BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES

Condensed Financial Statements as at 31 March 2016

(unaudited)

This is a translation from the Hebrew and has been prepared for convenience only. In the event of any discrepancy, the Hebrew will prevail.

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Condensed Financial Statements

Table of contents

Report of the Board of Directors and Management

The Directors' Report has been prepared in accordance with the Public Reporting Directives of the Supervisor of Banks. The principles applied in preparing the interim reports are consistent with those used in preparing the Annual Report as at 31 December 2015. These reports should be read in conjunction with the Annual Report for 2015.

Summary of Financial Position

The consolidated statement of profit and loss data are as follows:

	For the three months ended 31 March		For the year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	NIS millions		
Interest income	**1,925**	1,502	8,784
Interest expenses	**270**	(14)	1,666
Net interest income	**1,655**	1,516	7,118
Expenses in respect of credit losses	**(123)**	81	199
Net interest income after expenses in respect of credit losses	**1,778**	1,435	6,919
Non-interest income			
Non-interest financing income	**24**	1,319	1,610
Commissions	**988**	1,051	4,092
Other income	**20**	55	595
Total non-interest income	**1,032**	2,425	6,297
Operating and other expenses			
Salaries and related expenses	**1,202**	1,418 (a)	5,448
Building and equipment maintenance and depreciation	**417**	421 (a)	1,702
Amortization of intangible assets and goodwill	**-**	-	5
Other expenses	**371**	396	1,681
Total operating and other expenses	**1,990**	2,235	8,836
Profit before taxes	**820**	1,625	4,380
Provision for taxes on profit	**371**	565 (a)	1,691
Profit after taxes	**449**	1,060	2,689
Banking corporation's share in profits of companies included on equity basis after tax	**19**	131	177
Net profit	**-**	-	-
Before attributing to non-controlling interests	**468**	1,191	2,866
Attributed to non-controlling interests	**(9)**	(9)	(31)
Attributed to shareholders of the banking corporation	**459**	1,182	2,835
Basic and diluted earnings per share:			
Net profit attributed to shareholders of the banking corporation (in NIS)	**0.30**	0.80	1.92

(a) Restated as a result of a retroactive application of the directives of the Supervisor of Banks regarding the capitalization of software costs for self-development. For further information, ssee Note 1A.2.

Total assets under management of the Group (both balance sheet and off-balance sheet*) amounted to NIS 1,212 billion at 31 March 2016, similar to the end of 2015.

* Total assets, as well as customers' securities, the value of securities in custody of mutual funds, provident funds and supplementary training funds for which operational, management, custodial and pension counseling services are provided.

The consolidated balance sheet data are as follows:

	31 March 2016	31 March 2015	31 December 2015
	Unaudited	Audited	
	NIS millions		
Assets			
Cash and deposits with banks	**55,648**	51,769	60,455
Securities	**78,727**	64,379	69,475
Securities borrowed or purchased under agreements to resell	**1,621**	2,197	1,764
Credit to the public	**267,705**	254,223	265,070
Allowance for credit losses	**(3,572)**	(3,948)	(3,671)
Credit to the public, net	**264,133**	250,275	261,399
Credit to governments	**412**	433	453
Investments in companies included on equity basis	**899**	896	924
Buildings and equipment	**3,060**	3,103 (a)	3,095
Intangible assets and goodwill	**17**	18	18
Assets in respect of derivative instruments	**13,150**	18,831	11,250
Other assets	**7,890**	7,418 (a)	7,666
Total assets	**425,557**	399,319	416,499
Liabilities and equity			
Deposits of the public	**330,354**	305,017	328,693
Deposits from banks	**4,441**	6,187	3,859
Deposits from governments	**808**	517	750
Securities lent or sold under agreements to repurchase	**845**	1,384	938
Debentures, bonds and subordinated notes	**24,810**	19,596	21,308
Liabilities in respect of derivative instruments	**13,996**	18,086	11,098
Other liabilities	**20,650**	21,591 (a)	20,746
Total liabilities	**395,904**	372,378	387,392
Non-controlling interests	**340**	329	340
Equity attributable to shareholders of the banking corporation	**29,313**	26,612 (a)	28,767
Total equity	**29,653**	26,941	29,107
Total liabilities and equity	**425,557**	399,319	416,499

(a) Restated, including a retroactive implementation of the directives of the Supervisor of Banks regarding the capitalization of software costs for self-development. For further information, see Note 1A.2.

The principal financial ratios (in %) are as follows:

	31 March 2016	31 March 2015 (f)	31 December 2015
Credit to the public, net, to total balance sheet	**62.1**	62.7	62.8
Securities to total balance sheet	**18.5**	16.1	16.7
Deposits of the public to total balance sheet	**77.6**	76.4	78.9
Deposits of the public to total credit, net	**125.1**	121.9	125.7
Total equity to risk assets (a)	**14.28**	13.68	13.74
Tier 1 capital to risk assets	**9.96**	9.20	9.58
Leveraging ratio (g)	**6.35**	-	6.27
Liquidity coverage ratio (g)	**125.0**	-	105.00
Equity (excluding non-controlling interests) to balance sheet	**6.9**	6.7	6.9
Net profit to average equity (excluding non-controlling interests) (c)	**6.6**	19.3	10.3
Rate of provision for tax on the profit before taxes	**45.2**	34.8	38.6
Expenses in respect of credit losses to credit to the public, net (c)	**(0.19)**	0.13	0.08
Of which: expenses in respect of collective allowance to credit to the public, net (c)	**0.23**	0.25	0.17
Expenses in respect of credit losses to total risk of credit to the public (c)	**(0.03)**	0.02	0.05
Interest income, net to total balance sheet (c)	**1.56**	1.53	1.71
Total income to total assets (b)(c)	**2.55**	4.01	3.22
Total income to total assets managed by the Group (b)(c)(d)	**0.91**	1.28	1.11
Total operating and other expenses to total balance sheet (c)	**1.88**	2.26	2.12
Total operating and other expenses to total assets managed by the Group (c)(d)	**0.66**	0.73	0.73
Net profit to total average assets (c)(e)	**0.43**	1.17	0.69
Interest margin	**1.67**	1.74	1.84
Operating and other expenses (excluding early retirement expenses) to total income (b)	**74.1**	56.7	65.8
Non-interest income to operating and other expenses (excluding early retirement expenses)	**51.9**	108.5	71.3
Non-interest income to total income (b)	**38.4**	61.5	46.9

(a) Capital – with the addition of non-controlling interests and sundry adjustments.
(b) Total income – net interest income and noninterest income.
(c) On an annual basis
(d) Including off balance sheet activity.
(e) Average assets are total income-producing and other balance sheet assets.
(f) Restated, including retroactive application of the directives of the Supervisor of Banks regarding the capitalization of software costs for self-development. For further information, see Note 1A.2.
(g) Pursuant to the Bank of Israel directives, the leverage ratio and the liquidity coverage ratio were computed from the second quarter of 2015. Accordingly, comparative figures are not presented.
For further information regarding the leverage ratio, see chapter Structure and Development of the Assets and Liabilities, Capital and Capital Adequacy, chapter on Capital and Capital Adequacy, and for further information regarding liquidity coverage ratio, see chapter Exposure to Risks and Ways of Managing Them.

Forward-Looking Information in the Report of the Board of Directors and Management

The Director's Report includes, as mentioned above, in addition to data relating to the past, information that relates to the future, which is defined in the Securities Law, 1968, ("the Law") as "forward-looking information". Forward-looking information relates to a future event or matter, the realization of which is not certain and is not within the exclusive control of the Bank.

Forward-looking information is generally drafted with words or phrases such as "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's programs", "the Bank's forecast", "expected", "strategy", "aims", "likely to affect" and additional phrases testifying to the fact that the matter in question is a forecast of the future and not a past fact.

Forward-looking information included in the Directors' Report is based, *inter alia*, on forecasts of the future regarding various matters related to economic developments in Israel and abroad, and especially to the currency markets and the capital markets, to legislation, to directives of regulatory bodies, to the behavior of competitors, to technological developments and to personnel matters.

As a result of the inability to foresee with certainty that these forecasts will be realized, and the fact that in reality events may turn out differently from those forecasted, readers of the Report should relate to information defined as "forward-looking" with caution, since reliance on such information involves risks and uncertainty and the future financial and business results of the Leumi Group are likely to be materially different.

The Bank does not undertake to publish updates of the forward-looking information included in these reports. The aforesaid does not derogate from the Bank's reporting obligation by any law.

Trends, Phenomena, Developments and Material Changes

Principal Developments in the Economy[1]

The combined index for examining the state of the economy published each month by the Bank of Israel increased in the first quarter of the year by 0.8%, in annual terms, compared with the fourth quarter of 2015 and by 1.7%, compared with the corresponding quarter last year. The slow growth derives from fall in exports and public consumption, alongside an increase in public consumption and investments in the economy.

The global economy

In April 2016, the International Monetary Fund revised its estimate of the expected development of growth in the world for 2016. In comparison to a previous announcement in January 2016, the forecast among the advanced countries was revised downward. According to the Fund's revised estimates, growth in the United States and the Euro Area in 2016 is expected to amount to 2.4% and 1.5%, respectively, compared to 2.4% and 1.6%, respectively in 2015. The forecast for growth of global output in 2016 is 3.2%.

The State Budget and its Financing

During the first three months of the year, the Government's budget surplus amounted to some NIS 1.0 billion, this compared with NIS 0.5 billion surplus in the corresponding period of last year. The planned annual deficit for 2016 is NIS 35.0 billion (2.9% of GDP), whereas according to the Ministry of Finance's estimates for the last 12 months ended in March 2016, the budget deficit totaled some 2.1% of GDP. Some of the budget surplus since the beginning of the year can be explained by an increase in the State's income from taxes over the budget collection forecast at the basis of the budget, amounting to NIS 1.5 billion.

Foreign trade and capital movements

Israel's total trade deficit in the first quarter of the year amounted to US$ 2.6 billion, an increase of US$ 1.6 billion, compared with the deficit in the corresponding period last year. The increase in the trade deficit derives from a significant fall in exports (particularly in the diamonds, chemicals and medicines sector), compared with an increase in imports.

In the first three months of the year, total foreign currency capital inflows were higher than capital outflows. Direct investments in Israel by foreign residents, via the banking system, amounted to US$ 2.5 billion, while financial investments of foreign residents amounted US$ 1.9 billion. On the other hand, total investments of Israeli residents abroad (the direct investments via the banks in Israel and financial investments) amounted to US$ 0.1 billion.

Exchange Rate and Foreign Currency Reserves

In the first quarter of the year, the shekel appreciated against the dollar by a rate of some 3.5%, while relative to the euro, a devaluation of 0.9% was recorded. During this period, the shekel appreciated against the effective nominal currency basket by 1.3%.

Foreign currency balances in the Bank of Israel at the end of March 2016 amounted to US$ 94.8 billion, compared with US$ 90.6 billion at the end of 2015.

In the first quarter of the year, foreign currency purchases by the Bank of Israel totaled US$ 0.6 billion as part of a program of purchases to offset the effect of gas production on the exchange rate. In total, the Bank of Israel purchased foreign currency amounting to US$ 1.0 billion during this period.

Inflation and Monetary Policy

The consumer price index fell in the first quarter of the year by 1.0%, while in the 12 months ending March 2016 it fell by 0.7%. This rate is under the lower limit of the Government's target range of the price stability of 1% to 3%. Most of the index items fell in the first quarter with transportation and communication items being the main contributor, mainly due to the effect of the decline in oil prices.

During the first quarter of the year, as in the decisions in both April and May, there was no change in Bank of Israel's interest rate, and it stands at 0.1%. In the May 2016 interest announcement, the Monetary Committee stated that it continues to estimate that the monetary policy will remain expansionary for the long term, and it also contemplates that the chances for achieving the inflation and growth goals remain high.

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1 Sources of the data: Publications of the Central Bureau of Statistics, the Bank of Israel, the Finance Ministry and the Stock Exchange.

Israeli capital market

The shares and convertible securities index fell by 8.7% in the first three months of the year, following an increase of 6.8% in 2015, similar to the global trend and by the effect of the situation in the Chinese stock exchanges.

Average daily trading volumes of shares and convertible securities decreased in the first quarter of the year by 4.0%, compared with the average for 2015, and amounted to NIS 1,391 million.

The Government bond market was characterized during the months of January-March by an increase in prices. The price of index-linked Government bonds rose by 1.8%, while unlinked Government bonds increased by 1.2% (the fixed-interest bond indices rose by 1.4%, while the variable-interest (*Gilon*) bond index fell by 0.1%). A possible explanation for this rise in prices is the shifting from assets of high risk level (shares) to a lower risk level (bonds), in view of the growing risk in the global markets.

In the index-linked non-government debenture market (corporate bonds) in the first quarter of the year, there were moderate price increases of some 1.1%, following price increases of some 0.8% in 2015.

Financial Assets held by the Public

The value of the portfolio of financial assets held by the public decreased in the first quarter months of the year by 0.6%, amounting to NIS 3,296 billion at the end of March 2016. This decrease in the value of the portfolio derived from a decrease in the value of shares held by the public. The proportion of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public at the end of March 2016 reached 21.6%, compared with 23.0% in December 2015.

Bank Credit

Bank credit in the economy granted to the private sector, including corporate credit and household credit, (before allowances for credit losses) increased in the first two months of the year by 1.0%. This was a consequence of a 1.4% increase in credit extended to the corporate sector and a 0.5% increase in credit extended to the household sector. The development of the components of credit to the household sector indicated an increase in housing credit of 0.8%, with non-housing credit (consumer credit) reducing by 0.2%.

The following table sets out details of changes in representative exchange rates and the CPI and the rates of change therein:

	31 March		31 December	
	2016	2015	2015	2014
	NIS			
Exchange rate:				
U.S. Dollar	**3.766**	3.980	3.902	3.889
Euro	**4.286**	4.273	4.247	4.725
Pound Sterling	**5.427**	5.881	5.784	6.064
Swiss Franc	**3.919**	4.089	3.925	3.929
Consumer price index:	(points)			
The "known" index	**98.3**	98.5	99.2	100.1
The index for	**98.1**	98.8	99.1	100.1

The following table sets out changes in the consumer price index and exchange rates:

	31 March		Year
	2016	2015	2015
	(in percentages)		
Rate of decrease in the "known" index	**(0.9)**	(1.6)	(0.9)
Rate of increase (decrease) in the U.S. dollar exchange rate	**(3.5)**	2.3	0.3
Rate of increase (decrease) in the euro exchange rate	**0.9**	(9.6)	(10.1)
Rate of decrease in the pound sterling exchange rate	**(6.2)**	(3.0)	(4.6)
Rate of increase (decrease) in the Swiss franc exchange rate	**(0.2)**	4.1	(0.1)

The following table sets out quarterly changes in the consumer price index and exchange rates:

	2016	2015			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	(in percentages)				
Rate of increase (decrease) in the "known" index	**(0.9)**	(0.7)	0.3	1.1	(1.6)
Rate of increase (decrease) in the U.S. dollar exchange rate	**(3.5)**	(0.5)	4.1	(5.3)	2.3
Rate of increase (decrease) in the euro exchange rate	**0.9**	(3.6)	4.4	(1.3)	(9.6)
Rate of increase (decrease) in the pound sterling exchange rate	**(6.2)**	(2.8)	0.4	0.8	(3.0)
Rate of increase (decrease) in the Swiss franc exchange rate	**(0.2)**	(2.6)	(0.6)	(0.9)	4.1

Material changes in items in the financial statements

In comparing the net profit attributable to shareholders of the banking corporation (hereinafter, "the net profit") in the first quarter of 2016 and the net profit in the first quarter of 2015, it has to be taken into account that the profit last year was materially affected by gains on the sale of the Israel Corporation and by the equity profits of this company – the reported net profit for the first quarter last year was NIS 1,182 million. while, after excluding the one-time (net) profit from the sale of the Israel Corporation (NIS 418 million) and the equity profits (NIS 114 million) – the reported net profit, excluding the aforementioned one-time profits, is NIS 650 million (hereinafter – "proforma net profit").

The main differences between the net profit for the first quarter of 2016 and the proforma net profit for the first quarter of 2015

a. **Net interest income** increased between the periods by NIS 140 million (9%). In analyzing this item, a number of trends with conflicting effects should be taken into account –

   1. A low interest environment – the falling trend in the shekel interest environment continues – average for the first quarter of 2016 – 0.1%, compared with 0.2% in the first quarter of 2015, a trend which erodes the margin from deposits.

   2. A negative index environment **–** a high and irregular negative index in the two quarters – a negative of 0.9% in the current quarter vis-à-vis a negative index of 1.6% in 2015. Due to a decrease in the scope of the negative nature of the index, there is a decrease in the amount of impairment in income estimated at NIS 96 million (estimated impairment of NIS 204 million in the first quarter of 2016, vis-à-vis NIS 300 million in the first quarter last year).

   3. An increase in the volume of credit – There is a significant increase in the volume of credit (5.5% quarter-on-quarter) which contributes to an increase in financial income from credit.

b. A decrease of NIS 773 million in **noninterest financial income -** This decrease is explained by two principal components – one, in 2015, significant sales (particularly Mobileye – a profit before tax of NIS 288 million), are included in this item. In addition, the profits from sales and adjustments to market value of securities of the trading portfolio and the available-for-sale portfolio were lower by NIS 378 million in this quarter, compared with last year, due to the low yield of the capital market in the first quarter of this year.

c. **A decrease in operating expenses** – a decrease of NIS 245 million (11%) in volume of operating expenses – most in the total salary expenses.

d. **The total amount of credit loss expenses** fell by NIS 204 million to a level of 0.19% of income in respect of credit losses out of net credit to the public (from a level of expense of 0.13% in the first quarter – 2015), mostly due to significant collections made in the Bank activity vis-à-vis large borrowers.

e. A one-time **tax expense.** amounting to NIS 122 million, in respect of a change in the tax rate approved in January 2016, is included in the statements of for the first quarter of 2016.

The net profit per share attributable to the shareholders of the banking corporation in the first quarter of 2016 was NIS 0.30, compared with NIS 0.80 in the first quarter of 2015.

Total profit after the effect of tax (in addition to the net profit including adjustments in respect of the presentation of available-for-sale securities at fair value, adjustments in respect of employee benefits and adjustments from the translation of the financial statements) amounted to a loss of NIS 90 million in the first quarter of 2016. The total loss derives from the negative effect of a fund in respect of employee benefits amounting to NIS 592 million, which partly offset the total net profit and the positive movement in the quarter in the adjustment fund of available-for-sale securities amounting to NIS 96 million.

For further information, see chapter "Structure and Development of Assets, Liabilities, Capital and Capital Adequacy, section, "Securities".

Significant Developments in Income, Expenses and Other Comprehensive Income

The net profit attributable to the shareholders of the banking corporation (hereinafter "net profit") of Leumi Group in the first three months of 2016 amounted to NIS 459 million, compared with NIS 1,182 million in the corresponding period last year – a decrease of 61.2%. The abovementioned net profit in the first quarter of 2015 was materially affected by profits from the sale of the Israel Corporation and from equity profits of this company. After excluding the one-time profit from the sale of the Israel Corporation (NIS 418 million) and the equity profit (NIS 114 million) – the reported net profit, excluding the abovementioned one-time profits, were NIS 650 million.

The change in the net profit for the first quarter of 2016 compared with the corresponding period last year:

	For the three months ended			
	31 March 2016	31 March 2015	Change	
	NIS millions		NIS millions	%
Net income interest	**1,655**	1,516	139	9.2
Expenses (income) in respect of credit losses	**(123)**	81	(204)	-
Noninterest income	**1,032**	2,425	(1,393)	(57.4)
Operating and other expenses	**1,990**	2,235 (a)	(245)	(11.0)
Profit before taxes	**820**	1,625	(805)	(49.5)
Provision for tax	**371**	565 (a)	(194)	(34.3)
Profit after taxes	**449**	1,060	(611)	(57.6)
The Bank's share in profits (losses) of companies included on equity basis	**19**	131	(112)	(85.5)
Loss (net profit) attributed to non-controlling interests	**(9)**	(9)	-	-
Net profit attributed to shareholders in the banking corporation	**459**	1,182	(723)	(61.2)
Return on equity (in percentages)	**6.6**	19.3	-	-
Profit per share (NIS)	**0.30**	0.80	-	-

The following table is the development of net profit by quarter:

	2016	2015			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Net income interest	**1,655**	1,727	1,875	2,000	1,516
Income (expenses) in respect of credit losses	**(123)**	33	73	12	81
Non-interest income	**1,032**	1,545	1,344	983	2,425
Other operating expenses	**1,990**	2,318	2,121	2,162	2,235(a)
Profit before taxes	**820**	921	1,025	809	1,625
Provision for tax	**371**	502	327	297	565(a)
Profit after taxes	**449**	419	698	512	1,060
The Bank's share in profits (losses) of companies included on equity basis	**19**	16	15	15	131
Net loss (profit) attributed to non-controlling interests	**(9)**	(4)	(9)	(9)	(9)
Net profit attributed to shareholders in the banking corporation	**459**	431	704	518	1,182
Return on equity (in percentages)	**6.6**	6.1	10.4	7.8	19.3
Profit per share (NIS)	**0.30**	0.29	0.48	0.35	0.80

(a) Restated as a result of the retroactive application of the directives of the Supervisor of Banks on the subject of the capitalization of software costs for self-development. For further information, see Note 1A.2.

Net interest income

Net interest income of Leumi Group amounted in the first quarter of 2016 to NIS 1,655 million, compared with NIS 1,516 million in the corresponding period last year, an increase of NIS 139 million or 9.2%.

The increase in net interest income in the first quarter of 2016 compared with the corresponding period last year is due to an increase in interest-bearing assets, particularly, an increase in the volume of credit.

The ratio of net interest income to the average balance of interest-bearing assets (the net yield on interest-bearing assets) is 1.76%, compared with 1.74% in the corresponding period last year.

The overall **interest gap** in the first quarter of 2016 is 1.67%, compared with a gap of 1.74% in the corresponding period last year.

The interest gaps in activity in Israel by segment were as follows:

In the index segment, the interest gap was (0.41%), compared with (0.85%) in the corresponding period last year. The interest gap in the foreign currency segment was 1.22%, compared with 1.53% in the corresponding period last year. In the unlinked shekel segment, the interest gap was 2.11%, compared with 2.33% in the corresponding period last year.

For further information relating to interest income and expenses, see Appendix 1 – Rates of Income and Expenses and Analysis of Changes in Interest Income and Expenses.

Expenses in respect of credit losses

	For the three months ended 31 March			
	2016	2015	Change	
	NIS millions		NIS millions	%
Individual expense (income) in respect of credit losses	**(275)**	(74)	(201)	-
Collective expenses (income) in respect of credit losses	**152**	155	(3)	(1.9)
Total expense (income) in respect of credit losses	**(123)**	81	(204)	-
Percentage ratios:				
Rate of individual expenses (income) in respect of credit losses to total credit to the public, net	**(0.42)**	(0.12)		
Rate of collective expense in respect of credit losses to total credit to the public, net	**0.23**	0.25		
Rate of total expenses (income) in respect of credit losses to total credit to the public, net	**(0.19)**	0.13		

	2016	2015			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Individual expense (income) in respect of credit losses	(275)	(54)	(14)	(112)	(74)
Collective expense in respect of credit losses	152	87	87	124	155
Total expense (income) in respect of credit losses	(123)	33	73	12	81
Percentage ratios (in annual terms):					
Rate of individual expenses (income) in respect of credit losses to total credit to the public, net	(0.42)	(0.08)	(0.02)	(0.17)	(0.12)
Rate of collective expense in respect of credit losses to total credit to the public, net	0.23	0.13	0.13	0.19	0.25
Rate of total expenses (income) in respect of credit losses to total credit to the public, net	(0.19)	0.05	0.11	0.02	0.13

Income in respect of credit losses of Leumi Group amounted to NIS 123 million in the first quarter of 2016, compared with expenses of NIS 81 million in the corresponding period last year. Income in the first quarter of 2016 derives from high collection during the current quarter.

For further information relating to credit loss expenses, see Note 6 and Note 13.

Non-interest Income

	For the three months ended			
	31 March 2016	31 March 2015	Change	
	NIS million		NIS million	%
Non-interest financial income	**24**	1,319	(1,295)	(98.2)
Commissions	**988**	1,051	(63)	(6.0)
Other income	**20**	55	(35)	(63.6)
Total	**1,032**	2,425	(1,393)	(57.4)

	2016	2015			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Non-interest financial income	24	71	325	(105)	1,319
Commissions	988	993	1,013	1,035	1,051
Other income	20	481	6	53	55
Total	1,032	1,545	1,344	983	2,425

Non-interest income of Leumi Group in the first quarter of 2016 amounted to NIS 1,032 million compared with NIS 2,425 million in the corresponding period last year, a decrease of NIS 1,393 million, or 57.4%.

The decrease in noninterest income derives mainly from a profit from the sale of shares in the Israel Corporation (NIS 522 million) and Mobileye (NIS 288 million) which was recorded in the corresponding period last year and a decrease in income from the trading portfolio amounting to NIS 283 million in the first quarter of 2016, compared with the corresponding period last year.

The table below presents details of noninterest financing income:

	For the three months ended			
	31 March 2016	31 March 2015	Change	
	NIS millions		NIS millions	%
Net income (expenses) in respect of derivative instruments and net exchange rate differences	**(54)**	(79)	25	31.6
Profits from sale of available-for-sale debentures, net	**9**	104	(95)	(91.3)
Profits from investments in shares including dividends (a)	**83**	1,025	(942)	(91.9)
Net profits in respect of loans sold	**-**	-	-	-
Realized and unrealized profits and losses and adjustments of debentures and shares available for trade to fair value, net	**(14)**	269	(283)	-
Total	**24**	1,319	(1,295)	(98.2)

	2016	2015			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Net income (expenses) in respect of derivative instruments and net exchange rate differences	**(54)**	177	(254)	209	(79)
Profits from sale of available-for-sale debentures, net	**9**	27	35	15	104
Profits from investments in shares including dividends (a)	**83**	(165)	403	40	1,025
Net profits in respect of loans sold	**-**	-	11	-	-
Realized and unrealized profits (losses) from adjustments of debentures and shares available for trade to fair value, net	**(14)**	32	130	(369)	269
Total	**24**	71	325	(105)	1,319

(a) The first quarter of 2015, includes mainly profit from the sale of shares of the Israel Corporation and Mobileye amounting to NIS 522 million and NIS 288 million before the effect of tax, respectively. In the third quarter of 2015, includes profit from the sale of the Israel Corporation amounting to NIS 289 million and income from a dividend received in respect of the shares of Kenon Holdings amounting to NIS 130 million, before the effect of tax and in the fourth quarter of 2015, includes profit from the sale of Derech Eretz amounting to NIS 100 million before the effect of tax and expenses of impairment in respect of the shares of Kenon Holdings amounting to NIS 282 million, before the effect of tax.

The following table presents a breakdown of commissions:

	For the three months ended			
	31 March 2016	31 March 2015	Change	
	NIS millions		NIS millions	%
Account management	**179**	209	(30)	(14.4)
Activity in certain securities and derivative instruments	**162**	194	(32)	(16.5)
Credit cards	**240**	230	10	4.3
Treatment of credit	**48**	52	(4)	(7.7)
Commissions for distribution of financial products	**68**	76	(8)	(10.5)
Conversion differences	**82**	80	2	2.5
Commissions from financing transactions	**132**	126	6	4.8
Other commissions	**77**	84	(7)	(8.3)
Total commissions	**988**	1,051	(63)	(6.0)

Total income from commissions in the first quarter of 2016 was affected by a decrease in activity of the office in Switzerland, as a result of the completion of the sale of the activity to Julius Baer in the first quarter of 2015, the sale of the activity in Luxembourg in the first quarter of 2016 (effect of NIS 40 million), and a contraction in the scope of activity as a result of the Bank's declared money policy.

	2016	2015			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Account management	**179**	183	182	188	209
Activity in certain securities and derivative instruments	**162**	153	154	174	194
Credit cards	**240**	244	253	236	230
Treatment of credit	**48**	45	45	58	52
Commissions for distribution of financial products	**68**	75	76	79	76
Conversion differences	**82**	82	83	80	80
Commissions from financing transactions	**132**	134	143	139	126
Other commissions	**77**	77	77	81	84
Total commissions	**988**	993	1,013	1,035	1,051

Income from commissions accounts for 49.6% of the operating and other expenses, compared with 47.0% in the corresponding period last year and 46.3% in the whole of 2015.

Details of other income are as follows:

	For the three months ended			
	31 March 2016	31 March 2015	Change	
	NIS millions		NIS millions	%
Profits from severance pay fund	**-**	38	(38)	(100.0)
Other income including the sale of buildings and equipment	**20**	17	3	17.6
Total	**20**	55	(35)	(63.6)

The decrease in profits from the reserve for severance pay derives from negative yields in the first quarter of 2016, compared with positive yields in the corresponding period last year.

	2016	2015			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Profits from severance pay fund	**-**	15	(24)	6	38
Other income including the sale of buildings and equipment	**20**	466	30	47	17
Total	**20**	481	6	53	55

(a) In the first quarter of 2015 including profit from the sale of buildings in the subsidiary in the United States amounting to NIS 380 million.

The weight of noninterest income as a percentage of total income (i.e., net interest income and noninterest income) was 38.4%, compared with 61.5% in the corresponding period last year and 46.9% in the whole of 2015.

Operating and other expenses

	For the three months ended			
	31 March 2016	31 March 2015	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	**1,202**	1,418	(216)	(15.2)
Depreciation and amortization	**145**	162	(17)	(10.5)
Buildings and equipment maintenance expenses	**272**	259	13	5.0
Other expenses	**371**	396	(25)	(6.3)
Total operating and other expenses	**1,990**	2,235	(245)	(11.0)

	2016	2015			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
Salaries and related expenses	**1,202**	1,325	1,360	1,345	1,418
Depreciation and amortization	**145**	169	156	173	162
Buildings and equipment maintenance expenses	**272**	256	271	261	259
Other expenses	**371**	568	334	383	396
Total operating and other expenses	**1,990**	2,318	2,121	2,162	2,235

Total operating and other expenses of the Leumi Group in the first quarter of 2016 amounted to NIS 1,990 million, compared with NIS 2,235 million in the corresponding period last year, a decrease of 11.0%.

Salary expenses

	For the three months ended			
	31 March 2016	31 March 2015	Change	
	NIS millions		NIS millions	%
Salary and related expenses	**905**	867 (a)	38	4.4%
Yield bonus	**70**	155	(85)	(54.8%)
Pension, severance pay and voluntary retirement expenses, net of fund profits	**227**	396	(169)	(42.7%)
Total salary expenses	**1,202**	1,418	(216)	(15.2%)

Salary expenses in the first quarter of 2016 amounted to NIS 1,202 million, compared with NIS 1,418 million in the corresponding period last year, a decrease of NIS 216 million, or 15.2%.

