. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	6	6
Negative fair value, gross	-	-	-	-	2	2
Total						
Positive fair value, gross(3)	340	936	2,778	330	7	4,391
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivatives	340	936	2,778	330	7	4,391
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	163	169	1,398	214	7	1,951
Total						
Negative fair value, gross	182	1,262	2,350	296	3	4,093
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivatives	182	1,262	2,350	296	3	4,093
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	46	285	1,607	210	2	2,150

(1) Except for credit derivatives.

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

(3) Includes: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 7 million.

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

	As of June 30, 2016					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivatives						
A. Hedging derivatives[1]						
Forward contracts	2,454	-	-	-	-	2,454
Other option contracts:						
Options written	-	58	-	-	-	58
Swaps	-	1,545	-	-	-	1,545
Total	2,454	1,603	-	-	-	4,057
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,545	-	-	-	1,545
B. ALM derivatives[1][2]						
Forward contracts	7,270	1,000	94,826	-	33	103,129
Option contracts traded on stock exchange:						
Options written	-	-	1,216	51	-	1,267
Options purchased	-	-	1,274	51	-	1,325
Other option contracts:						
Options written	-	-	13,887	-	-	13,887
Options purchased	-	-	12,525	-	-	12,525
Swaps	1,762	34,215	8,226	-	-	44,203
Total	9,032	35,215	131,954	102	33	176,336
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,491	19,544	-	-	-	21,035
C. Other derivatives[1]						
Forward contracts	-	-	1,164	-	-	1,164
Option contracts traded on stock exchange:						
Options written	-	-	3,725	14,020	-	17,745
Options purchased	-	-	3,725	14,020	-	17,745
Other option contracts:						
Options written	-	-	-	19	-	19
Options purchased	-	50	-	5	-	55
Swaps	-	3	29	7,357	-	7,389
Total	-	53	8,643	35,421	-	44,117
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	3	-	-	-	3

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

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

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis - continued

						As of June 30, 2016
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	1,034	1,034
Foreign currency spot swap contracts	-	-	12,907	-	-	12,907
Total	-	-	12,907	-	1,034	13,941
Total stated amounts of derivatives	11,486	36,871	153,504	35,523	1,067	238,451
2. Fair value, gross, of derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	45	-	-	-	-	45
Negative fair value, gross	4	145	-	-	-	149
B. ALM derivatives(1)(2)						
Positive fair value, gross	407	1,290	1,303	9	1	3,010
Negative fair value, gross	217	1,606	1,302	-	1	3,126
C. Other derivatives(1)						
Positive fair value, gross	-	-	82	322	-	404
Negative fair value, gross	-	-	82	430	-	512
D. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	3	3
Negative fair value, gross	-	-	-	-	3	3
Total						
Positive fair value, gross(3)	452	1,290	1,385	331	4	3,462
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivatives	452	1,290	1,385	331	4	3,462
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	137	238	659	271	4	1,309
Total						
Negative fair value, gross	221	1,751	1,384	430	4	3,790
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivatives	221	1,751	1,384	430	4	3,790
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	13	254	912	300	4	1,483

(1) Except for credit derivatives.

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

(3) Includes: positive fair value, gross of assets with respect to embedded derivatives amounting to NIS 2 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 3 million.

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

						As of December 31, 2016
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivatives						
A. Hedging derivatives[1]						
Forward contracts	2,196	-	-	-	-	2,196
Other option contracts:						
Options written	-	19	-	-	-	19
Swaps	-	1,218	-	-	-	1,218
Total	2,196	1,237	-	-	-	3,433
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,218	-	-	-	1,218
B. ALM derivatives[1][2]						
Forward contracts	6,756	200	103,041	-	53	110,050
Option contracts traded on stock exchange:						
Options written	-	-	4	-	-	4
Options purchased	-	-	21	-	-	21
Other option contracts:						
Options written	-	-	11,058	-	-	11,058
Options purchased	-	-	10,251	-	-	10,251
Swaps	1,810	31,906	8,256	-	-	41,972
Total	8,566	32,106	132,631	-	53	173,356
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,647	17,889				19,536
C. Other derivatives[1]						
Forward contracts	-	-	1,148	-	-	1,148
Option contracts traded on stock exchange:						
Options written	-	-	6,590	14,194	2	20,786
Options purchased	-	-	6,590	14,194	2	20,786
Other option contracts:						
Options written	-	-	-	41	-	41
Options purchased	-	200	-	27	-	227
Swaps	-	4	14	9,200	-	9,218
Total	-	204	14,342	37,656	4	52,206
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	4	-	-	-	4

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

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

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of December 31, 2016					
	Interest contracts					
	NIS - CPI	Other	Foreign currency contracts	Contracts with respect to shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	882	882
Foreign currency spot swap contracts	-	-	4,024	-	-	4,024
Total	-	-	4,024	-	882	4,906
Total stated amounts of derivatives	10,762	33,547	150,997	37,656	939	233,901
2. Fair value, gross, of derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	34	8	-	-	-	42
Negative fair value, gross	3	89	-	-	-	92
B. ALM derivatives(1)(2)						
Positive fair value, gross	349	1,016	1,486	-	3	2,854
Negative fair value, gross	198	1,298	1,310	-	3	2,809
C. Other derivatives(1)						
Positive fair value, gross	-	-	86	606	-	692
Negative fair value, gross	-	2	83	579	-	664
D. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	4	4
Negative fair value, gross	-	-	-	-	1	1
Total						
Positive fair value, gross(3)	383	1,024	1,572	606	7	3,592
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of assets with respect to derivatives	383	1,024	1,572	606	7	3,592
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	123	154	769	294	6	1,346
Total						
Negative fair value, gross	201	1,389	1,393	579	4	3,566
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
Carrying amount of liabilities with respect to derivatives	201	1,389	1,393	579	4	3,566
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	13	231	894	564	3	1,705

(1) Except for credit derivatives.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Includes: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 8 million.

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

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

						As of June 30, 2017
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives [(1)]	**126**	**2,640**	**14**	**51**	**1,560**	**4,391**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,769)	-	-	(87)	(1,856)
Mitigation of credit risk with respect to cash collateral received	-	(693)	-	(44)	(12)	(749)
Net amount of assets with respect to derivatives	126	178	14	7	1,461	1,786
Off-balance sheet credit risk on derivatives[(3)]	246	1,218	93	-	1,109	2,666
Mitigation of off-balance sheet credit risk	-	(456)	-	-	(109)	(565)
Net off-balance sheet credit risk with respect to derivatives	246	762	93	-	1,000	2,101
Total credit risk with respect to derivatives	372	940	107	7	2,461	3,887
Carrying amount of liabilities with respect to derivatives	**125**	**2,252**	**14**	**-**	**1,702**	**4,093**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,769)	-	-	(87)	(1,856)
Pledged cash collateral	-	(304)	-	-	-	(304)
Net amount of liabilities with respect to derivatives	125	179	14	-	1,615	1,933

						As of June 30, 2016
Carrying amount of assets with respect to derivatives [(2)]	**170**	**2,220**	**39**	**-**	**1,033**	**3,462**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,935)	-	-	(63)	(1,998)
Mitigation of credit risk with respect to cash collateral received	-	(72)	-	-	(38)	(110)
Net amount of assets with respect to derivatives	170	213	39	-	932	1,354
Off-balance sheet credit risk on derivatives[(3)]	-	1,285	154	-	1,067	2,506
Mitigation of off-balance sheet credit risk	-	(692)	-	-	(50)	(742)
Net off-balance sheet credit risk with respect to derivatives	-	593	154	-	1,017	1,764
Total credit risk with respect to derivatives	170	806	193	-	1,949	3,118
Carrying amount of liabilities with respect to derivatives[(4)]	**208**	**2,535**	**-**	**37**	**1,010**	**3,790**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,935)	-	-	(63)	(1,998)
Pledged cash collateral	-	(625)	-	(11)	-	(636)
Net amount of liabilities with respect to derivatives	208	(25)	-	26	947	1,156

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 7 million.

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

(3) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

(4) Includes negative fair value, gross, of embedded derivatives amounting to NIS 3 million.

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

B) Credit risk with respect to financial derivatives according to counter-party to the contract - Consolidated - continued

	As of December 31, 2016					
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives [1]	**215**	**2,264**	**14**	**-**	**1,099**	**3,592**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,634)	-	-	(44)	(1,678)
Mitigation of credit risk with respect to cash collateral received	-	(500)	-	-	(38)	(538)
Net amount of assets with respect to derivatives	215	130	14	-	1,017	1,376
Off-balance sheet credit risk on derivatives[2]	145	1,353	152	-	965	2,615
Mitigation of off-balance sheet credit risk	-	(547)	-	-	(134)	(681)
Net off-balance sheet credit risk with respect to derivatives	145	806	152	-	831	1,934
Total credit risk with respect to derivatives	360	936	166	-	1,848	3,310
Carrying amount of liabilities with respect to derivatives	**215**	**2,115**	**14**	**29**	**1,193**	**3,566**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,634)	-	-	(44)	(1,678)
Pledged cash collateral	-	(295)	-	(23)	-	(318)
Net amount of liabilities with respect to derivatives	215	186	14	6	1,149	1,570

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

(2) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

In the six-month period ended June 30, 2017, the Bank recognized credit losses with respect to derivatives, amounting to NIS 6 million (in the six-month period ended June 30, 2016 the Bank recognized revenues from a decrease in credit losses with respect to derivatives amounting to NIS 11 million and in all of 2016, the Bank recognized revenues from a decrease in credit losses with respect to derivatives amounting to NIS 14 million).

Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

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

					As of June 30, 2017
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	82	3,571	4,565	826	9,044
Other	3,154	6,334	18,439	8,359	36,286
Currency contracts	68,928	48,198	9,819	1,506	128,451
Contracts for shares	19,730	4,000	268	-	23,998
Commodities and other contracts	13,027	10	247	354	13,638
Total	104,921	62,113	33,338	11,045	211,417

					As of June 30, 2016
Interest contracts:					
NIS - CPI	356	3,797	6,845	488	11,486
Other	5,124	5,932	16,781	9,034	36,871
Currency contracts	100,002	41,901	9,509	2,092	153,504
Contracts for shares	29,010	6,495	18	-	35,523
Commodities and other contracts	22	11	520	514	1,067
Total	134,514	58,136	33,673	12,128	238,451

					As of December 31, 2016
Interest contracts:					
NIS - CPI	2,052	1,386	6,458	866	10,762
Other	2,808	5,055	17,150	8,534	33,547
Currency contracts	92,907	46,200	9,704	2,186	150,997
Contracts for shares	28,755	8,757	144	-	37,656
Commodities and other contracts	45	229	243	422	939
Total	126,567	61,627	33,699	12,008	233,901

Note 12 - Operating Segments

A. Information regarding supervisory operating segments

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

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

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

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

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

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

Supervisory operating segments

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

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

Definitions of supervisory operating segments are as follows:

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

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

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

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

Large businesses - businesses with turnover higher than NIS 250 million

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

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.

Note 12 - Operating Segments - continued

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 80 thousand, the client is classified to the appropriate supervisory operating segment based on the client's total financial assets with the Bank.
  Such classification would be in accordance with the aforementioned categories for revenues, with total financial assets multiplied by 10 for the purpose of such classification.
- When the Bank is of the opinion that the volume of revenues of a business client are not indicative of their total operations and the client's total assets on the balance sheet exceed NIS 100 million, the Bank classifies such client to the Large Businesses segment. Such classification is used, for example, in the real estate sector. When total assets on the balance sheet amount to less than NIS 100 million and the revenues are not indicative, as noted above, the client is typically classified as follows:

  Small and micro businesses - total assets on client balance sheet amount up to NIS 50 million.

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

  Large businesses - businesses where total assets on the client balance sheet exceeds NIS 215 million.

The main products offered by the Bank’s different operating segments are:

- **Banking and finance** - an array of banking services offered to private and corporate clients, including management of checking accounts, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivatives, including trading in currencies and interest rates, etc.
- **Capital market** - security transactions for clients on stock exchanges in Israel and overseas, provident fund operating services and mutual fund distribution (management of provident funds and mutual funds until sold) which are among investment tracks available to Bank clients.
- **Credit cards** - A set of financial products and banking services given in conjunction with credit cards issued to Bank clients by credit card companies in Israel.
- **Mortgages** - Housing loans secured by charges on a residence, out of the Bank’s funds and within the framework of government aid programs.
- **Construction and real estate** - banking operations vis-à-vis companies in the real estate sector, as well as unique banking services for the real estate sector, including the financing of real estate products by the closed financing method.

Note 12 - Operating Segments - continued

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

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, expense set at cost of capital raised (transfer cost) is attributed to clients, against an inter-segment credit to the Financial Management segment. Each segment is also charged any excess premium inherent in the cost of raising qualified equity instruments for capital adequacy. This is based on the capital attributed for segment operations. For deposits, revenue set at cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Transfer prices for loans and deposits are similar. Each of the segments is credited for capital attributed to operations there of, against a debit to the Financial Management segment. Capital consumption is measured by the average risk assets managed by the segment.
- When calculating risk assets attributed to each segment, any off-balance sheet credit exposures are "converted" to credit equivalent using coefficients specified in directives on measurement of capital adequacy.
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Gains arising from changes to fair value of derivatives is attributed to Financial Management.
- Gains and losses from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to clients on behalf of whom they were made.
- Commissions and other revenues are specifically attributed to clients.
- Payroll expenses, building maintenance and other expenses specifically attributed to Bank branches are attributed to branch clients using loading factors which reflect the client operations and the number of transactions in their account. Later on, an additional (inter-segment) settlement takes place, which attributes some of the direct expenses of the branch to clients in non-retail operating segments.
  Intersegment settlement reflects the fact that branches also serve non-retail clients. This settlement is presented under inter-segment expenses / revenues in the Note.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases which take into account the ratio of the expense for the segment.
  Certain headquarters expenses may sometimes be attributed to a specific operating segment and may sometimes be attributed based on the current estimate of resources allocated to each operating segment.
- When headquarters expenses may not be attributed, they are assigned by weighted business and IT transactions, as noted above In this regard, IT expenses directly associated with specific operating segments are attributed to these segments and other IT expenses are assigned to operating segments based on headcount.
- Provision for tax on operating profit is attributed to clients, is pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

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

Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	1,842	445	12	2,287	1	437
Interest expenses from externals	-	265	-	265	65	34
Interest revenues, net from externals	1,842	180	12	2,022	(64)	403
Interest revenues, net - inter-segment	(1,219)	414	(2)	(805)	93	17
Total interest revenues, net	623	594	10	1,217	29	420
Total non-interest financing revenues	-	-	-	-	-	-
Total commissions and other revenues	76	264	70	340	5	159
Total non-interest revenues	76	264	70	340	5	159
Total revenues	699	858	80	1,557	34	579
Expenses with respect to credit losses	12	60	-	72	1	70
Operating and other expenses to externals	263	754	10	1,017	25	310
Operating and other expenses - inter-segment	-	1	-	1	-	(2)
Total operating and other expenses	263	755	10	1,018	25	308
Pre-tax profit	424	43	70	467	8	201
Provision for taxes on profit	154	16	25	170	3	73
After-tax profit	270	27	45	297	5	128
Share of banking corporation in earnings of associates	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	270	27	45	297	5	128
Net profit attributed to non-controlling interests	-	(19)	-	(19)	-	-
Net profit attributable to shareholders of the banking corporation	270	8	45	278	5	128
Average balance of assets	116,594	33,319	3,741	149,913	71	15,625
Of which: Investments in associates	-	-	-	-	-	-
Average balance of loans to the public	116,594	19,174	3,741	135,768	71	15,625
Balance of loans to the public at end of reported period	118,212	20,027	4,174	138,239	91	16,456
Balance of impaired debts	25	69	-	94	-	322
Balance of debt in arrears 90 days or longer	-	964	-	964	-	45
Average balance of liabilities	-	77,032	3,741	77,032	11,162	17,814
Of which: Average balance of deposits from the public	-	72,448	-	72,448	11,152	17,814
Balance of deposits from the public at end of reported period	-	73,263	-	73,263	11,804	18,394
Average balance of risk assets(1)	64,162	17,016	1,625	81,178	30	14,486
Balance of risk assets at end of reported period(1)	65,118	17,108	1,581	82,226	22	15,129
Average balance of assets under management(2)	6,878	39,674	-	46,552	2,436	13,718
Composition of interest revenues, net:						
Margin from credit granting operations	601	402	10	1,003	-	379
Margin from activities of receiving deposits	-	190	-	190	29	36
Other	22	2	-	24	-	5
Total interest revenues, net	623	594	10	1,217	29	420

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).
(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.

Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total - operations in Israel	Operations overseas: Total - operations overseas	Total
107	268	21	43	3,164	107	3,271
15	77	193	397	1,046	25	1,071
92	191	(172)	(354)	2,118	82	2,200
10	40	226	426	7	(7)	-
102	231	54	72	2,125	75	2,200
-	-	-	16	16	4	20
35	68	27	81	715	19	734
35	68	27	97	731	23	754
137	299	81	169	2,856	98	2,954
(14)	(30)	(10)	-	89	2	91
48	71	65	129	1,665	35	1,700
1	1	2	(3)	-	-	-
49	72	67	126	1,665	35	1,700
102	257	24	43	1,102	61	1,163
37	93	9	16	401	22	423
65	164	15	27	701	39	740
-	-	-	-	-	-	-
65	164	15	27	701	39	740
-	-	-	-	(19)	-	(19)
65	164	15	27	682	39	721
5,152	14,458	3,095	33,558	221,872	10,269	232,141
-	-	-	33	33	-	33
5,152	14,458	1,570	-	172,644	3,029	175,673
5,694	13,303	1,616	-	175,399	3,194	178,593
56	99	1	-	572	4	576
1	-	-	-	1,010	-	1,010
6,912	28,593	38,159	29,999	209,671	8,827	218,498
6,909	28,588	37,618	-	174,529	5,114	179,643
7,465	24,390	40,309	-	175,625	5,055	180,680
6,147	20,976	2,431	5,549	130,797	3,481	134,278
6,433	21,157	2,258	6,400	133,625	3,526	137,151
4,508	26,981	150,423	11,892	256,510	-	256,510
82	197	17	-	1,678	46	1,724
13	29	36	-	333	6	339
7	5	1	72	114	23	137
102	231	54	72	2,125	75	2,200

Note 12 - Operating Segments - continued
Supervisory operating segments
For the six months ended June 30, 2016 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	1,172	385	11	1,557	1	409
Interest expenses from externals	-	165	-	165	44	21
Interest revenues, net from externals	1,172	220	11	1,392	(43)	388
Interest revenues, net - inter-segment	(645)	298	(2)	(347)	68	(8)
Total interest revenues, net	527	518	9	1,045	25	380
Total non-interest financing revenues	-	-	-	-	-	-
Total commissions and other revenues	74	262	68	336	7	156
Total non-interest revenues	74	262	68	336	7	156
Total revenues	601	780	77	1,381	32	536
Expenses with respect to credit losses	1	36	-	37	-	63
Operating and other expenses to externals	227	746	12	973	19	308
Operating and other expenses - inter-segment	-	(54)	(2)	(54)	4	(30)
Total operating and other expenses	227	692	10	919	23	278
Pre-tax profit	373	52	67	425	9	195
Provision for taxes on profit	143	20	26	163	3	75
After-tax profit	230	32	41	262	6	120
Share of banking corporation in earnings of associates	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	230	32	41	262	6	120
Net profit attributed to non-controlling interests	-	(21)	-	(21)	-	-
Net profit attributable to shareholders of the banking corporation	230	11	41	241	6	120
Average balance of assets	108,233	31,823	3,265	140,056	148	14,586
Of which: Investments in associates	-	-	-	-	-	-
Average balance of loans to the public	108,233	17,346	3,265	125,579	69	14,586
Balance of loans to the public at end of reported period	110,626	17,681	3,349	128,307	87	14,811
Balance of impaired debts	34	74	-	108	-	282
Balance of debt in arrears 90 days or longer	858	34	-	892	-	58
Average balance of liabilities	-	71,107	3,265	71,107	10,607	15,037
Of which: Average balance of deposits from the public	-	67,842	-	67,842	10,485	14,149
Balance of deposits from the public at end of reported period	-	69,456	-	69,456	10,864	14,742
Average balance of risk assets(1)	59,655	15,443	1,558	75,098	26	12,930
Balance of risk assets at end of reported period(1)	60,639	15,745	1,568	76,384	30	13,545
Average balance of assets under management(2)	5,761	38,043	-	43,804	1,858	13,794
Composition of interest revenues, net:						
Margin from credit granting operations	512	365	9	877	1	347
Margin from activities of receiving deposits	-	153	-	153	24	25
Other	15	-	-	15	-	8
Total interest revenues, net	527	518	9	1,045	25	380

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).
(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.
(3) Includes capital gains under Other Revenues amounting to NIS 78 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.
(4) Reclassified. Credit balances of credit card companies were reclassified from the Institutional Investors segment to the Large Businesses segment.

					Operations overseas	Total
Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total - operations in Israel	Total - operations overseas	
105	237	27	25	2,361	95	2,456
9	64	139	223	665	17	682
96	173	(112)	(198)	1,696	78	1,774
(6)	54	160	82	3	(3)	-
90	227	48	(116)	1,699	75	1,774
-	-	1	[3]131	132	4	136
32	86	33	152	802	15	817
32	86	34	283	934	19	953
122	313	82	167	2,633	94	2,727
(2)	(37)	3	(1)	63	(3)	60
22	35	48	171	1,576	39	1,615
24	34	20	2	-	-	-
46	69	68	173	1,576	39	1,615
78	281	11	(5)	994	58	1,052
30	108	4	(2)	381	22	403
48	173	7	(3)	613	36	649
-	-	-	-	-	-	-
48	173	7	(3)	613	36	649
-	-	-	-	(21)	-	(21)
48	173	7	(3)	592	36	628
4,826	15,399	1,900	30,186	207,101	9,465	216,566
-	-	-	36	36	-	36
4,826	[4]14,330	[4]1,278	-	160,668	3,140	163,808
4,797	[4]14,142	[4]1,474	-	163,618	3,296	166,914
89	391	9	-	879	6	885
-	12	-	-	962	-	962
6,469	28,756	34,872	28,370	195,218	8,660	203,878
6,075	28,067	34,252	-	160,870	4,589	165,459
6,254	28,817	34,814	-	164,947	4,674	169,621
6,221	[4]24,298	[4]2,643	5,353	126,569	3,623	130,192
6,436	[4]23,677	[4]2,503	5,436	128,011	3,627	131,638
3,690	19,944	139,702	25	222,817	-	222,817
79	192	19	-	1,515	42	1,557
10	29	29	-	270	6	276
1	6	-	(116)	(86)	27	(59)
90	227	48	(116)	1,699	75	1,774

Note 12 - Operating Segments - continued
Supervisory operating segments
For the three months ended June 30, 2017 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	1,195	231	6	1,426	1	222
Interest expenses from externals	-	181	-	181	42	22
Interest revenues, net from externals	1,195	50	6	1,245	(41)	200
Interest revenues, net - inter-segment	(877)	250	(1)	(627)	56	15
Total interest revenues, net	318	300	5	618	15	215
Total non-interest financing revenues	-	-	-	-	-	-
Total commissions and other revenues	39	130	36	169	3	79
Total non-interest revenues	39	130	36	169	3	79
Total revenues	357	430	41	787	18	294
Expenses with respect to credit losses	12	36	-	48	1	38
Operating and other expenses to externals	134	378	5	512	13	159
Operating and other expenses - inter-segment	-	-	-	-	-	(1)
Total operating and other expenses	134	378	5	512	13	158
Pre-tax profit	211	16	36	227	4	98
Provision for taxes on profit	76	6	13	82	1	35
After-tax profit	135	10	23	145	3	63
Share of banking corporation in earnings of associates	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	135	10	23	145	3	63
Net profit attributed to non-controlling interests	-	(10)	-	(10)	-	-
Net profit attributable to shareholders of the banking corporation	135	-	23	135	3	63
Average balance of assets	117,523	33,292	4,071	150,815	70	15,894
Of which: Investments in associates	-	-	-	-	-	-
Average balance of loans to the public	117,523	19,594	4,071	137,117	70	15,894
Balance of loans to the public at end of reported period	118,212	20,027	4,174	138,239	91	16,456
Balance of impaired debts	25	69	-	94	-	322
Balance of debt in arrears 90 days or longer	-	964	-	964	-	45
Average balance of liabilities	-	77,860	4,055	77,860	11,244	18,606
Of which: Average balance of deposits from the public	-	72,972	-	72,972	11,232	18,606
Balance of deposits from the public at end of reported period	-	73,263	-	73,263	11,804	18,394
Average balance of risk assets(1)	64,619	17,078	1,630	81,697	32	14,747
Balance of risk assets at end of reported period(1)	65,118	17,108	1,581	82,226	22	15,129
Average balance of assets under management(2)	7,050	39,940	39,940	46,990	2,525	14,020
Composition of interest revenues, net:						
Margin from credit granting operations	304	203	5	507	-	195
Margin from activities of receiving deposits	-	97	-	97	15	18
Other	14	-	-	14	-	2
Total interest revenues, net	318	300	5	618	15	215

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).
(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.

					Operations overseas	Total
Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total - operations in Israel	Total - operations overseas	
57	133	10	12	1,861	54	1,915
9	52	123	300	729	13	742
48	81	(113)	(288)	1,132	41	1,173
6	38	143	373	4	(4)	-
54	119	30	85	1,136	37	1,173
-	-	-	19	19	2	21
20	32	13	40	356	9	365
20	32	13	59	375	11	386
74	151	43	144	1,511	48	1,559
(11)	(32)	(4)	1	41	1	42
25	36	31	85	861	16	877
1	1	1	(2)	-	-	-
26	37	32	83	861	16	877
59	146	15	60	609	31	640
21	53	5	23	220	11	231
38	93	10	37	389	20	409
-	-	-	1	1	-	1
38	93	10	38	390	20	410
-	-	-	-	(10)	-	(10)
38	93	10	38	380	20	400
5,384	15,367	3,079	34,433	225,042	9,744	234,786
-	-	-	36	36	-	36
5,384	14,184	1,529	-	174,178	2,978	177,156
5,694	13,303	1,616	-	175,399	3,194	178,593
56	99	1	-	572	4	576
1	-	-	-	1,010	-	1,010
6,750	28,913	38,745	29,940	212,058	8,177	220,235
6,750	28,237	38,178	-	175,975	4,876	180,851
7,465	24,390	40,309	-	175,625	5,055	180,680
6,261	21,058	2,459	5,686	131,940	3,526	135,466
6,433	21,157	2,258	6,400	133,625	3,526	137,151
4,491	28,245	152,262	12,264	260,797	-	260,797
42	102	9	-	855	20	875
7	14	21	-	172	3	175
5	3	-	85	109	14	123
54	119	30	85	1,136	37	1,173

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

Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	938	203	5	1,141	1	207
Interest expenses from externals	-	141	-	141	32	16
Interest revenues, net from externals	938	62	5	1,000	(31)	191
Interest revenues, net - inter-segment	(668)	200	(1)	(468)	45	-
Total interest revenues, net	270	262	4	532	14	191
Total non-interest financing revenues	-	-	-	-	-	-
Total commissions and other revenues	37	130	34	167	3	79
Total non-interest revenues	37	130	34	167	3	79
Total revenues	307	392	38	699	17	270
Expenses with respect to credit losses	10	24	-	34	-	39
Operating and other expenses to externals	113	382	5	495	10	160
Operating and other expenses - inter-segment	-	(27)	-	(27)	2	(15)
Total operating and other expenses	113	355	5	468	12	145
Pre-tax profit	184	13	33	197	5	86
Provision for taxes on profit	67	4	12	71	2	31
After-tax profit	117	9	21	126	3	55
Share of banking corporation in earnings of associates	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	117	9	21	126	3	55
Net profit attributed to non-controlling interests	-	(13)	-	(13)	-	-
Net profit attributable to shareholders of the banking corporation	117	(4)	21	113	3	55
Average balance of assets	109,497	31,770	3,308	141,267	73	14,703
Of which: Investments in associates	-	-	-	-	-	-
Average balance of loans to the public	109,497	17,484	3,308	126,981	72	14,703
Balance of loans to the public at end of reported period	110,626	17,681	3,349	128,307	87	14,811
Balance of impaired debts	34	74	-	108	-	282
Balance of debt in arrears 90 days or longer	858	34	-	892	-	58
Average balance of liabilities	-	71,796	3,308	71,796	10,707	16,272
Of which: Average balance of deposits from the public	-	68,488	-	68,488	10,617	14,496
Balance of deposits from the public at end of reported period	-	69,456	-	69,456	10,864	14,742
Average balance of risk assets(1)	60,101	15,618	1,561	75,719	23	13,314
Balance of risk assets at end of reported period(1)	60,639	15,745	1,568	76,384	30	13,545
Average balance of assets under management(2)	5,687	38,492	-	44,179	2,010	13,581
Composition of interest revenues, net:						
Margin from credit granting operations	260	190	4	450	1	173
Margin from activities of receiving deposits	-	72	-	72	13	13
Other	10	-	-	10	-	5
Total interest revenues, net	270	262	4	532	14	191

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).
(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.
(3) Includes capital gains under Other Revenues amounting to NIS 78 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.
(4) Reclassified. Credit balances of credit card companies were reclassified from the Institutional Investors segment to the Large Businesses segment.