The decrease in total salary expenses derives mainly from a decrease in the provision for expected yield bonus, a decrease in current salary expenses in the Bank (excluding non-recurring effects) and a fall in salary expenses in the overseas offices as a result of the closure of the offices in Switzerland and Luxembourg. In addition, on a non-recurring basis, salary expenses were reduced in the first quarter of 2015 and in the first quarter of 2016 due to the signing of collective agreements in these quarters (for further information, see Note 8) in the amounts of NIS 97 million and NIS 59 million, respectively.

	2016	2015			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Salary and related expenses	**905**	1,016 (a)	991 (a)	913 (a)	867 (a)
Yield bonus	**70**	43	96	228	155
Pension, severance pay and voluntary retirement expenses, net of fund profits	**227**	266	273	204	396
Total salary expenses	**1,202**	1,325	1,360	1,345	1,418

(a) Restated as a result of the retroactive application of the directives of the Supervisor of Banks regarding the capitalization of software costs for self-development. For further information, see Note 1A.2.

For further information, see Note 8.

Salary and related expenses account for 60.4% of total operating expenses, compared with 63.4% in the corresponding period last year, and 61.7% in the whole of 2015.

Operating and other expenses (excluding salaries)

Operating and other expenses, excluding salary, amounted to NIS 788 million in the first quarter of 2016, compared with NIS 817 million in the corresponding period last year, a decrease of NIS 29 million, 3.5%.

Operating expenses constitute 74.1% of total income, compared with 56.7% in the corresponding period last year, and 65.9% in the whole of 2015.

Total operating and other expenses (in annual terms) constitute 1.88% of the total balance sheet, compared with 2.26% in the corresponding period last year, and 2.12% in the whole of 2015.

Tax expenses

Provision for taxes on profit of Leumi Group for the first quarter of 2016 amounted to NIS 371 million, compared with NIS 565 in the corresponding period last year. The rate of the provision in the first quarter of 2016 was 45.2% of the pre-tax profit, compared with 34.8% in the corresponding period last year, an increase of 10.4 percentage points. The increase in the rate of tax is primarily attributable to recording tax expenses amounting to NIS 122 million, due to a decrease in the balance of net deferred taxes as a result of a decrease in the company tax rate from 26.5% to 25%, effective 1 January 2016.

Profit after taxes

Profit after taxes for the first quarter of 2016 amounted to NIS 449 million, compared with NIS 1,060 million in the corresponding period last year, a decrease of 57.6%.

Profits of companies included on equity basis

The Group's share in the profit after tax of companies included on equity basis amounted to a profit of NIS 19 million in the first quarter of 2016, compared with a profit of NIS 131 million in the corresponding period last year. The decrease derives from the sale of shares of the Israel Corporation in the first quarter of 2015 and from the classification of the investment in the Israel Corporation with effect from 31 March 2015 in the available-for-sale in accordance with the market value of the investment as of 31 March 2015. With effect from the second quarter of 2015, the Bank includes the profit in respect of adjustments to the market value of the investment in the Israel Corporation in other comprehensive income only.

Net profit

Net profit before attribution to holders of non-controlling interests amounted to NIS 468 million in the first quarter of 2016, compared with a profit of NIS 1,191 million in the corresponding period last year, a decrease of 60.7%.

Net profit attributable to holders of non-controlling interests in the first quarter of 2016 amounted to NIS 9 million, similar to the corresponding period last year.

Net profit attributable to the shareholders of the banking corporation for the first quarter of 2016 amounted to NIS 459 million, compared with a profit of NIS 1,182 million in the corresponding period last year, a decrease of 61.2%.

The following is a condensed statement of the comprehensive profit:

	Other comprehensive income (loss) before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Adjustments in respect of employee benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	(NIS millions)						
Balance at 31 December 2014	394	(65)	22	(1,904)	(1,553)	(4)	(1,549)
Net change in the period	355	40	25	(781)	(361)	1	(362)
Balance at 31 March 2015	749	(25)	47	(2,685)	(1,914)	(3)	(1,911)
Balance at 31 December 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change in the period	**96**	**(44)**	**(9)**	**(544)**	**(501)**	**-**	**(501)**
Balance at 31 March 2016	**163**	**(111)**	**29**	**(2,034)**	**(1,953)**	**(4)**	**(1,949)**

	Other comprehensive income (loss) before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Adjustments in respect of employee benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	(NIS millions)						
Balance at 31 December 2014	394	(65)	22	(1,904)	(1,553)	(4)	(1,549)
Net change in the period	(327)	(2)	16	414	101	-	101
Balance at 31 December 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)

(a) Adjustments from the translation of financial statements of foreign activities which, from the nature of their activity differ from the functional currency of the banking corporation, including adjustments in respect of companies included on equity basis.

(b) Net profits (losses) in respect of net hedging of investment in foreign currency.

Structure and Development of Assets and Liabilities, Capital and Capital Adequacy

Total Assets of the Leumi Group on 31 March 2016 amounted to NIS 425.6 billion, compared with NIS 416.5 billion at the end of 2015, an increase of 2.2%, and compared with March 2015, an increase of 6.6%.

Out of the Group's total assets, the value of assets denominated in or linked to foreign currency was NIS 87.7 billion, 20.6% of total assets. In 2016, the shekel was depreciated against the US dollar by 3.5% and the shekel appreciated against the euro by 0.9%. The change in the exchange rates of the shekel against foreign currencies contributed to a decrease of 0.7% in the Group's total balance sheet, so that canceling the effect of the depreciation of the shekel, the total balance sheet increased to NIS 428.2 billion.

Total assets under the Group’s management – The total balance sheet as well as customers’ securities portfolios, and provident funds and supplementary training funds in relation to which operational management and deposit management services are provided – amounted to NIS 1,212 billion, a similar amount to total assets at the end of 2015 (US$ 322 billion).

1. The following table sets out the development of the main balance sheet items:

	31 March 2016	31 December 2015	From December 2015	From March 2015
	NIS millions		Change %	
Total assets	**425,557**	416,499	2.2	6.6
Cash and deposits with banks	**55,648**	60,455	(8.0)	7.5
Securities	**78,727**	69,475	13.3	22.3
Credit to the public, net	**264,133**	261,399	1.0	5.5
Buildings and equipment	**3,060**	3,095	(1.1)	(1.4)
Deposits of the public	**330,354**	328,693	0.5	8.3
Deposits from banks	**4,441**	3,859	15.1	(28.2)
Debentures, notes and subordinated notes	**24,810**	21,308	16.4	26.6
Equity attributed to shareholders of the banking corporation	**29,313**	28,767	1.9	10.1

2. The following table sets out the development of the main off-balance sheet items:

	31 March 2016	31 December 2015	From December 2015	From March 2015
	NIS millions		Change %	
Documentary credits, net	**1,648**	1,755	(6.1)	(18.6)
Guarantees securing credit, net	**5,919**	6,058	(2.3)	(0.2)
Guarantess to apartment purchasers, net	**18,980**	19,292	(1.6)	3.9
Other guarantees and liabilities, net	**16,433**	16,903	(2.8)	(6.2)
Derivative instruments (a)	**637,700**	616,885	3.4	(8.0)
Options of all types	**118,601**	111,125	6.7	(13.7)

(a) Including "forward" transactions, financial exchange transactions, futures, swaps and credit derivatives.
For further information, see Note 11A and 11B.

3. The following table sets out the development of balances of customers' off-balance sheet financial assets with the Leumi Group:

Off-balance sheet activity

	31 March 2016	31 December 2015	Change	
	NIS millions		NIS millions	%
Securities portfolios (a)	**583,547**	592,820	(9,273)	(1.6)
Assets in respect of which operating services are provided: (a)(b)(c)	**-**	-	-	-
Mutual funds	**56,379**	59,451	(3,072)	(5.2)
Provident and pension funds	**71,156**	71,221	(65)	(0.1)
Supplementary training funds	**75,198**	73,569	1,629	2.2

(a) Including a change in market value of securities and the value of securities of mutual and provident funds held in custody, in respect of which operational management and custodial services are provided.
(b) The Group in Israel does not manage mutual funds, provident funds or supplementary training funds.
(c) Assets of customers in relation to which the Group provides operational management services, including balances of the funds of customers who receive counseling at Leumi.

Credit to the public, net

Credit to the public in the Leumi Group at 31 March 2016 amounted to NIS 264.1 billion, compared with NIS 261.4 billion at the end of 2015, an increase of 1.0%, and compared with March 2015, an increase of 5.5%.

The change of the exchange rate of the shekel against all foreign currencies contributed to a decrease of 0.2% in total credit to the public. Excluding the effect of the depreciation, there was an increase of 1.5% in total credit to the public, so that excluding the effect of the depreciation of the shekel, total credit was NIS 265.4 billion.

As well as granting credit to the public, the Group invests in the securities of companies, amounting to NIS 14,489 million at 31 March 2016, compared with NIS 14,095 million at the end of 2015. These investments also involve credit risk.

The following table sets out the mix of credit to the public by linkage segment:

	31 March 2016		31 December 2015		Change	
	NIS millions	% of mix	NIS millions	% of mix	NIS millions	%
Unlinked (a)	**177,218**	**67.0%**	172,795	66.1%	4,423	2.6
CPI-linked	**48,477**	**18.4%**	49,178	18.8%	(701)	(1.4)
Foreign currency and linked to foreign currency	**38,438**	**14.6%**	39,426	15.1%	(988)	(2.5)
Of which: US dollar	**27,817**	**72.4%**	29,666	74.6%	(951)	(3.3)
Euro	**5,234**	**13.6%**	4,833	12.2%	425	8.8
Total	**264,133**	**100.0%**	261,399	100.0%	2,734	1.0

(a) Including non-monetary items.

Credit to the public in unlinked shekels increased by NIS 4,423 million, 2.6%, and index-linked credit to the public fell by NIS 70.1 million, or 1.4%. The decrease in foreign currency and foreign currency-linked credit to the public amounted to NIS 988 million, or 2.5%, and excluding the effect of the changes in the exchange rate of the shekel, credit to the public in foreign currency and linked to foreign currency increased by 0.7%.

The following table sets out the development of credit to the public, before the allowance for credit losses, by principal operating segment:

	31 March 2016	31 December 2015	Change	
	NIS millions	NIS millions	NIS millions	%
Individuals - housing loans	**81,480**	81,805	(325)	(0.4)
Individuals - other	**37,358**	37,400	(42)	(0.1)
Construction and real estate	**50,414**	50,124	290	0.6
Commercial	**27,723**	26,654	1,069	4.0
Industry	**20,410**	20,307	103	0.5
Other	**50,320**	48,780	1,540	3.2
Total	**267,705**	265,070	2,635	1.0

For further details on the development of credit and credit risks according to market sector, see chapter "Credit Risk"

Problem debts

The risk of problem credit after individual and collective allowances is as follows:

	31 March 2016			31 December 2015		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions			NIS millions		
Impaired debts	**2,988**	**13**	**3,001**	3,037	150	3,187
Substandard debts	**1,045**	**152**	**1,197**	1,172	220	1,392
Special mention debts	**2,453**	**1,205**	**3,658**	2,498	851	3,349
Total	**6,486**	**1,370**	**7,856**	6,707	1,221	7,928

Problem credit risk:

	31 March 2016	31 December 2015
	Problem credit risk	Problem credit risk
	NIS millions	
Commercial problem credit risk	**8,332**	8,461
Retail problem credit risk	**1,296**	1,303
Total	**9,628**	9,764
Allowance for credit losses	**1,772**	1,836
Problem credit after allowance for credit losses	**7,856**	7,928

For additional information on problem credit, see chapter "Credit Risk" and Note 13.

Credit to governments as at 31 March 2016 amounted to NIS 412 million, a decrease of NIS 41 million, 9.1%, compared with 31 December 2015.

Securities

The Group’s investments in securities as at 31 March 2016 amounted to NIS 78.7 billion, compared with NIS 69.5 billion at the end of 2015, an increase of 13.3%.

Securities in the Group are classified into two categories: securities for trading and available-for-sale securities.

The classification of a security purchased by the Bank for the available-for-sale securities portfolio or for the trading securities portfolio is done at the date of purchase and is carried out in accordance with the Bank's intention for the use of the securities. Securities that are purchased for the purposes of trading (or with the aim of hedging other components of the trading portfolio), for the purposes of market-making or within the framework of the dealing room, are classified to the trading portfolio, while securities purchased as part of managing the Bank's assets and liabilities are classified in the available-for-sale portfolio.

Securities for trading are presented in the balance sheet at fair value, and the difference between fair value and adjusted cost is charged to the statement of profit and loss. Available-for-sale securities are presented in the balance sheet at fair value, with the difference between fair value and adjusted cost presented as a separate item in shareholders' equity in other overall profit, called "adjustments for presentation of available-for-sale securities at fair value" less the related tax. Whenever the impairment is of a non-temporary nature, the difference is charged to the statement of profit and loss.

The following table sets out the classification of the securities item in the consolidated balance sheet:

	31 March 2016			31 December 2015		
	Securities available for sale (a)	Trading securities (b)	Total	Securities available for sale (a)	Trading securities (b)	Total
	NIS millions			NIS millions		
Debentures of:						
Government of Israel	**36,808**	**5,290**	**42,098**	28,553	6,664	35,217
Foreign governments	**11,758**	**2,833**	**14,591**	8,128	3,058	11,186
Financial institutions in Israel	**35**	**347**	**382**	35	238	273
Foreign financial institutions.	**5,471**	**144**	**5,615**	6,262	148	6,410
Asset-backed (ABS) or mortgage-backed (MBS)	**9,957**	**697**	**10,654**	9,566	751	10,317
Others in Israel	**555**	**120**	**675**	586	152	738
Others abroad	**1,777**	**325**	**2,102**	1,694	320	2,014
Shares and mutual funds	**2,596**	**14**	**2,610**	2,703	617	3,320
Total securities	**68,957**	**9,770**	**78,727**	57,527	11,948	69,475

(a) Unrealized profits (losses) from adjustments to fair value amounting to NIS 514 million which were recorded in other comprehensive income (31 December 2015 – NIS 294 million).

(b) Unrealized profits (losses) from adjustments to fair value amounting to losses of NIS 51million which were recorded in profit and loss (31 December 2015 –NIS (100) million)

As at 31 December 2015, 87.6% of the Group’s *nostro* portfolio was classified as available-for-sale securities and 12.4% as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. 3.3% of the value of the securities represents investments in shares of companies that are not presented on equity basis, but according to cost or to the market value of the shares traded on the stock exchange.

For details in the value of securities according to the method of measurement, see Note 15A.

Available-for-sale portfolio

1. In first quarter of 2016, there was an increase in other comprehensive income in respect of available-for-sale securities amounting to NIS 156 million (before the effect of tax). The increase derives from an increase in value amounting to NIS 246 million, which was partly offset by securities which were sold and classified to profit and loss amounting to NIS 90 million (before tax). This compared with an increase in other comprehensive income in respect of available securities amounting to NIS 549 million (before tax) in the corresponding period last year which derived from securities amounting to NIS 1,155 million which was partly offset by a decrease in profit from securities which were sold and classified to profit and loss amounting to NIS 606 million (before tax).

2. In addition, net profits from the sale of available-for-sale debentures amounting to NIS 9 million was recorded to profit and loss, compared with profits of NIS 104 in the corresponding period last year.

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio, as at 31 March 2016, amounted to a positive amount of NIS 163 million (after the effect of tax) compared with NIS 67 million at the end of 2015. These amounts represent net profits which had not been realized at the dates of the financial statements.

Bank management estimates that there is impairment in securities in the available-for-sale portfolio, which is of a temporary nature. The Bank intends, and is able, to continue holding the investments until the expected recovery of the full cost of the assets or until their redemption. Accordingly, this impairment is recorded in capital, on the basis of the main accounting policies set forth in Note 1 to the 2015 Annual Report.

For details regarding adjustment to fair value of available-for-sale securities which were charged to equity, see Note 5

Trading portfolio

On 31 March 2016, there was NIS 9.8 billion of debentures in the trading portfolio, compared with NIS 11.3 billion of debentures and NIS 0.6 billion of shares at 31 December 2015. As of 31 March 2016, the trading portfolio constitutes 12.4% of the Group's total *nostro* portfolio, compared to 17.2% at 31 December 2015.

For further information relating to the composition of the portfolio, see Note 5

In respect of trading debentures, realized and unrealized profits amounting to NIS 18 million were recorded in the statement of profit and loss, compared with profits amounting to NIS 207 million in the corresponding period last year, and in respect of shares and funds, realized and unrealized losses were recorded amounting to NIS 32 million, compared with profits of NIS 62 million in the corresponding period last year.

Investments in securities issued abroad

The Group's securities portfolio includes NIS 36.0 billion (US$ 9.6 billion) of securities issued abroad. Approximately 97% of the portfolio is invested in debt instruments, all of which (except for 1.0%) are investment grade securities, of which 95% are rated 'A-' and above). 4.7% of the portfolio is invested in shares and funds. Of the said portfolio, NIS 32 billion (US$ 8.6 billion) is classified in the available-for-sale securities portfolio, and the balance is classified in the trading portfolio.

A. Investments in asset-backed securities issued abroad

The Group's asset-backed securities portfolio (both mortgage-backed and non-mortgage-backed), all of which is rated investment grade at 31 March 2016, amounted to NIS 10.7 billion (US$ 2.8 billion), compared with NIS 10.3 billion at the end of 2015. Of the said portfolio as of 31 March 2016, NIS 10.0 billion (US$ 2.7 billion) is classified in the available-for-sale portfolio, and the balance in the trading portfolio.

The available-for-sale portfolio of investments in asset-backed securities abroad as at 31 March 2016 includes an investment in mortgage-backed debentures amounting to NIS 7.9 billion. 96% of the total mortgage-backed debentures in the available-for-sale portfolio were issued by federal agencies in the United States (GNMA, FHLMC and FNMA) and rated at the date of the report as AAA.

For further information regarding investments in asset-backed debentures, see Note 5.

As at 31 March 2016, the accumulated net impairment charged to shareholders' equity resulting from the mortgage-backed securities portfolio was NIS 18 million.

The total of the asset-backed debentures, which are not under State guarantee (United States) and are not covered by U.S. federal institutions in the available-for-sale portfolio and the trading portfolio, amounts to NIS 1,125 million.

The projected term to maturity for all the mortgage-backed securities portfolio is an average of 4.1 years. In addition to mortgage-backed securities, the Group's available-for-sale portfolio also includes other securities backed by assets other than mortgages (car financing credit and other types of credit), amounting to NIS 2.0 billion. Of these, CLO-type debentures amount to NIS 1.9 billion. The projected term to maturity of the debenture portfolio backed by assets other than mortgages is 3.7 years on average.

B. Investments in non-asset backed securities issued abroad

The Group's securities portfolio as at 31 March 2016 includes NIS 25.7 billion (US$ 6.8 billion) of non-asset-backed securities. Of these securities, NIS 22.3 billion (US$ 5.9 billion) are classified in the available-for-sale portfolio, with the balance in the trading portfolio. Of the total securities, 99% are investment grade and they include mainly securities issued by the U.S. government, banks and financial institutions, securities, and the balance, mainly securities issued by the Israeli government.

For further information regarding exposure to overseas financial institutions, see chapter, "Credit Risk".

As at 31 March 2016, aggregate increase in value in shareholders' equity in respect of non-asset-backed securities issued abroad in the available-for-sale portfolio amounted to NIS 128 million (NIS 80 million after tax).

As stated above, in addition to the available-for-sale portfolio, the securities portfolio also includes non-asset backed securities in the trading portfolio. This includes mainly securities of states, banks and financial institutions, and securities funds. 99% of the securities in the trading portfolio are investment grade.

The value of the non-asset backed trading portfolio as of 31 March 2016 amounted to NIS 3.4 billion (US$ 0.9 billion). The difference between fair value and adjusted cost, if there is such a difference, is recorded in the profit and loss account.

Investments in debentures - issued in Israel

Investments in debentures issued in Israel amounted to NIS 41.5 billion on 31 March 2016, of which NIS 40.4 billion was in debentures issued by the Government of Israel in NIS, with the balance in debentures of the Government of Israel in foreign currency and debentures issued by companies. 55.8% of the investments in corporate debentures amounting to NIS 0.6 billion were included in the available-for-sale portfolio, and the balance was in the trading portfolio.

Corporate debentures in the available-for-sale portfolio amounting to NIS 0.6 billion includes a capital reserve amounting to NIS 24 million.

All the corporate debentures in the trading portfolio and part of those in the available–for-sale portfolio are listed and traded on the Stock Exchange.

Investments in shares and funds

Total investments in shares and funds amounted to NIS 2,610 million on 31 March 2016, of which NIS 1,544 million was in listed shares and NIS 1,066 million was in non-listed shares. Of the total investment, NIS 2,596 million is classified in the available-for-sale portfolio and NIS 14 million is classified in the trading portfolio.

The capital required in respect of these investments at 31 March 2016 was NIS 326 million.

For further information, see Note 5.

Main changes in investment in shares

On 21 April 2016 the Bank sold, in a deal outside of the Stock exchange, the remaining shares that it held in the Israel Corporation Ltd. 451,252 shares, which is 5.86% of the issued and paid up capital of the Israel Corporation, in return for 17,906,037 shares of Israel Chemicals Ltd (IC) which are 1.4% of the issued and paid up capital of Israel Chemicals.

Deposits of the Public

Deposits of the public in the Group amounted to NIS 330.4 billion at 31 March 2016, compared with NIS 328.7 billion at the end of 2015, an increase of 0.5% and compared with March 2015 an increase of 8.3%

The change in the exchange rate of the shekel against all foreign currencies reduced total deposits of the public by 1.0%, so that, excluding the depreciation of the shekel, the increase in deposits of the public was 1.5%.

Debentures, capital notes and subordinated notes

Debentures, capital notes and subordinated notes totaled NIS 24.8 billion on 31 March 2016, compared with NIS 21.3 billion as at the end of 2015, a decrease of 16.4%. In the first quarter of 2016, NIS 1.1 billion of debentures was repaid.

Shelf prospectus and issue of debentures

On 28 May 2015, the Bank published a shelf prospectus in accordance with a permit received from the Securities Authority.

On 21 January 2016, the Series 177 was expanded and further debentures amounting to NIS 3.6 billion were issued.

Series 177 debentures are due for repayment in one installment on 30 June 2020, are linked as to principal and interest to the consumer price index and bear interest of 0.59% per annum, payable twice a year on 30 June in the years 2016 to 2020 (inclusive) and on 31 December in the years 2016 to 2019 (inclusive).

Debentures are not recognized for purpose of regulatory capital.

Pursuant to a shelf proposal dated 20 January 2016, on 21 January 2026, the Bank issued a total of NIS 926 million of Series 400 deferred notes.

The deferred notes are due for maturity in one lump-sum on 21 January 2026, with an option for the issuer for early repayment not before 21 January 2021 and not after 21 February 2021, are not linked to any linkage base, and bear interest of 3.25% per annum. On this date, given the failure to exercise the Bank's right to early redemption, the nominal interest in the fee will be updated according to the difference between the anchor interest (as defined in the shelf proposal report) on the date of the issue and that which is on the update of the interest.

On fulfillment of circumstances for a defined event (a defined event for non-existence or a defined event for absorbing principal losses, whichever is earlier), the deferred notes will be converted to shares at the fair value of the shares on the conversion date or at the floor rate which is determined (NIS 6.78 per share), whichever is higher.

These notes are eligible for inclusion in Tier 2 from the date of issue.

Other assets and debit balances in respect of derivative instruments

At 31 March 2016, other assets amounted to NIS 7.9 billion, compared with NIS 7.7 billion at the end of 2015, an increase of 2.9%.

The balance of the obligation in respect of the fair value of derivative instruments made with and for customers fell from NIS 11.3 billion at the end of 2015 to NIS 13.2 billion at 31 March 2016.

Other liabilities and credit balances in respect of derivative instruments

Other liabilities amounted to NIS 20.7 billion at 31 March 2016, compared with NIS 20.7 billion at the end of 2015, a decrease of 0.5%.

The credit balance in respect of the fair value derivative instruments made with and for customers amounted to NIS 14.0 billion compared with NIS 11.1 billion at the end of 2015.

Capital and Capital Adequacy

Capital attributable to the Shareholders of the Banking Corporation (hereinafter "capital") of the Group as at 31 March 2016 amounted to NIS 29,313 million, compared with NIS 28,767 million at the end of 2015, an increase of 1.9%. The increase derives, *inter alia*, from the issue of shares to employees and office holders in the amount of NIS 636 million in accordance with the special collective agreement stemming from the conversion of employees' rights to the Bank's shares.

For further information regarding the Special Collective Agreement, see Note 8.

Capital ratio to the balance sheet as at 31 March 2016 reached 6.9%, similar to the ratio as at 31 December 2015.

Capital adequacy structure

	31 March 2016	**31 March 2015**	31 December 2015
	Unaudited	Audited	Audited
	NIS millions		
Capital for purposes of calculating capital ratio			
Tier 1 shareholders' equity, after regulatory adjustments and deductions	29,719	27,416	29,001
Tier 2 capital, after deductions	12,890	13,329	12,593
Total capital	42,609	40,745	41,594
Weighted balances of risk assets			
Credit risk	272,523	271,585	277,034
Market risk	5,793	5,952	5,167
Operational risk	20,100	20,376	20,432
Total weighted balances of risk assets	298,416	297,913	302,633
Ratio of capital to risk components			
Ratio of Tier 1 shareholders' equity to risk components	9.96%	9.20%	9.58%
Ratio of total capital to risk components	14.28%	13.68%	13.74%

Implementation of the Basel III directives in Israel

On 30 May 2013, the Supervisor of Banks issued final directives for the implementation of Basel III in Israel, by an amendment of Proper Conduct of Banking Business Directives Nos. 201-211. These directives came into force on 1 January 2014.

According to the directives, the capital components in the Group for the purpose of calculating capital adequacy are attributed to two tiers:

1. Tier 1, including Tier 1 shareholders' equity and additional Tier 1 capital;
2. Tier 2 capital.

The sum of these tiers is called "Capital basis for capital adequacy" or "Regulatory capital" or "Overall capital".

Tier 1 capital including Tier 1 shareholders' equity and additional Tier 1 capital:

Tier 1 shareholders' equity includes the capital attributable to the shareholders of the banking corporation, with the addition of the part of the rights not conferring control of capital of consolidated subsidiaries (minority interests) and deducting goodwill, intangible and other assets and regulatory adjustments and additional deductions, all as set forth in Proper Conduct of Banking Business Management Directive No. 202 "Measurement and Capital Adequacy – Regulatory Capital" and subject to the transitional provisions of Proper Conduct of Banking Business Management Directive No. 299 "Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions".

Additional Tier 1 capital which comprises capital instruments complying with the criteria determined in Proper Conduct of Banking Business Management Directive No. 202. There are no capital instruments in this tier in the Leumi Group. Any additional Tier 1 capital instruments that are issued in the future will be required to comply with all the criteria set forth in Proper Conduct of Banking Business Management Directive No. 202.

Tier 2 capital:

In the Basel III directives, the distinction between Upper Tier 2 and Lower Tier 2 has been cancelled.

Tier 2 capital mainly includes capital instruments and the balance of a collective allowance for credit losses before the effect of the related tax, up to a ceiling of 1.25% of total credit risk assets.

With regard to capital instruments which were included in Tier 2 capital on 31 December 2013, the transitional provisions and the asset recognition ceiling which was computed to 1 January 2014, according to 80% of the balance of instruments as of 31 December 2013, were determined, and at the beginning of each successive year, this ceiling is lowered by 10%. The capital instruments which were part of Tier 2 at 31 December 2013 include compound capital instruments which were, until now, classified to upper Tier 2 capital, and deferred notes, which were classified to lower Tier 2.

A description of the main features of regulatory capital instruments which have been issued is presented in the Bank's website: /http://leumi.co.il/home01/32587 in the chapter regarding >Financial information and meetings> Additional regulatory disclosures.

It should be noted that the amount actually recognized as Tier 2 capital is the lower of the amortized amount of the instruments themselves and their recognition ceiling according to the transitional provisions. From the beginning of 2014, capital instruments to be issued will be required to comply with all the criteria set forth in Proper Conduct of Banking Business Management Directive No. 202 for the purpose of their inclusion in capital. The main criteria are that the instrument must include: (1) a mechanism for absorbing the losses of the reserve by conversion to ordinary shares or the amortization of the instrument when the Tier 1 shareholders' equity ratio of the banking corporation falls below 5%; (2) an item determining that on the occurrence of the defining event for non-compliance (as defined in Appendix E to Proper Conduct of Banking Business Directive No. 202), the instrument will be converted immediately to ordinary shares or will be expunged.

Pursuant to the shelf proposal report dated 20 January 2016, the Bank issued, on 21 January 2016, a total of NIS 926 million of Series 400 deferred notes, which are eligible for inclusion in Tier 2.

For further information with regards issuance, see chapter "Structure and Development of the Assets, Liabilities, Capital and Capital Adequacy", in section "debentures, capital notes and deferred notes".

Capital adequacy target

The capital adequacy ratios are calculated as the ratio of capital to weighted risk assets. The Tier 1 shareholders' equity ratio is calculated as the ratio of Tier 1 share ratio to weighted risk assets, and the overall capital ratio is calculations as the ratio of the amount of overall capital to weighted risk assets.

The capital adequacy targets prescribed by the Bank of Israel are as follows:

Pursuant to Proper Conduct of Banking Business Directive No. 201, "Measurement and Capital Adequacy – Introduction, Incidence and Calculation of Requirements", all banking corporations are required to comply with a minimum Tier 1 capital ratio of 9% with effect from 1 January 2015. In addition, a large banking corporation, whose total balance sheet assets on a consolidated basis constitutes at least 20% of the balance sheet assets in the banking system in Israel, will be required to comply with a minimum Tier 1 capital ratio of 10%, with effect from 1 January 2017. This additional provision applies to the Bank. In addition, all banking corporations in Israel are required to maintain a minimum overall capital ratio of 12.5% from 1 January 2015. A large banking corporation will be required to maintain a minimum overall capital ratio of 13.5% by 1 January 2017. Leumi is subject to this additional directive.

On 28 September 2014, the Supervisor of Banks published a circular for an amendment to Proper Conduct of Banking Business Management Directive No. 329 "Restrictions on the Grant of Housing Loans". Pursuant to the amended directive, the banking corporation will be required to increase Tier 1 shareholders' equity target at a rate expressing 1% of the balance of housing loans. The date for commencing compliance with the determined capital target is 1 January 2017, and banking corporations are to increase the capital target in fixed quarterly rates from 1 April 2015 until 1 January 2017. The effect of the amendments to the regulation on Leumi Group at the final effective date is 0.27% of the capital adequacy ratio, with the effect being spread in accordance with the regulation over eight quarters.

The abovementioned targets will be achieved gradually.

Capital adequacy targets prescribed by the Bank:

Capital planning in Leumi Group reflects a forward-looking vision of the risk appetite and the capital adequacy required as a consequence. The Group policy approved by the Board of Directors is to strengthen a higher level of capital adequacy than the minimum threshold that will be periodically specified by the Bank of Israel and will not be less than the rate required for covering risks as estimated in the ICAAP process. In addition, targets that the Group wishes to meet in the event of a stress scenario have been defined.

As part of the regulatory review procedure, the Supervisor directed the determination of internal capital targets, which will match the Bank's risk profile. Further thereto, the Board of Directors of the Bank approved an increase in the Bank's internal Tier 1 shareholders' equity target such that from 31 December 2017, it will stand at 10.5%. The Board of Directors of the Bank will reconvene to discuss this target no later than the end of 2016.

The regulations regarding employee rights, which were initially implemented in January 2015, were the influencing factor and are expected to have the most significant effect on Leumi's Tier 1 shareholders' equity, mainly due to the fact that the measurement of the liability is in accordance with market interest rates which is at historically low levels and due to the high volatility that accompanies this kind of measurement. The Bank is examining ways of moderating the volatility in capital arising from the regulations, e.g., purchase, direct or indirect, of instruments hedging the effect of changes in the capitalization coefficients (in full or in part), which are used for discounting the liability for employee rights.

In addition, a decrease in overall capital is expected as a result of the amortization of capital instruments attributed to Tier 2 capital, which were issued prior to the effective date of the directives for the implementation of Basel III, and a lowering of the ceiling of the amount recognized to capital of these capital instruments.

As of March 2016, the Bank's Tier 1 capital adequacy was 9.96%. During the first quarter of 2016, a number of significant steps were taken in order to improve the capital adequacy ratio, including the following:

- **Conversion of employees' rights to the Bank's shares:** On 20 March 2016, the Board of Directors of the Bank approved the issue of shares to employees and office holders. The total amount of the employees' and office holders' rights that was converted to the Bank's shares totals NIS 636 million. The value of the Bank's shares for the purpose of converting rights is NIS 13.0 (closing rate of the Bank's shares on 6 March 2016). Accordingly, the Bank's Board of Directors approved an issue of 48,938,037 shares, which is 3.21% of the issued and paid-up capital of the bank (after the allocation). The shares were allocated to a trustee who held the shares in trust on behalf of the employees, in accordance with the instructions of Section 102 of the Income Tax Ordinance. The increase in capital resulting from this conversion of rights improved the Tier 1 shareholders' equity adequacy ratio of the Bank by 0.24%.

For further information on the special collective agreement see Note 8.

- **Insurance for portfolio of guarantees by virtue of Sales Law -** On 8 March 2016, the Bank entered into an agreement with international re-insurers with high international-rating to purchase insurance for the portfolio of guarantees by virtue of the Sales Law (Apartments) and obligations to take out guarantees as aforesaid. The insurance policy guarantees the Bank in the event that it will have to pay due to the realization of the guarantees, all according to the terms of the policy. The purchase of the insurance policy enables the reduction of the restricted capital in respect of the risk of the credit deriving from the issue of the guarantees, while using the policy as a "credit risk mitigation policy", in accordance with Proper Banking Directive No. 203, and contributed to an improvement of 0.23% in the capital adequacy ratio.
- **Deduction from capital in respect of deferred tax asset -** On 4 April 2016, an amendment to the Question and Answer file from the Supervisor of Banks on the implementation of Proper Banking Conduct of Banking Management directives was published, on the subject of measurement and capital adequacy. The purpose of the amendment is to clarify the method of treating the salary tax component in all matters related to the calculation of the capital requirements and the deduction from capital in respect of deferred tax asset. According to the clarification, when a banking corporation reaches the conclusion that, under the circumstances present at the time of the report, it is virtually certain that the deferred tax asset equals the sum of the salary tax included in the books of the Bank, it is permissible not to apply the threshold tax deduction included in Section 13 of the directive on this portion of the deferred tax asset. For this purpose, the Bank will be permitted to implement the test of threshold deduction on the net sum of deferred taxes, after deducting salary tax as stated above. The deferred tax asset, as stated, which is not deducted from the capital, will be weighted as a risk asset at a rate of 250%. The Bank is implementing the directives with effect from the date of their publication and onwards without adjustment to comparative figures and subject to the transitional provisions stipulated in Proper Conduct of Banking Management Directive No.229 of the Banking Supervision Department. This update contributed to an improvement of 0.20% in the Bank's Tier 1 shareholders' equity adequacy and of 0.17% in the overall capital ratio.

The Bank is preparing to meet the capital targets by 1 January 2017, and is taking steps to complete the necessary capital (beyond the increase in the regulatory capital deriving from its current profits less the increase in the risk assets and the effect of the transitional provisions), *inter alia*, by improving the risk assets (improvement in the collateral, etc.), investing in the nostro assets which require a lower allocation of capital, selective management of credit, including contraction, segments and risk, syndication and reinsurance.

In this context, on 28 February 2016, Leumi signed an agreement with Harel for the joint extension of secured housing loans, secured, *inter alia*, in mortgages and pledges on contractual rights in connection with land. As of this date, not all the applicable conditions have been met for the parties to begin collaborating in accordance with the agreement, and which must be met within 90 days from the date the agreement, and it has not yet been made clear that there is no obstacle, from the point of view of the Capital Market, Insurance and Savings Department, that prevents Harel from engaging in an agreement subject to the fulfillment of the applicable conditions, Harel will participate with the Bank in the joint extension of loans, in which the ratio of the amount of the loan to the value of its asset (LTV) is up to 60% and not in excess of this rate (as long as Harel is not given regulatory approval to participate in loans at a higher financing rate) and the updated expectation for the amount of Harel's participation, in the extension of housing loans in conjunction with the Bank in 2016 and 2017, is a total amount of NIS 4 billion.

It should be noted that from the end of the first quarter until a date close to the publication of this report, the liability for employee rights arising from a decrease in interest rates for discounting liabilities for employee rights, which was partially offset by the performance of the available portfolio and total plan assets, on the basis of preliminary internal estimates, the effect for this date on Tier 1 capital adequacy ratio is a decrease of about 0.12% (given the transitional directives).

- **Regulatory changes which are likely to impact capital requirements and planning:**

  Operational efficiency measures

  On 12 January 2016, the Banking Supervision Department published a letter regarding "Operational streamlining of the banking system in Israel". Pursuant to the letter, the board of directors of a banking corporation must outline a multi-year streamlining program. A banking corporation which meets the conditions specified in the letter will receive relief according to which it can spread the impact of the program over five years on a straight-line basis for the purpose of computing the capital adequacy.

  The Bank is in the stages of devising a multi-year streamlining program.

  Capital requirements in respect of exposures to key counterparties

  On 22 October 2015, the Banking Supervision Department published a circular regarding "Capital requirements in respect of exposures to key counterparties" (hereinafter "the circular"). The circular amends the provisions of Proper Conduct of Banking Business Directives Nos. 203 and 204, with the aim of adapting them to the recommendations of the Basel Committee in all matters related to the capital requirements in respect of exposures of banking corporations to central counterparties. The circular sets forth the new directives which will apply to exposures to central counterparties which are caused by OTC derivatives, derivative transactions marketable on the stock exchange and securities financing transactions. The directives differentiate between a central counterparty which is not eligible and an eligible counterparty, with the latter being determined in reduced capital requirements.

  Given that the Israeli Stock Exchange will be recognized as an eligible central counterparty by the first half of 2017, the effect of implementing the directive on Leumi, on the basis of 2015 year-end data, is not material. Given that the Israeli Stock Exchange will not be recognized as an eligible central counterparty, the estimated increase in total risk assets in the 2015 year-end data is NIS 3.5 billion, a decrease of 0.11% in Tier 1 shareholders' equity adequacy.

The following is an analysis of the sensitivity to the main factors affecting the capital adequacy of Leumi Group:

- A change in the volume of risk assets – The risk assets of Leumi amounted to NIS 298.4 billion at the end of March 2016. Every increase of 1% in the risk assets (approx. NIS 3 billion) in future years will reduce the Tier 1 shareholders' equity capital adequacy ratio by 0.10%, and the overall capital ratio by 0.14%.
- Profit that will accrue or a change in the capital reserve – The Tier 1 shareholders' equity of Leumi amounted to NIS 29.8 billion at the end of March 2016. The overall capital amounted to NIS 42.7 billion. Every accrual of net profit and/or positive change in the capital reserve amounting to NIS 1 billion will improve the Tier 1 shareholders' equity adequacy ratio and the overall capital ratio by 0.34%.

- Accounting standards regarding employee rights – According to these standards, the actuarial liability for employees is discounted according to the market interest rates which are influenced by the Government of Israel debenture curve and by the United States AA corporate debenture margin. An increase of 0.1% across the interest curve for discounting, under the assumption that the curve rises and falls consistently, and in the absence of hedging transactions which the Bank has carried out until now, means an increase of 0.07% in the Tier 1 shareholders' equity ratio and in the overall capital ratio. (Under the transitional provisions, the effect is more moderate - only 60% of the impact in 2016, and an additional 20% in each subsequent year.)

The above information regarding capital adequacy policy and management refers to future activities of the Bank, and is defined as "forward-looking information". For the meaning of this term, see the chapter, "Forward-Looking Information".

Leverage ratio

On 28 April 2015, the Supervisor of Banks published Proper Conduct of Banking Business /Directive No. 218 "Leverage Ratio".

The directive adopts the instruction of the Basel Committee from January 2014, to add a simple leverage ratio, which is not based on risk, which will act as a supplementary measurement to the risk-based capital requirements and will limit the accumulation of the leverage in the banking sector.

The leverage ratio is defined as the measurement of the capital divided by the measurement of the exposure, with the ratio expressed in percentages. The capital for the purposes of measuring the leverage ratio is Tier 1 capital, as defined in Proper Conduct of Banking Management Directive No. 202, taking into account the stipulated transitional arrangements. The total measurement of the exposure of a banking corporation is the amount of the balance sheet exposure, the exposures to derivatives and the exposures to transactions of financing securities and off-balance sheet items.

Pursuant to the directive, all banking corporations will be required to comply with a minimum leverage ratio of not less than 5% on a consolidated basis. In addition, a banking corporation, whose total balance sheet assets on a consolidated basis constitute 20% or more of the total balance sheet assets in the banking system, will be required to comply with a leverage ratio of not less than 6%. This additional directive applies to Leumi.

A banking corporation which, on the date of the publication of the directive, does not comply with the abovementioned leverage ratio requirement must increase the ratio in fixed quarterly rates by 1 January 2018. A banking corporation which, on the date of publication of the directive, complies with the abovementioned leverage ratio requirement must not fall below the threshold as provided in the directive.

On the date of publication of the directive, Leumi complied with the threshold provided. The leverage ratio at 31 March 2016 was 6.35%.

Operating Segments – Management Approach

The report of the operating segments according to the management's approach presents the Bank's results according to business lines, in accordance with the Bank's organizational structure.

The business lines specialize in providing service to customer segments having similar characteristics and needs.

The Bank in Israel is organized into six business lines:

1. Banking – providing banking services to private and small business customers. The business line includes the mortgage department and private banking department.
2. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.
3. Corporate - providing banking and financial services to large companies and international corporations in the economy, with their activity in Israel and abroad.
4. Real estate - providing banking and financial services to the real estate and construction segment.
5. Capital market – managing the Bank's nostro, managing assets and commitments, and managing investments and financial assets.
6. Other – activities not attributed to other business lines.

Operational results are attributed to the business line in which the customer's account is managed.

- Net interest income - the business line is credited with interest received from loans that it made available, less the cost of raising the sources (transfer cost). In addition, the business line is credited with the transfer cost for deposits that were raised less the interest that was paid to the customer.
- Noninterest incomes (financing incomes that are not from interest, commissions and other income) – are attributed to the business line according to the customer's activity.
- Business line expenses – include the direct expenses of the business line, and also expenses of headquarters' units providing services are charged to the business line.

The results of the business lines' activity, both on the side of the balance sheet and on the profit and loss side, are regularly examined by the management. Examination of the results is done using targets set within the framework of the annual work plan and against data from the corresponding period in the previous year. In addition, an examination is carried out of a variety of additional metrics relating to the business line's activity.

Below is a condensed summary of operating results by management approach

	For the three months ended 31 March 2016								
	NIS millions								
	Bank						Subsidiaries in Israel (a)	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	**911**	**221**	**115**	**142**	**21**	**(14)**	**40**	**219**	**1,655**
Non-interest income	**431**	**107**	**52**	**85**	**(54)**	**65**	**324**	**22**	**1,032**
Total income	**1,342**	**328**	**167**	**227**	**(33)**	**51**	**364**	**241**	**2,687**
Expenses (income) in respect of credit losses	**154**	**(11)**	**(82)**	**(176)**	**(4)**	**5**	**2**	**(11)**	**(123)**
Total operating and other expenses	**1,051**	**163**	**87**	**42**	**71**	**155**	**213**	**208**	**1,990**
Profit (loss) before tax	**137**	**176**	**162**	**361**	**(100)**	**(109)**	**149**	**44**	**820**
Tax expenses (income)	**70**	**85**	**78**	**175**	**(48)**	**(52)**	**45**	**18**	**371**
Net profit (loss) attributed to shareholders of the banking corporation*	**67**	**91**	**84**	**186**	**(51)**	**(57)**	**113**	**26**	**459**
Balances as at 31 March 2016									
Credit to the public, net	**139,269**	**33,722**	**32,074**	**24,364**	**3,788**	**2,639**	**6,234**	**22,043**	**264,133**
Deposits of the public	**180,748**	**39,678**	**17,794**	**6,587**	**60,561**	**124**	**78**	**24,784**	**330,354**
Assets under management	**180,009**	**25,607**	**17,073**	**2,556**	**334,291**	**23,970**	**183,630**	**19,144**	**786,280**

	For the three months ended 31 March 2015								
	NIS millions								
	Bank						Subsidiaries in Israel (a)	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	781	200	149	122	(85)	13	120	216	1,516
Non-interest income	452	112	53	81	433	599	639	56	2,425
Total income	1,233	312	202	203	348	612	759	272	3,941
Expenses (income) in respect of credit losses	80	(37)	50	32	1	(1)	2	(46)	81
Total operating and other expenses	1,042	181	92	43	78	208	273	318	2,235
Profit before tax	111	168	60	128	269	405	484	-	1,625
Tax expenses	36	59	21	44	96	151	135	23	565
Net profit attributed to shareholders of the banking corporation	75	109	39	84	296	254	348	(23)	1,182
Balances as at 31 March 2015									
Credit to the public, net	125,138	30,323	31,731	23,483	3,948	2,330	11,088	22,234	250,275
Deposits of the public	152,941	35,940	18,524	6,781	58,626	92	4,903	27,210	305,017
Assets under management	194,864	31,436	18,140	2,167	334,747	31,428	195,799	26,578	835,159
Balances as at 31 December 2015									
Credit to the public, net	133,050	32,857	30,740	24,323	2,887	2,509	11,689	23,344	261,339
Total assets	168,774	41,593	20,139	6,859	59,350	166	5,250	26,562	328,693
Deposits of the public	181,825	28,401	17,381	1,754	336,709	23,854	187,755	19,382	797,061

(a) Data for the Arab Israel Bank were presented in 2015 in subsidiaries in Israel. For the first quarter of 2016, data for the Arab Israel Bank are presented as a part of the Bank's data, by virtue of the merger of the Arab Israel Bank within Leumi on 31 December 2015.

Regulatory operating segments

On 3 November 2014, a circular regarding reporting on operating segments and a file of questions and answers for implementation was published. On 10 September 2015, an update to the file of questions and answers was published.

The circular updates the Public Reporting Directives in all matters related to the reporting requirements for regulatory operating segments, and, *inter alia*, includes a change in certain definitions and instructions according to which the banks will be required to categorize customers to regulatory segments and update their reports.

The new rules will apply from the financial statements for 2015 and thereafter in the manner set forth below:

- In the financial statements for 2015, there is a disclosure requirement in connection with the balance sheet data in relation to the regulatory operating segments as defined in the new provisions. In accordance with the new provisions, it is permissible not to provide disclosure of comparative figures for balance sheet data of regulatory operating segments, but rather to include comparative figures, in accordance with the Public Reporting Directives which were in effect prior to the introduction of the circular. In addition, disclosure is not required of the Financial Management segment.
  These disclosure requirements are in addition to the disclosure requirements on operating segments in accordance with the Public Reporting Directives which were in effect prior to the introduction of the circular.

- With effect from the financial statements for the first quarter of 2016, full disclosure is required according to the new rules, except for disclosure of the Financial Management segment. Comparative figures should be retroactively adjusted. It is permitted to present comparative figures of one year only in the 2016 statements, in relation to the note on regulatory operating segments. For the purpose of presenting the comparative figures, it will be possible to rely on the classification of the customer to the regulatory operating segments as of 1 January 2016.

- Commencing with the financial statements for the first quarter of 2017, the requirements of the circular must be implemented in full.

The following is a description of the main operating segments prescribed by the Bank of Israel directives:

1. Households segment - The provision of banking services to private individuals, except customers included in Private Banking.
2. Private Banking segment -The provision of banking services to private individuals whose balance of the financial asset portfolio they have in the Bank (including monetary deposits, securities portfolio and other monetary assets) exceeds NIS 3 million.
3. Small and micro-businesses segment - The provision of banking services to businesses whose activity turnover (annual total sales or annual total income) is less than NIS 50 million.
4. Mid-sized business segment - The provision of banking services to a business whose activity turnover is greater than or equal to NIS 50 million and less than NIS 250 million.
5. Large businesses segment - The provision of banking services to a business whose activity turnover is greater than or equal to NIS 250 million.
6. Financial management segment - Includes the following activities:
    a. Trading activity – Investment in securities for trading, market-making activity in securities and derivative instruments, activity in derivative instruments non-designated for hedging and not part of the management of the assets and liabilities of the banking corporation, repurchase and lending transactions of securities for trading, short selling of securities, underwriting of securities services.
    b. Asset and liability management activity – Including investment in available-for-sale debentures and debentures held to maturity, that are not attributed to other activity segments (with a borrower having no indebtedness to the Bank, apart from securities), hedging derivative instruments and derivative instruments which are part of asset and liability management, deposits in banks and from banks in Israel and around the world, hedging or protective exchange rate differences of investments in overseas offices, deposits in and of governments.
    c. Non-bank investment activity – Investment in vas shares and investment in companies included on equity basis of businesses.
    d. Other – Management, operating, trust and custody services for banks, consultancy services, selling activity and credit portfolio management, and financial product development activities.
7. Other segment - Including discontinued activities, designated profits and other results connected to employee rights not attributed to the other activity segments, activities not attributed to other segments, and adjustments between the total of all the items attributed to the segments and the total of all the items in the consolidated financial statements.

The following are principal data according to operating segments of the principal balance sheet items:

	Credit to the public, before allowance for credit losses			Deposits of the public		
	31 March 2016	31 December 2015	Change	**31 March 2016**	31 December 2015	Change
	NIS millions		%	NIS millions		%
Activity in Israel						
Households (a)	**113,714**	115,645	(1.7)	**111,502**	110,724	0.7
Private Banking	**587**	606	(3.1)	**28,662**	26,028	10.1
Small and micro businesses	**58,838**	57,662	2.0	**40,301**	41,634	(3.2)
Mid-sized businesses	**25,108**	25,053	0.2	**27,654**	25,859	6.9
Large businesses	**45,913**	41,262	11.3	**37,455**	37,057	1.1
Institutional entities	**928**	713	30.2	**57,620**	55,889	3.1
Financial management segment and other	**171**	341	(49.9)	**2,376**	4,940	(51.9)
Total activity in Israel	**245,259**	241,282	1.6	**305,570**	302,131	1.1
Activity abroad						
Private individuals	**2,130**	2,412	(11.7	**8,459**	10,045	(15.8)
Business activity	**20,305**	21,363	(5.0)	**14,272**	15,416	(7.4)
Other	**11**	13	(15.4)	**2,053**	1,101	86.5
Total activity abroad	**22,446**	23,788	(5.6)	**24,784**	26,562	(6.7)
Total	**267,705**	265,070	1.0	**330,354**	328,693	0.5

(a) As at 31 March 2016, credit to households also including housing loans (mortgages) increased by NIS 74.8 million, compared with NIS 75.8 million as at 31 December 2015,a decrease of 1.3%.

The following are principal data according to operating segments of off-balance sheet items and data on customers' balances in the capital market:

	Total assets			Securities portfolios, including mutual funds		
	31 March 2016	31 December 2015	Change	**31 March 2016**	31 December 2015	Change
	NIS millions		%	NIS millions		%
Activity in Israel						
Households	**113,798**	115,928	(1.8)	**79,351**	85,409	(7.1)
Private Banking	**608**	613	(0.8)	**50,002**	51,254	(2.4)
Small and micro businesses	**58,179**	57,216	1.7	**37,569**	35,845	4.8
Mid-sized businesses	**26,218**	25,416	3.2	**20,238**	20,001	1.2
Large businesses	**45,867**	41,399	10.8	**73,229**	76,011	(3.7)
Institutional entities	**1,663**	1,299	28.0	**287,329**	284,806	0.9
Financial management segment and other	**144,730**	139,504	3.7	**219,418**	224,356	(2.2)
Total activity in Israel	**391,063**	381,375	2.5	**767,136**	777,682	(1.4)
Activity abroad						
Private individuals	**2,807**	3,248	(13.6)	**13,601**	15,102	(9.9)
Business activity	**20,238**	21,262	(4.8)	**2,687**	2,007	33.9
Other	**11,449**	10,614	7.9	**2,856**	2,270	25.8
Total activity abroad	**34,494**	35,124	(1.8)	**19,144**	19,379	(1.2)
Total	**425,557**	416,499	2.2	**786,280**	797,061	(1.4)

Return on equity by operating segments

The equity for the purpose of calculating the capital to risk assets ratio (Tier 1 and Tier 2 capital) was allocated to the segments according to the relative share of each segment in the total of all the weighted risk assets of the Group, and according to the allocation of Second Pillar equity for each segment according to its characteristics and components.

The profit of the operating segments has been adjusted for risk capital in each segment.

Net profit by operating segment:

	For the three months ended			
	31 March 2016	31 March 2015	Change	
	NIS millions		NIS millions	%
Activity in Israel				
Households	**17**	8	9	+
Private Banking	**16**	10	6	60.0
Small and micro businesses	**158**	124	34	27.4
Mid-sized businesses	**102**	112	(10)	(8.9)
Large businesses	**273**	93	180	+
Institutional entities	**12**	-	12	-
Financial management segment and other	**23**	906	(883)	(97.5)
Other segtment	**(179)**	(47)	(132)	-
Total activity in Israel	**422**	1,206	(784)	(65.0
Activity abroad				
Private individuals	**11**	(44)	55	+
Business activity	**68**	36	32	88.9
Other	**(42)**	(16)	(26)	-
Total activity abroad	**37**	(24)	61	+
Total	**459**	1,182	(723)	(61.2)

For details of the operating segments, see Note 12.

A. Household segment in Israel

Below is a summary of the results of operations of the Household Segment in Israel:

	Three months end 31 March			
	2016	2015	Change	
	NIS millions			%
Net interest income	**608**	612	(4)	(0.7)
Non-interest income	**426**	424	2	0.5
Total income	**1,034**	1,036	(2)	(0.2)
Expenses in respect of credit losses	**85**	45	40	88.9
Total operating and other expenses	**918**	973	(55)	(5.7
Profit before tax	**31**	18	13	72.2
Tax expenses	**4**	4	-	-
Net profit attributed to shareholders of the banking corporation	**17**	8	9	+

	Average balances for the first quarter			
	2016	2015	Change	
Credit to the public	**114,640**	107,146	7,494	7.0
Total assets	**116,256**	108,356	7,900	7.3
Deposits of the public	**110,415**	97,668	12,747	13.1
Assets under management	**79,443**	91,308	(11,865)	(13.0)

Main changes in the volume of activity

Total credit to households on 31 March 2016 amounted to about NIS 113.7 billion, compared with NIS 115.6 billion at the end of 2015, a reduction of 1.7%. Of this, consumer credit totaled NIS 38.9 billion, accounting for 34.2%, and credit for housing totaled NIS 74.8 billion, accounting for 65.8%. Deposits of the public decreased from NIS 110.7 billion at the end of 2015 to NIS 111.5 billion at 31 March 2016, a decrease of 0.7%.

Main changes in the net profit

The profit in the household segment in the first quarter of 2016 totaled NIS 17 million, compared with a loss of NIS 8 million in the corresponding period last year, an increase amounting to NIS 9 million.

It is to be clarified with regard to the method of attribution of noninterest income in a 'credit card' product that a situation of inter-segmental exists when Leumi Card clears a card issued by the Bank. In such a case, the clearing commission collected from the merchant is recorded as income in the small businesses segment or in the corporate segment and the interchange commission is recorded in the same segment as an expense, and at the same time, as income in the household segment.

Housing loans

The net profit in housing loan activity amounted in 2016 to NIS 74 million, compared with NIS 76 million in the corresponding period in 2015, a decrease of NIS 2 million.

Pension counseling

The balances of the pension assets held by customers receiving consultation in the Leumi Group which are known to be held at 31 March 2016, including advance training funds in respect of which consultancy is provided in the framework of pension consulting and/or investment consulting, amounts to some NIS 25.4 billion.

B. Private banking segment in Israel

Below is a summary of the results of operations of the private banking segment in Israel:

	For the three months ended 31 March			
	2016	2015	Change	
	NIS millions			%
Net interest income	**21**	13	8	61.5
Non-interest income	**43**	49	(6)	(12.2)
Total income	**64**	62	2	3.2
Expenses in respect of credit losses	**3**	5	(2)	(40.0)
Total operating and other expenses	**38**	41	(3)	(7.3)
Profit before tax	**23**	16	7	43.8
Tax expense	**7**	6	1	16.7
Net profit attributed to shareholders of the banking corporation	16	10	6	60.0

	Average balances for the first quarter			
	2016	2015	Change	
	NIS millions			%
Credit to the public	**549**	447	102	22.8
Total assets	**589**	477	112	23.5
Deposits of the public	**29,996**	24,820	5,176	20.9
Assets under management	**53,781**	55,491	(1,710)	(3.1)

Main changes in volume of activity

On 31 March 2016, credit to the public, net, amounted to NIS 0.6 billion, similar to the end of 2015. Deposits of the public totaled NIS 28.7 billion, an increase of NIS 2.7 billion, 10.1% compared with the end of 2015.

Main changes in the net profit

The profit in the private banking segment in the first quarter of 2016 amounted to about NIS 16 million, compared with NIS 10 million in the corresponding period last year, an increase 0f 60.0%.

C. Small and micro business segment in Israel

Below is a summary of the results of operations of the small and micro business segment in Israel:

	For the three months ended 31 March			
	2016	2015	Change	
	NIS millions			%
Net interest income	**451**	391	60	15.3
Non-interest income	**204**	216	(12)	(5.6)
Total income	**655**	607	48	7.9
Expenses in respect of credit losses	**63**	47	16	34.0
Total operating and other expenses	**345**	360	(15)	(4.2)
Profit before tax	**247**	200	47	23.5
Tax expenses	**88**	75	13	17.3
Net profit attributed to shareholders of the banking corporation	**158**	124	34	27.4

	Average balances for the first quarter			
	2016	2015		
	NIS millions		Change	%
Credit to the public	**55,809**	52,244	3,565	6.8
Total assets	**56,394**	52,565	3,829	7.3
Deposits of the public	**37,638**	32,369	5,269	16.3
Assets under management	**32,779**	39,051	(6,272)	(16.1)

Main changes in the volume of activity

Total credit to the small and micro-business segment in Israel amounted to NIS 58.8 billion at 31 March 2016, compared with NIS 57.7 billion at the end of 2015, an increase of 2.0%. Deposits of the public amounted to NIS 40.3 billion, compared with NIS 41.6 at the end of 2015, a decrease of 3.2%

Main changes in the net profit

Net profit in the small and micro business segment in the first quarter of 2016 amounted to NIS 158 million, compared with NIS 124 million in the corresponding period last year, an increase of 27.4%.

The increase in the segment derives from, on the one hand, an increase in net interest income amounting to NIS 60 million, and on the other hand, a decrease in operating and other expenses amounting to NIS 15 million.

D. Mid-sized business segment in Israel

Below is a summary of the results of operations of the mid-sized business segment in Israel:

	Three months end 31 March			
	2016	2015	Change	
	NIS millions			%
Net interest income	**156**	153	3	2.0
Non-interest income	**92**	100	(8)	(8.0)
Total income	**248**	253	(5)	(2.0)
Expenses in respect of credit losses	**(26)**	(46)	20	43.5
Total operating and other expenses	**114**	121	(7)	(5.8)
Profit before tax	**160**	178	(18)	(10.1)
Tax expenses	**58**	66	(8)	(12.1)
Net profit attributed to shareholders of the banking corporation	**102**	112	(10)	(8.9)

	Average balances for the first quarter			
	2016	2015	Change	
	NIS millions			%
Credit to the public	**25,000**	25,150	(150)	(0.6)
Total assets	**26,422**	26,246	176	0.7
Deposits of the public	**27,447**	22,873	4,574	20.0
Assets under management	**20,239**	22,136	(1,897)	(8.6)

Main changes in the volume of activity

On 31 March 2016, credit to the public in the medium-sized business segment amounted to NIS 25.1 billion, similar to the end of 2015. Deposits of the public amounted to NIS 27.7 billion, compared with NIS 25.9 billion at the end of 2015, an increase of NIS 1.8 million, a rate of 6.9%.

Main changes in the net profit

Net profit in the medium-sized business segment amounted to totaled NIS 102 million in the first quarter of 2016, compared with NIS 112 million in the corresponding period last year, an increase of 8.9%.

E. Large business segment in Israel

Below is a summary of the results of operations of the large business segment in Israel:

	Three months end 31 March			
	2016	2015	Change	
	NIS millions			%
Net interest income	**188**	227	(39)	(17.2)
Non-interest income	**138**	132	6	4.5
Total income	**326**	359	(33)	(9.2)
Expenses (income) in respect of credit losses	**(227)**	79	(306)	-
Total operating and other expenses	**127**	131	(4)	(3.1)
Profit before tax	**426**	149	277	+
Tax expenses	**153**	55	98	+
Net profit attributed to shareholders of the banking corporation	**273**	93	180	+

	Average balances for the first quarter			
	2016	2015	Change	
	NIS millions			%
Credit to the public	**45,814**	46,649	(835)	(1.8)
Total assets	**46,384**	47,714	(1,330)	(2.8)
Deposits of the public	**38,655**	40,695	(2,040)	(5.0)
Assets under management	**74,177**	81,944	(7,767)	(9.5)

Main changes in the volume of activity

Credit to the public in the large business segment at 31 March 2016 amounted to NIS 45.9 billion, compared with NIS 41.3 billion at the end of 2015, an increase of 11.3%. Deposits of the public at 31 March 2016 amounted to NIS 37.5 billion, compared with NIS 37.1 billion at the end of 2015, an increase of 1.1%.