						Operations overseas	Total
	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total - operations in Israel	Total - operations overseas	
	57	113	16	1	1,536	52	1,588
	6	42	107	221	565	9	574
	51	71	(91)	(220)	971	43	1,014
	(4)	48	115	265	1	(1)	-
	47	119	24	45	972	42	1,014
	-	-	1	69	70	(1)	69
	17	44	13	33[3]	356	7	363
	17	44	14	102	426	6	432
	64	163	38	147	1,398	48	1,446
	-	(9)	(3)	-	61	(4)	57
	14	17	27	94	817	19	836
	12	17	10	1	-	-	-
	26	34	37	95	817	19	836
	38	138	4	52	520	33	553
	14	50	1	19	188	12	200
	24	88	3	33	332	21	353
	-	-	-	-	-	-	-
	24	88	3	33	332	21	353
	-	-	-	-	(13)	-	(13)
	24	88	3	33	319	21	340
	4,862	17,307	1,416	27,950	207,578	9,991	217,569
	-	-	-	39	39	-	39
	4,862	[4]14,532	[4]1,032	-	162,182	3,242	165,424
	4,797	[4]14,142	[4]1,474	-	163,618	3,296	166,914
	89	391	9	-	879	6	885
	0	12	-	-	962	-	962
	6,937	30,629	35,161	24,336	195,838	8,902	204,740
	6,149	28,799	34,594	-	163,143	4,755	167,898
	6,254	28,817	34,814	-	164,947	4,674	169,621
	6,288	[4]23,646	[4]2,541	5,342	126,873	3,672	130,545
	6,436	[4]23,677	[4]2,503	5,436	128,011	3,627	131,638
	3,912	21,540	140,403	25	225,650	-	225,650
	41	98	10	-	773	22	795
	5	15	14	-	132	2	134
	1	6	-	45	67	18	85
	47	119	24	45	972	42	1,014

Note 12 - Operating Segments - continued
Supervisory operating segments
For the year ended December 31, 2016 (audited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	2,676	806	23	3,482	1	817
Interest expenses from externals	-	378	-	378	101	45
Interest revenues, net from externals	2,676	428	23	3,104	(100)	772
Interest revenues, net - inter-segment	(1,576)	656	(5)	(920)	147	9
Total interest revenues, net	1,100	1,084	18	2,184	47	781
Total non-interest financing revenues	-	-	-	-	-	-
Total commissions and other revenues	154	523	143	677	10	313
Total non-interest revenues	154	523	143	677	10	313
Total revenues	1,254	1,607	161	2,861	57	1,094
Expenses with respect to credit losses	13	91	1	104	1	114
Operating and other expenses to externals	465	1,492	28	1,957	40	611
Operating and other expenses - inter-segment	-	(77)	(8)	(77)	5	(44)
Total operating and other expenses	465	1,415	20	1,880	45	567
Pre-tax profit	776	101	140	877	11	413
Provision for taxes on profit	302	39	54	341	4	161
After-tax profit	474	62	86	536	7	252
Share of banking corporation in earnings of associates	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	474	62	86	536	7	252
Net profit attributed to non-controlling interests	-	(42)	-	(42)	-	-
Net profit attributable to shareholders of the banking corporation	474	20	86	494	7	252
Average balance of assets	110,612	32,665	3,537	143,277	113	14,772
Of which: Investments in associates	-	-	-	-	-	-
Average balance of loans to the public	110,612	17,961	3,537	128,573	73	14,772
Balance of loans to the public at end of reported period	114,691	19,140	3,731	133,831	82	15,387
Balance of impaired debts	27	70	-	97	-	312
Balance of debt in arrears 90 days or longer	853	26	-	879	-	52
Average balance of liabilities	-	72,674	3,537	72,674	10,647	14,955
Of which: Average balance of deposits from the public	-	69,137	-	69,137	10,637	14,955
Balance of deposits from the public at end of reported period	-	71,334	-	71,334	11,167	15,738
Average balance of risk assets(1)	60,850	15,935	1,642	76,785	27	13,345
Balance of risk assets at end of reported period(1)	63,247	16,892	1,615	80,139	24	13,963
Average balance of assets under management(2)	6,104	39,164	-	45,268	2,074	13,224
Composition of interest revenues, net:						
Margin from credit granting operations	1,073	760	18	1,833	1	709
Margin from activities of receiving deposits	-	322	-	322	46	54
Other	27	2	-	29	-	18
Total interest revenues, net	1,100	1,084	18	2,184	47	781

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).
(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.
(3) Includes capital gains under Other Revenues amounting to NIS 92 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.
(4) Reclassified. Credit balances of credit card companies were reclassified from the Institutional Investors segment to the Large Businesses segment.

					Operations overseas	Total
Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total - operations in Israel	Total - operations overseas	
200	499	53	64	5,116	195	5,311
25	133	308	507	1,497	36	1,533
175	366	(255)	(443)	3,619	159	3,778
12	89	351	317	5	(5)	-
187	455	96	(126)	3,624	154	3,778
-	-	-	291	291	4	295
68	169	60	[3]239	1,536	31	1,567
68	169	60	530	1,827	35	1,862
255	624	156	404	5,451	189	5,640
11	(29)	(1)	(1)	199	1	200
57	92	114	354	3,225	74	3,299
39	50	25	2	-	-	-
96	142	139	356	3,225	74	3,299
148	511	18	49	2,027	114	2,141
58	199	7	19	789	44	833
90	312	11	30	1,238	70	1,308
-	-	-	-	-	-	-
90	312	11	30	1,238	70	1,308
-	-	-	-	(42)	-	(42)
90	312	11	30	1,196	70	1,266
4,862	15,842	1,536	26,252	206,654	10,181	216,835
-	-	-	35	35	-	35
4,862	[4]14,506	[4]1,484	-	164,270	3,195	167,465
4,869	[4]13,783	[4]1,577	-	169,529	3,250	172,779
66	205	-	-	680	1	681
21	6	-	-	958	-	958
6,549	28,713	35,340	26,184	195,062	8,690	203,752
6,549	28,713	34,685	-	164,676	4,818	169,494
7,378	32,101	35,285	-	173,003	5,249	178,252
6,306	[4]23,131	[4]2,564	5,414	127,572	3,594	131,166
5,920	[4]20,813	[4]2,375	5,277	128,511	3,391	131,902
3,687	22,572	141,469	248	228,542	-	228,542
161	387	37	-	3,128	92	3,220
23	57	59	-	561	11	572
3	11	-	(126)	(65)	51	(14)
187	455	96	(126)	3,624	154	3,778

Note 12 - Operating Segments - continued

B. Operating segments in conformity with the management approach.

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivatives, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments" above.

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

Household segment - under responsibility of the Retail Division. This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment - under responsibility of the Retail Division, which also serves small business clients, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking - private banking is under responsibility of the Private Banking and International Operations sector of the Finance Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking - clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 6-25 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. Criteria by which clients are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management - operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The major products and guidelines for attribution of balances, revenues and expenses to clients in the system to operating segments in conformity with the management approach, are similar to products and guidelines according to the supervisory operating segment approach.

Note 12 - Operating Segments - continued
Operating segments in conformity with the management approach
For the six months ended June 30, 2017 (unaudited)

Reported amounts (NIS in millions)

	Households - other	Households mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	345	1,715	(6)	274	79	269	(476)	2,200
Inter-segment	367	(1,178)	41	49	9	145	567	-
Total interest revenues, net	712	537	35	323	88	414	91	2,200
Non-interest financing revenues	2	-	-	-	-	11	7	20
Commissions and other revenues	266	73	29	132	23	112	99	734
Total revenues	980	610	64	455	111	537	197	2,954
Expenses with respect to credit losses	54	11	3	76	3	(56)	-	91
Operating and other expenses	784	216	45	273	59	154	169	1,700
Pre-tax profit	142	383	16	106	49	439	28	1,163
Provision for taxes on profit	52	139	6	39	18	160	9	423
After-tax profit	90	244	10	67	31	279	19	740
Share in net profits of associates, after tax	-	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	90	244	10	67	31	279	19	740
Attributable to non-controlling interests	(19)	-	-	-	-	-	-	(19)
Net profit attributable to shareholders of the Bank	71	244	10	67	31	279	19	721
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	8.8%	7.9%	31.6%	15.0%	12.5%	18.0%	11.5%	11.4%
Average balance of loans to the public, net	22,929	111,603	882	10,973	4,576	22,916	-	173,879
Average balance of deposits from the public	79,258	-	8,345	17,936	6,388	57,490	10,226	179,643
Average balance of assets	23,699	111,952	1,555	11,077	4,633	28,296	50,929	232,141
Average balance of risk assets(2)	19,707	61,773	670	9,119	5,048	31,829	6,132	134,278

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

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

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

Reported amounts (NIS in millions)

	Households - other	Households mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	348	1,070	2	274	65	295	(280)	1,774
Inter-segment	270	(619)	34	23	18	86	188	-
Total interest revenues, net	618	451	36	297	83	381	(92)	1,774
Non-interest financing revenues	3	-	1	-	-	5	127	136
Commissions and other revenues	274	74	30	130	26	130	(3) 153	817
Total revenues	895	525	67	427	109	516	188	2,727
Expenses with respect to credit losses	32	-	1	61	6	(39)	(1)	60
Operating and other expenses	693	186	44	253	56	157	226	1,615
Pre-tax profit	170	339	22	113	47	398	(37)	1,052
Provision for taxes on profit	65	130	8	43	18	152	(13)	403
After-tax profit	105	209	14	70	29	246	(24)	649
Share in net profits of associates, after tax	-	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	105	209	14	70	29	246	(24)	649
Attributable to non-controlling interests	(21)	-	-	-	-	-	-	(21)
Net profit attributable to shareholders of the Bank	84	209	14	70	29	246	(24)	628
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity) (1)	11.9%	7.6%	34.5%	20.2%	13.4%	14.0%	-	10.6%
Average balance of loans to the public, net	21,514	103,750	1,081	10,120	4,536	22,090	-	163,091
Average balance of deposits from the public	74,280	-	7,240	14,119	5,591	53,708	10,504	165,442
Average balance of assets	20,904	102,833	1,875	10,182	4,664	26,051	49,054	215,563
Average balance of risk assets (2)	18,273	57,457	903	7,798	4,931	35,693	5,137	130,192

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

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

(3) Includes capital gains under Other Revenues amounting to NIS 78 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

Note 12 - Operating Segments - continued
Operating segments in conformity with the management approach
For the three months ended June 30, 2017 (unaudited)

Reported amounts (NIS in millions)

	Households - other	Households mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	136	1,122	(2)	129	40	121	(373)	1,173
Inter-segment	226	(847)	19	36	6	94	466	-
Total interest revenues, net	362	275	17	165	46	215	93	1,173
Non-interest financing revenues	1	-	-	-	-	5	15	21
Commissions and other revenues	133	37	14	63	11	57	50	365
Total revenues	496	312	31	228	57	277	158	1,559
Expenses with respect to credit losses	32	11	3	44	3	(52)	1	42
Operating and other expenses	403	110	22	138	29	78	97	877
Pre-tax profit	61	191	6	46	25	251	60	640
Provision for taxes on profit	22	69	2	17	9	91	21	231
After-tax profit	39	122	4	29	16	160	39	409
Share in net profits of associates, after tax	-	-	-	-	-	-	1	1
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	39	122	4	29	16	160	40	410
Attributable to non-controlling interests	(10)	-	-	-	-	-	-	(10)
Net profit attributable to shareholders of the Bank	29	122	4	29	16	160	40	400
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[(1)]	7.1%	8.0%	27.9%	12.9%	13.0%	21.1%	43.2%	12.7%

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

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

Note 12 - Operating Segments - continued

Operating segments in conformity with the management approach

For the three months ended June 30, 2016 (unaudited)

Reported amounts (NIS in millions)

	Households other	Households mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	142	875	(4)	128	23	139	(289)	1,014
Inter-segment	177	(639)	22	23	18	66	333	-
Total interest revenues, net	319	236	18	151	41	205	44	1,014
Non-interest financing revenues	1	-	1	-	-	2	65	69
Commissions and other revenues	136	37	15	66	13	65	(3)31	363
Total revenues	456	273	34	217	54	272	140	1,446
Expenses with respect to credit losses	14	9	(2)	34	2	-	-	57
Operating and other expenses	354	97	23	130	29	81	122	836
Pre-tax profit	88	167	13	53	23	191	18	553
Provision for taxes on profit	32	60	5	19	8	69	7	200
After-tax profit	56	107	8	34	15	122	11	353
Share in net profits of associates, after tax	-	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	56	107	8	34	15	122	11	353
Attributable to non-controlling interests	(13)	-	-	-	-	-	-	(13)
Net profit attributable to shareholders of the Bank	43	107	8	34	15	122	11	340
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	12.4%	7.8%	47.0%	20.5%	14.9%	13.8%	15.8%	11.6%

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

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

(3) Includes capital gains under Other Revenues amounting to NIS 78 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

Note 12 - Operating Segments - continued

Operating segments in conformity with the management approach

For the year ended December 31, 2016 (audited)

Reported amounts (NIS in millions)

	Households - other	Households mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	709	2,461	(5)	544	158	580	(669)	3,778
Inter-segment	582	(1,518)	78	61	6	186	605	-
Total interest revenues, net	1,291	943	73	605	164	766	(64)	3,778
Non-interest financing revenues	3	-	1	2	5	21	263	295
Commissions and other revenues	543	149	60	259	49	257	250	1,567
Total revenues	1,837	1,092	134	866	218	1,044	449	5,640
Expenses with respect to credit losses	81	11	(2)	120	5	(14)	(1)	200
Operating and other expenses	1,422	384	95	516	118	321	443	3,299
Pre-tax profit	334	697	41	230	95	737	7	2,141
Provision for taxes on profit	130	271	16	89	37	287	3	833
After-tax profit	204	426	25	141	58	450	4	1,308
Share in net profits of associates, after tax	-	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-	-
Before attribution to non-controlling interests	204	426	25	141	58	450	4	1,308
Attributable to non-controlling interests	(42)	-	-	-	-	-	-	(42)
Net profit attributable to shareholders of the Bank	162	426	25	141	58	450	4	1,266
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.4%	7.2%	30.2%	17.1%	11.6%	12.9%	0.0%	10.2%
Average balance of loans to the public, net	23,695	109,878	820	10,749	4,612	21,587	-	171,341
Average balance of deposits from the public	75,583	-	7,472	15,139	5,665	55,327	10,283	169,469
Average balance of assets	22,793	106,421	1,765	10,446	4,613	27,569	43,228	216,835
Average balance of risk assets(2)	18,642	58,656	820	8,181	4,964	34,446	5,457	131,166

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

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

(3) Includes capital gains under Other Revenues amounting to NIS 92 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

Note 12 - Operating Segments - continued

C. Effect of attribution of expenses related to the US DOJ inquiry on operating segments

Had the expenses related to the US DOJ inquiry been attributed to the private banking segment and to overseas operations (rather than to the financial management segment, as attributed by the Bank), according to the supervisory approach, the results of the private banking segment for second quarter and for the first half of 2017 would have amounted to a loss of NIS 4 million and NIS 12 million, respectively. Results of the private banking segment for the second quarter and first half of 2016 would have amounted to a loss of NIS 20 million and NIS 33 million, respectively.