Main changes in the net profit

Net profit in the large business segment in 2016 totaled NIS 273 million, compared with NIS 93 million in the corresponding period last year, an increase of NIS 180 million.

The increase in profit derives credit losses amounting to NIS 227 million, as a result of collections recorded this year, compared with credit loss expenses amounting to NIS 79 million which were recorded last year.

F. Institutional entities segment in Israel

Below is a summary of the results of operations of the institutional entities segment in Israel:

	For the three months ended 31 March			
	2016	2015	Change	
	NIS millions			%
Net interest income	**10**	7	3	42.9
Non-interest income	**33**	27	6	22.2
Total income	**43**	34	9	26.5
Expenses (income) in respect of credit losses	**(8)**	-	(8)	-
Total operating and other expenses	**32**	34	(2)	(5.9)
Profit before tax	**19**	-	19	-
Tax expenses (income)	**7**	-	7	-
Net profit (loss) attributed to shareholders of the banking corporation	**12**	-	12	-

	Average balances for the first quarter			
	2016	2015	Change	
	NIS millions			%
Credit to the public	**667**	1,021	(354)	(34.7)
Total assets	**3,833**	1,233	2,600	210.9
Deposits of the public	**53,503**	54,540	(1,037)	(1.9)
Assets under management	**287,962**	275,381	12,581	4.6

Main changes in the volume of activity

Total credit, net, to institutional entities amounted to NIS 0.9 billion at 31 March 2016, compared with NIS 0.7 billion at the end of 2015, an increase of 30.2%. Deposits of the public increased from NIS 55.9 billion at the end of 2015 to NIS 57.6 billion at 31 March 2016, an increase of 3.1%.

Main changes in the net profit

Net profit in the institutional entities segment amounted to about NIS 12 million in the first quarter of 2016, compared with zero profit in the corresponding period last year.

G. Financial management segment in Israel

Below is a summary of the results of operations of the financial management segment in Israel:

	For the three months ended 31 March			
	2016	2015	Change	
	NIS millions			%
Net interest income (expenses)	**(22)**	(100)	78	78.0
Non-interest income	**113**	1,383	(1,270)	(91.8)
Total income	**91**	1,283	(1,192)	(92.9)
Expenses (income) in respect of credit losses	**(4)**	-	(4)	-
Total operating and other expenses	**96**	93	3	3.2
Profit before tax	**(1)**	1,190	(1,191)	-
Tax expenses (income)	**(3)**	414	(417)	-
Net profit attributed to shareholders of the banking corporation	**23**	906	(883)	(97.5)

	Average balances for the first quarter			
	2016	2015	Change	
	NIS millions			%
Credit to the public	**235**	793	(558)	(70.4)
Total assets	**148,472**	127,927	20,545	16.1
Deposits of the public	**2,306**	1,538	768	49.9
Assets under management	**223,332**	233,705	(10,373)	(4.4)

In the first quarter of 2016, the net profit of the segment amounted to NIS 23 million, compared with a profit of NIS 906 million in the first quarter of 2015. This segment includes the Group's share in the profits of companies included on equity basis. The decrease in net profit is attributable the decrease in noninterest income amounting to NIS 1,270 million, mainly as a result of profits from the sale of shares of the Israel Corporation and Mobileye which were recorded last year. The decrease was partially offset by a decrease in the provision for tax.

H. Foreign operations

Below is a summary of the results of foreign operations:

	For the three months ended 31 March			
	2016	2015	Change	
	NIS millions			%
Net interest income	**236**	212	24	11.3
Non-interest income	**22**	56	(34)	(60.7)
Total income	**258**	268	(10)	(3.7)
Expenses (income) in respect of credit losses	**(11)**	(46)	35	76.1
Total operating and other expenses	**210**	316	(106)	(33.5)
Profit before tax	**59**	(2)	61	+
Tax expenses	**22**	22	-	-
Net profit (loss) attributed to shareholders of the banking corporation	**37**	(24)	61	+

	Average balances for the first quarter			
	2016	2015	Change	
	NIS millions			%
Credit to the public	21,358	23,434	(2,076)	(0.1)
Total assets	34,810	35,889	(1,079)	(0.0)
Deposits of the public	23,532	27,209	(3,677)	(12.8)
Assets under management	17,829	32,166	(14,337)	(0.4)

Main changes in the volume of activity

Total credit, net, for foreign operations, amounted to NIS 22.4 billion at 31 March 2016, compared with NIS 23.8 billion at the end of 2015, a decrease of 5.6%. Deposits of the public fell from NIS 26.6 billion to NIS 24.8 billion, a decrease of 6.7%.

Main changes in the net profit

Net profit in the foreign operations segment in 2016 amounted NIS 37 million, compared with NIS 24 million in the corresponding period last year, an increase of NIS 61 million.

*Profit Centers in the Group

Below are details of the contribution of the Group's principal profit centers to the net profit:

	For the three months ended			
	31 March 2016	31 March 2015	Change	
	NIS millions		NIS millions	%
The Bank	**319**	734	(415)	(56.5)
Consolidated companies in Israel (a)	**113**	348	(235)	(67.5)
Overseas consolidated companies (b)	**26**	(23)	49	+
Companies included on equity basis (a)	**1**	123	(122)	(99.2)
Net profit	**459**	1,182	(723)	(61.2)
Profit of overseas subsidiaries, in nominal terms (US$ millions) (c)	**21**	18	3	16.0

(a) Companies included on equity basis of subsidiaries in Israel were included in consolidated subsidiaries in Israel.
(b) Following certain adjustments to accounting principles in Israel.
(c) As reported by the overseas offices, including net profit to non-controlling interests.

Following are the principal changes in the contributions of the profit centers (after translation adjustments):

The Bank

The decrease in net profit in the Bank is due mainly to a decrease in noninterest financial income as a result of the sale of shares of the Israel Corporation amounting to NIS 418 million after the effect of tax.

Subsidiaries in Israel

The decrease in net profit of consolidated companies in Israel is due mainly to a decrease in the profits of Leumi Partners amounting to NIS 213 million, as a result of profit from the sale of shares of Mobileye which were recorded last year. The profits of the Arab Israel Bank are included in the first quarter of 2016 as a part of the Bank's profits following the merger with Leumi on 31 December 2015, while, in the corresponding period last year, the profits of the Arab Israel Bank amounting to NIS 25 million were included in the profits of subsidiaries in Israel.

Subsidiaries abroad

The total contribution to the net profit of the overseas offices (excluding overseas branches) as a convenience translation to U.S. dollars amounted to a profit of US$ 20.9 million, compared with a loss of US$ 18.0 million in the corresponding period last year. The overseas offices' contribution to net profit in shekels and with certain adjustments to Israeli accounting principles, amounted to a profit of NIS 26 million, compared with a loss of NIS 23 million in the corresponding period last year. The loss in shekels the first quarter of 2015 derives from exchange rate differences in respect of subsidiaries whose functional currency is other than the shekel.

Companies included on equity basis

The item includes profits of companies included on equity basis of the Bank.

With effect from 31 March 2015, as a result of the decrease in the rates of shareholding and the permanent waiver on the Bank's representation on the Board of Directors of the Israel Corporation, the Bank classifies the investment in the Israel Corporation in the available-for-sale securities portfolio. The Bank's share in the profits of the Israel Corporation is for the first quarter of 2015. With effect from the second quarter of 2015, the Bank includes the profit in respect of adjustments to the market value of the investment in the Israel Corporation in other comprehensive income only.

Accordingly, the profits of companies included on equity basis last year included the profit of the Israel Corporation amounting to NIS 114 million in respect of the first quarter of 2015.

Major Investee Companies

The Leumi Group operates in Israel and abroad through subsidiaries which are: banks, finance companies and financial services companies. The Group also invests in non-banking corporations operating in non-banking activity.

The Bank's total investments in consolidated companies (including investment in capital notes) amounted to NIS 11.8 billion on 31 March 2016, compared with NIS 12.5 billion on 31 December 2015, and their contribution to the Group net operating profit amounted to some NIS 140 million, compared with a profit NIS 448 million in the corresponding period last year.

Consolidated companies in Israel

The Bank's total investments in consolidated companies in Israel amounted to NIS 5,638 million on 31 March 2016, compared with NIS 6,260 million on 31 December 2015. Their contribution to the Group net operating profit amounted to some NIS 113 million in the first quarter of 2016, compared with NIS 348 million in the corresponding period last year, a decrease of 67.6%. The Group's return on its investment in the consolidated companies in Israel was 7.4% in the first quarter of 2016 compared with 25.0% in the corresponding period last year.

Arab Israel Bank

Following letters of complaint sent by a senior office holder in the Arab Israel Bank in November 2015, it was decided to appoint an external entity to conduct an independent review in order to examine the complaint ("the external examiner").The letters of complaint deal mainly with the allegedly improper conduct of a small number of branches of the Arab Israel Bank , including the failure to report transactions which were suspected to be money laundering, the intervention of customers in the activity of these branches, the extension of credit in excess of generally accepted procedures, a number of violent incidents on the part of customers which occurred in those branches and the non-intervention of senior factors in the Arab Israel Bank into what took place in these branch.

The external examiner has submitted a partial report to the Audit Committee, according to which all of the reports on the suspicious actions regarding money laundering were made as required, while the other subjects which were raised are specific.

Below is the contribution of the principal investee companies in Israel to the net profit of the Group:

	Return on Group investment		Contribution (a) to Group net pr		
	For the three months ended 31 March				
	2016	2015	**2016**	2015	Change
	%		NIS millions		%
Arab Israel Bank ©	-	16.4	-	25.1	-
Leumi Card	**11.7**	12.1	**37.4**	36.0	3.9
Leumi Partners (b)	**22.9**	142.9	**68.2**	281.0	(75.7)
Maalot	**38.8**	46.2	**4.0**	3.2	25.0
Others	**1.0**	0.5	**3.2**	2.5	28.0
Total consolidated companies in Israel	**7.4**	25.0	**112.8**	347.8	(67.6)

(a) The profit (loss) shown is according to the company's share in the Group's results.
(b) Including the profit and/or loss companies included on equity basis of Leumi Partners.
(c) Arab Israel Bank merged with and in Bank Leumi on 31 December 2015.

Consolidated companies abroad

The Bank's total investment in overseas units on 31 March 2016 amounted to NIS 4,252 million, compared with NIS 4,295 million at the end of 2015.

The contribution of the overseas offices to net profit in shekels of the Group in the first quarter of 2016 amounted to a profit of NIS 26 million compared with a loss of NIS 23 million in the corresponding period last year.

Leumi Luxembourg

On 2 February 2016, the sale of the activity of Leumi Luxembourg to Banque J. Safra Sarasin (Luxembourg) was completed, following the receipt of the approvals which were required for completion of the transaction.

The completion of the transaction is not expected to have a material effect on the results of the Group's operations.

Bank Leumi Jersey

On 8 April 2016, the transaction regarding the agreement of sub-subsidiary, **Bank Leumi Jersey**, to sell its holdings in its subsidiary, **Leumi Overseas Trust Corporation**, was completed, after receiving the regulatory approvals required for the execution of the agreement.

The following table sets out the contribution of the principal overseas consolidated companies to the net profit of the Group

	Return on Group investment		to Group net profit		
	For the three months ended 31 March				
	2016	2015	**2016**	2015	Change
	%		NIS millions		%
Leumi USA (BLC)	**3.4**	2.8	**23.3**	17.4	33.9
Of which: Leumi USA	**3.8**	3.3	**22.5**	17.0	32.4
Leumi UK	**-**	8.3	**(13.1)**	16.1	-
Leumi Switzerland	**1.0**	-	**0.7**	(28.9)	+
Leumi Luxembourg	**32.3**	-	**7.5**	(10.1)	+
Leumi Re	**1.1**	30.9	**0.3**	6.7	(95.5)
Leumi Romania	**13.9**	-	**4.9**	(10.6)	+
Others	**19.9**	-	**2.2**	(13.8)	-
Total	**2.4**	-	**25.8**	(23.2)	+

The following table sets forth details of the net profit (loss) of the Bank's overseas offices, as reported by them:

	For the three months ended 31 March			
	31 March 2016	31 March 2015	Change	Change
	In millions			%
Leumi USA (BLC) - US$	**6**	4	2	50.0
Of which: Leumi USA	**6**	4	2	50.0
Leumi UK - £	**7**	7	-	-
Leumi Switzerland - CHF	**1**	2	(1)	(50.0)
Leumi Luxembourg - €	**2**	1	1	100.0
Leumi Romania – ron (a)	**4**	3	1	33.3
Leumi Re - US$	**2**	1	1	100.0
Others - US$	**-**	(1)	1	100.0
Total translated to the dollar	**21**	18	3	16.1

(a) 1 ron = NIS 0.9587

In connection with legal claims and other issues related to the subsidiaries, see Note 10 to the financial statements.

Activities of Companies Included on Equity Basis

Total investments of the Group in companies included on equity basis amounted to NIS 899 million as at 31 March 2016, compared with NIS 924 million as at 31 December 2015. The contribution to net profit of the companies included on equity basis in the first quarter of 2016 amounted to NIS 19 million, compared with a total of NIS 131 million in the corresponding period last year.

Exposure to Risk and Methods of Risk Management

This chapter is written in greater detail in the 2015 Annual Report (pages 105 to 154) and in the Report on Risks. The chapter below should therefore be read in conjunction with those reports.

Main changes in the risk environment and their impact on the Group

During the first quarter of 2016, volatility in the local and global markets intensified, with the first part of the quarter being characterized by sharp decreases in financial markets, particularly in the global banking sector. The main concerns related to a trend of slowdown in growth in China and its effect on the world economy, the continuing fall in oil prices and worries regarding a change in the route for raising interest rates in the United States. The volatility affected, among other things, share prices, debenture margins and CDS margins. From the end of February, there was a correction in market trends, an improvement in debenture margins and CDS margins, and even the price of oil rose.

In Israel, the macro-data indicate a decline in the rate of growth and a continuation of the low inflation rate. From publications of the monetary committee, it appears that there is high probability that the interest environment is expected to remain low in the near term, in light of these macro-data.
The escalation in the security situation, which appears to more than a passing wave, is also liable to have an adverse effect.
Around the world, the trend of several regulatory changes continued, affecting the business model of the global banking system, while a similar phenomenon is evident in Israel.

We have witnessed to a continual increase in the frequency and power of cyber threats, both around the world and within Israel, in particular. There has been an increase in motivation to attack various financial bodies.
Most of the risks in the technological innovation relate to raising the risk level of cyber attackers to the exposure of information on customers of the Bank and impairing the availability of the services.

In relation to the capital targets, Leumi continues to be prepared to strengthen capital adequacy and reach the capital targets required by the regulatory authorities, even in view of the standard on employee rights, whose impact on the Bank's capital in the low and volatile interest environment is significant.

Table of severity of risk factors

There were no changes in the severity of the risk factors in relation to the table published in the 2015 Annual Report.

Credit risk

This chapter is written in greater detail in the 2015 Annual Report (pages 114 to 130) and in the Report on Risks. The chapter below should therefore be read in conjunction with those reports.

Credit risk is the Bank's risk of a loss as a result of the possibility that a counterparty does not fulfill its obligations vis-à-vis the banking corporation, as agreed. The Bank implements an overall policy for credit risk management, in accordance with the provisions of Proper Conduct of Banking Management Regulation no. 311.

The credit is the main core activity of the Bank and the Group and the credit risk is managed respectively through three lines of defense. The central principles in the management of credit risk are laid out in the document "Credit Policy and Credit Risk" which is scanned each year and updated as necessary with the approval of the Bank management.

During the first quarter of the year, there was no material change in the risk profile of the credit portfolio.

Problem Credit Risk

	31 March 2016		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	**3,711**	**257**	**3,968**
Subordinate credit risk	**1,310**	**183**	**1,493**
Credit risk under special supervision (b)	**2,923**	**1,244**	**4,167**
Total problem credit	**7,944**	**1,684**	**9,628**
Of which: Unimpaired debts in arrears 90 days or more (b)	**857**	**-**	**-**
2. Non-performing assets:			
Impaired debts	**3,253**	**-**	**-**
Assets received in respect of credit cleared	**12**	**-**	**-**
Total non-performing assets	**3,265**	**-**	**-**

	31 March 2015		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	4,875	295	5,170
Subordinate credit risk	1,722	633	2,355
Credit risk under special supervision (b)	3,742	535	4,277
Total problem credit	10,339	1,463	11,802
Of which: Unimpaired debts in arrears 90 days or more (b)	928	-	-
2. Non-performing assets:			
Impaired debts	4,530	-	-
Assets received in respect of credit cleared	15	-	-
Total non-performing assets	4,545	-	-

	31 December 2015		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	3,940	295	4,235
Subordinate credit risk	1,413	235	1,648
Credit risk under special supervision (b)	2,995	886	3,881
Total problem credit	8,348	1,416	9,764
Of which: Unimpaired debts in arrears 90 days or more (b)	942	-	-
2. Non-performing assets:			
Impaired debts	3,485	-	-
Assets received in respect of credit cleared	7	-	-
Total non-performing assets	3,492	-	-

Note: Balance sheet and off-balance sheet credit risk is presented before the effect of the allowances for credit losses and before the effect of deductible collateral for the indebtedness of a borrower and a group of borrowers.

(a) Credit risk, impaired, subordinate or under special supervision.

(b) Including in respect of housing loans in respect of which there is an allowance according to the extent of arrears and in respect of housing loans in respect of which there is no allowance according to the extent of arrears which are in arrears of 90 days or more.

Details of Credit Risk Metrics

	31 March 2016	31 March 2015	31 December 2015
	%		
Balance of impaired credit to the public as a percentage of the balance of credit to the public	**1.4**	1.9	1.5
Balance of unimpaired credit to the public in arrears of 90 days or more as a percentage of the balance of credit to the public	**0.3**	0.4	0.4
Problem credit risk in respect of the public as a percentage of total credit risk in respect of the public	**3.0**	4.0	3.1
Expenses in respect of credit losses as a percentage of the average balance of credit to the public	**0.0**	0.1	0.1
Net write-offs in respect of credit to the public as a percentage of the average balance of credit to the public	**0.0**	(0.2)	(0.2)

Details of Credit Risk Metrics of the Credit Loss Allowance

	31 March 2016	31 March 2015	31 December 2015
	%		
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of credit to the public	**1.5**	1.7	1.6
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of impaired credit to the public	**109.5**	91.0	105.9
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of impaired credit to the public with the addition of the balsnace of credit to the public in arrears of 90 days or more	**88.9**	76.4	85.4
Net write-offs in respect of credit to the public as a percentage of the balnce of the allowance for credit losses in respectof credit to the public	**0.4**	(3.5)	(12.8)

Credit concentration

Concentration risk is defined as a single exposure or group of exposures with a common denominator and a potential for causing significant losses. Concentration risk management is conducted by determining restrictions and monitoring and controlling compliance therewith. The aspect of concentration is also reflected in the pricing of credit which reflects the risk.

Dispersal of the credit portfolio among the various market sectors

The Bank's credit portfolio is split among the various market sectors in order to disperse the risk inherent in a situation of high concentration in one sector. In the market sectors characterized by a relatively low level of risk, we strive to achieve a high rate of financing from our share in the system.

The Bank's credit policy with regard to various operating segments and different market sectors varies from time to time in accordance with the business environment, the Bank's business focus, the Bank's risk appetite and the specific and general directives of the Bank of Israel.

In addition to the sectoral dispersal limit imposed by the Bank of Israel with regard to the 20 main market sectors, the Bank defines internal limits for the dispersal of the credit as a part of its risk policy on the basis of the market sectors and sub-sectors, both as a percentage of the regulatory capital and as a percentage of the credit risk.

Overall credit risk to the public by sector of the economy

	31 March 2016									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					Of which:			Expenses		Balance of
	Total	Credit performance rating (f)	Problematic (e)	Total	Debts (b)	Problematic (e)	Impaired	in respect of credit losses	Net accounting write-offs	allowance for credit losses
	NIS millions									
In respect of activity of borrowers in Israel										
Agriculture	**2,112**	**1,978**	**134**	**2,109**	**1,813**	**134**	**50**	**15**	**3**	**(51)**
Mining and quarrying	**687**	**679**	**8**	**573**	**400**	**8**	**-**	**-**	**-**	**-**
Industry	**24,143**	**22,687**	**1,456**	**23,750**	**15,691**	**1,458**	**524**	**(9)**	**(23)**	**(531)**
Construction and real estate - construction (g)	**46,533**	**44,790**	**1,743**	**46,431**	**16,032**	**1,743**	**331**	**5**	**-**	**(353)**
Construction and real estate - real estate activity	**28,378**	**26,775**	**1,603**	**28,307**	**25,179**	**1,603**	**869**	**(147)**	**(15)**	**(476)**
Electricity and water	**5,500**	**5,082**	**418**	**5,160**	**3,505**	**418**	**283**	**22**	**-**	**(62)**
Commerce (h)	**28,237**	**27,304**	**933**	**28,022**	**22,833**	**895**	**230**	**(2)**	**1**	**(294)**
Hotels, catering services and food	**3,070**	**2,891**	**179**	**3,029**	**2,681**	**179**	**133**	**(56)**	**(58)**	**(30)**
storage	**7,327**	**7,014**	**313**	**7,217**	**6,011**	**310**	**264**	**3**	**2**	**(37)**
Communications and computer services	**6,244**	**5,990**	**254**	**5,916**	**4,191**	**250**	**244**	**(5)**	**(3)**	**(57)**
Financial services	**21,216**	**21,154**	**62**	**15,777**	**10,635**	**62**	**48**	**(42)**	**(13)**	**(274)**
Business and other services	**7,886**	**7,771**	**115**	**7,852**	**5,456**	**115**	**61**	**15**	**7**	**(101)**
Public and community services	**7,936**	**7,898**	**38**	**7,910**	**6,600**	**38**	**12**	**5**	**3**	**(45)**
Total commercial	**189,269**	**182,013**	**7,256**	**182,053**	**121,027**	**7,213**	**3,049**	**(196)**	**(96)**	**(2,311)**
Private individuals - housing loans	**82,895**	**82,148**	**747**	**82,895**	**80,354**	**747**	**-**	**(2)**	**1**	**(495)**
Private individuals - other	**66,442**	**65,971**	**471**	**66,433**	**37,096**	**471**	**143**	**99**	**52**	**(749)**
Total public - activity in Israel	**338,606**	**330,132**	**8,474**	**331,381**	**238,477**	**8,431**	**3,192**	**(99)**	**(43)**	**(3,555)**
Banks in Israel	**6,849**	**6,849**	**-**	**2,445**	**2,354**	**-**	**-**	**(1)**	**-**	**(2)**
Government of Israel	**43,914**	**43,914**	**-**	**196**	**196**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**389,369**	**380,895**	**8,474**	**334,022**	**241,027**	**8,431**	**3,192**	**(100)**	**(43)**	**(3,557)**

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 241,023,42,972, 1,621, 5,570, 98,183 million, respectively.

(b) Credit risk to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

(h) The balance of commercial debts includes the balance of housing loans, amounting to NIS 1,032 million, which were extended to purchasing groups in the process of construction.

Overall risk of credit to the public by sector of the economy (contd.)

	31 March 2016									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					Of which:			Expenses		Balance of
	Total	Credit performance rating (f)	Problematic (e)	Total[1]	Debts (b)	Problematic (e)	Impaired	in respect of credit losses	Net accounting write-offs	allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers abroad										
Agriculture	**61**	**60**	**1**	**61**	**53**	**1**	**1**	**(1)**	**-**	**(2)**
Mining and quarrying	**38**	**38**	**-**	**36**	**29**	**-**	**-**	**-**	**-**	**-**
Industry	**8,519**	**8,292**	**227**	**7,098**	**4,719**	**227**	**59**	**(26)**	**10**	**(53)**
Construction and real estate (g)	**12,424**	**11,881**	**543**	**12,039**	**9,203**	**543**	**378**	**(8)**	**(3)**	**(215)**
Electricity and water	**312**	**312**	**-**	**78**	**47**	**-**	**-**	**-**	**-**	**-**
Commerce	**7,481**	**7,413**	**68**	**7,366**	**4,890**	**68**	**68**	**7**	**1**	**(87)**
Hotels, catering services and food	**1,476**	**1,448**	**28**	**1,476**	**1,392**	**28**	**21**	**-**	**-**	**(10)**
Transport and storage	**242**	**178**	**64**	**225**	**199**	**64**	**64**	**6**	**19**	**(16)**
Communications and computer services	**2,343**	**2,343**	**-**	**2,031**	**799**	**-**	**-**	**-**	**-**	**(1)**
Financial services	**17,360**	**17,271**	**89**	**2,491**	**1,631**	**89**	**89**	**(6)**	**(1)**	**(46)**
Business and other services	**5,440**	**5,391**	**49**	**5,353**	**4,522**	**49**	**2**	**5**	**-**	**(19)**
Public and community services	**478**	**471**	**7**	**467**	**356**	**7**	**-**	**-**	**-**	**(18)**
Total commercial	**56,174**	**55,098**	**1,076**	**38,721**	**27,840**	**1,076**	**682**	**(23)**	**26**	**(467)**
Private individuals - housing loans	**1,130**	**1,081**	**49**	**1,131**	**1,126**	**48**	**45**	**-**	**1**	**(15)**
Private individuals - other	**426**	**397**	**29**	**415**	**262**	**29**	**28**	**-**	**-**	**(6)**
Total public - activity abroad	**57,730**	**56,576**	**1,154**	**40,267**	**29,228**	**1,153**	**755**	**(23)**	**27**	**(488)**
Banks abroad	**23,318**	**23,318**	**-**	**10,609**	**8,969**	**-**	**-**	**-**	**-**	**-**
Governments abroad	**15,052**	**15,052**	**-**	**460**	**216**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**96,100**	**94,946**	**1,154**	**51,336**	**38,413**	**1,153**	**755**	**(23)**	**27**	**(488)**
Total	**485,469**	**475,841**	**9,628**	**385,358**	**279,440**	**9,584**	**3,947**	**(123)**	**(16)**	**(4,045)**

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 38,414, 33,144, -, 7,556, 16,986 million, respectively.

(b) Credit risk to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

Overall risk of credit to the public by sector of the economy (contd.)

	31 March 2015									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
					[1]Of which:			Credit losses (d)		
	Total	Credit performance rating (f)	Problematic (e)	Total	Debts (b)	Problematic (e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers in Israel										
Agriculture	2,133	2,042	91	2,123	1,850	89	44	11	(16)	(44)
Mining and quarrying	715	715	-	691	362	-	-	(2)	-	(1)
Industry	27,596	24,903	2,693	26,608	16,211	2,682	457	74	(19)	(534)
Construction and real estate - construction(g)	46,807	45,488	1,319	46,745	16,543	1,318	732	45	-	(314)
Construction and real estate - real estate activity	25,553	23,637	1,916	25,426	22,868	1,916	1,385	(6)	(2)	(659)
Electricity and water	4,089	4,021	68	3,552	2,736	68	1	-	-	(32)
Commerce (h)	26,222	24,770	1,452	25,929	21,330	1,397	265	6	1	(375)
Hotels, catering services and food	2,959	2,769	190	2,940	2,617	190	154	2	2	(30)
Transport and storage	6,516	6,028	488	6,432	5,506	488	320	-	4	(44)
Communications and computer services	6,186	5,699	487	5,539	4,314	480	473	11	11	(205)
Financial services	23,423	23,370	53	16,872	10,071	45	17	(63)	(8)	(283)
Business and other services	7,025	6,907	118	7,003	4,895	103	41	4	6	(66)
Public and community services	7,309	7,272	37	7,254	6,043	37	20	(3)	-	(129)
Total commercial	186,533	177,621	8,912	177,114	115,346	8,813	3,909	79	(21)	(2,716)
Private individuals - housing loans	77,777	77,020	757	77,777	74,963	757	-	(1)	1	(492)
Private individuals - other	67,371	66,927	444	67,342	34,913	444	102	47	49	(635)
Total public - activity in Israel	331,681	321,568	10,113	322,233	225,222	10,014	4,011	125	29	(3,843)
Banks in Israel	7,283	7,283	-	1,865	1,662	-	-	2	-	(2)
Government of Israel	30,404	30,404	-	249	249	-	-	-	-	-
Total activity in Israel	369,368	359,255	10,113	324,347	227,133	10,014	4,011	127	29	(3,845)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 227,134, 29,070, 2,197, 7,793, 103,173 million, respectively.

(b) Credit risk to the public, credit to governments, deposits with banks, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) In housing loans, extended to certain purchasing groups in the process of construction.

(h) The balance of commercial debts includes the balance of housing loans, amounting to NIS 142,796 million, which were extended to purchasing groups in the process of construction.

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Overall risk of credit to the public by sector of the economy (contd.)

	31 March 2015									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					Of which:					
	Total	Credit performance rating (f)	Problematic (e)	Total	Debts (b)	Problematic (e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers abroad										
Agriculture	114	111	3	112	51	3	3	-	-	(2)
Mining and quarrying	8	8	-	2	2	-	-	-	-	-
Industry	8,866	8,230	636	8,191	4,667	636	244	(15)	-	(111)
Construction and real estate - construction (g)	13,070	12,494	576	12,767	9,180	576	550	(12)	-	(172)
Electricity and water	317	317	-	97	33	-	-	-	-	(1)
Commerce	7,412	7,265	147	7,337	4,648	147	67	(8)	3	(121)
Hotels, catering services and food	1,296	1,257	39	1,296	1,142	39	39	-	-	(12)
Transport and storage	330	308	22	193	189	22	22	(1)	-	(12)
Communications and computer services	1,818	1,816	2	1,629	836	2	2	-	26	(2)
Financial services	17,512	17,409	103	3,090	2,135	103	103	15	47	(76)
Business and other services	5,024	4,961	63	4,819	4,279	63	34	(3)	-	(17)
Public and community services	657	645	12	572	288	12	3	(18)	49	(14)
Total commercial	56,424	54,821	1,603	40,105	27,450	1,603	1,067	(42)	125	(540)
Private individuals - housing loans	1,188	1,139	49	1,188	1,175	49	29	(2)	-	(16)
Private individuals - other	475	438	37	437	376	37	30	1	1	(14)
Total public - activity abroad	58,087	56,398	1,689	41,730	29,001	1,689	1,126	(43)	126	(570)
Banks abroad	27,610	27,610	-	11,276	9,743	-	-	(3)	-	(1)
Governments abroad	13,810	13,810	-	229	184	-	-	-	-	-
Total activity abroad	99,507	97,818	1,689	53,235	38,928	1,689	1,126	(46)	126	(571)
Total	468,875	457,073	11,802	377,582	266,061	11,703	5,137	81	155	(4,416)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 38,927, 30,189, -, 11,037, 18,725 million, respectively.

(b) Credit risk to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitations, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

Overall risk of credit to the public by sector of the economy (contd.)

	31 December 2015									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					[1]Of which:					
	Total	Credit performance rating	Problematic (e)	Total[1]	Debts (b)	Problematic (e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers in Israel										
Agriculture	2,075	1,951	124	2,070	1,775	123	50	16	(8)	(40)
Mining and quarrying	713	713	-	583	501	-	-	(2)	-	-
Industry	24,498	22,852	1,646	24,066	15,669	1,646	577	1	(60)	(527)
Construction and real estate - construction (g)	47,249	45,433	1,816	47,155	15,688	1,815	639	65	(15)	(348)
Construction and real estate - real estate activity	27,556	25,925	1,631	27,485	24,653	1,631	1,053	18	70	(582)
Electricity and water	4,985	4,925	60	4,735	3,162	60	-	(7)	-	(28)
Commerce (f)	26,552	25,614	938	26,374	21,531	908	244	(42)	12	(306)
Hotels, catering services and food	3,030	2,840	190	3,037	2,666	190	138	4	3	(31)
Transport and storage	6,757	6,420	337	6,638	5,897	337	268	15	15	(39)
Communications and computer services	6,162	5,895	267	5,871	4,128	263	255	(82)	(7)	(81)
Financial services	20,758	20,683	75	14,709	9,570	75	62	(151)	(12)	(267)
Business and other services	7,720	7,628	92	7,701	5,462	92	34	40	30	(92)
Public and community services	7,781	7,755	26	7,742	6,523	26	11	(4)	17	(44)
Total commercial	185,836	178,634	7,202	178,166	117,225	7,166	3,331	(129)	45	(2,385)
Private individuals - housing loans	83,292	82,513	779	83,292	80,633	779	-	14	10	(497)
Private individuals - other	65,815	65,363	452	65,807	36,991	452	63	309	245	(701)
Total public - activity in Israel	334,943	326,510	8,433	327,265	234,849	8,397	3,394	194	300	(3,583)
Banks in Israel	7,048	7,048	-	3,347	2,146	-	-	2	-	(2)
Government of Israel	37,243	37,243	-	262	262	-	-	-	-	-
Total activity in Israel	379,234	370,801	8,433	330,874	237,257	8,397	3,394	196	300	(3,585)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 237,258, 36,036, 1,764, 5,081, 99,095 million, respectively.

(b) Credit risk to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitations, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

(h) The balance of commercial debts includes the balance of housing loans, amounting to NIS 1,014 million, which were extended to purchasing groups in the process of construction.

Overall risk of credit to the public by sector of the economy (contd.)

	31 December 2015									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					[1]Of which:					
	Total	Credit performance rating	Problematic (e)	Total[1]	Debts (b)	Problematic (e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers abroad										
Agriculture	128	126	2	127	72	2	2	2	1	(2)
Mining and quarrying	77	77	-	38	29	-	-	-	-	-
Industry	8,295	7,965	330	7,041	4,638	330	98	(4)	27	(92)
Construction and real estate (g)	13,503	12,866	637	12,973	9,783	637	434	10	79	(230)
Electricity and water	371	371	-	88	56	-	-	-	-	-
Commerce	7,818	7,786	32	7,729	5,123	32	31	(2)	85	(79)
Hotels, catering services and food	1,577	1,549	28	1,577	1,441	28	24	(1)	-	(10)
Transport and storage	241	155	86	223	198	86	86	(2)	9	(31)
Communications and computer services	2,093	2,093	-	1,782	677	-	-	(1)	-	(1)
Financial services	17,027	16,935	92	2,801	1,619	92	92	45	7	(68)
Business and other services	5,630	5,579	51	5,560	4,613	51	2	(2)	(1)	(16)
Public and community services	516	515	1	504	391	1	1	(39)	14	(19)
Total commercial	57,276	56,017	1,259	40,443	28,640	1,259	770	6	221	(548)
Private individuals - housing loans	1,176	1,126	50	1,176	1,172	50	29	-	2	(16)
Private individuals - other	531	509	22	522	409	22	22	-	8	(6)
Total public - activity abroad	58,983	57,652	1,331	42,141	30,221	1,331	821	6	231	(570)
Banks abroad	22,269	22,269	-	10,119	8,170	-	-	(3)	-	(1)
Governments abroad	11,667	11,667	-	480	191	-	-	-	-	-
Total activity abroad	92,919	91,588	1,331	52,740	38,582	1,331	821	3	231	(571)
Total	472,153	462,389	9,764	383,614	275,839	9,728	4,215	199	531	(4,156)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 38,581, 30,120, -, 6,169, 18,049 million, respectively.

(b) Credit risk to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitations, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

Group of borrowers

Limits on indebtedness of a borrower or group of borrowers

1. As at 31 March 2016, the Group had no exposure to a group of borrowers whose indebtedness exceeds 15% of the Bank's capital (as defined in Proper Conduct of Banking Business Directive No. 313).
2. As at 31 March 2016, the Group had no credit exposure to large borrowers, groups of borrowers and banking groups of borrowers whose debt exceeds 10% of the Bank's capital. The regulatory limit is 120% of the Bank's capital.

Exposure to foreign countries

Part A – Information on total exposure to foreign countries and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of total equity for the purpose of calculating capital ratios, whichever the lower.

	31 March 2016					
	Balance sheet exposure (a)					
	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments (c)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
Country	(NIS millions)					
United States	**13,181**	**3,532**	**8,698**	**22,003**	**10,986**	**11,017**
United Kingdom	**-**	**3,488**	**3,620**	**6,762**	**1,946**	**4,816**
France	**558**	**549**	**965**	**-**	**-**	**-**
Switzerland	**-**	**463**	**959**	**561**	**86**	**475**
Germany	**-**	**1,490**	**967**	**-**	**-**	**-**
Others	**397**	**3,777**	**4,879**	**1,169**	**605**	**564**
Total exposure to foreign countries	**14,136**	**13,299**	**20,088**	**30,495**	**13,623**	**16,872**
Total exposure to LDC countries	**234**	**916**	**564**	**1,157**	**605**	**552**
Total exposure to GIIPS countries (d)	**102**	**14**	**243**	**-**	**-**	**-**

	31 March 2016						
	Balance sheet exposure (a)			Off-balance sheet exposure (a) (b)		Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk	Up to one year	Over one year
Country	(NIS millions)						
United States	**36,428**	**681**	**287**	**6,294**	**-**	**11,790**	**13,621**
United Kingdom	**11,924**	**237**	**233**	**3,621**	**-**	**2,952**	**4,156**
France	**2,072**	**18**	**17**	**1,097**	**-**	**972**	**1,100**
Switzerland	**1,897**	**-**	**-**	**401**	**-**	**917**	**505**
Germany	**2,457**	**-**	**-**	**194**	**-**	**1,256**	**1,201**
Others	**9,617**	**258**	**249**	**2,467**	**-**	**4,510**	**4,543**
Total exposure to foreign countries	**64,395**	**1,194**	**786**	**14,074**	**-**	**22,397**	**25,126**
Total exposure to LDC countries	**2,266**	**199**	**189**	**1,794**	**-**	**388**	**1,326**

(a) Balance sheet and off-balance sheet risk, problem commercial credit risk and impaired debts are stated before the effect of a credit loss allowance and before the effect of collateral permitted for deduction for the purpose of indebtedness of a borrower and a group of borrowers. Not including off-balance sheet risk components.

(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower.

(c) Including governments, formal institutions and central banks.

(d) Exposure to GIIPS includes the countries: Portugal, Ireland, Italy, Greece and Spain.

Part A – Information on total exposure to foreign countries and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of total equity for the purpose of calculating capital ratios, whichever the lower.

	31 March 2015					
	Balance sheet exposure (a)					
	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments (c)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
Country	(NIS millions)					
United States	12,422	3,858	8,614	20,082	9,966	10,116
United Kingdom	40	4,047	4,749	7,166	2,090	5,076
France	-	2,142	455	-	-	-
Switzerland	-	741	895	990	258	732
Germany	-	2,344	1,746	-	-	-
Others	563	4,387	5,325	1,400	678	722
Total exposure to foreign countries	13,025	17,519	21,784	29,638	12,992	16,646
Total exposure to LDC countries	206	940	815	1,270	649	621
Total exposure to GIIPS countries (d)	-	59	246	-	-	-

	31 March 2015						
	Balance sheet exposure(a)			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk	Up to one year	Over one year
	(NIS millions)						
Country							
United States	35,010	838	378	6,058	-	16,106	8,788
United Kingdom	13,912	331	304	3,219	-	4,673	4,163
France	2,597	11	9	1,188	-	793	1,804
Switzerland	2,368	-	-	518	-	1,371	265
Germany	4,090	2	2	618	-	3,120	970
Others	10,997	421	399	1,876	-	4,811	5,464
Total exposure to foreign countries	68,974	1,603	1,092	13,477	-	30,874	21,454
Total exposure to LDC countries	2,582	350	328	1,110	-	1,673	288
Total exposure to GIIPS countries (d)	305	-	-	61	-	173	132

(a) Balance sheet and off-balance sheet risk, problem commercial credit risk and impaired debts are stated before the effect of a credit loss allowance and before the effect of collateral permitted for deduction for the purpose of indebtedness of a borrower and a group of borrowers. Not including off-balance sheet risk components.
(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower.
(c) Including governments, formal institutions and central banks.
(d) Exposure to GIIPS includes the countries: Portugal, Ireland, Italy, Greece and Spain.

Part A – Information on total exposure to foreign countries and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of total equity for purposes of calculating capital ratios, whichever the lower (cont'd).

	31 December 2015					
	Balance sheet exposure (a)					
	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments (c)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
	(NIS millions)					
Country						
United States	9,652	2,577	10,748	22,020	11,310	10,710
United Kingdom	39	2,942	3,022	7,015	2,143	4,872
France	552	635	942	-	-	-
Switzerland	-	334	1,194	535	101	434
Germany	-	1,519	1,583	-	-	-
Others	389	4,001	5,218	1,272	651	621
Total exposure to foreign countries	10,632	12,008	22,707	30,842	14,205	16,637
Total exposure to LDC countries	212	943	719	1,180	647	533
Total exposure to GIIPS countries (d)	97	57	408	-	-	-

	31 December 2015						
	Balance sheet exposure(a)			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk	Up to one year	Over one year
Country	(NIS millions)						
United States	33,687	733	299	6,153	-	6,941	16,036
United Kingdom	10,875	247	229	3,846	-	1,717	4,286
France	2,129	10	8	1,126	-	872	1,257
Switzerland	1,962	-	-	412	-	962	566
Germany	3,102	-	-	259	-	1,882	1,220
Others	10,229	294	282	3,068	-	2,389	7,219
Total exposure to foreign countries	61,984	1,284	818	14,864	-	14,763	30,584

(a) Balance sheet and off-balance sheet risk, problem commercial credit risk and impaired debts are stated before the effect of a credit loss allowance and before the effect of collateral permitted for deduction for the purpose of indebtedness of a borrower and a group of borrowers. Not including off-balance sheet risk components.
(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower.
(c) Including governments, formal institutions and central banks.
(d) Exposure to GIIPS includes the countries: Portugal, Ireland, Italy, Greece and Spain.

Part B – On 31 March 2016 and for the comparative periods, there was no aggregate amount of balance sheet exposure to foreign countries whose total individual exposure was between 0.75% and 1% of the total consolidated assets or between 15% and 20% of equity, whichever the lower.

Part C – The amount of exposure to foreign countries with liquidity problems as defined by the Bank of Israel (a country receiving financial aid from the IMF or whose obligations are rated with a credit rating of CCC or lower) amounts to NIS 555 million and relates to 10 countries. (At 31 March 2015, this amounted to NIS 1,416 million and related to 13 countries, and, at 31 December 2015, this amounted to NIS 722 million and related to 11 countries.)

The following table presents the exposure to countries according to the countries' credit rating as rated by the World Bank, in NIS millions, as at 31 March 2016:

	Balance sheet exposure	Off-balance sheet exposure	Total exposure	Percentage of exposure in relation to total	Of which problem commercial credit risk
OECD countries with high income	**58,613**	**12,173**	**70,786**	**90.2**	**992**
High-income countries	**3,516**	**107**	**3,623**	**4.6**	**3**
Countries with mid-high income	**2,196**	**1,456**	**3,652**	**4.7**	**195**
Countries with mid-low income	**70**	**337**	**407**	**0.5**	**4**
Countries with low income	**-**	**1**	**1**	**0.0**	**-**
Total	**64,395**	**14,074**	**78,469**	**100.0**	**1,194**

The countries are rated according to national income per capita as follows:

High income - exceeding US$ 12,736 per capita.

Mid-high income - from US$ 4,126 to US$ 12,735 per capita.

Mid-low income - from US$ 1,046 to US$ 4,125 per capita.

Low income – up to US$ 1,045 per capita.

Following are the names of the principal countries in each of the categories:

1. OECD countries:

USA, Italy, Australia, Austria, Ireland, Belgium, Canada, Czech Republic, Denmark, Finland, Israel, Hungary, France, United Kingdom, Japan, Spain, Switzerland, Luxembourg, Slovenia, the Netherlands, Sweden, Poland, Germany and South Korea.

2. Countries with high income:

Hong Kong, Monaco, Singapore, Cayman Islands, Russia and Croatia.

3. Countries with mid-high income:

Brazil, Bulgaria, Mexico, Panama, Romania, South Africa, Turkey, China, Colombia and Peru.

4. Countries with mid-low income:

Egypt, India, Paraguay, the Philippines, and the Ukraine.

5. Countries with low income:

Several African countries, Haiti and Nepal.

Credit exposure to foreign financial institutions

Credit exposure to foreign financial institutions refers to commercial banks, bank holding companies, investment banks, insurance companies and institutional bodies.

The exposure includes mainly deposits in overseas banks for short periods of up to one week, and debentures, usually for a period of up to five years. The Bank closely monitors the condition of banks worldwide, and makes frequent analyses of their financial stability. The Bank maintains a shortlist of quality banks with which the Bank and its overseas subsidiaries make deposits.

The following table sets out the credit exposure to overseas financial institutions[(a)]:

	As at 31 March 2016		
	Balance sheet credit risk (b)	Current off-balance sheet credit risk (c)	Current credit exposure
	NIS millions		
Current credit exposure to foreign financial institutions (d)			
AAA to AA-	**14,346**	**2,334**	**16,680**
A+ to A-	**2,743**	**100**	**2,843**
BBB+ to BBB-	**301**	**387**	**688**
BB+ to B-	**3**	**2**	**5**
Below B-	**33**	**4**	**37**
Unrated	**252**	**1**	**253**
Total current credit exposure to foreign financial institutions	**17,678**	**2,828**	**20,506**
Problem debt balances	**-**	**-**	**-**

	As at 31 December 2015		
	Balance sheet credit risk (b)	Securities (c)	Current credit exposure
	NIS millions		
Current credit exposure to foreign financial institutions (d)			
AAA to AA-	13,048	2,789	15,837
A+ to A-	2,323	54	2,377
BBB+ to BBB-	440	241	681
BB+ to B-	1	2	3
Below B-	35	-	35
Unrated	173	8	181
Total current credit exposure to foreign financial institutions	16,020	3,094	19,114
Problem debt balances	-	-	-

(a) Overseas financial institutions include banks, investment banks, insurance companies and institutional bodies.

(b) Deposits in banks, credit to the public, securities that were borrowed or purchased in the context of buy-back (resale) agreements and other assets in respect of derivatives (fair value of derivatives) and investments in debentures including subordinated bank debentures amounting to NIS 495 million as at 31 March 2016 and NIS 597 million as at 31 December 2015.

(c) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives).

(d) The bank only uses the rating of Moody's and S&P credit rating agencies to rate the foreign financial institutions to which there is a credit exposure.

Notes:
Credit exposures do not include investments in asset-backed securities. (See Note 5).
Some of the banks have received government support of various types, including direct investment in the Bank's capital, government guarantees of certain asset portfolios of the banks, guarantees enabling the banks to raise sources of financing, etc.
For further information regarding the composition of the credit exposure in respect of derivatives *vis-à-vis* banks and broker/dealers (local and overseas), see Note 11 to the financial statements.

Risks in the housing loan portfolio

The following table presents data on the performance of new loans provided and loans refinanced for the purchase of residential apartments, and mortgages of residential apartments in Israel:

	First quarter		Change
	2016	2015	
	NIS millions		%
From Bank funds	**2,703**	3,979	(32.1)
From Ministry of Finance funds:			
Directed loans	**3**	1	200.0
Bullet loans	**2**	2	-
Total new loans	**2,708**	3,982	(32.0)
Refinanced loans	**654**	1,356	(51.8)
Total performance	**3,362**	5,338	(37.0)

Disclosure of housing loans

The following are data relating to the risk characteristics of housing loans, the developments in credit risk and how they are managed, including consideration of steps taken by the Bank to contend with these risk characteristics.

Development of credit balance for housing, net, in Israel:

	Balance of credit portfolio	Rate of growth
	NIS millions	%
31December 2014	73,919	13.0
31December 2015	79,905	8.1
31March 2016	**79,876**	**-**

Development of credit balance, net, by linkage basis in Israel:

	Unlinked	Percentage of credit portfolio	Index-linked	Percentage of credit portfolio	Foreign currency	Percentage of credit portfolio	Total portfolio
	NIS millions	%	NIS millions	%	NIS millions	%	NIS millions
31December 2014	36,727	49.7	35,447	48.0	1,745	2.4	73,919
31December 2015	43,938	55.0	34,511	43.2	1,456	1.8	79,905
31March 2016	**44,877**	**56.2**	**33,623**	**42.1**	**1,376**	**1.7**	**79,876**

Development of balance of housing credit portfolio, at variable and fixed interest:

	Fixed		Variable			Total credit portfolio
	Unlinked	Index-linked	Unlinked	Index-linked	Foreign currency	
	NIS millions					
31December 2014	7,232	11,659	29,495	23,788	1,745	73,919
31December 2015	12,351	12,477	31,587	22,034	1,456	79,905
31March 2016	**12,961**	**12,270**	**31,916**	**21,353**	**1,376**	**79,876**

Development of new housing credit balance by interest track in Israel:

The development of new credit according to variable and fixed interest tracks (a variable interest loan is a loan where the interest that it bears is likely to change over the life of the loan) is as follows:

	2016	**2015**				2014
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual average
	Percentage of loans granted					
	%					
Fixed – index-linked	**19.4**	**9.7**	19.9	19.8	23.0	22.9
Variable every 5 years and above – index-linked	**13.9**	**15.7**	13.5	11.6	13.1	17.2
Variable up to 5 years – index-linked	**1.2**	**1.3**	1.5	1.0	1.2	2.0
Fixed – unlinked	**29.0**	**32.8**	30.5	35.8	28.9	21.5
Variable every 5 years and above – unlinked	**6.8**	**6.8**	5.4	5.5	6.6	6.6
Variable up to 5 years – unlinked	**29.4**	**33.3**	28.8	25.8	26.6	28.5
Variable – foreign currency	**0.3**	**0.4**	0.4	0.5	0.6	1.3

The percentage of new credit extended by the Bank in variable interest housing loans during the first quarter of 2016 stood at 52%, compared with 49% in 2015. The figures relate to all of the various interest paths and linkage segments, including loans in which the interest varies each period of five years and more. Excluding loans (which the directive of the Banking Supervision Department excludes from the definition of variable interest), the percentage of housing credit at variable interest stood at 31% during the first quarter of 2016, compared with 30% in 2015.

The balance of the past due portfolio in housing loans more than 90 days in arrears is as follows, in Israel:

	Balance of recorded debt	Amount in arrears	Percentage of amount in arrears
	NIS millions		%
31 December 2014	74,410	800	1.1
31 December 2015	80,402	768	1.0
31 March 2016	**80,639**	**750**	**0.9**

The allowance for credit losses as at 31 March 2016, including the collective allowance on housing loans (hereinafter: "the overall allowance") was NIS 492 million, representing 0.62% of the housing credit balance, compared with the balance of the allowance as at 31 December 2015, amounting to NIS 497 million, representing 0.62% of the housing credit balance.

Data relating to new housing credit in Israel:

In the first quarter of 2016, the Bank extended new housing loans amounting to NIS 2.7 billion from the Bank's funds.

Development of the rate of financing, in new credit, above 60%, in Israel:

The development of new credit extended by Leumi Mortgage Bank at a rate of financing higher than 60% is as follows: (The rate of financing is the ratio between the rate of credit approved for a borrower, (even if all or part thereof has not yet been actually extended) and the value of the asset mortgaged, at the time of extending the credit facility.)

	2016	2015				2014
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
Rate of financing	%					
Between 60% and 70% (inclusive)	**15.5**	18.6	18.6	18.8	19.2	18.5
Between 70% and 80% (inclusive)	**13.5**	14.6	17.1	18.1	16.5	14.5
Above 80%	**0.2**	0.4	0.7	1.0	2.4	0.4

Development of the rate of financing, Balance of credit portfolio in Israel

The average rate of financing of the balance of the credit portfolio as of 31 March 2016 stands at 47.8%, compared with 47.1% in 2015.

Development of new credit, in which the repayment ratio is lower than 2.5 in Israel:

Loans made in `the first quarter of 2016 in which the repayment ratio is lower that 2.5 to income-earners of NIS 10,000 and below, at the date of approval of the credit, stood at 0.19% of the total new extensions of new credit.

This calculation complies with the Bank of Israel directives for the purposes of reporting pursuant to Proper Conduct of Banking Business Management Regulation no. 876.

Development of new credit, in which the repayment dates extend beyond 25 years:

The percentage of the new credit of housing loans in the first quarter of 2016, in which repayment dates according to loan contracts longer than 25 years, stood on average at 36% of the total of new credit extended, compared to 30% in 2015.

Developments in credit risks

Against a background of increasing demand for housing units, both for residential purposes and for the purpose of investment, and against a background of a rising trend in housing prices, in addition to the low interest environment, the extent of housing credit has increased in recent years.

As a result of these developments, and as part of the risk management, closer adherence to the management restrictions continued in 2016, mainly in the following characteristics: the rate of financing, monthly repayment capacity, credit rating according to the Bank's internal statistical model. In this context, the features of transactions in respect of apartments as part of the "Affordable Housing" program were examined, (including the expected implications of the directives of the Bank of Israel and the Ministries of Finance and Housing on this subject).

The average loan extended by the Bank in the first quarter of 2016 was NIS 578 thousand, compared with NIS 623 thousand in 2015 and NIS 585 thousand in 2014.

Market Risk

This chapter is written in greater detail in the 2015 Annual Report (pages 131 to 140) and in the Report on Risks. The chapter below should therefore read in conjunction with those reports.

Market risk is defined as the risk of a loss in balance sheet and off-balance sheet positions arising from a change in the fair value of a financial instrument as a result of a change in market conditions (a change in price levels in various markets, fluctuations in interest rates, exchange rate, inflation, the prices of shares and commodities and other economic indices). Exposure to market risks is reflected in the business results, the fair value of assets and liabilities, shareholders' equity and cash flows.

For further information, see Report on Risks on the Bank's website.

The Bank applies the directives of the Supervisor of Banks on the subject of the Group's market and liquidity risk management, pursuant to which basic principles for the method of risk management and control are provided, including the responsibility of the management and the Board of Directors, the definition of the means of control and the tools for measuring the risks and the means of control and supervision of these risks, implementing corporate governance which includes the three "lines of defense".

Market risk management policy

Market risk management policy reflects the Group's market risk strategy. This is alongside the existing procedures for detecting, measuring monitoring developing and controlling the market risks. The policy for managing market risks is intended, on the one hand, to support the achievement of business goals by assessing the risks and the prospects that can result from exposure to risks, in comparison with the forecast profit from them, and on the other hand, to reduce the level of risk deriving from the Bank's ongoing activity, including maintaining a high liquidity level.

The policy represents an important tool in defining the Bank's risk appetite in the *nostro* field, dealing rooms and market exposure, in the whole Bank Leumi Group. The policy defines the corporate governance, the allocation of organizational responsibility and escalation mechanisms.

Exposures to market risks are managed on a routine basis at Group level. Overseas subsidiaries determine policy for the management of market risks in compliance with the Group policy and risk frameworks approved therein. Information on the actual state of the exposures in accordance with the frameworks determined is received from subsidiaries and taken into account in the overall management of the exposures in the Group.

Management of market risks is handled by two main risk centers – the banking portfolio and the trading portfolio. Definition of the trading portfolio is derived from the Basel directives and includes the securities trading portfolio of the Bank and derivative transactions in trading activity. The banking portfolio includes transactions that are not included in the trading portfolio.

The Bank has implemented United States generally accepted accounting principles regarding employee rights, as stipulated by the Bank of Israel, chief of which is a change in the rate of financing of the pension liabilities. Market risk management in respect of the commitment to employees is executed partly within the framework of the banking portfolio and partly managed separately and independently as a part of the "plan assets", which are intended to carry a yield over the long-term, with the aim of servicing the liability value. The pension liability is the flow which is affected by changes in demographic parameters, such as inflation, the pension determining salary, etc. The actuarial commitment for employees has a long duration, and is significantly affected by changes in the capitalization interest. The impact of these changes on the Bank's capital is material. On the other hand, the investment in the "plan assets" is intended to service some of this commitment, and it is effected by investing in diverse and dispersed assets, such as shares and debt assets. The investment is subject to regulatory restrictions and limitations set by the funds.

For further information regarding activity according to portfolio, see Report on Risks on the Bank's website.

Market risk management policy

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The policy represents an important tool in defining the Bank's risk appetite in the *nostro* field, dealing rooms and market exposure, in the whole Bank Leumi Group. The policy defines the corporate governance, the allocation of organizational responsibility and escalation mechanisms. As part of the market risk management policy, restrictions of the Board of Directors have been determined for every material market risk factor. In addition, restrictions have been set at the level of the Chief Risk Officer and additional restrictions which complement these restrictions. These restrictions are intended to limit the damage that could be incurred as a result of unforeseen changes in the existing various risk factors in the markets, such as, interest rates, inflation, exchange rates, tradable credit margins and share prices.

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For further information regarding activity according to portfolio, see Report on Risks on the Bank's website.

A. Interest exposure

Interest risk is the risk of a loss as a result of changes in risk-free interest rates of credit in the various currencies, due to differences between the dates of changes in interest rates or the repayment date of the assets and liabilities in each of the linkage segments, whichever is earlier.

The interest exposure policy restricts the extent of exposure to possible changes in interest on the potential erosion of economic value[1] and financing profit for the coming year. Exposure of the profit to interest is influenced by the activity in derivative transactions and the trading security portfolio.

The interest risk is actually measured and managed on the basis of various behavioral assumptions with regard to the repayment times of the assets and liabilities. In accordance with past experience the Bank considers part of the current account balances as a long-term liability. In addition, there are assumptions relating to early repayments in mortgages. These assessments are crucial in interest risk management, due to the significant increase in balances in recent years.

The measurement of exposure to changes in interest is carried out for both an increase and a decrease in interest rates in each linkage segment. This measurement is intended to examine the sensitivity of the existing asset and liability structure to changes in interest, and therefore, the computation is made without altering the asset and liability structure. In the event that interest rates are significantly negative, the structure of the assets and liabilities will essentially change.

With the implementation of the standard on employee rights and the capitalization of the actuarial commitment to employees according to market interest rates, the Bank's capital sensitivity to changes in interest increased. In order to limit the volatility in capital, Leumi hedges part of this exposure. In addition during April 2016, limits on exposure to interest were approved in the Board of Directors, reflecting the implications of the implementation of the employee rights standard, giving emphasis to the sensitivity of capital adequacy to interest.

1 The economic value of the capital is defined as the difference between the current value of assets and liabilities. In calculating present value, cash flows are deducted from the risk-free credit yield curve and the foreign currency LIBOR flows.

The summary of exposures to unexpected changes in interest at Group level (before tax and in NIS millions)* - the potential change in economic value as a result of a scenario - is as follows:

	31 March 2016			31 March 2015			31 December 2015		
Scenario	Increase of 1%	Decrease of 1%	Change of 0.1%	Increase of 1%	Decrease of 1%	Change of 0.1%	Increase of 1%	Decrease of 1%	Change of 0.1%
In Israeli currency:									
Banking portfolio	**(460)**	**591**	**(51)**	(424)	437	(42)	(641)	708	(67)
Trading portfolio	**(56)**	**45**	**(6)**	(121)	125	(12)	(87)	111	(7)
In foreign currency:									
Banking portfolio	**45**	**(90)**	**5**	4	(94)	-	(32)	(74)	(3)
Trading portfolio	**(79)**	**(18)**	**(2)**	(46)	36	(5)	7	(33)	2

	Potential erosion in annual profit		
	31 March 2016	31 March 2015	31 December 2015
	Actual		
Total	**501**	62	379

* The extent of exposure does not take into account the existence of an interest rate floor of 0% on the deposits. The further the interest falls and approximates to zero, the higher the impairment in financial margin – as all of the interest reduction by the Bank of Israel is reflected only in the lowering of the interest rate on the credit and therefore, in the reduction of margins and the erosion of profits in the Bank.

The exposure of capital to an immediate increase/decrease in interest (before the effect of tax) is as follows:

	Exposure in Israeli currency			Exposure in foreign currency		
	31 March 2016					
	Increase of 1%	Decrease of 1%	Change of 0.1%	Decrease of 1%	Increase of 1%	Change of 0.1%
Exposure of capital to an immediate increase/decrease in interest*	**868**	**(1,218)**	**104**	**(445)**	**320**	**(39)**
	31 December 2015					
	Increase of 1%	Decrease of 1%	Change of 0.1%	Decrease of 1%	Increase of 1%	Change of 0.1%
Exposure of capital to an immediate increase/decrease in interest*	1,472	(1,895)	145	(292)	182	(25)

* This measurement includes the exposure to an immediate change in the interest of the nostro portfolios which have been remeasured at market value and the actuarial commitment to employees. This does not include the effect of the sensitivity of the plan assets to changes in interest which at 31 March 2016 is estimated to be a decrease in the value of the assets amounting to NIS 100 million (NIS 120 million on 31 December 2015) in the scenario of a 1% increase in interest. In addition, the measurement does not include the effects of the transitional provisions of the standard on employee rights, according to which the capital adequacy ratio is computed.

For further information, see the Report on Risks on the Bank's website.