Results of the private banking segment according to the supervisory approach for 2016 would have amounted to a loss of NIS 52 million.

Results of the financial management segment according to the supervisory approach for the second quarter and first half of 2017 would have amounted to a profit of NIS 45 million and NIS 44 million, respectively. Results of the financial management segment for the second quarter and first half of 2016 would have amounted to a profit of NIS 56 million and NIS 36 million, respectively.

Results of the financial management segment according to the supervisory approach for 2016 would have amounted to income of NIS 89 million.

Results of overseas operations according to the supervisory approach would have been unchanged for the second quarter and first half of 2017, for the second quarter and first half of 2016 and for all of 2016.

Results of the private banking segment according to the management approach for the second quarter and first half of 2017 would have amounted to a loss of NIS 3 million and NIS 7 million, respectively. Results of the private banking segment for the second quarter and first half of 2016 would have amounted to a loss of NIS 15 million and NIS 26 million, respectively.

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

Results of the financial management segment according to the management approach for the second quarter and first half of 2017 would have amounted to a profit of NIS 47 million and NIS 36 million, respectively. Results of the financial management segment for the second quarter and first half of 2016 would have amounted to a profit of NIS 34 million and NIS 16 million, respectively.

Results of the financial management segment according to the management approach for 2016 would have amounted to income amounting to NIS 87 million.

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

Reported amounts (NIS in millions)

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

1. Change in balance of provision for credit losses

	For the three months ended June 30, 2017					
	Provision for credit losses					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	730	612	216	1,558	1	1,559
Expenses with respect to credit losses	(7)	12	36	41	1	42
Net accounting write-off[2]	(117)	(3)	(29)	(149)	-	(149)
Recovery of debts written off in previous years[2]	89	-	14	103	-	103
Net accounting write-offs	(28)	(3)	(15)	(46)	-	(46)
Balance of provision for credit losses at end of period	695	621	237	1,553	2	1,555
Of which: With respect to off balance sheet credit instruments	84	-	9	93	-	93

	For the three months ended June 30, 2016					
Balance of provision for credit losses at start of period	670	603	191	1,464	2	1,466
Expenses with respect to credit losses	24	10	23	57	-	57
Net accounting write-off[2]	(44)	(2)	(30)	(76)	-	(76)
Recovery of debts written off in previous years[2]	25	-	15	40	-	40
Net accounting write-offs	(19)	(2)	(15)	(36)	-	(36)
Balance of provision for credit losses at end of period	675	611	199	1,485	2	1,487
Of which: With respect to off balance sheet credit instruments	78	-	8	86	-	86

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

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

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

Reported amounts (NIS in millions)

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

1. Change in balance of provision for credit losses

	For the six months ended June 30, 2017					
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	19	12	60	91	-	91
Net accounting write-off[2]	(154)	(6)	(59)	(219)	-	(219)
Recovery of debts written off in previous years[2]	106	-	28	134	-	134
Net accounting write-offs	(48)	(6)	(31)	(85)	-	(85)
Balance of provision for credit losses at end of period	695	621	237	1,553	2	1,555
Of which: With respect to off balance sheet credit instruments	84	-	9	93	-	93

	For the six months ended June 30, 2016					
Balance of provision for credit losses at start of period	697	614	195	1,506	3	1,509
Expenses with respect to credit losses	24	1	36	61	(1)	60
Net accounting write-off[2]	(93)	(4)	(63)	(160)	-	(160)
Recovery of debts written off in previous years[2]	47	-	31	78	-	78
Net accounting write-offs	(46)	(4)	(32)	(82)	-	(82)
Balance of provision for credit losses at end of period	675	611	199	1,485	2	1,487
Of which: With respect to off balance sheet credit instruments	78	-	8	86	-	86

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

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

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

Reported amounts (NIS in millions)

A. Off balance sheet debts [1] and credit instruments

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

						June 30, 2017
						Provision for credit losses
			Loans to the public			
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	31,144	25	736	31,905	6,366	38,271
reviewed on group basis	9,752	118,532	18,404	146,688	-	146,688
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[3]	1,152	117,863	-	119,015	-	119,015
Total debts	40,896	[2] 118,557	19,140	178,593	6,366	184,959
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	505	3	28	536	2	538
reviewed on group basis	106	618	200	924	-	924
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[3]	5	618	-	623	-	623
Total provision for credit losses	611	621	228	1,460	2	1,462
						June 30, 2016
Recorded debt balance of debts[1]						
reviewed on individual basis	29,846	34	849	30,729	6,118	36,847
reviewed on group basis	9,312[4]	110,849	16,024[4]	136,185	-	136,185
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[3]	1,029	110,269	-	111,298	-	111,298
Total debts	39,158	[2] 110,883	16,873	166,914	6,118	173,032
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	516	1	19	536	2	538
reviewed on group basis	81	610	172	863	-	863
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[3]	4	610	-	614	-	614
Total provision for credit losses	597	611	191	1,399	2	1,401
						December 31, 2016
Recorded debt balance of debts[1]						
reviewed on individual basis	29,972	27	725	30,724	2,839	33,563
reviewed on group basis	9,634	114,959	17,462	142,055	-	142,055
Of which: Loans for which a provision for credit losses is assessed by extent of arrears	1,243	114,373	-	115,616	-	115,616
Total debts	39,606	[2] 114,986	18,187	172,779	2,839	175,618
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	518	2	7	527	2	529
reviewed on group basis	108	613	190	911	-	911
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[3]	5	613	-	618	-	618
Total provision for credit losses	626	615	197	1,438	2	1,440

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,952 million (as of June 30, 2016: NIS 5,557 million, as of December 31, 2016: NIS 5,731 million).
(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 414 million (as of June 30, 2016 - NIS 385 million, as of December 31, 2016 - NIS 401 million).
(4) Reclassified.

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

Reported amounts (NIS in millions)

B. Debts[(1)]

1.A. Credit quality and arrears

					As of June 30, 2017	
		Problematic[(2)]			Non impaired debts - additional information	
	Non problematic	Non impaired	Impaired[(3)]	Total	In arrears 90 days or longer[(4)]	In arrears 30 to 89 days[(5)]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction[(8)]	11,282	64	93	11,439	10	11
Construction and real estate - real estate operations	1,948	6	20	1,974	-	11
Financial services	2,699	314	32	3,045	1	44
Commercial - other	20,490	572	331	21,393	40	58
Total commercial	36,419	956	476	37,851	51	124
Private individuals - housing loans	117,250	[(7)]937	25	118,212	[(7)]937	[(6)]383
Private individuals - other	18,653	149	68	18,870	22	65
Total public - activity in Israel	172,322	2,042	569	174,933	1,010	572
Banks in Israel	194	-	-	194	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	172,516	2,042	569	175,127	1,010	572
Borrower activity overseas						
Construction and real estate	1,596	-	4	1,600	-	-
Commercial - other	1,442	-	3	1,445	-	-
Total commercial	3,038	-	7	3,045	-	-
Private individuals	615	-	-	615	-	-
Total public - activity overseas	3,653	-	7	3,660	-	-
Overseas banks	5,860	-	-	5,860	-	-
Overseas governments	312	-	-	312	-	-
Total activity overseas	9,825	-	7	9,832	-	-
Total public	175,975	2,042	576	178,593	1,010	572
Total banks	6,055	-	-	6,055	-	-
Total governments	311	-	-	311	-	-
Total	182,341	2,042	576	184,959	1,010	572

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 26 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 115 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,470 million, extended to certain purchase groups which are in the process of construction.

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

Reported amounts (NIS in millions)

B. Debts [1]

1.A. Credit quality and arrears - continued

					As of June 30, 2016	
		Problematic[2]			Non impaired debt - additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction[8]	9,001	64	90	9,155	9	12
Construction and real estate - real estate operations	2,048	3	127	2,178	2	4
Financial services	3,529	5	16	3,550	23	44
Commercial - other	[9]20,245	194	535	20,974	33	161
Total commercial	34,823	266	768	35,857	67	221
Private individuals - housing loans	109,676	[7]871	34	110,581	[7]871	[6]340
Private individuals - other	[9]16,315	99	74	16,488	22	67
Total public - activity in Israel	160,814	1,236	876	162,926	960	628
Banks in Israel	278	-	-	278	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	161,092	1,236	876	163,204	960	628
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,770	-	4	1,774	-	-
Commercial - other	1,522	-	5	1,527	-	1
Total commercial	3,292	-	9	3,301	-	1
Private individuals	687	-	-	687	2	-
Total public - activity overseas	3,979	-	9	3,988	2	1
Overseas banks	5,477	-	-	5,477	-	-
Overseas governments	363	-	-	363	-	-
Total activity overseas	9,819	-	9	9,828	2	1
Total public	164,793	1,236	885	166,914	962	629
Total banks	5,755	-	-	5,755	-	-
Total governments	363	-	-	363	-	-
Total	170,911	1,236	885	173,032	962	629

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 28 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 137 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,269 million, extended to certain purchase groups which are in the process of construction.
(9) Reclassified.

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

Reported amounts (NIS in millions)

B. Debts [(1)]

1.A. Credit quality and arrears - continued

						As of December 31, 2016
		Problematic[(2)]			Non impaired debts - additional information	
	Non problematic	Non impaired	Impaired[(3)]	Total	In arrears 90 days or longer[(4)]	In arrears 30 to 89 days[(5)]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction[(8)]	10,006	38	106	10,150	10	18
Construction and real estate - real estate operations	2,016	2	78	2,096	-	4
Financial services	3,156	311	17	3,484	1	6
Commercial - other	19,727	490	379	20,596	68	74
Total commercial	34,905	841	580	36,326	79	102
Private individuals - housing loans	113,811	[(7)]853	27	114,691	[(7)]853	[(6)]407
Private individuals - other	17,728	115	70	17,913	26	64
Total public - activity in Israel	166,444	1,809	677	168,930	958	573
Banks in Israel	275	-	-	275	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	166,719	1,809	677	169,205	958	573
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,653	-	1	1,654	-	-
Commercial - other	1,623	-	3	1,626	-	-
Total commercial	3,276	-	4	3,280	-	-
Private individuals	569	-	-	569	-	-
Total public - activity overseas	3,845	-	4	3,849	-	-
Overseas banks	2,234	-	-	2,234	-	-
Overseas governments	330	-	-	330	-	-
Total activity overseas	6,409	-	4	6,413	-	-
Total public	170,289	1,809	681	172,779	958	573
Total banks	2,509	-	-	2,509	-	-
Total governments	330	-	-	330	-	-
Total	173,128	1,809	681	175,618	958	573

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 31 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 125 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,544 million, extended to certain purchase groups which are in the process of construction.

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

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, *inter alia*, on the actual number of days in arrears for each debt.

Non-performing debts

Debt measured on individual basis is classified as non-performing (not accruing interest revenues) after 90 days in arrears. Debt previously restructured as problematic debt and which is again in arrears with regard to the new terms thereof - is also classified as non-performing. Debt measured on group basis is classified as non-performing (inferior) after 150 days in arrears. At that time, accounting write-off of the debt is also carried out.

Inferior debts

Debt in the individual track is classified as inferior debt accruing revenues after 60 days in arrears. Debt in the group track is classified as inferior after 90 days in arrears.

Housing loans

The state of arrears for housing loans is monitored by the extent of arrears for the loan, except for loans with no monthly or quarterly payment.

Credit risk attributes, including specific risk for housing loans, are included on the Report of the Board of Directors and Management under "Risks Overview".

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

						June 30, 2017
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	39,457	117,595	18,923	312	6,054	182,341
Problematic non-impaired debts[(1)]	956	937	149	-	-	2,042
Impaired debts	483	25	68	-	-	576
Total	40,896	118,557	19,140	312	6,054	184,959

						June 30, 2016
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	[(2)]38,117	109,976	[(2)]16,700	363	5,755	170,911
Problematic non-impaired debts[(1)]	264	873	99	-	-	1,236
Impaired debts	777	34	74	-	-	885
Total	39,158	110,883	16,873	363	5,755	173,032

						December 31, 2016
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	38,181	114,106	18,002	330	2,509	173,128
Problematic non-impaired debts[(1)]	841	853	115	-	-	1,809
Impaired debts	584	27	70	-	-	681
Total	39,606	114,986	18,187	330	2,509	175,618

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

(2) Reclassified.

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

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision

					June 30, 2017
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	60	13	33	93	182
Construction and real estate - real estate operations	6	-	14	20	48
Financial services	25	6	7	32	34
Commercial - other	182	71	149	331	428
Total commercial	273	90	203	476	692
Private individuals - housing loans	13	3	12	25	25
Private individuals - other	19	11	49	68	70
Total public - activity in Israel	305	104	264	569	787
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	305	104	264	569	787
Borrower activity overseas					
Public - commercial					
Construction and real estate	4	-	-	4	4
Commercial - other	3	-	-	3	3
Total commercial	7	-	-	7	7
Private individuals	-	-	-	-	-
Total public - activity overseas	7	-	-	7	7
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	7	-	-	7	7
Total public	312	104	264	576	794
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	312	104	264	576	794
Of which:					
Measured at present value of cash flows	299	104	251	550	
Debts under problematic debts restructuring	45	11	97	142	

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

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

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

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision - continued

					June 30, 2016
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	68	17	22	90	206
Construction and real estate - real estate operations	109	11	18	127	286
Financial services	11	7	5	16	27
Commercial - other	412	94	123	535	622
Total commercial	600	129	168	768	1,141
Private individuals - housing loans	17	1	17	34	34
Private individuals - other	32	11	42	74	83
Total public - activity in Israel	649	141	227	876	1,258
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	649	141	227	876	1,258
Borrower activity overseas					
Public - commercial					
Construction and real estate	4	-	-	4	6
Commercial - other	5	-	-	5	6
Total commercial	9	-	-	9	12
Private individuals	-	-	-	-	3
Total public - activity overseas	9	-	-	9	15
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	9	-	-	9	15
Total public	658	141	227	885	1,273
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	658	141	227	885	1,273
Of which:					
Measured at present value of cash flows	522	131	152	674	
Debts under problematic debts restructuring	152	19	61	213	

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

(3) Recorded debt balance.

(4) Debt balance net of accounting write-off, if made.

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

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision - continued

					December 31, 2016
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	61	14	45	106	185
Construction and real estate - real estate operations	55	1	23	78	242
Financial services	9	5	8	17	28
Commercial - other	[4]269	112	[4]110	379	485
Total commercial	394	132	186	580	940
Private individuals - housing loans	16	2	11	27	27
Private individuals - other	23	10	47	70	75
Total public - activity in Israel	433	144	244	677	1,042
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	433	144	244	677	1,042
Borrower activity overseas					
Public - commercial					
Construction and real estate	1	-	-	1	1
Commercial - other	3	-	-	3	3
Total commercial	4	-	-	4	4
Private individuals	-	-	-	-	-
Total public - activity overseas	4	-	-	4	4
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	4	-	-	4	4
Total public	437	144	244	681	1,046
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	437	144	244	681	1,046
Of which:					
Measured at present value of cash flows	407	144	195	602	
Debts under problematic debts restructuring	90	7	58	148	

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

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

(4) Reclassified.

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

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

B. Average balance and interest revenues

	For the three months ended					
			June 30, 2017			June 30, 2016
	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	93	1	1	89	2	2
Construction and real estate - real estate operations	45	1	1	126	-	-
Financial services	25	-	-	18	-	-
Commercial - other	357	2	2	518	2	2
Total commercial	520	4	4	751	4	4
Private individuals - housing loans	31	-	-	31	-	-
Private individuals - other	67	-	-	77	1	1
Total public - activity in Israel	618	4	4	859	5	5
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	618	4	4	859	5	5
Borrower activity overseas						
Public - commercial						
Construction and real estate	3	-	-	4	-	-
Commercial - other	3	-	-	7	-	-
Total commercial	6	-	-	11	-	-
Private individuals	-	-	-	-	-	-
Total public - activity overseas	6	-	-	11	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	6	-	-	11	-	-
Total public	624	4	4	870	5	5
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total[4]	624	4	4	870	5	5

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

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

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

(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 16 million (as of June 30, 2016 - NIS 12 million).

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

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

B. Average balance and interest revenues

	For the six months ended					
			June 30, 2017			June 30, 2016
	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	97	1	1	89	3	3
Construction and real estate - real estate operations	56	1	1	169	-	-
Financial services	22	-	-	32	-	-
Commercial - other	364	4	4	442	4	4
Total commercial	539	6	6	732	7	7
Private individuals - housing loans	29	-	-	15	-	-
Private individuals - other	68	1	1	76	2	2
Total public - activity in Israel	636	7	7	823	9	9
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	636	7	7	823	9	9
Borrower activity overseas						
Public - commercial						
Construction and real estate	2	-	-	4	-	-
Commercial - other	3	-	-	6	-	-
Total commercial	5	-	-	10	-	-
Private individuals	-	-	-	-	-	-
Total public - activity overseas	5	-	-	10	-	-
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	5	-	-	10	-	-
Total public	641	7	7	833	9	9
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total[4]	641	7	7	833	9	9

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

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

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

(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 32 million (as of June 30, 2016 - NIS 28 million).

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

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring

	June 30, 2017				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues[2] not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	14	-	-	-	14
Construction and real estate - real estate operations	1	-	-	1	2
Financial services	3	-	-	-	3
Commercial - other	70	-	-	6	76
Total commercial	88	-	-	7	95
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	24	-	1	22	47
Total public - activity in Israel	112	-	1	29	142
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	112	-	1	29	142
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	112	-	1	29	142
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	112	-	1	29	142

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

(2) Accruing interest revenues.

(3) Included under impaired debts.

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

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

					June 30, 2016
					Recorded debt balance
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	21	-	-	-	21
Construction and real estate - real estate operations	100	-	-	1	101
Financial services	3	-	-	-	3
Commercial - other	32	-	-	5	37
Total commercial	156	-	-	6	162
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	22	-	1	26	49
Total public - activity in Israel	178	-	1	32	211
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	178	-	1	32	211
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	33	213
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	179	-	1	33	213

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

(2) Accruing interest revenues.

(3) Included under impaired debts.

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

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

					December 31, 2016
					Recorded debt balance
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	13	-	-	-	13
Construction and real estate - real estate operations	50	-	-	1	51
Financial services	3	-	-	-	3
Commercial - other	32	-	-	2	34
Total commercial	98	-	-	3	101
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	22	-	-	24	46
Total public - activity in Israel	120	-	-	27	147
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	120	-	-	27	147
Borrower activity overseas					
Public - commercial					
Construction and real estate	-	-	-	1	1
Commercial - other	-	-	-	-	-
Total commercial	-	-	-	1	1
Private individuals	-	-	-	-	-
Total public - activity overseas	-	-	-	1	1
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	-	-	-	1	1
Total public	120	-	-	28	148
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	120	-	-	28	148

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

(2) Accruing interest revenues.

(3) Included under impaired debts.

As of June 30, 2017, the Bank had no commitments to provide additional credit to debtors subject to problematic debt restructuring, for which credit terms have been revised.

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

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	Restructurings made[2]					
	For the three months ended					
	June 30, 2017			June 30, 2016		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	12	4	3	6	1	1
Construction and real estate - real estate operations	3	1	-	-	-	-
Financial services	-	-	-	3	1	-
Commercial - other	67	99	43	35	5	4
Total commercial	82	104	46	44	7	5
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	139	6	5	93	3	3
Total public - activity in Israel	221	110	51	137	10	8
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	221	110	51	137	10	8
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	221	110	51	137	10	8
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	221	110	51	137	10	8

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

(2) Included under impaired debts.

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

Reported amounts (NIS in millions)

B. Debts [(1)]

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	Restructurings made[(2)]					
	For the six months ended					
	June 30, 2017			June 30, 2016		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	21	5	4	11	2	2
Construction and real estate - real estate operations	5	1	-	2	-	-
Financial services	1	-	-	6	1	-
Commercial - other	109	103	47	65	9	8
Total commercial	136	109	51	84	12	10
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	338	15	14	270	12	11
Total public - activity in Israel	474	124	65	354	24	21
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	474	124	65	354	24	21
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	474	124	65	354	24	21
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	474	124	65	354	24	21

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

(2) Included under impaired debts.

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

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	Restructurings made which are in default[2]			
	For the three months ended			
		June 30, 2017		June 30, 2016
		Recorded debt balance		
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	-	-	-	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial - other	-	-	5	2
Total commercial	-	-	5	2
Private individuals - housing loans	-	-	-	-
Private individuals - other	6	-	10	-
Total public - activity in Israel	6	-	15	2
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	6	-	15	2
Borrower activity overseas	-	-		
Public - commercial	-	-		
Construction and real estate	-	-	-	-
Commercial - other	-	-	-	-
Total commercial	-	-	-	-
Private individuals	-	-	-	-
Total public - activity overseas	-	-	-	-
Overseas banks	-	-	-	-
Overseas governments	-	-	-	-
Total activity overseas	-	-	-	-
Total public	6	-	15	2
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	6	-	15	2

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

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

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

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring - continued

	Restructurings made which are in default[2]			
	For the six months ended			
		June 30, 2017		June 30, 2016
		Recorded debt balance		
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	5	-	3	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial - other	8	-	31	4
Total commercial	13	-	34	4
Private individuals - housing loans	-	-	-	-
Private individuals - other	42	1	75	2
Total public - activity in Israel	55	1	109	6
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	55	1	109	6
Borrower activity overseas	-	-	-	-
Public - commercial	-	-	-	-
Construction and real estate	-	-	-	-
Commercial - other	-	-	-	-
Total commercial	-	-	-	-
Private individuals	-	-	-	-
Total public - activity overseas	-	-	-	-
Overseas banks	-	-	-	-
Overseas governments	-	-	-	-
Total activity overseas	-	-	-	-
Total public	55	1	109	6
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	55	1	109	6

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

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

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

Reported amounts (NIS in millions)

B. Debts

3. Additional information about housing loans

Below is the composition of balances by loan-to-value ratio (LTV)[1], repayment type and interest type:

Consolidated

					June 30, 2017
				Housing loan balance	Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	75,748	2,720	48,732	3,732
	Over 60%	42,593	481	27,999	1,474
Junior lien or no lien		216	2	165	1,465
Total		118,557	3,203	76,896	6,671
					June 30, 2016
Senior lien: LTV ratio	Up to 60%	68,709	2,371	45,044	4,279
	Over 60%	42,041	455	28,308	2,063
Junior lien or no lien		133	2	111	1,662
Total		110,883	2,828	73,463	8,004
					December 31, 2016
Senior lien: LTV ratio	Up to 60%	72,138	2,499	46,751	3,621
	Over 60%	42,672	470	28,299	1,446
Junior lien or no lien		176	2	133	1,083
Total		114,986	2,971	75,183	6,150

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

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

Reported amounts (NIS in millions)

C. Information about purchase and sale of debts

	For the three months ended June 30, 2017				For the three months ended June 30, 2016			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	-	-	180	180	-	-	-	-
Loans sold	26	-	-	26	282	706	-	988

	For the six months ended June 30, 2017				For the six months ended June 30, 2016			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	90	-	308	398	-	-	-	-
Loans sold	187	730	-	917	785	706	-	1,491

D. Off-balance sheet financial instruments

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

	June 30,		December 31,	June 30,		December 31,
	2017	2016	2016	2017	2016	2016
	Balance[1]			Provision for credit losses		
	(unaudited)		(audited)	(unaudited)		(audited)
Transactions in which the balance represents a credit risk:						
- Unutilized debitory account and other credit facilities in accounts available on demand	15,825	16,671	16,688	21	28	26
- Guarantees to home buyers	11,471	12,406	12,461	7	3	7
- Irrevocable commitments for loans approved but not yet granted	11,416	12,805	10,651	12	5	13
- Unutilized revolving credit card facilities	6,413	8,193	7,559	4	6	7
- Commitments to issue guarantees	6,723	5,611	5,797	4	1	4
- Guarantees and other liabilities[2]	5,373	4,869	4,869	24	14	22
- Loan guarantees	2,225	2,462	2,606	20	27	29
- Documentary credit	263	566	384	1	2	1

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 65 million. (as of June 30, 2016 and December 31, 2016 - NIS 78 million and NIS 38 million, respectively).
For more information see Note 26.C.2. and Note 27.B. to Financial Statements as of December 31, 2016.

Note 14 - Assets and Liabilities by Linkage Basis

As of June 30, 2017

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	32,889	122	5,696	207	232	-	39,146
Securities	5,077	679	4,351	357	-	96	10,560
Securities loaned or acquired in conjunction with resale agreements	6	-	-	-	-	-	6
Loans to the public, net[3]	117,137	49,978	6,284	1,995	1,739	-	177,133
Loans to Governments	-	-	117	195	-	-	312
Investments in associates	35	-	-	-	-	(2)	33
Buildings and equipment	-	-	-	-	-	1,391	1,391
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	3,422	401	272	216	73	-	4,384
Other assets	1,476	413	39	11	21	44	2,004
Total assets	160,042	51,593	16,759	2,981	2,065	1,616	235,056
Liabilities							
Deposits from the public	128,904	17,312	27,134	4,856	2,474	-	180,680
Deposits from banks	319	16	1,078	72	(31)	-	1,454
Deposits from the Government	29	2	26	-	-	-	57
Debentures and subordinated notes	8,228	19,623	-	-	-	-	27,851
Liabilities with respect to derivatives	3,177	176	416	272	52	-	4,093
Other liabilities	5,472	1,092	244	11	40	169	7,028
Total liabilities	146,129	38,221	28,898	5,211	2,535	169	221,163
Difference	13,913	13,372	(12,139)	(2,230)	(470)	1,447	13,893
Impact of hedging derivatives:							
Derivatives (other than options)	1,366	(1,366)	-	-	-	-	-
Non-hedging derivatives:							
Derivatives (other than options)	(12,454)	(2,589)	12,777	1,850	416	-	-
Net in-the-money options (in terms of underlying asset)	161	-	(589)	484	(56)	-	-
Net out-of-the-money options (in terms of underlying asset)	7	-	91	(111)	13	-	-
Total	2,993	9,417	140	(7)	(97)	1,447	13,893
Net in-the-money options (capitalized par value)	(53)	-	(798)	840	11	-	-
Net out-of-the-money options (capitalized par value)	756	-	(117)	(576)	(63)	-	-

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 14 - Assets and Liabilities by Linkage Basis - Continued

As of June 30, 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	31,030	120	5,258	193	241	-	36,842
Securities	4,665	180	2,963	510	0	101	8,419
Securities loaned or acquired in conjunction with resale agreements	42	4	-	-	-	-	46
Loans to the public, net[3]	104,449	49,741	7,445	2,045	1,835	-	165,515
Loans to Governments	-	-	149	214	-	-	363
Investments in associates	35	-	-	-	-	0	35
Buildings and equipment	-	-	-	-	-	1,545	1,545
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,352	242	767	59	40	-	3,460
Other assets	1,007	303	54	38	2	42	1,446
Total assets	143,580	50,590	16,636	3,059	2,118	1,775	217,758
Liabilities							
Deposits from the public	116,532	17,424	27,782	5,255	2,628	-	169,621
Deposits from banks	339	270	460	114	-	-	1,183
Deposits from the Government	19	6	28	-	-	-	53
Debentures and subordinated notes	5,574	18,763	-	-	-	-	24,337
Liabilities with respect to derivatives	2,502	173	831	275	6	-	3,787
Other liabilities	4,584	783	226	7	32	174	5,806
Total liabilities	129,550	37,419	29,327	5,651	2,666	174	204,787
Difference	14,030	13,171	(12,691)	(2,592)	(548)	1,601	12,971
Impact of hedging derivatives:							
Derivatives (other than options)	2,406	(2,406)	-	-	-	-	-
Non-hedging derivatives:							
Derivatives (other than options)	(12,024)	(3,839)	12,972	2,609	282	-	-
Net in-the-money options (in terms of underlying asset)	45	-	(170)	6	119	-	-
Net out-of-the-money options (in terms of underlying asset)	(72)	-	66	(11)	17	-	-
Total	4,385	6,926	177	12	(130)	1,601	12,971
Net in-the-money options (capitalized par value)	(1,475)	-	1,521	20	(66)	-	-
Net out-of-the-money options (capitalized par value)	2,381	-	(1,982)	(484)	85	-	-

(3) Includes linked to foreign currency.

(4) Includes derivatives whose base relates to a non-monetary item.