Sensitivity of the fair value of assets and liabilities to interest

The effect of potential changes in interest rates on the fair value of the financial instruments of the Bank and its consolidated subsidiaries, except for non-monetary items, according to accounting principles, is as follows:

The net fair value of financial instruments, before the effect of changes in interest rates:

	31 March 2016					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	**262,457**	**51,807**	**67,221**	**8,239**	**9,312**	**399,036**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**276,002**	**7,255**	**204,098**	**54,114**	**25,567**	**567,036**
Financial liabilities (a)	**215,246**	**62,121**	**86,736**	**13,462**	**9,254**	**386,819**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**298,419**	**8,363**	**185,357**	**49,606**	**26,376**	**568,121**
Net fair value of financial instruments	**24,794**	**(11,422)**	**(774)**	**(715)**	**(751)**	**11,132**

	31 March 2015					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	225,938	54,617	68,019	7,115	9,754	365,443
Amounts receivable in respect of derivative financial and off-balance sheet instruments	322,340	7,810	207,739	61,911	39,417	639,217
Financial liabilities	191,732	46,390	82,286	14,958	9,029	344,395
Amounts payable in respect of derivative financial and off-balance sheet instruments	339,800	9,423	194,033	54,153	40,576	637,985
Net fair value of financial instruments	16,746	6,614	(561)	(85)	(434)	22,280

	31 December 2015					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	257,444	52,070	64,294	7,598	9,709	391,115
Amounts receivable in respect of derivative financial and off-balance sheet instruments	258,434	7,256	193,030	57,823	24,915	541,458
Financial liabilities (a)	211,447	59,362	87,666	13,889	9,199	381,563
Amounts payable in respect of derivative financial and off-balance sheet instruments	283,626	8,796	170,470	52,076	26,125	541,093
Net fair value of financial instruments	20,805	(8,832)	(812)	(544)	(700)	9,917

(a) Including the fair value of the actuarial liabilities to employees and does not include the value of the plan's assets.

The effect of changes in interest rates on the net fair value* of financial instruments

	31 March 2016						
	Fair value, net, of financial instruments after the effect of changes in interest rates					Change in fair value	
	Israeli currency		Foreign currency including Israeli currency linked to foreign currency				
	Unlinked	CPI-linked	Dollar	Euro	Others	Total	Total
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	**23,555**	**(9,613)**	**(1,284)**	**(744)**	**(748)**	**34**	**0.31**
Immediate corresponding increase of 0.1%	**24,660**	**(11,218)**	**(820)**	**(718)**	**(751)**	**21**	**0.19**
Immediate corresponding decrease of 1%	**26,228**	**(13,686)**	**(395)**	**(685)**	**(754)**	**(424)**	**(3.81)**

	31 March 2015						
	Fair value, net, of financial instruments after the effect of changes in interest rates					Change in fair value	
	Israeli currency		Foreign currency including Israeli currency linked to foreign currency				
	Unlinked	CPI-linked	Dollar	Euro	Others	Total	Total
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	15,816	6,403	(626)	(91)	(445)	(1,223)	(5.49)
Immediate corresponding increase of 0.1%	16,653	6,593	(568)	(86)	(435)	(123)	(0.55)
Immediate corresponding decrease of 1%	17,769	6,884	(483)	(77)	(423)	1,390	6.24

	31 December 2015						
	Fair value, net, of financial instruments after the effect of changes in interest rates					Change in fair value	
	Israeli currency		Foreign currency including Israeli currency linked to foreign currency				
	Unlinked	CPI-linked	Dollar	Euro	Others	Total	Total
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	19,963	(7,086)	(1,079)	(550)	(692)	639	6.44
Immediate corresponding increase of 0.1%	20,721	(8,657)	(839)	(545)	(699)	64	0.65
Immediate corresponding decrease of 1%	21,643	(11,061)	(675)	(537)	(708)	(1,255)	(12.66)

(a) This exposure includes the exposure to an immediate change in the interest of the nostro portfolios which have been remeasured at market value and the actuarial commitment to employees. This does not include the effect of the sensitivity of the plan assets to changes in interest which at 31 March 2016 is estimated to be a decrease in the value of the assets amounting to NIS 100 million (NIS 120 million on 31 December 2015) in the scenario of a 1% increase in interest. In addition, the measurement does not include the effects of the transitional provisions of the standard on employee rights, according to which the capital adequacy ratio is computed.

(b) Of this, the effect of compound financial assets: immediate corresponding increase of 1% - NIS (209) million, (31 December 2015 – NIS (250) million), an immediate corresponding decrease of 1% - NIS 86 million (31 December 2015 - NIS 144 million).

* Not including estimate of the value of revenues in respect of commission for early repayment.

Exposure to interest rate fluctuations

	31 March 2016						
	On demand up to one month	Over one month to three months	Over three months to one year	Over one year to three years	Over three years to five years	Over five years to ten years	Over ten years to twenty years
	NIS millions						
Israeli currency - unlinked							
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments							
Financial assets (a)	186,237	11,849	25,310	13,888	10,240	9,117	3,139
Derivative financial instruments (excluding options)	47,057	96,804	44,142	35,100	24,690	22,386	446
Options (in terms of the underlying asset)	719	712	1,826	1,243	775	9	42
Off-balance sheet financial instruments	-	-	-	-	-	-	-
Total fair value	234,013	109,365	71,278	50,231	35,705	31,512	3,627
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a)	169,792	5,001	5,025	22,515	10,532	2,299	72
Derivative financial instruments (excluding options)	55,129	92,165	65,180	34,614	24,053	21,800	550
Options (in terms of the underlying asset)	1,657	1,109	1,795	251	3	7	49
Off-balance sheet financial instruments	-	-	31	-	-	-	-
Total fair value	226,578	98,275	72,031	57,380	34,588	24,106	671
Financial instruments, net							
Exposure to interest rate changes in the segment	7,435	11,090	(753)	(7,149)	1,117	7,406	2,956
Accumulated exposure in the sector	7,435	18,525	17,772	10,623	11,740	19,146	22,102
Israeli currency – linked to the CPI							
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments							
Financial assets (a)	2,132	2,548	12,196	15,248	10,139	5,809	2,409
Derivative financial instruments (excluding options)	208	74	1,811	2,619	859	1,636	48
Options (in terms of the underlying asset)	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-
Total fair value	2,340	2,622	14,007	17,867	10,998	7,445	2,457
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a)	1,631	3,273	9,519	13,074	10,628	6,812	1,016
Derivative financial instruments (excluding options)	223	330	2,001	2,844	1,087	1,640	123
Options (in terms of the underlying asset)	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	115	-	-	-	-
Total fair value	1,854	3,603	11,635	15,918	11,715	8,452	1,139
Financial instruments, net							
Exposure to interest rate changes in the segment	486	(981)	2,372	1,949	(717)	(1,007)	1,318
Accumulated exposure in the sector	486	(495)	1,877	3,826	3,109	2,102	3,420

Notes:

(a) Except for book balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of compound financial instruments in the "without maturity period" column the non-discounted book balances are presented including balances whose repayment date has exceeded NIS 767 million.

(b) Weighted average according to fair value of average duration.

(c) Duration less than 0.05 years.

					31 March 2015			31 December 2015		
Over twenty years	**Without fixed maturity**	**Total fair value**	**Internal rate of return**	**Average effective duration (b)**	Total fair value	Internal rate of return	Average effective duration (b)	Total fair value	Internal rate of return	Average effective duration (b)
			%	**Years**		%	Years		%	Years
2,232	**445**	**262,457**	**2.78**	**0.97**	225,938	2.91	0.66	257,444	2.87	0.70
51	**-**	**270,676**	**-**	**1.40**	311,875	-	1.42	252,647	-	1.44
-	**-**	**5,326**	**-**	**-**	10,465	-	-	5,787	-	-
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
2,283	**445**	**538,459**	**2.78**	**1.18**	548,278	2.91	1.08	515,878	2.87	1.06
-	**10**	**215,246**	**1.18**	**0.55**	191,732	0.66	0.27	211,447	0.93	0.41
26	**-**	**293,517**	**-**	**1.35**	330,653	-	1.38	279,269	-	1.35
-	**-**	**4,871**	**-**	**-**	9,118	-	-	4,328	-	-
-	**-**	**31**	**-**	**0.50**	29	-	0.50	29	-	0.50
26	**10**	**513,665**	**1.18**	**1.00**	531,532	0.66	0.95	495,073	0.93	0.94
2,257										
24,359										
1,230	**96**	**51,807**	**2.09**	**3.56**	54,617	1.90	2.99	52,070	2.00	3.29
-	**-**	**7,255**	**-**	**3.00**	7,810	-	3.13	7,256	-	3.05
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
1,230	**96**	**59,062**	**2.09**	**3.49**	62,427	1.90	3.01	59,326	2.00	3.26
-	**-**	**45,953**	**0.76**	**2.90**	46,390	0.29	3.21	43,990	0.67	3.06
-	**-**	**8,248**	**-**	**2.94**	9,317	-	3.41	8,671	-	2.93
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
-	**-**	**115**	**-**	**-**	106	-	-	125	-	-
-	**-**	**54,316**	**0.76**	**2.90**	55,813	0.29	3.23	52,786	0.67	3.03
1,230										
4,650										

Exposure to interest rate fluctuations

	31 March 2016						
	On demand up to one month	Over one month to three months	Over three months to one year	Over one year to three years	Over three years to five years	Over five years to ten years	Over ten years to twenty years
	NIS millions						
Foreign currency and foreign currency linked (e)							
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments							
Financial assets (a)	40,208	18,345	6,955	5,764	5,955	6,289	652
Of which; compound financial instruments	3,552	1,300	1,060	2,008	1,174	1,035	523
Derivative financial instruments (excluding options)	84,060	77,192	65,390	21,245	12,689	12,371	497
Options (in terms of the underlying asset) (d)	(118)	2,416	3,690	3,345	640	(4)	276
Total fair value	124,150	97,953	76,035	30,354	19,284	18,656	1,425
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a)	75,587	11,557	17,453	3,403	914	83	52
Derivative financial instruments (excluding options)	66,981	73,468	58,057	21,453	14,674	15,419	578
Options (in terms of the underlying asset) (d)	(1,358)	2,118	3,415	4,476	1,367	12	445
Off-balance sheet financial instruments	-	-	6	-	-	-	-
Total fair value	141,210	87,143	78,931	29,332	16,955	15,514	1,075
Financial instruments, net							
Exposure to interest rate fluctuations	(17,060)	10,810	(2,896)	1,022	2,329	3,142	350
Accumulated exposure in the sector	(17,060)	(6,250)	(9,146)	(8,124)	(5,795)	(2,653)	(2,303)
Total exposure to interest rate							
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments							
Financial assets (a) (c)	228,577	32,742	44,461	34,900	26,334	21,215	6,200
Derivative financial instruments (excluding options)	131,325	174,070	111,343	58,964	38,238	36,393	991
Options (in terms of the underlying asset) (d)	601	3,128	5,516	4,588	1,415	5	318
Total fair value	360,503	209,940	161,320	98,452	65,987	57,613	7,509
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a) ©	247,010	19,831	31,997	38,992	22,074	9,194	1,140
Derivative financial instruments (excluding options)	122,333	165,963	125,238	58,911	39,814	38,859	1,251
Options (in terms of the underlying asset) (d)	299	3,227	5,210	4,727	1,370	19	494
Off-balance sheet financial instruments	-	-	152	-	-	-	-
Total fair value	369,642	189,021	162,597	102,630	63,258	48,072	2,885
Financial instruments, net							
Exposure to interest rate fluctuations	(9,139)	20,919	(1,277)	(4,178)	2,729	9,541	4,624
Accumulated exposure in the sector	(9,139)	11,780	10,503	6,325	9,054	18,595	23,219
In addition, exposure to interest rates in respect of liabilities for employee rights' gross - pension and severance pay	47	95	427	1,173	1,268	3,386	5,327

Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Average effective duration (b)	31 March 2015 Total fair value	Internal rate of return	Average effective duration (b)	31 December 2015 Total fair value	Internal rate of return	Average effective duration (b)
			(%)	(Years)		(%)	(Years)		(%)	(Years)
371	**233**	**84,772**	**1.64**	**1.27**	84,888	2.58	0.97	81,601	1.81	1.32
2	**-**	**10,654**	**2.83**	**2.44**	-	-	-	10,317	2.71	2.62
90	**-**	**273,534**	**-**	**0.96**	294,017	-	0.86	266,812	-	1.00
-	**-**	**10,245**	**-**	**-**	15,050	-	-	8,956	-	-
461	**233**	**368,551**	**1.64**	**1.01**	393,955	2.58	0.85	357,369	1.81	1.05
1	**26**	**109,076**	**0.99**	**0.27**	106,273	0.79	0.30	110,362	0.99	0.28
228	**-**	**250,858**	**-**	**1.16**	272,835	-	1.00	238,694	-	1.30
-	**-**	**10,475**	**-**	**-**	15,913	-	-	9,963	-	-
-	**-**	**6**	**-**	**0.50**	14	-	0.50	14	-	0.50
229	**26**	**370,415**	**0.99**	**0.87**	395,035	0.79	0.77	359,033	0.99	0.95
232	**-**									
(2,071)	**-**									
3,833	**4,117**	**402,379**	**2.33**	**1.37**	370,567	2.44	1.08	395,236	2.31	1.17
141	**1,509**	**552,974**	**-**	**1.20**	614,927	-	1.17	527,633	-	1.24
-	**-**	**15,571**	**-**	**-**	25,515	-	-	14,743	-	-
3,974	**5,626**	**970,924**	**2.33**	**1.25**	1,011,009	2.44	1.11	937,612	2.31	1.19
1	**816**	**371,055**	**0.96**	**0.76**	345,032	0.44	0.67	366,647	0.80	0.69
254	**1,422**	**554,045**	**-**	**1.29**	614,666	-	1.24	527,933	-	1.36
-	**-**	**15,346**	**-**	**-**	25,031	-	-	14,291	-	-
-	**185**	**337**	**-**	**0.07**	324	-	0.07	347	-	0.08
255	**2,423**	**940,783**	**0.96**	**1.06**	985,053	0.44	1.01	909,218	0.80	1.06
3,719										
26,938										
4,821	**-**	**16,544**	**2.31**	**15.98**	-	-	-	**15,764**	2.63	15.76

Notes:

(a) Except for book balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of compound financial instruments in the "without maturity period" column the non-discounted book balances are presented including balances whose repayment date has exceeded totaling NIS 767 million.

(b) Weighted average according to fair value of effective duration.

(c) Including non-monetary items shown in the "Without maturity period" column.

(d) Duration less than 0.05 years.

(e) Including Israeli currency linked to foreign currency.

General notes:

1. In this table, the data by periods represent the present value of future cash flows, discounted at the internal rate of return used for discounting to the fair value included in respect of the financial instrument, consistent with the assumptions used in calculating the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 15A.
2. The internal rate of return is the interest rate for discounting the cash flows expected from a financial instrument to the fair value included in respect of it.
3. The effective duration of a group of financial instruments constitutes an approximation of the percentage change in the fair value of the group of financial instruments that would be caused as a result of a small change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.
4. The effect of hedging transactions is included in total assets or total liabilities, as applicable.
5. In calculating the duration of assets and liabilities in the CPI-linked segment an estimate was taken into account of early redemptions and withdrawals at exit points in savings plans, in accordance with a model estimating expected early redemptions based on the behavior of savers. The duration of total assets according to the original cash flow of the savings plans is higher and reached 3.75 years, the duration of total liabilities reaches 2.93 years, and the gap in the internal rate of return (hereinafter – IRR) amounts to 1.04%. The change in fair value in total assets is a decrease of NIS 38 million and in total liabilities, an increase of NIS 20 million.

6 Further details of the exposure to interest rate fluctuations for each segment of financial assets and financial liabilities by the various balance sheet headings, will be supplied on request.

Exposure to interest rates and compliance with limits

The status of exposure to interest changes at the Group level, which is calculated according to accounting principles, is set forth below.

	31 March 2016			31 December 2015		
	Unlinked	CPI-linked	Foreign currency and foreign currency linked	Unlinked	CPI-linked	Foreign currency and foreign currency linked
Average duration in years:						
Average duration of assets (a)	**1.18**	**3.49**	**1.01**	1.06	3.26	1.05
Average duration of liabilities (a)	**1.00**	**2.90**	**0.87**	0.94	3.03	0.95
Duration gap in years	**0.18**	**0.59**	**0.14**	0.12	0.23	0.10
IRR gap (%)	**1.60**	**1.33**	**0.65**	1.94	1.33	0.82

(a) Including forward transactions and options, and based on fair value data of financial instruments.

In calculating the average duration of the liabilities in the index-linked segment, an estimate regarding early repayments and withdrawals at exit points in the savings programs is taken into account, in accordance with a model which estimates the expected early repayments on the basis of the savers' behavior. An average duration of the total liabilities according to the original cash flow of the savings programs is higher, reaching 2.93 years, and the internal rate of return gap (hereinafter "IRR") amounts to 1.04%.

Early repayments of mortgages are taken into account in the figures set forth above. The average duration of the assets at the end of the reported period, according to the original cash flow which does not take into account early repayments, is longer, reaching 3.75 years, and the IRR gap amounts to 1.04%.

The exposure to changes in interest rates presents current account balances according to the Bank of Israel directives on deposits with demand of up to a month. On the other hand, for the purpose of exposure to interest, a certain rate from the current account balances in shekels and foreign currency was spread for repayment periods up to 10 years. This is in accordance with the model of behavior, the basic assumptions of which are regularly updated. Taking these assumptions into account, the average duration of the liability is higher, reaching in unlinked shekels, 1.18 years, and in foreign currency, 0.92 years, and the difference in the IRR amounts to 1.70% and 0.59%, respectively.

B. Basis/exchange rate risk

According to accounting principles, capital is defined as an unlinked shekel source. Thus, an investment of capital in a segment other than the unlinked shekel segment is defined as basis exposure. Exposure to basis risk is measured as a percentage of the Group's exposed capital. The exposed capital, at the Bank level, includes shareholders' equity and certain reserves, less fixed assets and investments in investee companies, excluding investments in subsidiaries abroad that are financed from foreign currency sources and are therefore not deducted from capital. At the Group level, the exposed capital includes shareholders' equity and certain reserves, less fixed assets and investments in companies included on equity basis. Exposure limits approved by the Board of Directors are decided in accordance with considerations of expected return and risk and are allocated among the trading rooms, ALM and subsidiary companies.

This chapter is written in greater detail in the 2015 Annual Report (pages 139 to 140). The chapter below should therefore be read in conjunction with the Annual Report.

The following table sets out the actual economic exposure at Group level, compared with the limits stipulated by the Board of Directors. The data is presented in terms of percentages of the exposed capital:

	Actual position 31 March		31 December
	2016	2015	2015
	%		
Unlinked	**(6.3)**	(22.4)	(19.3)
CPI-linked *	**7.1**	21.9	19.5
Foreign currency	**(0.8)**	0.5	(0.2)

* The exposure does not take into account the effect of the index floor on the capital invested in the sector.

In the first quarter of 2016, the percentage of capital invested on average over the year in the index-linked segment was 12%. During the year, the percentage ranged from a surplus of 7% to 23% of the exposed capital. Capital was channeled to the foreign currency sector at a relatively low rate, and therefore, the effect of the change in exchange rate on profit was not material.

In the first quarter of 2016, the Group complied with all the basis exposure limits approved by the Board of Directors.

Liquidity risk

This chapter is written in greater detail in the 2015 Annual Report (pages 141 to 146) and in the Report on Risks. The chapter below should therefore read in conjunction with those reports.

Liquidity risk is the risk created due to the uncertainty relating to the possibility of raising funds and/or unexpectedly realizing assets within a short period, without incurring any material loss. The policy of liquidity risk management constitutes an integral part of the strategic business management of Leumi Group which has been adjusted to the requirements of Proper Conduct of Banking Management Regulation no. 342 regarding liquidity risk management and the requirements Proper Conduct of Banking Management Regulation no. 221 regarding "Liquidity coverage ratio", which adopts the Basel III Committee's recommendations for calculating minimal liquidity ratio liquidity coverage ratio ("LCR"), while making adjustments to the Israeli economy. According to the directive, the LCR will not be less than a minimal level of 60% by end of 2015, 80% in 2016 and 100% from the beginning of 2017.

Leumi continues to maintain a proper liquidity level by investing the nostro portfolio in quality and dispersed assets in shekels and foreign currencies which will enable it to meet all liquidity needs in a variety of stress scenarios, and by raising policy of diversified and stable sources with various period ranges with an emphasis on raising deposits from retailers and issuing long term debentures.

The liquidity coverage ratio of the banking corporation is computed on the basis of the average daily observations and the consolidated liquidity coverage ratio is computed on the basis of the average monthly observations for the period.

	Three months ended 31 March
	2016
	%
a: In consolidated data	
Liquidity coverage ratio	**125**
Minimum liquidity coverage ratio required by the Supervisor of Banks	**80**
b. In data of the banking corporation	
Liquidity coverage ratio	**124**
Minimum liquidity coverage ratio required by the Supervisor of Banks	**80**

For further information regarding liquidity risk, see the Report on Risks on the Bank's website and Note 9B.

Linkage Status

A summary of the linkage balance sheet position, as it appears in Note 14 to the financial statements, is as follows:

	As at 31 March 2016			As at 31 December 2015		
	Unlinked	CPI-linked	Foreign currency (b)	Unlinked	CPI-linked	Foreign currency (b)
	NIS millions					
Total assets (a)	**277,488**	**51,913**	**112,778**	271,308	51,672	115,182
Total liabilities (a)	**247,941**	**55,982**	**115,100**	245,875	52,305	117,558
Surplus (deficit) of assets in segment	**29,547**	**(4,069)**	**(2,322)** (c)	25,433	(633)	(2,376) (c)

(a) Includes future transactions and options.

(b) Includes foreign currency linked.

(c) The excess of liabilities in foreign currency derives mainly from a hedging transaction against the tax exposure in respect of investments in overseas units of the Bank, investment in shares and reserves classified as a noninterest-monetary item, and also in respect of hedging future income in foreign currency.

Day-to-day management and reporting of the exposure of the Bank to basis risks is conducted according to the economic approach including adjustments and additions to the accounting approach shown above. The basis exposure, calculated according to the economic approach, is detailed in the chapter, "Exposure to Risks and Methods of Risk Management".

Liquidity position and raising funds by the Bank

The composition of the Bank's assets and liabilities continues to indicate a high level of liquidity. This is the result of a deliberate policy of raising stable and diversified sources, while placing importance on the raising of deposits from a large number of customers, for varying periods and various currencies.

Leumi routinely monitors its liquidity status and the indices that are intended to warn of changes in the liquidity position, *inter alia*, by using the regulatory model, and an internal model that was developed at the Bank pursuant to a directive of the Bank of Israel, and according to standards accepted worldwide.

The total balances of Leumi in the Bank of Israel at the end of March 2016 stood at NIS 41 billion, compared with NIS 47 billion at 31 December 2015.

In addition, the Bank has a securities portfolio of some NIS 73 billion, invested mainly in Israeli government debentures and foreign government debentures. This is in comparison to the balance as at 31 December 2015 amounting to NIS 64 billion.

The balance of liquid assets accounted for 30.0% of the Bank's financial assets, an increase of 0.2%, compared with 31 December 2015.

Operational Risks

This chapter is written in greater detail in the 2015 Annual Report (pages 147 to 150 and in the Report on Risks. The chapter below should therefore read in conjunction with those reports.

Leumi Group operates in a wide range of financial activities and, accordingly, is exposed to operating risks, including, inter alia, the risks of fraud and embezzlement, information technology, business continuity, and cyber and data security.

Operational risks in Leumi Group are managed with systemic vision by three lines of defense. Operational risk management relies on a proactive process of identifying, evaluating, measuring, monitoring, reporting and controlling/reducing material risks, which is carried out in all divisions of the Bank.

An important point of risk among the operating risks is information technology risk. The Bank is a progressive bank, leading in technological innovation. In order to create advanced services for its customers, along with business opportunities created with advanced technology, the level of exposure to data security risks and system failure increases, which are liable to expose the Bank to impairment in business activity and impairment in goodwill.

Leumi maintains strict scrutiny over the quality and proper functioning of the computer information systems and invests many resources therein, including appropriate data security system management. The data security risk market in Leumi is maintained on the basis of organized policy for mapping risk management, the application of controls and the hedging of the risks.

Bank Leumi, as a leading financial organization, is an attractive target for various attackers. The computer systems, communication networks and our customers' devices have come under attack and will continue to be vulnerable to cyber-attack, viruses, malware, phishing, and other exposures intended to cause damage to service, or steal or corrupt data.

There are focal points in Leumi for monitoring unusual activity and cyber attacks. Leumi continues to improve is ability to defend itself against the cyber threats.

Compliance risks

This chapter is written in greater detail in the 2015 Annual Report (pages 151- to 153). The chapter below should therefore read in conjunction with the Annual Report.

A. Compliance, prohibition of money laundering and the financing of terrorism

The complexity and development of the banking activity, requires the Bank to strictly comply with all duties applied to the banking corporation, relations with its customers, by virtue of primary legislation, bylaws, orders, permits and Bank of Israel's directives.

For the effective management of the subject, a compliance and enforcement department was set up in Leumi headed by the Chief Compliance Officer, and subject to the Chief Legal Counsel.

The Chief Compliance Officer is responsible for fulfilling the obligations pursuant to the legislative directives regarding the prohibition of money laundering and the financing of terrorism, is responsible for the enforcement in the area of the Securities Laws and is the officer responsible on the subject of FATCA, as set forth below.

The governance of risk management is based on three lines of defense, with the Compliance and Enforcement Department included in the second line of defense and its main function is the responsibility for the management and control of the risk, independent of the activities that it reviews, i.e., the department is an leading professional anchor, providing guidance in the management of compliance risk, takes steps to assimilate a proper compliance culture, provides guidelines (for example: risk assessment policy and methodology documents, broad work procedures, working processes, assimilation materials, broad automated requirements) for the activity of the Bank and the Group and is responsible for raising significant compliance risks with the management and the Board of Directors.

The activity of the Compliance Department is performed by a professional team with extensive knowledge and understanding in the field of compliance, and based on work processes, control and automated systems.

A multi-year work-program of the Compliance Department is risk-oriented program which is intended to examine the effectiveness of the compliance risk management.

The Chief Compliance Officer of Bank Leumi also fulfils the role of Chief Compliance Officer of Leumi Group. Accordingly, the compliance risks are managed independently by each of the companies in the Group, maintaining supervision and professional guidance from a group perspective.

B. Internal enforcement of Securities Laws

The internal enforcement program of the Securities Laws formulated by the Bank is based on the Efficiency of Enforcement Procedures in the Securities Authority Law (Legislative Amendments), 2011, and the criteria for recognition in an effective enforcement program published by the Israel Securities Authority.

The plan was approved by the Board of Directors, after being validated by an outside specialist, and after the main enforcement procedures had been reviewed by him, after an external specialist validated the plan and reviewed the main enforcement procedures.

C. Foreign Account Tax Compliance Act – FATCA

In March 2010, the Internal Revenue Code in the United States (the U.S. Income Tax Law) was amended, so as to bring into effect a reporting regime, which aims to compel foreign financial institutions (FFI) to transfer information regarding accounts held by U.S. customers.

In order to ensure the compliance of Leumi Group (hereinafter – Leumi) and individuals therein, with the provisions of the FATCA legislation, as adopted by the State of Israel in the inter-governmental agreement, and pursuant to a specific agreement between Leumi Group and the United States Department of Justice, the Bank is taking steps on a number of levels, the most important which are: the appointment of a compliance officer to assume the function of "responsible officer", the adoption of appropriate policy and work procedures, the development of automated tools supporting the working processes, the formulation of training and assimilation, inspection control and operation mechanisms which are required for complying with the directives and instructing the relevant subsidiaries in the Group.

Legal Risks

This chapter is set out in greater detail in the Annual Financial Statements for 2015 (pages 154-155), and the chapter should be read in conjunction with that stated in the Annual Report.

There is a general exposure, which cannot be estimated or quantified, resulting from, inter alia, the complexity of the services provided by the Bank and its consolidated companies to their customers. The complexity of these services involves, among other things, a potential for interpretive and other claims, which relate to many commercial and regulatory conditions. It is not possible to anticipate all the kinds of claims raised in this field and the exposure relating to these and other claims in connection with the services of the Bank and its consolidated companies that are raised, inter alia, through the procedural mechanism stipulated in the Class Actions Law.

In addition, there is an exposure due to regulatory changes and guidelines of the Supervisor of Banks. Contracts with customers are, in part, engagements lasting for many years, during which changes may occur in policy, regulations and trends in the law, including court rulings. The Bank and its consolidated companies operate through complex automated systems, which in light of the aforesaid, have to be adjusted regularly. All these create increased operational and legal exposure.

Furthermore, there is a general exposure resulting from complaints against the Bank and its consolidated companies submitted from time to time to the Supervisor of Banks, which may in certain circumstance lead to legal action being taken against the Bank. At this time, it is impossible to assess whether there is an exposure for such complaints and it cannot be estimated if the Banking Supervision Department will make an across-the-board decision on complaints as above and/or if class actions or others will be filed as a result of such processes, and it is not possible to estimate the potential exposure as above. Accordingly, no provision is included for this exposure.

Accounting Policies and Estimates on Critical Subjects

General

The financial statements have been prepared in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks and his guidelines relating to the preparation of the annual and quarterly financial statements of a banking corporation, as detailed in Note 1 to the annual financial statements as at 31 December 2015.

The preparation of consolidated financial statements, in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks, requires Management to make estimates and assessments that affect the reported amounts of assets and liabilities and the amounts of income and expenses.

The actual results relating to these items may differ from the estimates and/or the assessments.

The estimates and assessments are generally based on economic forecasts, assessments regarding the various markets and past experience, while exercising discretion, which management believes to be reasonable at the time of signing of the financial statements.

The principal critical accounting subjects referred to in the Annual Report as at 31 December 2015 were as follows: allowance for credit losses and the classification of problem debts, derivative financial instruments, securities, obligations regarding employee rights, obligations in respect of legal claims, buildings and equipment, taxes on income and deferred taxes.

Obligations regarding Employee Rights

The amounts of the obligations for pension and long-service grants are calculated according to actuarial models. The calculation of the Bank's act liability is made according to the capitalization rate based on the return of government debentures in Israel plus an international margin which is fixed according to the difference between the return to redemption, according to the period to redemption, on corporate debentures rated AA and above in the United States, and the rates of return on redemption for those periods to the repayment of U.S. government debentures.

In addition, the actuarial computations take into account the forecast real increase in pay on the basis of past experience, which varies according to the age of the employee.