(5) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 14 - Assets and Liabilities by Linkage Basis - Continued

As of December 31, 2016

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	monetary items[2]	Total
Assets							
Cash and deposits with banks	39,128	121	1,865	331	280	-	41,725
Securities	5,981	146	3,516	499	20	100	10,262
Securities loaned or acquired in conjunction with resale agreements	9	-	-	-	-	-	9
Loans to the public, net[3]	111,144	49,369	7,394	1,862	1,572	-	171,341
Loans to Governments	-	-	139	191	-	-	330
Investments in associates	35	-	-	-	-	(1)	34
Buildings and equipment	-	-	-	-	-	1,585	1,585
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,031	333	1,051	146	23	-	3,584
Other assets	989	383	68	1	13	44	1,498
Total assets	159,317	50,352	14,033	3,030	1,908	1,815	230,455
Liabilities							
Deposits from the public	122,611	17,039	28,804	7,180	2,618	-	178,252
Deposits from banks	160	265	899	195	18	-	1,537
Deposits from the Government	20	3	27	-	-	-	50
Debentures and subordinated notes	5,656	21,378	-	-	-	-	27,034
Liabilities with respect to derivatives	2,113	168	1,105	160	20	-	3,566
Other liabilities	5,207	1,030	255	9	36	155	6,692
Total liabilities	135,767	39,883	31,090	7,544	2,692	155	217,131
Difference	23,550	10,469	(17,057)	(4,514)	(784)	1,660	13,324
Impact of hedging derivatives:							
Derivatives (other than options)	2,159	(2,159)	-	-	-	-	-
Non-hedging derivatives:							
Derivatives (other than options)	(19,238)	(3,431)	17,656	4,405	608	-	-
Net in-the-money options (in terms of underlying asset)	152	-	(388)	208	28	-	-
Net out-of-the-money options (in terms of underlying asset)	115	-	(47)	(87)	19	-	-
Total	6,738	4,879	164	12	(129)	1,660	13,324
Net in-the-money options (capitalized par value)	(1,212)	-	608	518	86	-	-
Net out-of-the-money options (capitalized par value)	1,323	-	(638)	(615)	(70)	-	-

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 15 - Balances and estimates of fair value of financial instruments

Reported amounts (NIS in millions)

1) Information on the fair value of financial instruments is presented below:

A. Fair value balances

					June 30, 2017 (unaudited)
	Book balance	Fair value			
		Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	39,146	10,339	27,646	1,224	39,209
Securities[(3)]	10,560	7,466	3,077	94	10,637
Securities loaned or purchased in resale agreements	6	6	-	-	6
Loans to the public, net	177,133	360	10,645	166,017[(5)]	177,022
Loans to Governments	312	-	-	303	303
Investments in associates	33	-	-	35	35
Assets with respect to derivatives	4,384	188	3,049	1,147[(2)]	4,384
Other financial assets	954	103	-	849	952
Total financial assets	[(4)]232,528	18,462	44,417	169,669	232,548
Financial liabilities					
Deposits from the public	180,680	358	48,087	134,288	182,733
Deposits from banks	1,454	-	316	1,198	1,514
Deposits from the Government	57	-	-	61	61
Debentures and subordinated notes	27,851	27,087	-	1,685	28,772
Liabilities with respect to derivatives	4,093	187	2,625	1,281[(2)]	4,093
Other financial liabilities	5,300	293	3,758	1,249	5,300
Total financial liabilities	[(4)]219,435	27,925	54,786	139,762	222,473

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurements using other significant observed data. Level 3 - Fair value measurements using significant non-observed data.

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

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 58,730 million and NIS 49,572 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 7 million.

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances - continued

					June 30, 2016 (unaudited)
	Book balance				Fair value
		Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	36,842	9,017	26,424	1,387	36,828
Securities[(3)]	8,419	5,275	3,068	176	8,519
Securities loaned or purchased in resale agreements	46	46	-	-	46
Loans to the public, net	165,515	256	10,508	[(5)]154,430	165,194
Loans to Governments	363	-	-	363	363
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	3,460	305	1,456	[(2)]1,699	3,460
Other financial assets	458	41	-	417	458
Total financial assets	[(4)]215,138	14,940	41,456	158,507	214,903
Financial liabilities					
Deposits from the public	169,621	256	44,215	127,496	171,967
Deposits from banks	1,183	-	360	889	1,249
Deposits from the Government	53	-	-	59	59
Debentures and subordinated notes	24,337	23,909	-	1,457	25,366
Liabilities with respect to derivatives	3,787	303	1,697	1,787[(2)]	3,787
Other financial liabilities	4,419	45	3,566	807	4,418
Total financial liabilities	[(4)]203,400	24,513	49,838	132,495	206,846

(1) Level 1 - Fair value measurements using quoted prices on an active market. Level 2 - Fair value measurements using other significant observed data. Level 3 - Fair value measurements using significant non-observed data.

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

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 51,648 million and NIS 47,302 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Includes embedded derivatives in loans to the public, net and in deposits from the public, amounting to NIS 2 million and NIS 3 million, respectively.

Note 15 - Balances and estimates of fair value of financial instruments - continued
Reported amounts (NIS in millions)

A. Fair value balances - continued

					December 31, 2016
	Book				Fair value
	balance	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	41,725	6,704	33,804	1,203	41,711
Securities[3]	10,262	7,805	2,434	98	10,337
Securities loaned or purchased in resale agreements	9	9	-	-	9
Loans to the public, net	171,341	331	10,432	160,002[5]	170,765
Loans to Governments	330	-	-	330	330
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	3,584	343	1,524	1,717[2]	3,584
Other financial assets	380	-	-	380	380
Total financial assets	[4]227,666	15,192	48,194	163,765	227,151
		-			
Financial liabilities					
Deposits from the public	178,252	331	44,708	135,246	180,285
Deposits from banks	1,537	-	322	1,284	1,606
Deposits from the Government	50	-	-	55	55
Debentures and subordinated notes	27,034	26,043	-	1,617	27,660
Liabilities with respect to derivatives	3,566	343	1,385	1,838[2]	3,566
Other financial liabilities	5,019	205	3,715	1,098	5,018
Total financial liabilities	[4]215,458	26,922	50,130	141,138	218,190

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurements using other significant observed data. Level 3 - Fair value measurements using significant non-observed data.

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

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 60,183 million and NIS 50,468 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 8 million.

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

				June 30, 2017 (unaudited)
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures:				
of Government of Israel	2,389	3,042	-	5,431
Of foreign governments	1,604	-	-	1,604
Of banks and financial institutions overseas	-	18	-	18
Of others overseas	-	17	-	17
Shares	2	-	-	2
Securities held for trade:				
Debentures of the Government of Israel	149	-	-	149
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	240	100	340
Other	-	910	26	936
Currency contracts	58	1,817	903	2,778
Contracts for shares	130	82	111	323
Commodities and other contracts	-	-	7	7
Other	-		7	7
Total assets	4,332	6,126	1,154	11,612
Liabilities				
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	102	80	182
Other	-	1,216	46	1,262
Currency contracts	57	1,217	1,076	2,350
Contracts for shares	130	90	76	296
Commodities and other contracts	-	-	3	3
Total liabilities	187	2,625	1,281	4,093

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

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued

1. On recurring basis

				June 30, 2016 (unaudited)
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures:				
of Government of Israel	1,523	3,030	-	4,553
Of foreign governments	214	-	-	214
Of banks and financial institutions overseas	-	19	78	97
Of others overseas	-	19	-	19
Shares	3	-	-	3
Securities held for trade:				
Debentures of the Government of Israel	220	-	-	220
Securities loaned or purchased in resale agreements	46	-	-	46
Credit with respect to loans to clients	256	-	-	256
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	203	249	452
Other	-	649	641	1,290
Currency contracts	66	603	716	1,385
Contracts for shares	239	-	90	329
Commodities and other contracts	-	1	3	4
Other financial assets	41	-	-	41
Other	-	-	2	2
Total assets	2,608	4,524	1,779	8,911
Liabilities				
Deposits with respect to borrowing from clients	256	-	-	256
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	148	73	221
Other	-	969	782	1,751
Currency contracts	72	580	732	1,384
Contracts for shares	231		196	427
Commodities and other contracts	-	-	4	4
Other financial liabilities	45	-	-	45
Other	-	-	3	3
Total liabilities	604	1,697	1,790	4,091

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

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

1. On recurring basis

				As of December 31, 2016 (audited)
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures:				
of Government of Israel	2,606	2,396	-	5,002
Of foreign governments	1,538	-	-	1,538
Of banks and financial institutions overseas	-	19	-	19
Of others overseas	-	19	-	19
Shares	2	-	-	2
Securities held for trade:				-
Debentures of the Government of Israel	348	-	-	348
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	178	205	383
Other	-	507	517	1,024
Currency contracts	75	837	660	1,572
Contracts for shares	268	2	328	598
Commodities and other contracts	-	-	7	7
Other	-	-	8	8
Total assets	4,837	3,958	1,725	10,520
Liabilities				
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	137	64	201
Other	-	720	669	1,389
Currency contracts	75	528	790	1,393
Contracts for shares	268	-	311	579
Commodities and other contracts	-	-	4	4
Total liabilities	343	1,385	1,838	3,566

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

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

2. On non-recurring basis

				June 30, 2017 (unaudited)	For the three months ended June 30, 2017	For the six months ended June 30, 2017
				Fair value	Gain (loss)	
	Level 1(1)	Level 2(1)	Level 3(1)	Total		
Impaired credit whose collection is contingent on collateral	-	-	26	26	45	45

				June 30, 2016 (unaudited)	For the three months ended June 30, 2016	For the six months ended June 30, 2016
Impaired credit whose collection is contingent on collateral	-	40	161	201	-	(1)

				December 31, 2016	For the year ended December 31, 2016
Impaired credit whose collection is contingent on collateral	-	-	79	79	19

(1) Level 1 - Fair value measurements using quoted prices on an active market. Level 2 - Fair value measurements using other significant observed data. Level 3 - Fair value measurements using significant non-observed data.

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

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

	For the three months ended June 30, 2017 (unaudited)								
		Realized / unrealized gain s(losses) included, net[(1)]							
	Fair value as of March 31, 2017	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 June 30, 2017	Unrealized gain s(losses) with respect to instruments held as of June 30, 2017
Assets									
Assets with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	114	(16)	-	-	-	(5)	7	100	146
Other	25	1	-	-	-	-	-	26	169
Currency contracts	646	205	-	349	-	(297)	-	903	672
Contracts for shares	241	(97)	-	24	-	(57)	-	111	-
Commodities and other contracts	5	2	-	-	-	-	-	7	1
Other	5	-	-	2	-	-	-	7	-
Total assets	1,036	95	-	375	-	(359)	7	1,154	988
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	81	10	-	1	-	(19)	7	80	19
Other	50	(2)	-	1	-	(3)	-	46	231
Currency contracts	1,092	171	-	372	-	(559)	-	1,076	943
Contracts for shares	212	(104)	-	3	-	(35)	-	76	-
Commodities and other contracts	2	1	-	-	-	-	-	3	1
Total liabilities	1,437	76	-	377	-	(616)	7	1,281	1,194

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

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

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

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

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

	For the three months ended June 30, 2016 (unaudited)								
		Realized / unrealized gain s(losses) included, net(1)							
	Fair value as of March 31, 2016	In statement of profit and loss	In statement of other comprehen-sive income under Equity	Acquisi-tions	Sales	Disposi-tions	Transfer to level 3	Fair value as of June 30, 2016	Unrealized gain s(losses) with respect to instruments held as of June 30, 2016
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	75	3	-	-	-	-	-	78	(118)
Assets with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	277	(27)	-	-	-	(5)	4	249	227
Other	637	11	-		-	(7)	-	641	749
Currency contracts	917	(190)	-	391	-	(402)	-	716	363
Contracts for shares	95	(4)	-	29	-	(30)	-	90	-
Commodities and other contracts	3	-	-	1	-	(1)	-	3	-
Other	2	-	-		-		-	2	-
Total assets	2,006	(207)	-	421	-	(445)	4	1,779	1,221
Liabilities									
Liabilities with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	66	(1)	-	3	-	(1)	6	73	151
Other	811	(24)	-	-	-	(5)	-	782	944
Currency contracts	1,427	(66)	-	288	-	(917)	-	732	571
Contracts for shares	262		-	38	-	(104)	-	196	-
Commodities and other contracts	3	1	-	1	-	(1)	-	4	-
Other	-	3	-	-	-	-	-	3	-
Total liabilities	2,569	(87)	-	330	-	(1,028)	6	1,790	1,666

(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 six months ended June 30, 2017 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of January 01, 2017	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisi-tions	Sales	Disposi-tions	Transfer to level 3	Fair value as of June 30, 2017	Unrealized gains(losses) with respect to instruments held as of June 30, 2017
Assets									
Assets with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	205	(72)	-	1	-	(47)	13	100	146
Other	517	(485)	-	-	-	(6)	-	26	169
Currency contracts	660	279	-	691	-	(727)	-	903	672
Contracts for shares	328	(149)	-	51	-	(119)	-	111	-
Commodities and other contracts	7	2	-	-	-	(2)	-	7	1
Other	8	-	-	2	-	(3)	-	7	-
Total assets	1,725	(425)	-	745	-	(904)	13	1,154	988
Liabilities									
Liabilities with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	64	(21)	-	2	-	(19)	54	80	19
Other	669	(611)	-	1	-	(13)	-	46	231
Currency contracts	790	453	-	707	-	(874)	-	1,076	943
Contracts for shares	311	(161)	-	22	-	(96)	-	76	-
Commodities and other contracts	4	1	-	-	-	(2)	-	3	1
Total liabilities	1,838	(339)	-	732	-	(1,004)	54	1,281	1,194

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

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

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

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

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

	For the six months ended June 30, 2016 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of January 01, 2016	In statement of profit and loss	In statement of other comprehen-sive income under Equity	Acquisi-tions	Sales	Disposi-tions	Transfer to level 3	Fair value as of June 30, 2016	Unrealized gain s(losses) with respect to instruments held as of June 30, 2016
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	196	(118)	-	-	-	-	-	78	(118)
Assets with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	125	21	-	-	-	(10)	113	249	227
Other	68	579	-	1	-	(7)	-	641	749
Currency contracts	462	59	-	956	-	(761)	-	716	363
Contracts for shares	69	11	-	62	-	(52)	-	90	-
Commodities and other contracts	1	2	-	1	-	(1)	-	3	-
Other	3	(1)	-	-	-	-	-	2	-
Total assets	924	553	-	1,020	-	(831)	113	1,779	1,221
Liabilities									
Liabilities with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	18	5	-	4	-	(1)	47	73	151
Other	120	665	-	2	-	(5)	-	782	944
Currency contracts	502	(19)	-	1,307	-	(1,058)	-	732	571
Contracts for shares	178	76	-	74	-	(132)	-	196	-
Commodities and other contracts	-	3	-	2	-	(1)	-	4	-
Other	-	3	-	-	-	-	-	3	-
Total liabilities	818	733	-	1,389	-	(1,197)	47	1,790	1,666

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

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

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

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

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

	For the year ended December 31, 2016								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 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 December 31, 2016	Unrealized gain s(losses) with respect to instruments held as of December 31, 2016
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	196	(196)	-	-	-	-	-	-	(196)
Assets with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	125	15	-	-	-	(76)	141	205	235
Other	68	461	-	2	-	(14)	-	517	559
Currency contracts	462	87	-	1,472	-	(1,361)	-	660	416
Contracts for shares	69	161	-	185	-	(87)	-	328	-
Commodities and other contracts	1	5	-	3	-	(2)	-	7	1
Other	3	5	-	-	-	-	-	8	-
Total assets	924	538	-	1,662	-	(1,540)	141	1,725	1,015
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	18	1	-	4	-	(7)	48	64	68
Other	120	560	-	4	-	(15)	-	669	799
Currency contracts	502	141	-	1,930	-	(1,783)	-	790	802
Contracts for shares	178	205	-	198	-	(270)	-	311	-
Commodities and other contracts	-	2	-	4	-	(2)	-	4	1
Other	-	3	-	1	-	(4)	-	-	-
Total liabilities	818	912	-	2,141	-	(2,081)	48	1,838	1,670

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

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

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

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of June 30, 2017	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivatives:					
Interest contracts - NIS CPI	56	Cash flows discounting	Inflationary expectations	0.13%- 0.11%	0.11%
Contracts for shares	284	Options pricing model	Standard deviation for shares	65.40% - 65.40%	65.40%
Other	814	Cash flows discounting	Counter-party credit quality	0.30% - 3.10%	1.63%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	65	Cash flows discounting	Inflationary expectations	0.13%- 0.11%	0.12%
Other	1,216	Cash flows discounting	Counter-party credit quality	0.30% - 3.10%	1.91%

	Fair value as of June 30, 2016	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
CLN	78	Cash flows discounting	Probability of default	0.65%-1.188%	1.09%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	115	Cash flows discounting	Inflationary expectations	(0.23%)-(0.21%)	0.21%
Contracts for shares	2	Options pricing model	Standard deviation for shares	127.68% - 24.23%	103.90%
Other	1,584	Cash flows discounting	Counter-party credit quality	0.30% - 2.60%	2.03%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	25	Cash flows discounting	Inflationary expectations	(0.23%)-(0.21%)	0.21%
Other	1,765	Cash flows discounting	Counter-party credit quality	2.65% - 0.30%	2.10%

	Fair value as of December 31, 2016	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivatives:					
Interest contracts - NIS CPI	85	Cash flows discounting	Inflationary expectations	0.29% - 1.16%	0.53%
Contracts for shares	2	Options pricing model	Standard deviation for shares	71.84% - 71.84%	71.84%
Other	1,638	Cash flows discounting	Counter-party credit quality	0.30% - 3.30%	2.04%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	20	Cash flows discounting	Inflationary expectations	0.29% - 1.16%	0.47%
Other	1,818	Cash flows discounting	Counter-party credit quality	0.30% - 3.30%	2.08%

Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 and Level 3 to Level 1 during the reported period.