The actuarial models include assumptions regarding life expectancy tables, disability rates, leaving rates, the rate of leaving with preferred conditions, the rate of utilization of pension rights, the rate of withdrawal of severance pay and provident fund monies, etc. Although the parameters have been determined with appropriate care and professional expertise, a change in any or some of the actuarial parameters and/or the capitalization rate and/or the rate of increase in pay will cause a change in the level of the Bank’s obligations.

The actuary’s valuation of the employees’ rights may be found on the Israel Securities Authority’s website: www.magna.isa.gov.il.

As of 31 March 2016, the balance of accumulated other comprehensive income in respect of employee benefits amounted to NIS 2.034 million, after the effect of tax, a decrease of NIS 544 million after the effect of tax compared with 31 December 2015.

The balance of the liability for employee benefits as of 31 March 2016 at the discounting rate on the basis of corporate debentures in Israel ("deep market for the approach of the Israel Securities Authority") is NIS 461 million less than the actual balance of liability.

Controls and Procedures regarding Disclosure in the Financial Statements

The directives of the Supervisor of Banks apply the requirements of Sections 302 and 404 of the SOX Act to banking corporations. With regard to these sections, the **SEC** and the **Public Company Accounting Oversight Board** have provided directives as to management's responsibility for the determination and existence of controls and procedures with regard to disclosure and existence of internal control over financial reporting and the external auditors' opinion with regard to the audit of the internal control over financial reporting.

The Supervisor's directives provide that:

a. Banking corporations shall apply the requirements of Sections 302 and 404 and also the **SEC's** directives that were published by virtue thereof.

b Proper internal control requires the existence of a control system in accordance with a defined and recognized framework, and the **COSO (Committee of Sponsoring Organizations of the Treadway Commission)** 1992 model meets the requirements and can be used to assess the internal control.

The Bank implements the directives in the Leumi Group on a day-to-day basis.

In 2016, the Bank carried out a validation and update of material control processes and checks of the effectiveness of the entire internal control system on financial reporting.

Assessment of controls and procedures with regard to disclosure

The management of the Bank, together with the President and Chief Executive Officer, the Head of the Finance Division and the Chief Accounting Officer, has evaluated, as at the end of the period covered by this report, the effectiveness of the disclosure controls and procedures of the Bank. On the basis of this evaluation, the President and Chief Executive Officer of the Bank, the Head of the Finance Division and the Chief Accounting Officer have concluded that, as at the end of the said period, the disclosure controls and procedures of the Bank are effective for the recording, processing, summarizing and reporting of the information that the Bank is required to disclose in its financial statements, in accordance with the directives of the Supervisor of Banks on reporting to the public and at the time required in these directives.

As a result of to the start of use of the NAHAL system for managing the Bank's impaired debts in the first quarter of 2016, there were changes in the automation of the processes of categorization of problematic debts and calculation of the cost for credit losses, and therefore, there was a change in the Bank's internal control on the financial report. In order to obtain the signatures of the Bank's CEO, the Head of the Finance division and the Chief Accountant on the declaration regarding the internal control on the Financial Report for the First Quarter, during the course of preparation of Financial Report for this quarter a form of composition will be implemented relating to the completeness of the data and the reasonableness of the results. In the event that discrepancies are discovered in them, the Bank takes steps to correct them as quickly as possible.

Changes in internal control

Apart from that said above, during the quarter ended 31 March 2016, no material change to the internal control over financial reporting of the Bank occurred which had a material effect, or which could reasonably be expected to have a material effect, on the Bank's internal control over the financial reporting.

Board of Directors

During the period January-March 2016, the Board of Directors held 13 plenary meetings and 22 committee meetings.

At the Meeting of the Board of Directors that took place on 18 May 2016, it was decided to approve and publish the audited consolidated financial statements of the Group as at 31 March 2016 and for the period ended on that date.

The Board of Directors of the Bank expresses its appreciation and gratitude to the employees and managers of the Bank and Group companies in Israel and abroad for their dedicated work and their contribution to the promotion of the Group's business.

David Brodet
Chairman of the Board of Directors

Rakefet Russak-Aminoach
President and Chief Executive Officer

18 May 2016

Certification

I, Rakefet Russak-Aminoach, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 31 March 2016 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit the statement of a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference 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 for the dates and periods covered by the Report.

4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:

   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;

   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and so that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

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

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

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

18 May 2016

Rakefet Russak-Aminoach
President and Chief Executive Officer

Certification

I, Ron Fainaro, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 31 March 2016 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit the statement of a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference 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 for the dates and periods covered by the Report.

4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:

   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;

   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and so that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

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

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

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

18 May 2016

Ron Fainaro
Executive Vice President,
Head of Economics and Finance Division

Certification

I, Shlomo Goldfarb, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 31 March 2016 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit the statement of a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference 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 for the dates and periods covered by the Report.

4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:

   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;

   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and so that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

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

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

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

18 May 2016

Shlomo Goldfarb
Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Joint Auditors' Review Report to the Shareholders of Bank Leumi le-Israel B.M.

Introduction

We have reviewed the accompanying financial information of Bank Leumi le-Israel B.M. and its subsidiaries (hereinafter: "the Bank"), comprising the condensed consolidated interim balance sheet as of 31 March, 2016 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the three month period ended on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for this interim period in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information for this interim period based on our review.

We did not review the condensed financial information for the interim period of certain consolidated companies, whose assets included on consolidation constitute approximately 0.17% of total consolidated assets at 31 March, 2016 and whose net interest income before credit loss expenses included in the consolidated statements of profit and loss constitute some 0.26% of the total consolidated net interest income before credit loss expenses for the three month period ended on that date. The condensed financial information for the interim period of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of review

We conducted our review in accordance with Standard on Review Engagements 1 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel, and a review standard applied in the review of banking institutions according to the instructions and directives of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting periods and in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we draw attention to:

1. that stated in Note 10B, paragraphs 2 and 4, regarding claims made against the Bank including petitions for their approval as class actions.
2. that stated in Note 10C, paragraph 1B, regarding an investigation carried out against the Group by the US Securities and Exchange Commission in connection with the Group's activity with US persons.

The Bank is unable to estimate the implications of the above-mentioned matters on the Bank, if any, on its financial position and operating results, and whether or not they will be material.

Somekh Chaikin	**Kost Forer Gabbay & Kasierer**
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)

18 May 2016

Condensed Consolidated Statement of Profit and Loss
for the period ended 31 March 2016

	Note	For the three months ended 31 March			For the year ended 31 December
		2016	2015		2015
		Unaudited			Audited
		NIS millions			
Interest income	2	**1,925**	1,502		8,784
Interest expenses	2	**270**	(14)		1,666
Net interest income	2	**1,655**	1,516		7,118
Expenses (income) in respect of credit losses	6,13	**(123)**	81		199
Net interest income, after expenses in respect of credit losses		**1,778**	1,435		6,919
Non-interest income					
Non-interest financing income	3	**24**	1,319		1,610
Commissions		**988**	1,051		4,092
Other income		**20**	55		595
Total non-interest income		**1,032**	2,425		6,297
Operating and other expenses					
Salaries and related expenses		**1,202**	1,418	(a)	5,448
Maintenance and depreciation of buildings and equipment		**417**	421	(a)	1,702
Amortization of intangible assets and goodwill		**-**	-		5
Other expenses		**371**	396		1,681
Total operating and other expenses		**1,990**	2,235		8,836
Profit before taxes		**820**	1,625		4,380
Provision for taxes on the profit		**371**	565	(a)	1,691
Profit after taxes		**449**	1,060		2,689
Share of the banking corporation in profits after tax of companies included on equity basis		**19**	131		177
Net profit:					
Before attribution to non-controlling interests		**468**	1,191		2,866
Attributable to non-controlling interests		**(9)**	(9)		(31)
Attributable to shareholders of the banking corporation		**459**	1,182		2,835
Basic and diluted earnings per share (NIS)					
Net profit attributable to shareholders of the banking corporation		**0.30**	0.80		1.92

(a) Restated pursuant to retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development – see Note 1.A.2.

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

David Brodet Chairman of the Board of Directors	**Yoav Nardi** Director	**Zipora Samet** Director
Rakefet Russak-Aminoach President and Chief Executive Officer	**Ron Fainaro** First Executive Vice President, Head of Finance Division	**Shlomo Goldfarb** First Executive Vice President, Chief Accounting Officer, Head of Accounting Division

Date of approval of the financial statements: 18 May 2016

Condensed Consolidated Statement of Comprehensive Income
for the period ended 31 March 2016

	For the three months ended 31 March			For the year ended 31 December
	2016	2015		2015
	Unaudited			Audited
	NIS millions			
Net profit before attribution to non-controlling interests	**468**	1,191	(d)	2,866
Less net profit attributed to non-controlling interests	**9**	9	(d)	31
Net profit attributed to shareholders of the Bank	**459**	1,182		2,835
Other comprehensive income (loss) before taxes:				
Adjustments for showing securities available for sale at fair value, net	**156**	549		(423)
Adjustments for translation of financial statements, net (a), after hedges (b)	**(12)**	21		(9)
Adjustments of liabilities in respect of employee rights (c)	**(872)**	(1,254)		683
Share of the banking corporation in other comprehensive income (loss) of companies included on equity basis	**(9)**	20		11
Other comprehensive income (loss) before taxes	**(737)**	(664)		262
Relevant tax effect	**188**	303		(161)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(549)**	(361)		101
Less other comprehensive income (loss) attributed to non-controlling interests	**-**	1		-
Other comprehensive income (loss) attributed to shareholders of the banking corporation, after taxes	**(549)**	(362)		101
Comprehensive income (loss) before attribution to non-controlling interests	**(81)**	830		2,967
Less comprehensive income attributed to non-controlling interests	**9**	10		31
Comprehensive income (loss) attributed to shareholders of the Bank	**(90)**	820		2,936

(a) Adjustments for translation of financial statements of foreign operations whose functional currency is different from the functional currency of the Bank.

(b) Hedges – profits (losses) net in respect of hedging a net investment in foreign currency.

(c) Reflects mainly adjustments in respect of actuarial estimation at year end of defined benefit plans and amortization of amounts recorded in the past in other comprehensive income.

(d) Restated pursuant to retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development – see Note 1.A.2.

See also Note 4 regarding other accumulated comprehensive income

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

Condensed Consolidated Balance Sheet as at 31 March 2016

		31 March 2016	31 March 2015	31 December 2015
		Unaudited		Audited
		NIS millions		
Assets	**Note**			
Cash and deposits with banks		**55,648**	51,769	60,455
Securities (b) (c)	5	**78,727**	64,379	69,475
Securities borrowed or purchased under agreements to resell		**1,621**	2,197	1,764
Credit to the public	6,13	**267,705**	254,223	265,070
Allowance for credit losses	6,13	**(3,572)**	(3,948)	(3,671)
Credit to the public, net		**264,133**	250,275	261,399
Credit to governments		**412**	433	453
Investments in companies included on equity basis		**899**	896	924
Buildings and equipment		**3,060**	3,103 (a)	3,095
Intangible assets and goodwill		**17**	18	18
Assets in respect of derivative instruments	11	**13,150**	18,831	11,250
Other assets (b)		**7,890**	7,418 (a)	7,666
Total assets		**425,557**	399,319	416,499
Liabilities and equity				
Deposits of the public	7	**330,354**	305,017	328,693
Deposits from banks		**4,441**	6,187	3,859
Deposits from governments		**808**	517	750
Securities lent or sold under agreements to repurchase		**845**	1,384	938
Bonds, debentures and subordinated notes		**24,810**	19,596	21,308
Liabilities in respect of derivative instruments	11	**13,996**	18,086	11,098
Other liabilities (b) (d)		**20,650**	21,591 (a)	20,746
Total liabilities		**395,904**	372,378	387,392
Non-controlling interests		**340**	329	340
Equity attributable to shareholders of the banking corporation		**29,313**	26,612 (a)	28,767
Total equity	9	**29,653**	26,941	29,107
Total liabilities and equity		**425,557**	399,319	416,499

(a) Restated pursuant to retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development.
(b) For details on amounts measured at fair value, see Note 15A.
(c) For details on securities pledged to lenders, see Note 5.
(d) Of which: allowance for credit losses in off-balance sheet credit instruments, NIS 471 million (31 March 2015 – NIS 465 million, 31 December 2015 – NIS 482 million).

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

Condensed Statement of Changes in Equity
for the period ended 31 March 2016

	For the three months ended 31 March 2016 (Unaudited)			
		Capital reserves		
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves
	NIS millions			
Balance at 31 December 2015 (Audited)	**7,059**	**1,129**	**43**	**8,231**
Net profit for the period	**-**	**-**	**-**	**-**
Adjustments in respect of companies included on equity basis, net	**-**	**-**	**-**	**-**
Issuance of shares	**49**	**587**	**-**	**636**
Other comprehensive loss, net, after effect of tax	**-**	**-**	**-**	**-**
Loans to employees for purchase of the Bank's shares	**-**	**-**	**-**	**-**
Dividend paid by consolidated companies	**-**	**-**	**-**	**-**
Balance at the end of the period	**7,108**	**1,716**	**43**	**8,867**

	For the three months ended 31 March 2015 (Unaudited)			
		Capital reserves		
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves
	NIS millions			
Balance at 31 December 2013 (Audited)	7,059	1,129	33	8,221
Net profit for the period (b)	-	-	-	-
Adjustments in respect of companies included on equity basis, net	-	-	-	-
Other comprehensive loss, net, after effect of taxes	-	-	-	-
Changes in non-controlling interests	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Balance at the end of the period	7,059	1,129	33	8,221

	For the year ended 31 December 2015 (Audited)			
		Capital reserves		
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves
	NIS millions			
Balance at 31 December 2013 (Audited)	7,059	1,129	33	8,221
Net profit (b)	-	-	-	-
Adjustments in respect of companies included on equity basis, net	-	-	-	-
Benefit to employees in respect of share-based payments	-	-	10	10
Other comprehensive loss, net, after effect of taxes	-	-	-	-
Loans to employees for purchase of the Bank's shares	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Changes in non-controlling interests	-	-	-	-
Balance at 31 December 2015	7,059	1,129	43	8,231

(a) Including NIS 10 million of other capital reserves.

(b) Restated pursuant to retroactive implementation of the Supervisor of Banks' directives on capitalization of in-house software development – see Note 1.A.2.

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

Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
(1,448)	**21,984**	**-**	**28,767**	**340**	**29,107**
-	**459**	**-**	**459**	**9**	**468**
-	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**636**	**-**	**636**
(549)	**-**	**-**	**(549)**	**-**	**(549)**
-	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(9)**	**(9)**
(1,997)	**22,443**	**-**	**29,313**	**340**	**29,653**

Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
(1,549)	19,168	(42)	25,798	340	26,138
-	1,182	-	1,182	9	1,191
-	(5)	-	(5)	-	(5)
(362)	-	-	(362)	1	(361)
-	(1)	-	(1)	(21)	(22)
-	-	-	-	-	-
(1,911)	20,344	(42)	26,612	329	26,941

Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
(1,549)	19,168	(42)	25,798	340	26,138
-	2,835	-	2,835	31	2,866
-	(19)	-	(19)	-	(19)
-	-	-	10	-	10
101	-	-	101	-	101
-	-	42	42	-	42
-	-	-	-	(10)	(10)
-	-	-	-	(21)	(21)
(1,448)	21,984	-	28,767	340	29,107

Condensed Consolidated Statement of Cash Flows
for the period ended 31 March 2016

	For the three months ended 31 March		For the year ended 31 December
	2016	2015	2015
	(Unaudited)		(Audited)
	(NIS millions)		
Cash flows generated by operating activity			
Net profit for the period	**468**	1,191 (b)	2,866
Adjustments:			
Group share in undistributed losses (profits) of companies included on equity basis (a)	**6**	703	666
Depreciation of buildings and equipment (including impairment)	**145**	162 (b)	655
Amortization	**-**	35	45
Expenses (income) in respect of credit losses	**(123)**	81	199
Losses (profits) on assets transferred to Group ownership	**-**	-	3
Profit from sale of credit portfolio	**-**	-	(11)
Profits on sale of securities available for sale (including impairment)	**(91)**	(606)	(1,075)
Realized and unrealized gain from adjustment to fair value of securities held for trading	**14**	(269)	(62)
Gain on realization of investment in companies included on equity basis	**-**	(522)	(522)
Gain on realization of buildings and equipment	**1**	(4)	(485)
Provision for impairment of shares available for sale	**1**	-	283
Expenses deriving from share-based payment transactions	**-**	-	10
Deferred taxes , net	**(173)**	(117) (b)	(278)
Change in plan assets, net, in respect of employee rights	**101**	191 (b)	491
Interest received in excess of accumulated interest (not yet received) for debentures available for sale	**160**	95	118
Interest not yet paid for debentures and subordinated notes	**88**	(43) (c)	722 (c)
Effect of exchange-rate differences on balances of cash and cash equivalents	**227**	(84)	6
Other, net	**11**	(21) (b)	13
Net change in current assets:			
Deposits in banks	**(1,508)**	240	2,773
Credit to the public	**(3,166)**	2,380	(9,307)
Credit to governments	**41**	96	76
Securities borrowed or purchased under agreements to resell	**143**	(197)	236
Assets in respect of derivative instruments	**(1,901)**	(1,916)	5,664
Securities held for trading	**2,163**	1,111	1,112
Other assets	**62**	(513) (b)	(807)
Net change in current liabilities:			
Deposits from banks	**651**	1,611	(708)
Deposits of the public	**2,343**	966	24,931
Deposits from governments	**78**	42	275
Securities lent or sold under agreements to repurchase	**(93)**	146	(300)
Liabilities in respect of derivative instruments	**2,848**	2,418	(4,538)
Other liabilities	**(847)**	(1,222) (b)	(869)
Net cash generated by operating activity	**1,649**	5,954	22,182

(a) Less dividend received.

(b) Restated pursuant to retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development – see Note 1.A.2.

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

Condensed Consolidated Statement of Cash Flows (cont'd)
for the period ended 31 March 2016

	For the three months ended 31 March		For the year ended 31 December	
	2016	2015	2015	
	(Unaudited)		(Audited)	
	(NIS millions)			
Cash flows generated by investment activity				
Acquisition of securities available for sale	**(35,022)**	(26,504)	(81,408)	
Proceeds from sale of securities available for sale	**11,504**	11,211	33,513	
Proceeds from redemption of securities available for sale	**12,120**	3,999	30,366	
Proceeds from sale of credit portfolio	**-**	-	279	
Acquisition of shares in companies included on equity basis	**-**	(1)	(20)	
Proceeds from realization of investment in companies included on equity basis	**-**	711	711	
Acquisition of buildings and equipment	**(267)**	(191) (b)	(627)	
Proceeds from realization of buildings and equipment	**4**	14	562	
Proceeds from realization of assets transferred to Group ownership	**2**	3	3	
Net cash for investment activity	**(11,659)**	(10,758)	(16,621)	
Cash flows generated by financing activity				
Issue of debentures and subordinated notes	**4,563**	-	2,606	(a)
Redemption of debentures and subordinated notes	**(1,149)**	(4,039)	(5,698)	(a)
Issue of equity	**636**	-	-	
Dividend paid to minority shareholders of consolidated companies	**(9)**	-	(10)	
Additional purchase of shares in consolidated companies	**-**	(30)	(41)	
Loans to employees for purchase of the Bank's shares	**-**	-	42	
Net cash for financing activity (from financing activity)	**4,041**	(4,069)	(3,101)	
Increase (decrease) in cash and cash equivalents	**(5,969)**	(8,873)	2,460	
Balance of cash and cash equivalents at beginning of period	**60,015**	57,561	57,561	
Effect of movements in exchange rates on cash balances and cash equivalents	**(227)**	84	(6)	
Balance of cash and cash equivalents at end of period	**53,819**	48,772	60,015	

Interest and taxes paid and/or received and dividends received

	For the three months ended 31 March		For the year ended 31 December
	2016	2015	2015
	(Unaudited)		(Audited)
	(NIS millions)		
Interest received	**2,564**	2,543	9,830
Interest paid	**(531)**	(1,283)	(3,209)
Dividends received	**27**	835	1,013
Taxes paid on income	**(401)**	(284)	(1,419)

(a) Restated pursuant to retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development – see Note 1.A.2.

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

Condensed Consolidated Statement of Cash Flows (cont'd)
for the period ended 31 March 2016

Appendix A – Investment and financing activities not in cash:

For the year ended 31 December 2015:
During the year, fixed assets were acquired against a liability to suppliers in the amount of NIS 37 million.

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

Index to Notes Page

Note 1 - Significant Accounting Policies

A. Basis for preparation of the financial statements

1. Reporting principles

The condensed consolidated interim financial statements as at 30 September 2015 have been prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with the directives and instructions of the Supervisor of Banks regarding the preparation of quarterly financial statements of a banking corporation.
In most matters, these directives are based on US GAAP. In other subjects that are less material, the directives are based on certain International Financial Reporting Standards (IFRS), interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Israeli GAAP.

When International Financial Reporting Standards (IFRS) allow a number of alternatives, or do not include a specific reference to a certain situation, specific instructions for implementation have been determined in the directives of the Supervisor of Banks that are based mainly on US GAAP.

The accounting principles used in preparing the interim reports are consistent with those used in preparing the audited financial statements as at 31 December 2015, except for that stated in paragraph B below. These statements should be read in conjunction with the annual financial statements as at 31 December 2015 and the accompanying notes. The condensed consolidated interim financial statements were approved for publication by the Board of Directors on 18 May 2016.

2. Use of estimates

When preparing the financial statements, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks, management is required to use estimates, evaluations and their discretion affecting the reported amounts of assets and liabilities, the disclosure relating to contingent assets and liabilities and amounts of income and expenses during the reporting period. It should be made clear that actual results may differ from such estimates.

When formulating accounting estimates used in preparing the Bank's financial statements, Bank management has to make assumptions concerning circumstances and events which involve significant uncertainty. In its consideration of the estimates, Bank management bases itself on past experience, various facts, external factors, and on reasonable assumptions in accordance with circumstances appropriate to each estimate.

Changes in estimates

The estimates and the assumptions on which they are based are reviewed on a routine basis. Changes in accounting estimates are recognized in the period in which the estimates were amended and for each period affected in the future.

Restatement

As mentioned in Note 1.D.2 to the 2015 financial statements, the Bank implemented the instructions of the Supervisor of Banks regarding capitalization of in-house software development costs, as set forth in his letter of 2 June 2015.
Below is the effect of implementation as at 31 March 2016:

	As at 31 March 2015		
	Pursuant to the previous reporting directives (a)	Effect of the new rules on capital-ization of software costs	Pursuant to the new rules on employee rights and capital-ization of software costs
	Unaudited		
	NIS millions		
Buildings and equipment	3,651	(548)	3,103
Other assets	7,216	202	7,418
Retained earnings	20,690	(346)	20,344
Capital attributed to shareholders of the Bank	26,958	(346)	26,612

	For the three months ended 31 March 2015		
	Pursuant to the previous reporting directives (a)	Effect of the new rules on capital-ization of software costs	Pursuant to the new rules on employee rights and capital-ization of software
	Unaudited		
	NIS millions		
Profit and loss			
Salaries and related expenses	1,403	15	1,418
Maintenance and depreciation of buildings and equipment	455	(34)	421
Provision for taxes on the profit	557	8	565
Profit attributed to shareholders of the Bank	1,171	11	1,182
Basic and diluted profit per share	0.80	-	0.80

(a) Including non-material amounts in respect of first time adoption of the Standard on employee rights.

B. First-time Implementation of Accounting Standards, Updates to Accounting Standards, and Directives of the Banking Supervision Department

For reporting periods commencing 1 January 2016, the Bank implements the accounting standards and directives set out below:

1. Regulatory Operating Segments and Geographical Areas

On 3 November 2014 a circular was published concerning the reporting on operating segments and an FAQ for implementation. On 10 September 2015, an update was published of the FAQ.

The circular updates the Public Reporting Directives including changing some definitions and guidelines, according to which banks are required to classify customers in regulatory segments and update their reports.

The amendments to the directives were intended to require reporting on operating segments in accordance with the uniform and comparable format prescribed by the Banking Supervision Department. In addition, the circular states that the disclosure of "operating segments in accordance with the management approach" will be provided in accordance with generally accepted accounting principles in US banks on operating segments (included in ASC 280) if there is a fundamental difference between the management approach and reporting segments according to the guidelines of the Supervisor.

In the 2015 financial statements, there is a disclosure applying to regulatory operational segments related to balance sheet data only as required in the directive. As of the financial statements for the first quarter of 2016, full disclosure is given under the new rules, except for the disclosure of the financial management sector. Comparative figures have been adjusted retroactively.

For purposes of presenting comparative figures, it is possible to use the customer classification into regulatory segments as of 1 January 2016.

From the financial statements for the first quarter of 2017, the requirements of the circular are required to be implemented in their entirety.

Implementation of the directive is not expected to have a material effect on the financial statements except for the manner of presentation and disclosure.

2. The application of generally accepted accounting principles in the US related to business combinations, consolidation of financial statements and investments in investee companies

On 10 June 2015, a circular was issued on "Reporting by Banking Corporations and Credit Card Companies in Israel under US GAAP relating to Business Combinations, Consolidation of Financial Statements and Investments in Investee Companies".

Pursuant to the circular, US GAAP is to be implemented on the following issues:

- Rules for the presentation, measurement and disclosure set out in the provisions of Codification Topic 805 on "Business Combinations".

- Provisions of Codification Topic 810 on "Consolidation of Financial Statements".
  Below are the main points of the directive:
  Potential rights - potential rights are not to be taken into account
  Uniform accounting policies – the Group's financial statements should be prepared in accordance with US GAAP.
  Non-controlling interests - should be measured at fair value, are included in equity and presented separately from the equity attributable to the parent company.

- Provisions of Topic 350-20 on the subject of "Intangible Assets - Goodwill and Other Assets" in connection with the accounting treatment of impairment of goodwill acquired in a business combination.
  For purposes of assessing impairment, it should be examined if there is a difference between the book value of the reporting unit in respect of which the goodwill was created and its fair value. If there is a gap, the impairment in respect of goodwill will be recognized in the amount of the difference between the fair value and book value up to the canceling out of the value of goodwill in the books.

- US GAAP on the subject of investee companies, including rules for the presentation, measurement and disclosure and guidelines relating to impairment set out in the provisions of Codification Topic 323, "Investments - Equity Method and Joint Investments."
  Measurement - the entity can choose to handle the investments in investees at fair value rather than by the equity method.

  Below are the main points of the directive:
  A decrease in the percentage holding - when there is a decrease in the holding, irrespective of the question if the company has lost significant influence or not, the amount of the difference between the proceeds of sale to pro rata share of amortized cost that was sold should be recognized in profit or loss. When there is a loss of significant influence, the rights remaining in the investment will be shown at the book value of the investment prior to the change.
  Impairment - the excess of the amortized cost of the investment over its fair value. An other than temporary impairment recognized will not be cancelled in future periods.
  Losses - as a general rule, the investor is to stop implementing the equity method after recognizing losses in the investee up to the canceling out of the investment, while in subsequent periods the investor will again apply the equity method only after canceling out the losses not recognized. However, the investor is to recognize further loss when the investee's return to profitability in the near future is guaranteed.
  Uniform accounting policies – the investor and investee should apply US GAAP.

- Pursuant to the transitional directives, it is permitted in the years 2016-2017 not to carry out adjustments to the accounting policy adopted by a non-banking company included on equity basis that prepares its financial statements according to IFRS.

- Pursuant to the transitional directives, it is permitted in the years 2016-2017 not to carry out adjustments to the accounting policy adopted by a non-banking company included on equity basis that prepares its financial statements according to IFRS.

Initial implementation was carried out in accordance with the transitional provisions set out in the same subjects in US GAAP.

The Bank applies the directive as of 1 January 2016 by way of retroactive implementation. Implementation of the directive had no material effect on the financial statements.

3. US GAAP on intangible assets

On 22 October 2015, a circular was published on "Implementation of US GAAP on intangible assets". Pursuant to the circular, a banking corporation will implement US GAAP on the subject, and inter alia the rules for presentation, measurement and disclosure set out in the directives of Codification Topic 350 on "Intangible assets – goodwill and others".

Below are the main points of the directive:
Impairment of intangible assets with a finite life – the test will be made at the level of a group of assets (a very limited level of a group of assets that generates cash flow separately).

It should be examined if the book value of the asset group is higher than the sum of non-discounted cash flows expected from it. If so, impairment is to be recognized equal to the difference between the book value and the fair value of the asset group.
Impairment of intangible assets with an indefinite useful life – the test will be made at least annually. If the book value exceeds its fair value, impairment is to be recognized in the amount that the book value exceeds the fair value.
Reversal of impairment loss - as a general rule, losses cannot be cancelled from impairment of intangible assets.
Capitalization of costs in creating an intangible asset – as a general rule, these will be recognized as an expense when incurred except in cases where there are other specific guidelines such as regarding software development costs for internal use.

The Bank applies the directive as of 1 January 2016, by way of retroactive implementation.
Implementation of the directive had no material effect on the financial statements.

C. New Accounting Standards and New Directives of the Supervisor of Banks in the period prior to their implementation

1. Recognition of income from contracts with customers

On 11 January 2015, a circular was issued on the adoption of updated accounting rules on the subject of income from contracts with customers. The circular updates the Public Reporting Directives in light of publishing ASU 2014-09, which adopts in US GAAP a new Standard on recognition of income. The Standard states that income will be recognized in the amount expected to be received in exchange for the transfer of goods or services to the customer.

Banks are required to implement the amendments to the Public Reporting Directives pursuant to the transitional provisions as of 1 January 2018.

In accordance with the transitional provisions, determined for purposes of initial adoption, it is possible to choose between the alternative of retrospective implementation while restating comparative figures and the alternative of prospective application while recording the cumulative effect on equity at the time of initial application.

The new Standard does not apply, *inter alia*, to financial instruments and rights or contractual obligations within the scope of Codification Chapter 310. It is explained in the Bank of Israel directives that as a general rule, the provisions of the new Standard will not apply to the accounting treatment of interest income and expenses and non-interest financing income.

The Bank has not yet begun to examine the impact of the Standard on its financial statements and has not yet chosen the alternative for implementation of the transitional provisions.

2. Implementation of US GAAP on taxes on income

On 22 October 2015, a circular was published on "Implementation of US GAAP on taxes on income". Pursuant to the circular, a banking corporation will implement US GAAP on the subject, and *inter alia* the rules for presentation, measurement and disclosure set out in the directives of Codification Topic 740 on "Taxes on income" and Codification Topic 740-830 on "Foreign Currency Issues - Taxes on Income".

The instructions of the circular are to be implemented as of 1 January 2017 including retroactive adjustment of the comparative figures.

The Bank is examining the effect of adopting the above rules on the financial statements.