F. Election of fair value option

Due to election of the fair value option, the Bank treats investments in certain debentures at fair value, charging the changes to profit and loss and classifies them under the portfolio held for trading - even though they had not been purchased for this purpose.

Election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of June 30, 2017, December 31, 2016 and June 30, 2016, the Bank did not select the fair value option.

Note 16 - Events after the balance sheet date

- On August 28, 2017, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 120 million, or 30% of earnings in the second quarter of 2017.
  The dividends amount is 516.3% of issued share capital, i.e. NIS 0.5163 per NIS 0.1 par value share. The effective date for dividends payment is September 10, 2017 and the payment date is September 26, 2017. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount would be deducted from retained earnings in the third quarter of 2017.

- For more information about salary agreements for employees represented by the Bank's Employee Association, see Note 8 above.

Corporate governance, other information about the Bank and its management

Table of Contents

Corporate governance

Board of Directors and management

Board of Directors

During the first half of 2017, the Banks Board of Directors held 11 plenary meetings. During this period there were also 36 meetings of Board committees and 3 Board member workshops.

The Board of Directors, at its meeting on January 2, 2017, resolved to appoint Mr. Joseph Shachak member of the Risks Management Committee.

Members of Bank management and senior officers

In the first half of 2017 there were no changes to members of Bank management and senior officers.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and her team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2016 annual report. No material changes occurred in these details during the reported period.

Transactions with controlling shareholders and related parties

Transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

Human Resources

For more information about salary agreements for employees represented by the Bank's Employee Association, see chapter "Significant Events in the Bank Group's Business" of the Report of the Board of Directors and Management .

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

The Dodd-Frank Wall Street Reform and Consumer Protection Act and the European Market Infrastructure Regulation (EMIR).

In 2012, rules were published governing application of the Dodd Frank Wall Street Reform and Consumer Protection Act, enacted in the USA in 2010 (hereinafter: "the Dodd Frank reform").

The reform is designed, *inter alia*, to mitigate credit risk in trading on the OTC derivatives market and the systemics arising there , and increase transparency of this market.

The reform stipulates, inter alia, that transactions are to be settled by a central clearing house to consist of large, major banks which would guarantee each party's compliance with their obligations, binding procedures concerning collateral are to be specified, and all swap transactions made are to be reported to central information repositories, which would store this information and make it accessible to all market players.

Concurrently with the Dodd Frank reform, a similar reform was launched in Europe - European Market Infrastructure Regulation ("EMIR").

The EMIR reform, similar to the Dodd Frank reform, calls for central settlement, mandatory collateral requirements and reporting of executed transactions to designated data repositories.

The rules stipulated by the Dodd-Frank and EMIR reforms also apply to non-US and non-European entities conducting transactions (of certain volumes specified in these reforms) with US or European entities. The Bank applies the relevant directives in conformity with schedules stipulated by the reforms.

The Dodd-Frank and EMIR reforms stipulate new rules for margins (Variation Margin and Initial Margin) for transactions which would not be settled, designed to align conduct rules for the derivatives market for supervision by the relevant regulator. Indeed, provisions with regard to Variation Margin became effective for entities such as the Bank as from March 1, 2017. However, an extension has been granted through September 1, 2017. The Bank continues to prepare to implement the regulation and is taking action to align its operating agreements involving derivatives with relevant foreign entities (ISDA agreements and CSA annex) to legislative requirements.

Increased Competition and Reduced Concentration in Israeli Banking Act (Legislation Amendments), 2017

For more information about the Increased Competition and Reduced Concentration in Israeli Banking Act and its impact, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2016 annual report.

Prohibition of Money Laundering Act (Amendment no. 16) - amendment of definition of Controlling Shareholder

As part of legislative amendments designed for implementation of international agreements on information exchange and improved transparency of legal entities, the definition of Controlling Shareholder in the Prohibition of Money Laundering Act, 2000 was amended. Highlights of the new definition, effective as from February 4, 2017, are as follows: Controlling Shareholder is an individual capable of (directly or indirectly) directing operations of the corporation and/or an individual holding 25% or more of any particular type of means of control (the definition of Means of Control was also expanded in this Amendment). In absence of such individual, the senior officers are to be classified as Controlling Shareholders: CEO and Chairman of the Board of Directors for a corporation and equivalent officers of other entities. The Amendment is designed to align the definition specified in the Prohibition of Money Laundering Act with the definition required by the FATCA agreement. The Bank is applying this new definition.

Financial Services Supervision Act (Regulated Financial Services), 2016

The Act became effective on June 1, 2017. The Act is designed to govern the non-banking credit market, to generate fair, transparent competition in this area, which had been gray and exposed in part - and to allow consumers to have confidence in non-banking credit providers.

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

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

Amendment 19 to the Sale Law (Apartments) (Securing Investments of Home Buyers), 1974

On March 30, 2017, Amendment 19 to the Sale Law (Apartments) (Securing Investments of Home Buyers), 1974 was made public, which covers two issues:

- Exempting the apartment seller from providing collateral to the buyer with respect to the VAT portion of the buyer payment, where the collateral issued to the buyer is a Sale Law guarantee or a Sale Law insurance policy:

  Prior to the amendment, the law stipulated that an apartment seller must provide to the apartment buyer collateral of one of the types listed in the law for the entire payment made by the buyer to the seller with regard to consideration for the apartment.

  The amendment exempts the seller from providing collateral with respect to the VAT portion of the buyer payment, where the collateral provided is a bank guarantee or an insurance policy.

  The law stipulates that reimbursement of the VAT component of the buyer payment to the buyer, in case of default by the seller, pursuant to one of the causes listed in the law, would be secured and carried out by a fund to be created for this purpose at the Ministry of Finance (hereinafter: "the Fund"), which would be liable for reimbursing this component to the buyer in case of materialization of any of the causes listed in the law; this reimbursement would be done through the lending banks, requiring various reports upon demand from the Funs, from the assisting banks with regard to projects which are subject to this amendment to the law.

  The effective start date for these provisions is 15 days after notice has been made public of the creation of such fund.

  Such notice was made public on April 30, 2017 and the effective start date is, therefore, May 14, 2017.

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

- Expansion of definition of "Corporation providing financial assistance" to insurance companies:

  Prior to the amendment, the law defined a "Corporation providing financial assistance" as a banking corporation only and, consequently, the obligations of such a corporation, specified in the law, only applied to banks.

  This amendment to the law expands the definition of "Corporation providing financial assistance" to also include insurance companies and the obligations imposed by law on a banking corporation providing financial assistance were also, accordingly, applied to insurance companies providing financing for construction projects using the financial assistance method, as defined by law.

  Scope: The aforementioned part of the amendment would apply to construction projects whose financing agreements were signed as from the publication date of the law (March 30, 2017).

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

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

Restructuring of the Stock Exchange

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

The Law puts in place the legal infrastructure for separation of ownership of the Tel Aviv Stock Exchange and the rights of Stock Exchange members to use its services, while removing the existing requirement for the Stock Exchange to distribute its earnings. It also stipulates restrictions on holding of shares of the Stock Exchange, requiring Stock Exchange members and banking corporations other than Stock Exchange members to sell any means of control they hold in excess of 5%. The Law further stipulates arrangements for allocation of share capital of the Stock Exchange among members thereof and sale of holdings in excess of 5%. In conformity with the Act, on June 29, 2017 the Stock Exchange filed a request to convene a General Meeting of Stock Exchange members, in order to approve an agreement on changes to the Stock Exchange structure in conformity with Section 350 of the Companies Law (hereinafter: "the Agreement"). In the proposed Agreement, bylaws of the clearinghouses were amended so that clearinghouse members would not take part in its management and objections were made to the proposed text. The Court approved the motion to convene a General Meeting and ordered that should agreement be reached on the change to wording of a proposed resolution on amendment of the clearinghouse Bylaws, no further Court hearing would be required. Consequently, provisions with regard to amendment of clearinghouse Bylaws were revised to include claim and audit proceedings and have been approved by the Stock Exchange Audit Committee and Board of Directives (hereinafter: “the Revision”). On August 10, the Agreement was approved, as amended, by the General Meeting of Stock Exchange members; on August 16, a motion was filed with the Tel Aviv District Court for approval of the Agreement pursuant to Section 350 of the Companies Law. At this stage the Act has no effect on the financial statements; the Bank is reviewing any potential future effects.

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

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

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

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

The revised regulation is effective as from the announcement date.

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

Supervisor of Banks

Circulars and Public Reporting Regulations

Streamlining operations of the banking system in Israel

For more information about the streamlining plan approved by the Bank Board of Directors on December 27, 2016, see Notes 22 and 25 to the 2016 financial statements.

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

Debt collection proceedings

On February 1, 2017, the Bank of Israel issued Proper Banking Conduct Directive 450 "Debt collection proceedings", designed to govern the actions to be taken in order to increase fairness and transparency in debt collection from clients who fail to repay their loan on time and when handling debt collection prior to and during any legal proceedings. The effective start date of this directive is one year after its issue date. The Bank is preparing to implement this directive.

Prohibition of money laundering

On March 6, 2017, the Bank of Israel issued a revision and expansion of Proper Banking Conduct Directive 411 "AML and Terror Financing Risk Management", which integrates supervisory circulars and letters on this matter issued since the most recent extensive revision of this directive. The directive was expanded and compiled as a risks management directive, including identification, assessment and operative mitigation steps. The effective start dates for revisions to this directive is January 1, 2018. The Bank is preparing to implement this directive.

Board of directors:

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

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

Bank's credit rating

On January 4, 2017, Standard & Poor's Ma'alot (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook.

The rating of subordinated notes issued by Tefahot Issuance is one rank below the issuer rating, i.e. rated ilAA+. These subordinated notes qualify as Tier II capital under transitional provisions of Basel III.

The subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, are rated ilA+.

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

On June 30, 2015, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 and raised the outlook from Negative to Stable.

Operating segments

For more information about supervisory operating segments, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2016 annual report.

Addendums to condensed quarterly financial statements

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

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the three months ended June 30, 2017			For the three months ended June 30, 2016		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public[3]						
In Israel	169,975	[7]1,817	4.34	159,836	[7]1,513	3.84
Outside of Israel	2,979	37	5.06	3,241	32	4.01
Total	172,954	1,854	4.36	163,077	1,545	3.84
Loans to the Government						
In Israel	196	1	2.06	174	1	2.32
Outside of Israel	128	2	6.40	154	2	5.30
Total	324	3	3.76	328	3	3.71
Deposits with banks						
In Israel	721	-	-	1,344	1	0.30
Outside of Israel	347	2	2.33	290	-	-
Total	1,068	2	0.75	1,634	1	0.25
Deposits with central banks						
In Israel	36,368	8	0.09	29,410	6	0.08
Outside of Israel	3,671	9	0.98	3,969	6	0.61
Total	40,039	17	0.17	33,379	12	0.14
Securities loaned or purchased in resale agreements						
In Israel	66	-	-	204	-	-
Outside of Israel	-	-	-	-	-	-
Total	66	-	-	204	-	-
Debentures held to maturity and available for sale[4]						
In Israel	10,383	34	1.32	7,560	20	1.06
Outside of Israel	1,045	4	1.54	1,190	5	1.69
Total	11,428	38	1.34	8,750	25	1.15
Debentures held for trading[5]						
In Israel	127	1	3.19	426	2	1.89
Outside of Israel	-	-	-	-	-	-
Total	127	1	3.19	426	2	1.89
Total interest-bearing assets	226,006	1,915	3.43	207,798	1,588	3.09
Receivables for credit card operations	3,273			3,091		
Other non-interest bearing assets[6]	6,257			6,746		
Total assets	235,536			217,635		
Total interest-bearing assets attributable to operations outside of Israel	8,170	54	2.67	8,844	45	2.05

See remarks below.

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

Reported amounts (NIS in millions)

A. Average balances and interest rates - liabilities and equity

	For the three months ended June 30, 2017			For the three months ended June 30, 2016		
	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	13,952	4	0.11	8,085	7	0.35
Term deposits	122,114	435	1.43	121,093	351	1.16
Outside of Israel						
On-call	563	-	-	621	-	-
Term deposits	4,311	10	0.93	4,134	7	0.68
Total	140,940	449	1.28	133,933	365	1.09
Deposits from the Government						
In Israel	55	-	-	53	1	7.76
Outside of Israel	-	-	-	-	-	-
Total	55	-	-	53	1	7.76
Deposits from banks						
In Israel	1,477	3	0.81	1,205	3	1.00
Outside of Israel	-	-	-	12	-	-
Total	1,477	3	0.81	1,217	3	0.99
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	-	-	-	-	-	-
Debentures and subordinated notes						
In Israel	28,627	289	4.10	24,107	204	3.43
Outside of Israel	-	-	-	-	-	-
Total	28,627	289	4.10	24,107	204	3.43
Other liabilities						
In Israel	88	1	4.62	205	1	1.97
Outside of Israel	-	-	-	-	-	-
Total	88	1	4.62	205	1	1.97
Total interest-bearing liabilities	171,187	742	1.75	159,515	574	1.45
Non-interest bearing deposits from the public	40,066			33,845		
Payables for credit card transactions	3,273			3,091		
Other non-interest bearing liabilities[(8)]	7,191			8,359		
Total liabilities	221,717			204,810		
Total equity resources	13,819			12,825		
Total liabilities and equity resources	235,536			217,635		
Interest margin			1.69			1.64
Net return[(9)] on interest-bearing assets						
In Israel	217,836	1,129	2.09	198,954	976	1.98
Outside of Israel	8,170	44	2.17	8,844	38	1.73
Total	226,006	1,173	2.09	207,798	1,014	1.97
Total interest-bearing liabilities attributable to operations outside of Israel	4,874	10	0.82	4,767	7	0.59

See remarks below.

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

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the six months ended June 30, 2017			For the six months ended June 30, 2016		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public[3]						
In Israel	168,563	[7]3,082	3.69	157,572	[7]2,318	2.96
Outside of Israel	3,029	73	4.88	3,140	64	4.12
Total	171,592	3,155	3.71	160,712	2,382	2.99
Loans to the Government						
In Israel	191	2	2.11	168	2	2.40
Outside of Israel	131	4	6.20	157	4	5.16
Total	322	6	3.76	325	6	3.73
Deposits with banks						
In Israel	790	2	0.51	1,503	1	0.13
Outside of Israel	346	3	1.74	301	1	0.67
Total	1,136	5	0.88	1,804	2	0.22
Deposits with central banks						
In Israel	35,105	16	0.09	28,985	12	0.08
Outside of Israel	4,068	18	0.89	3,527	9	0.51
Total	39,173	34	0.17	32,512	21	0.13
Securities loaned or purchased in resale agreements						
In Israel	71	-	-	142	-	-
Outside of Israel	-	-	-	-	-	-
Total	71	-	-	142	-	-
Debentures held to maturity and available for sale [4]						
In Israel	9,358	61	1.31	7,195	32	0.89
Outside of Israel	1,062	8	1.51	1,137	9	1.59
Total	10,420	69	1.33	8,332	41	0.99
Debentures held for trading[5]						
In Israel	683	2	0.59	902	4	0.89
Outside of Israel	-	-	-	-	-	-
Total	683	2	0.59	902	4	0.89
Total interest-bearing assets	223,397	3,271	2.95	204,729	2,456	2.41
Receivables for credit card operations	3,132			3,096		
Other non-interest bearing assets[6]	5,612			8,741		
Total assets	232,141			216,566		
Total interest-bearing assets attributable to operations outside of Israel	8,636	106	2.47	8,262	87	2.12

See remarks below.

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

Reported amounts (NIS in millions)

A. Average balances and interest rates - liabilities and equity

	For the six months ended June 30, 2017			For the six months ended June 30, 2016		
	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	15,613	2	0.03	7,453	4	0.11
Term deposits	118,484	654	1.11	117,926	462	0.79
Outside of Israel						
On-call	607	-	-	599	-	-
Term deposits	4,507	20	0.89	3,989	14	0.70
Total	139,211	676	0.97	129,967	480	0.74
Deposits from the Government						
In Israel	53	-	-	55	1	3.67
Outside of Israel	-	-	-	-	-	-
Total	53	-	-	55	1	3.67
Deposits from banks						
In Israel	1,509	6	0.80	1,259	4	0.64
Outside of Israel	3	-	-	9	-	-
Total	1,512	6	0.80	1,268	4	0.63
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	-	-	-	-	-	-
Debentures and subordinated notes						
In Israel	27,798	387	2.80	24,162	196	1.63
Outside of Israel	-	-	-	-	-	-
Total	27,798	387	2.80	24,162	196	1.63
Other liabilities						
In Israel	105	2	3.85	156	1	1.29
Outside of Israel	-	-	-	-	-	-
Total	105	2	3.85	156	1	1.29
Total interest-bearing liabilities	168,679	1,071	1.27	155,608	682	0.88
Non-interest bearing deposits from the public	40,432			35,492		
Payables for credit card transactions	3,132			3,096		
Other non-interest bearing liabilities[8]	6,255			9,682		
Total liabilities	218,498			203,878		
Total equity resources	13,643			12,688		
Total liabilities and equity resources	232,141			216,566		
Interest margin			1.68			1.54
Net return[9] on interest-bearing assets						
In Israel	214,761	2,114	1.98	196,467	1,701	1.74
Outside of Israel	8,636	86	2.00	8,262	73	1.77
Total	223,397	2,200	1.98	204,729	1,774	1.74
Total interest-bearing liabilities attributable to operations outside of Israel	5,117	20	0.78	4,597	14	0.61

See remarks below.

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

Reported amounts (NIS in millions)

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

	For the three months ended June 30, 2017			For the three months ended June 30, 2016		
	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[2]	Interest revenues (expenses)	Revenue rate (expense)
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	154,436	999	2.61	135,787	889	2.64
Total interest-bearing liabilities	109,855	(188)	(0.68)	101,412	(160)	(0.63)
Interest margin			1.93			2.01
Israeli currency - linked to the CPI						
Total interest-bearing assets	50,826	784	6.31	50,952	581	4.64
Total interest-bearing liabilities	38,565	(494)	(5.23)	36,149	(356)	(4.00)
Interest margin			1.08			0.64
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	12,574	78	2.50	12,215	73	2.41
Total interest-bearing liabilities	17,893	(50)	(1.12)	17,187	(51)	(1.19)
Interest margin			1.38			1.22
Total - operations in Israel						
Total interest-bearing assets	217,836	1,861	3.46	198,954	1,543	3.14
Total interest-bearing liabilities	166,313	(732)	(1.77)	154,748	(567)	(1.47)
Interest margin			1.69			1.67

See remarks below.

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

Reported amounts (NIS in millions)

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

	For the six months ended June 30, 2017			For the six months ended June 30, 2016		
	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[2]	Interest revenues (expenses)	Revenue rate (expense)
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	152,070	1,982	2.62	132,643	1,742	2.64
Total interest-bearing liabilities	107,351	(347)	(0.65)	96,757	(301)	(0.62)
Interest margin			1.97			2.02
Israeli currency - linked to the CPI						
Total interest-bearing assets	50,419	1,024	4.10	51,490	482	1.88
Total interest-bearing liabilities	38,577	(614)	(3.21)	36,206	(264)	(1.46)
Interest margin			0.89			0.42
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	12,272	159	2.61	12,334	145	2.37
Total interest-bearing liabilities	17,634	(90)	(1.02)	18,048	(103)	(1.14)
Interest margin			1.59			1.23
Total - operations in Israel						
Total interest-bearing assets	214,761	3,165	2.97	196,467	2,369	2.43
Total interest-bearing liabilities	163,562	(1,051)	(1.29)	151,011	(668)	(0.89)
Interest margin			1.68			1.54

See remarks below.

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

Reported amounts (NIS in millions)

C. Analysis of change in interest revenues and expenses

	For the three months ended June 30, 2017 compared to the three months ended June 30, 2016			For the six months ended June 30, 2017 compared to the six months ended June 30, 2016		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	108	196	304	201	563	764
Outside of Israel	(3)	8	5	(3)	12	9
Total	105	204	309	198	575	773
Other interest-bearing assets						
In Israel	8	6	14	13	19	32
Outside of Israel	(1)	5	4	3	7	10
Total	7	11	18	16	26	42
Total interest revenues	112	215	327	214	601	815
Interest-bearing liabilities						
Deposits from the public						
In Israel	22	59	81	43	147	190
Outside of Israel	-	3	3	2	4	6
Total	22	62	84	45	151	196
Other interest-bearing liabilities						
In Israel	45	39	84	51	142	193
Outside of Israel	-	-	-	-	-	-
Total	45	39	84	51	142	193
Total interest expenses	67	101	168	96	293	389

(1) Information in these tables is after effect of hedging financial derivatives.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment - based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From (to) the average balance of debentures available for sale, for the three-month periods ended June 30, 2017 and June 30, 2016, and for the six-month periods ended June 30, 2017 and June 30, 2016, we deducted / added the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Cumulative Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (16) million, NIS 9 million, NIS (25) million and NIS (2) million, respectively.
(5) From the average balance of debentures held for trade, for the three-month periods ended June 30, 2017 and June 30, 2016, and for the six-month periods ended June 30, 2017 and June 30, 2016, we deducted / added the average balance of unrealized gains from adjustment to fair value of debentures held for trade amounting to NIS (2) million, NIS 1 million, NIS (1) million and NIS (6) million, respectively.
(6) Includes derivatives, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 45 million, NIS 78 million, NIS 105 million and NIS 156 million were included in interest revenues for the three-month periods ended June 30, 2017 and June 30, 2016 and for the six-month periods ended June 30, 2017 and June 30, 2016, respectively.
(8) Includes derivatives.
(9) Net return - net interest revenues divided into total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Glossary and index of terms included on the financial statements

Below is a summary of terms included on the financial statements:

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

Term	Explanation
Basel	Basel II / Basel III - Framework for assessment of capital adequacy and risk management, issued by the Basel Committee on Bank Supervision.
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.
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).
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.
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.
Loan to Value (LTV) ratio	The ratio between the approved facility when extended and the asset value.
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.
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.
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.
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.
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.
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.

Term	Explanation
Stress tests	A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.
Subordinated notes	Subordinated notes whose interest is subordinated to claims by other Bank creditors, except for other notes of the same type.
Supervisory capital (total capital)	Supervisory capital consists of two tiers: Tier I capital, which includes Tier I shareholders’ equity and additional Tier I capital. Tier II equity: As defined in Proper Banking Conduct Directive 202 "Measurement and capital adequacy - supervisory capital".
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.

2. Terms with regard to banking and finance

Term	Meaning
Active market	A market where transactions involving an asset or liability take place regularly and in sufficient volume, so as to regularly provide information about pricing of assets and liabilities.
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.
Debentures	Securities which are obligations by the issuer to pay to the debenture holder the principal issued plus interest, on specified dates or upon realization of a specified condition.
Debt under restructuring	Problematic debt under restructuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).
Debt under special supervision	Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate.
Debt whose collection is contingent on collateral.	Impaired debt whose repayment is expected through realization of collateral provided to secure such debt.
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.
Financial instrument	A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
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.
Indebtedness	On- and off-balance sheet credit, as defined in Proper Banking Conduct Directive 313.
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.
Off-balance sheet credit	Contracting for providing credit and guarantees (excluding derivatives).
OTC - Over the Counter	Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.
Problematic debts	Debts classified under one of the following negative classifications: special supervision, inferior or impaired.
Recorded debt balance	The debt balance, including recognized accrued interest, premium or discount yet to be amortized, net deferred commissions or net deferred costs charged to the debt balance and yet to amortized, net of the debt amount subject to accounting write-off.
Syndication	A loan extended jointly by a group of lenders.

3. Terms with regard to regulatory directives

Term	Meaning
EMIR - European Market Infrastructure Regulation	EU regulations adopted in order to increase stability, transparency and efficiency of derivative markets.
FATCA - Foreign Accounts Tax Compliance Act	The US Foreign Accounts Tax Compliance Act stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).
LCR - Liquidity coverage ratio	Liquidity Coverage Ratio is defines as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.

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MIZRAHI TEFAHOT

www.mizrahi-tefahot.co.il

HEAD OFFICE

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559000, Fax. 03-7559210
BIC: MIZBILIT

International Activities & Private Banking Sector

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559200, Fax. 03-7559210

Trading in Financial Markets Sector

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559178, Fax. 03-7559029

Marketing & Business Development Division

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559260 Fax. 03-7559270

International Finance & Trade Sector

13 Abba Hillel Silver Street
Lod 7129463, Israel
Tel. 076-8043910, Fax. 08-9579484

Tel -Aviv Principal Business Center

105 Allenby Street,Tel Aviv 6513444
Tel. 03-5649300 Fax. 03-5642034
BIC: MIZBILITTLV

INTERNATIONAL PRIVATE BANKING CENTERS

Jerusalem:
9 Helene Hamalka Street
Jerusalem 9422105, Israel
Tel. 076-8041200, Fax. 02-6222146

Tel-Aviv:
32 Ben Yehuda Street
Tel-Aviv, 6380501, Israel
Tel. 076-8040780, Fax. 03-6213223

Ashdod:
12 Sderot Yerushalayim Street
Ashdod, 7752305, Israel
Tel. 076-8041020, Fax. 08-8654671

Netanya:
2 Benny Berman Street
Ir Yamim Mall, Netanya, 4249330, Israel
Tel.076-8041410, Fax. 09-8358800

BRANCHES ABROAD

London Branch:
Mizrahi Tefahot Bank Ltd.

30 Old Broad Street
London EC2N 1HQ, England
Tel. +44 (0) 20-7448-0600
Fax. +44 (0) 20-7448-0610
BIC: MIZBGB2L
www.umtb.co.uk

Los Angeles Branch:
Mizrahi Tefahot Bank Ltd.

800 Wilshire Blvd.
Los Angeles, CA. 90017, U.S.A.
Tel. +1-213-362-2999, Fax. +1-213-362-2987
BIC: MIZBUS6L
info@umtbusa.com
www.umtbusa.com

SUBSIDIARIES ABROAD

United Mizrahi Bank
(Switzerland) Ltd.

Nuschelerstrasse 31 CH-8021
Zurich, Switzerland
Tel. +41 (0) 44-226-8686
Fax. +41 (0) 44-226-8687
BIC: UMBLCHZZ
info@umbzh.ch
www.umbzh.ch

United Mizrahi Overseas Holding Company B.V.

Jachthavenweg 109h
1081 KM Amsterdam
The Netherlands

Germany Representative Office

Bockenheimer Landstr. 17,
60325 Frankfurt am Main, Germany
Tel. +49 (0) 69-710423270
Fax. +49 (0) 69-710423425

Mexico Representative Office

Sierra Candela 111 Desp 312
Col, Lomas De Chapultepec
Mexico, D.F., C.P. 11000 Mexico
Tel. +52 (0) 55-5202-5607
Fax. +52 (0) 55-5202-5531

SUBSIDIARY COMPANIES IN ISRAEL

ETGAR Portfolio Management of Mizrahi Tefahot Bank Ltd.

123 Hashmonaim Street,
Tel Aviv 6713329, Israel
Tel. 03-5631520
Fax. 03-5631531

Technology Division of Mizrahi Tefahot Ltd.

15 Lincoln St.
Tel Aviv 6713407, Israel
Tel. 03-5634333
Fax. 03-5611342

Mizrahi Tefahot Trust Company Ltd.

123 Hashmonaim Street
Tel Aviv 6713329, Israel
Tel. 03-5630733
Fax. 03-5630752