3. Reporting by banking corporations in Israel under US GAAP

On 21 March 2016, a circular was issued titled "Reporting by banking corporations in Israel under US GAAP." According to the circular in light of the importance of the accounting treatment of matters such as foreign currency issues, accounting policy, changes in accounting estimates and errors, events after the balance sheet date, it was decided to adapt the accounting treatment of banking corporations on these issues to US GAAP that is included in the following codification subjects and subject to the guidelines set forth in the directives of the Supervisor of Banks: Topic 830 regarding "Issues in foreign currency", Topic 250 on "Changes in accounting policies and correction of errors" and Sub-Topic 855 -10 on "Subsequent Events".

It is required to implement the requirements of the circular as of 1 January 2017. On initial implementation, a banking corporation shall act in accordance with the transitional provisions set out in those subjects. The aforementioned includes retroactive adjustment of comparative figures if required, depending on these issues.

4. New Standards Update on share-based payment

On 30 March 2016, the Financial Accounting Standards Board ("FASB") published Standards Update 2016-09 in the Codification, which is an amendment to ASC Topic 718, "Share-Based Payment".

Changes in accordance with the amendment are as follows:

A. It is required to recognize any tax effects related to share-based payment transactions at the time of disposal through profit and loss. To date, excess tax benefits in excess of the expense recognized in the statement of profit and loss were recognized in equity, and tax benefit deficits which were less than the expense recognized in profit or loss was recognized in equity up to the previous balances of excess tax benefits. In the absence of the said surpluses, deficits were recognized in profit and loss.
The amendment is expected to increase the volatility in expenses of taxes on income.
It is required to implement this change on a prospective basis.

B. Excess tax benefits will be recognized when incurred, as opposed to the existing provisions that the recognition of these tax benefits was postponed until such time as they reduced taxable income.
This change will be applied retroactively while recording the cumulative impact on the opening balance of retained earnings.

C. All cash flows related to taxes in respect of share-based payments will be classified as operating activities in the statement of cash flows, unlike the existing provisions. It is possible to apply the directive on a retroactive basis or by way of prospective application.

D. It is possible to select a policy concerning the effect of forfeitures on the recognition of expenses for share-based payments. It is possible to estimate forfeitures as required today or alternatively to recognize the effect of forfeitures only when they occur.

Note 2 – Interest income and expenses

	For the three months ended 31 March	
	2016	2015
	(Unaudited)	
	(NIS millions)	
A. Interest income (a)		
From credit to the public	**1,739**	1,347
From credit to governments	**3**	1
From deposits with Bank of Israel and cash	**10**	17
From deposits with banks	**15**	20
From securities borrowed or purchased under agreement to resell	**1**	2
From debentures (b)	**157**	115
Total interest income	**1,925**	1,502
B. Interest expenses (a)		
On deposits of the public	**(176)**	(14)
On deposits from governments	**(1)**	(1)
On deposits from banks	**(2)**	(3)
On securities lent or sold under agreement to repurchase	**(1)**	(2)
On debentures, bonds and subordinated notes	**(90)**	34
Total interest expenses	**(270)**	14
Total interest income, net	**1,655**	1,516
C. Details of the net effect of hedging derivative instruments interest income and expenses (c)		
Interest income	**(11)**	(8)
Interest expenses	**-**	-
D. Details of accumulated interest income from bonds	**-**	-
Available for sale	**130**	105
For trading	**27**	10
Total included in interest income	**157**	115

(a) Including the effective component of hedging relationships.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 50 million for the three month period ended on 31 March 2016 (NIS 31 million for the three month period ended on 31 March 2015).

(c) Details of the effect of hedging derivative instruments on sub-paragraphs a and b.

Note 3 – Non-interest income and expenses

	For the three months ended 31 March	
	2016	2015
	(Unaudited)	
	(NIS millions)	
A. Non-interest financing income in respect of activities not for trading purposes		
A.1. From activity in derivative instruments		
Net expense from ALM derivative instruments (b)	**(880)**	(331)
Total from activity in derivative instruments	**(880)**	(331)
A.2. From investment in bonds		
Profits from sale of bonds available for sale(g)	**13**	111
Losses from sale of bonds available for sale(g)	**(4)**	(7)
Total from investment in bonds	**9**	104
A.3. Exchange rate differentials, net	**826**	252
A.4. Profits (losses) from investment in shares		
Profits from sale of shares available for sale (c)(g)	**92**	529
Losses from sale of shares available for sale (c)(g)	**(11)**	(27)
Profit from sale of shares in companies included on equity basis	**-**	522
Dividend from shares available for sale	**2**	1
Total from investment in shares	**83**	1,025
Total non-interest financing income in respect of activities not for trading purposes	**38**	1,050
B. Non-interest financing income in respect of activities not for trading purposes		
Realized and unrealized profits from fair value adjustments of bonds held for trading, net (d)	**18**	207
Realized and unrealized profits (losses) from fair value adjustments of shares held for trading, net (e)	**(32)**	62
Total from trading activities (h)	**(14)**	269
Total non-interest financing income in respect of activities not for trading purposes	**24**	1,319

(a) Excluding the effective part of hedging relationships.

(b) Derivative instruments comprising part of the Bank's asset and liability management not designated for hedging relationships.

(c) Including mainly profit from the sale of Dalia in the amount of NIS 61 million, before the effect of tax for the three month period ended 31 March 2016 (Mobileye and Safra Fund in the amount of NIS 288 million and NIS 52 million, respectively, for the three month period ended 31 March 2015).

(d) Of which: part of the profits (losses) related to bonds held for trading still held at the balance sheet date in the amount of NIS 85 million for the three month period ended on 31 March 2016 (for the three period ended on 31 March 2015 - NIS 36 million).

(e) Of which: part of the profits (losses) related to shares held for trading still held at the balance sheet date in the amount of NIS 0 million for the three month period ended on 31 March 2016 (for the three month period ended on 31 March 2015 - NIS 87 million).

(f) Including provisions for impairment related to shares available for sale of NIS 1 million for the three month period ended 31 March 2016.

(g) Reclassified from accumulated other comprehensive income.

(h) For interest income from the investment in bonds held for trading, see Note 2.

Note 4 – Accumulated Other Comprehensive Income (Loss)

A. Changes in accumulated other comprehensive income (loss), after effect of tax

1. Changes in accumulated other comprehensive income (loss) for the three month period ended 31 March 2016 and 2015

	Other comprehensive income (loss) before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Adjustments in respect of employee benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	(NIS millions)						
Balance at 31 December 2014	394	(65)	22	(1,904)	(1,553)	(4)	(1,549)
Net change in the period	355	40	25	(781)	(361)	1	(362)
Balance at 31 March 2015	749	(25)	47	(2,685)	(1,914)	(3)	(1,911)
Balance at 31 December 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change in the period	**96**	**(44)**	**(9)**	**(592)**	**(549)**	**-**	**(549)**
Balance at 31 March 2016	**163**	**(111)**	**29**	**(2,082)**	**(2,001)**	**(4)**	**(1,997)**

2. Changes in accumulated other comprehensive income (loss) for the year ended 31 December 2015

	Other comprehensive income (loss) before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Adjustments in respect of employee benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	(NIS millions)						
Balance at 31 December 2014	394	(65)	22	(1,904)	(1,553)	(4)	(1,549)
Net change in the period	(327)	(2)	16	414	101	-	101
Balance at 31 December 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)

(a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the banking corporation, including adjustments for companies included on equity basis.

(b) Profits (losses), net in respect of a net hedge of investment in foreign currency.

Note 4 – Accumulated Other Comprehensive Income (Loss) (cont'd)

B. Changes in components of accumulated other comprehensive income (loss), before and after effect of tax

	For the three months ended 31 March						For the year ended 31 December		
	2016			2015			2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	(NIS millions)								
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests:									
Adjustments for presentation of securities available for sale at fair value									
Unrealized profits (losses) from adjustments to fair value	**246**	**(92)**	**154**	1,155	(279)	876	369	(203)	166
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss (a)	**(90)**	**32**	**(58)**	(606)	85	(521)	(792)	299	(493)
Net change in the period	**156**	**(60)**	**96**	549	(194)	355	(423)	96	(327)
Translation adjustments (b)									
Adjustments for translation of financial statements	**(99)**	**-**	**(99)**	71	-	71	9	-	9
Hedges (c)	**87**	**(32)**	**55**	(50)	(d) 19	((31)	(18)	7	(11)
Net change in the period	**(12)**	**(32)**	**(44)**	21	19	40	(9)	7	(2)
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	**(9)**	**-**	**(9)**	20	5	25	11	5	16
Net change in the period	**(9)**	**-**	**(9)**	20	5	25	11	5	16
Employee benefits (c)									
Actuarial loss (profit) in the period	**(926)**	**299**	**(627)**	(1,319)	498	(821)	464	(190)	274
Amortization of actuarial profit (loss)	**54**	**(19)**	**35**	65	(25)	40	219	(79)	140
Net change in the period (d)	**(872)**	**280**	**(592)**	(1,254)	473	(781)	683	(269)	414
Total net change in the period	**(737)**	**188**	**(549)**	(664)	303	(361)	262	(161)	101
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:									
Total net change in the period	**-**	**-**	**-**	1	-	1	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:									
Total net change in the period	**(737)**	**188**	**(549)**	(665)	303	(362)	262	(161)	101

(a) The amount before tax is reported in the statement of profit and loss under non-interest financing. See Note 3 – Non-interest financing income.

(b) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the Bank, including adjustments for companies included on equity basis.

(c) Profits (losses), net in respect of a net hedge of investment in foreign currency.

(d) The amount before tax is reported in the statement of profit and loss under salaries and related expenses. For further details, see Note 8 – Employee rights.

Note 5 - Securities

	As at 31 March 2016 (Unaudited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive profit (loss)		Fair value (a)
			Profits	Losses	
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	36,808	36,403	406	(1)	36,808
Foreign governments	11,758	11,726	33	(1)	11,758
Financial institutions in Israel	35	33	2	-	35
Financial institutions abroad	5,471	5,469	31	(29)	5,471
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	9,957	9,942	59	(44)	9,957
Others in Israel	555	533	22	-	555
Others abroad	1,777	1,727	58	(8)	1,777
	66,361	65,833	611	(83)	66,361
Shares and mutual funds (b)	2,596	2,610	91	(105)	2,596
Total securities available for sale	68,957	68,443	702 (c)	(188) (c)	68,957

	As at 31 March 2016 (Unaudited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	5,290	5,273	19	(2)	5,290
Foreign governments	2,833	2,801	34	(2)	2,833
Financial institutions in Israel	347	347	-	-	347
Financial institutions abroad	144	145	1	(2)	144
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	697	697	5	(5)	697
Others in Israel	120	118	2	-	120
Others abroad	325	324	6	(5)	325
	9,756	9,705	67	(16)	9,756
Shares and mutual funds	14	14	-	-	14
Total securities held for trading	9,770	9,719	67 (d)	(16) (d)	9,770
Total securities (e)	78,727	78,162	769	(204)	78,727

See notes on page 126.

Note 5 - Securities (cont'd)

	As at 31 March 2015 (Unaudited)				
			Accumulated other comprehensive profit (loss)		
	Balance sheet amount	Amortized cost (in shares - cost)	Profits	Losses	Fair value (a)
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	19,912	19,573	339	-	19,912
Foreign governments	12,171	12,160	12	(1)	12,171
Financial institutions in Israel	48	44	4	-	48
Financial institutions abroad	6,619	6,556	72	(9)	6,619
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	7,388	7,386	45	(43)	7,388
Others in Israel	835	799	36	-	835
Others abroad	1,474	1,471	17	(14)	1,474
	48,447	47,989	525	(67)	48,447
Shares and mutual funds (b)	3,775	2,944	843	(12)	3,775
Total securities available for sale	52,222	50,933	1,368 (c)	(79) (c)	52,222

	As at 31 March 2015 (Unaudited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	8,048	7,974	75	(1)	8,048
Foreign governments	1,407	1,407	1	(1)	1,407
Financial institutions in Israel	244	242	2	-	244
Financial institutions abroad	234	233	1	-	234
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	980	969	11	-	980
Others in Israel	279	276	3	-	279
Others abroad	251	252	1	(2)	251
	11,443	11,353	94	(4)	11,443
Shares and mutual funds	714	697	34	(17)	714
Total securities held for trading	12,157	12,050	128 (d)	(21) (d)	12,157
Total securities (e)	64,379	62,983	1,496	(100)	64,379

See notes on page 126.

Note 5 - Securities (cont'd)

	As at 31 December 2015 (Audited)				
			Accumulated other comprehensive profit (loss)		
	Balance sheet amount	Amortized cost (in shares - cost)	Profits	Losses	Fair value (a)
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	28,553	28,359	201	(7)	28,553
Foreign governments	8,128	8,127	5	(4)	8,128
Financial institutions in Israel	35	33	2	-	35
Financial institutions abroad	6,262	6,257	31	(26)	6,262
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	9,566	9,630	24	(88)	9,566
Others in Israel	586	562	25	(1)	586
Others abroad	1,694	1,706	12	(24)	1,694
	54,824	54,674	300	(150)	54,824
Shares and mutual funds (b)	2,703	2,559	158	(14)	2,703
Total securities available for sale	57,527	57,233	458(c)	(164)(c)	57,527

	As at 31 December 2015 (Audited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	6,664	6,657	17	(10)	6,664
Foreign governments	3,058	3,087	-	(29)	3,058
Financial institutions in Israel	238	238	1	(1)	238
Financial institutions abroad	148	149	-	(1)	148
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	751	754	4	(7)	751
Others in Israel	152	150	2	-	152
Others abroad	320	326	1	(7)	320
	11,331	11,361	25	(55)	11,331
Shares and mutual funds	617	687	10	(80)	617
Total securities held for trading	11,948	12,048	35(d)	(135)(d)	11,948
Total securities (e)	69,475	69,281	493	(299)	69,475

See notes on page 126.

Note 5 - Securities (cont'd)

Notes:

(a) Fair value amounts are generally based on Stock Exchange prices, which do not necessarily reflect the price which would be received for the sale of a large volume of securities.

(b) Includes shares which have no readily available fair value, which are shown at cost, in the amount of NIS 1,066 million (31 March 2015 - NIS 1,406 million, 31 December 2015 - NIS 1,050 million).

(c) Included in equity under "Adjustments in respect of presentation of available for sale securities at fair value" in other comprehensive income except for securities intended to be hedged under fair value hedging.

(d) Charged to the profit and loss statement, but not yet realized.

(e) Including impaired bonds of NIS 16 million (31 March 2015 - NIS 14 million, 31 December 2015 - NIS 16 million).

General notes:

Securities lent in the amount of NIS 400 million (31 March 2015 - NIS 160 million, 31 December 2015 - NIS 111 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 4,078 million (31 March 2015 - NIS 2,269 million, 31 December 2015 - NIS 3,131 million).

For details of results of activity in investments in bonds and shares and in mutual funds – see Notes 2 and 3.

The distinction between Israeli bonds and foreign bonds is made according to the country of domicile of the issuing entity.

A total of NIS 6.3 billion from the total of the foreign currency securities are Supernationals, Sovereign and Agencies (SSA) (31 March 2015 – NIS 5.5 billion, 31 December 2015 – NIS 6.1 billion).

Note 5 - Securities (cont'd)

Additional details in respect of fair value and unrealized losses, by period and rate of impairment, of securities available for sale in an unrealized loss position

	31 March 2016 (Unaudited)									
	Less than 12 months					12 months and above				
		Unrealized losses					Unrealized losses			
	Fair value	0-20%	20%-35%	More than 35%	Total	Fair value	0-20%	20%-35%	More than 35%	Total
	(NIS millions)									
Bonds										
Government of Israel	**9,172**	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**
Foreign governments	**3,085**	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**
Financial institutions in Israel	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial institutions abroad	**3,211**	**22**	**-**	**-**	**22**	**30**	**3**	**4**	**-**	**7**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**4,642**	**36**	**-**	**-**	**36**	**541**	**8**	**-**	**-**	**8**
Others in Israel	**88**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Others abroad	**59**	**8**	**-**	**-**	**8**	**38**	**-**	**-**	**-**	**-**
Shares	**249**	**80**	**-**	**-**	**80**	**216**	**6**	**19**	**-**	**25**
Total securities available for sale	**20,506**	**148**	**-**	**-**	**148**	**825**	**17**	**23**	**-**	**40**

	31 March 2015 (Unaudited)									
	Less than 12 months					12 months and above				
		Unrealized losses					Unrealized losses			
	Fair value	0-20%	20%-35%	More than 35%	Total	Fair value	0-20%	20%-35%	More than 35%	Total
	(NIS millions)									
Bonds										
Government of Israel	257	-	-	-	-	-	-	-	-	-
Foreign governments	8,512	1	-	-	1	-	-	-	-	-
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	2,134	5	-	-	5	256	4	-	-	4
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	1,048	2	-	-	2	2,931	41	-	-	41
Others in Israel	135	-	-	-	-	-	-	-	-	-
Others abroad	171	3	-	-	3	393	11	-	-	11
Shares	-	-	-	-	-	175	12	-	-	12
Total securities available for sale	12,257	11	-	-	11	3,755	68	-	-	68

(-) Losses less than NIS 1million.

Note 5 - Securities (cont'd)

Additional details in respect of fair value and unrealized losses, by period and rate of impairment, of securities available for sale in an unrealized loss position (cont'd)

	31 December 2015 (Audited)									
	Less than 12 months					12 months and above				
		Unrealized losses					Unrealized losses			
	Fair value	0-20%	20%-35%	More than 35%	Total	Fair value	0-20%	20%-35%	More than 35%	Total
	(NIS millions)									
Bonds										
Government of Israel	15,057	7	-	-	7	-	-	-	-	-
Foreign governments	5,730	4	-	-	4	-	-	-	-	-
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	3,961	23	-	-	23	34	3	-	-	3
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	6,863	63	-	-	63	742	25	-	-	25
Others in Israel	126	1	-	-	1	-	-	-	-	-
Others abroad	778	15	9	-	24	39	-	-	-	-
Shares	136	8	-	-	8	91	6	-	-	6
Total securities available for sale	32,651	121	9	-	130	906	34	-	-	34

(-) Losses less than NIS 1million.

Note 5 - Securities (cont'd)

Additional details in respect of mortgage-backed and asset-backed securities available for sale in an unrealized loss position

	31 March 2016 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Mortgage-backed securities (MBS)	**1,559**	**(12)**	**61**	**(1)**	**1,620**	**(13)**
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	**1,487**	**(7)**	**405**	**(6)**	**1,892**	**(13)**
Asset-backed securities (ABS)	**1,596**	**(17)**	**75**	**(1)**	**1,671**	**(18)**
Total	**4,642**	**(36)**	**541**	**(8)**	**5,183**	**(44)**

	31 March 2015 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Mortgage-backed securities (MBS)	350	(1)	1,087	(16)	1,437	(17)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	80	-	1,227	(20)	1,307	(20)
Asset-backed securities (ABS)	618	(1)	617	(5)	1,235	(6)
Total	1,048	(2)	2,931	(41)	3,979	(43)

	31 December 2015 (Audited)					
	Up to 12 months		Over 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Mortgage-backed securities (MBS)	1,860	(25)	87	(2)	1,947	(27)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	3,321	(22)	558	(21)	3,879	(43)
Asset-backed securities (ABS)	1,682	(16)	97	(2)	1,779	(18)
Total	6,863	(63)	742	(25)	7,605	(88)

(-) Losses less than NIS 1 million.

Note 5 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities available for sale

	As at 31 March 2016 (Unaudited)			
	Amortized cost	Accumulated other comprehensive income (loss) (a) Profits	Losses	Fair value
	(NIS millions)			
1. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	399	2	-	401
Securities issued by FNMA and FHLMC	1,139	1	(4)	1,136
Other securities	744	-	(9)	735
Total	2,282	3	(13)	2,272
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	5,325	40	(10)	5,355
Other mortgage-backed securities	303	1	(3)	301
Total other mortgage-backed securities	5,628	41	(13)	5,656
Total	7,910	44	(26)	7,928
Asset-backed securities (ABS)				
Credit card receivables	90	-	(1)	89
Other credit to private persons	4	-	-	4
Credit not to private persons	1	-	-	1
CLO-type debentures	1,937	15	(17)	1,935
Total	2,032	15	(18)	2,029
Total mortgage-backed and asset-backed debentures available for sale	9,942	59	(44)	9,957

(a) Amounts charged to capital reserve as part of other comprehensive income, net, after effect of taxes.

Note 5 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities available for sale (cont'd)

	As at 31 March 2015 (Unaudited)			
	Amortized cost	Accumulated other comprehensive income (loss) (a) Profits	Losses	Fair value
	(NIS millions)			
1. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	16	-	-	16
Securities issued by FNMA and FHLMC	1,188	1	(16)	1,173
Other securities	458	1	(1)	458
Total	1,662	2	(17)	1,647
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	3,456	16	(20)	3,452
Other mortgage-backed securities	220	4	-	224
Total other mortgage-backed securities	3,676	20	(20)	3,676
Total	5,338	22	(37)	5,323
Asset-backed securities (ABS)				
Credit card receivables	96	-	(1)	95
Lines of credit for any purpose secured by dwelling	2	-	-	2
Other credit to private persons	4	-	-	4
Credit not to private persons	1	-	-	1
CLO-type debentures	1,945	23	(5)	1,963
Total	2,048	23	(6)	2,065
Total mortgage-backed and asset-backed debentures available for sale	7,386	45	(43)	7,388

(a) These profits (losses) were charged to profit and loss.

Note 5 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities available for sale (cont'd)

	As at 31 December 2015 (Audited)			
		Accumulated other comprehensive income (loss) (a)		
	Amortized cost	Profits	Losses	Fair value
	(NIS millions)			
1. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	11	-	-	11
Securities issued by FNMA and FHLMC	1,245	-	(21)	1,224
Securities issued by others	796	-	(6)	790
Total	2,052	-	(27)	2,025
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	4,987	5	(42)	4,950
Other mortgage-backed securities	494	1	(1)	494
Total other mortgage-backed securities	5,481	6	(43)	5,444
Total mortgage-backed securities (MBS)	7,533	6	(70)	7,469
Asset-backed securities (ABS)				
Credit card receivables	94	-	(2)	92
Other credit to private persons	4	-	-	4
Credit not to private persons	1	-	-	1
CLO-type debentures	1,998	18	(16)	2,000
Total	2,097	18	(18)	2,097
Total mortgage-backed and asset-backed debentures available for sale	9,630	24	(88)	9,566

(a) Amounts charged to capital reserve as part of other comprehensive income, net after effect of tax.

Note 5 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities held for trading

	As at 31 March 2016 (Unaudited)			
	Amortized cost	Unrealized profits from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	Fair value
	(NIS millions)			
2. Debentures held for trading (Pass-through securities)				
Securities issued by FNMA and FHLMC	7	-	-	7
Total	7	-	-	7
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	374	3	-	377
Other mortgage-backed securities	89	1	(1)	89
Total other mortgage-backed securities	463	4	(1)	466
Total mortgage-backed securities (MBS)	470	4	(1)	473
Asset-backed securities (ABS)				
Credit card receivables	12	-	-	12
Credit for purchase of vehicle	73	-	(1)	72
Other credit to private persons	13	-	-	13
Others	129	1	(3)	127
Total	227	1	(4)	224
Total mortgage-backed and asset-backed debentures held for trading	697	5	(5)	697

(a) Profits (losses) charged to profit and loss.

Note 5 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)

	As at 31 March 2015 (Unaudited)			
	Amortized cost	Unrealized profits from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	Fair value
	(NIS millions)			
2. Debentures held for trading (Pass-through securities)				
Securities issued by FNMA and FHLMC	10	-	-	10
Total	10	-	-	10
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	521	4	-	525
Other mortgage-backed securities	131	3	-	134
Total	652	7	-	659
Total mortgage-backed securities (MBS)	662	7	-	669
Asset-backed securities (ABS)				
Credit card receivables	20	-	-	20
Lines of credit for any purpose secured by dwelling	1	-	-	1
Credit for purchase of vehicle	79	1	-	80
Other credit to private persons	16	-	-	16
Credit not to private persons	47	-	-	47
Others	144	3	-	147
Total	307	4	-	311
Total mortgage-backed and asset-backed debentures held for trading	969	11	-	980

(a) Profits (losses) charged to profit and loss.

Note 5 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)

	As at 31 December 2015 (Audited)			
	Amortized cost	Unrealized profits from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	Fair value
	(NIS millions)			
2. Debentures held for trading (Pass-through securities)				
Securities issued by FNMA and FHLMC	8	-	-	8
Total	8	-	-	8
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	410	1	(3)	408
Other mortgage-backed securities	92	1	-	93
Total	502	2	(3)	501
Total mortgage-backed securities (MBS)	510	2	(3)	509
Asset-backed securities (ABS)				
Credit card receivables	12	-	-	12
Lines of credit for any purpose secured by dwelling	1	-	-	1
Credit for purchase of vehicle	68	-	(1)	67
Other credit to private persons	14	-	-	14
Others	149	2	(3)	148
Total	244	2	(4)	242
Total mortgage-backed and asset-backed debentures held for trading	754	4	(7)	751

(a) Profits (losses) charged to profit and loss.

Note 6 – Credit Risk, Credit to the Public and Allowance for Credit Losses

A. Debts[a], credit to the public and balance of allowance for credit losses

	31 March 2016 (Unaudited)					
	Credit to the public				Banks and governments	
	Commercial	Residential	Other private	Total		Total
	(NIS millions)					
Recorded debt balance of debts[a]						
Examined on an individual basis	**113,292**	**61**	**1,374**	**114,727**	**8,174**	**122,901**
Examined on a collective basis[1]	**35,575**	**81,419**	**35,984**	**152,978**	**3,561**	**156,539**
[1]Of which: the allowance was calculated by (c) extent of arrears	**1,032** (c)	**80,366**	**-**	**81,398**	**-**	**81,398**
Total debts(a)[2]	**148,867**	**81,480**	**37,358**	**267,705**	**11,735**	**279,440**
[2]Of which:						
Debts under restructuring	**1,748**	**-**	**107**	**1,855**	**-**	**1,855**
Other impaired debts	**1,729**	**-**	**107**	**1,836**	**-**	**1,836**
Total impaired debts	**3,477** (c)	**-**	**214**	**3,691**	**-**	**3,691**
Debts in arrears of 90 days or more	**62**	(c) **719**	**76**	**857**	**-**	**857**
Other problem debts	**3,091**	(c) **28**	**245**	**3,364**	**-**	**3,364**
Total impaired debts	**6,630**	(c)**747**	**535**	**7,912**	**-**	**7,912**
Allowance for credit losses for debts[a]:						
Examined on an individual basis	**1,987**	**13**	**115**	**2,115**	**2**	**2,117**
Examined on a collective basis[3]	**353**	**497**	**607**	**1,457**	**-**	**1,457**
[3]Of which the allowance was calculated by extent of arrears (b)	**-**	**495**	**-**	**495**	**-**	**495**
Total allowance for credit losses[4]	**2,340**	**510**	**722**	**3,572**	**2**	**3,574**
[4]Of which in respect of impaired debts	**667**	**-**	**23**	**690**	**-**	**690**

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Including the balance of the allowance in excess of that required by the extent of arrears method, calculated on a collective basis in the amount of NIS 310 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction.

Note 6 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont.)

A. Debts[a], credit to the public and balance of allowance for credit losses (cont.)

	31 March 2015 (Unaudited)					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Recorded debt balance of debts[a]						
Examined on an individual basis	106,882	46	872	107,800	10,056	117,856
Examined on a collective basis[1]	35,914	76,092	34,417	146,423	1,782	148,205
[1]Of which: the allowance was calculated by extent of arrears	1,269(c)	73,679(c)	-	74,948	-	74,948
Total debts[(a)2]	142,796	76,138	35,289	254,223	11,838	266,061
[2]Of which:						
Debts under restructuring	2,441	-	100	2,541	-	2,541
Other impaired debts	2,245	-	61	2,306	-	2,306
Total impaired debts	4,686	-	161	4,847	-	4,847
Debts in arrears of 90 days or more	69	766	93	928	-	928
Other problem debts	4,237	8	268	4,513	-	4,513
Total impaired debts	8,992	774	522	10,288	-	10,288
Allowance for credit losses for debts[a]:						
Examined on an individual basis	2,542	14	80	2,636	3	2,639
Examined on a collective basis[3]	288	494	530	1,312	-	1,312
[3]Of which the allowance was calculated by extent of arrears (b)	1 (c)	491 (c)	-	492	-	492
Total allowance for credit losses[4]	2,830	508	610	3,948	3	3,951
[4]Of which in respect of impaired debts	1,074	-	83	1,157	-	1,157

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Including the balance of the allowance in excess of that required by the extent of arrears method, calculated on a collective basis in the amount of NIS 296 million.

(c) Restated.

Note 6 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont.)

A. Debts[a], credit to the public and balance of allowance for credit losses (cont.)

	31 December 2015 (Audited)					
	Credit to the public				Banks and govern-ments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Recorded debt balance of debts[a]						
Examined on an individual basis	107,768	45	852	108,665	7,515	116,180
Examined on a collective basis[1]	38,097	81,760 (c)	36,548	156,405	3,254	159,659
[1]Of which: the allowance was calculated by extent of arrears	1,014 (c)	80,616	-	81,630	-	81,630
Total debts(a)[2]	145,865	81,805	37,400	265,070	10,769	275,839
[2]Of which:						
Debts under restructuring	2,192	-	86	2,278	-	2,278
Other impaired debts	1,617	-	26	1,643	-	1,643
Total impaired debts	3,809	-	112	3,921	-	3,921
Debts in arrears of 90 days or more	67	770	105	942	-	942
Other problem debts	3,151 (d)	11	299 (d)	3,461	-	3,461
Total impaired debts	7,027	781	516	8,324	-	8,324
Allowance for credit losses for debts[a]:						
Examined on an individual basis	2,177	15	93	2,285	3	2,288
Examined on a collective basis[3]	307	498	581	1,386	-	1,386
[3]Of which the allowance was calculated by extent of arrears (b)	1	497	-	498	-	498
Total allowance for credit losses[4]	2,484	513	674	3,671	3	3,674
[4]Of which in respect of impaired debts	824	-	43 (d)	867	-	867

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Including the balance of the allowance in excess of that required by the extent of arrears method, calculated on a collective basis in the amount of NIS 310 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction.

(d) Restated.

Note 6 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont.)

B. Change in balance of allowance for credit losses

	For the three months ended 31 March 2016 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of allowance for credit losses at beginning of the reporting period	**2,933**	**513**	**707**	**4,153**	**3**	**4,156**
Expenses (income) in respect of credit losses	**(219)**	**(2)**	**99**	**(122)**	**(1)**	**(123)**
Accounting write-offs	**(251)**	**(2)**	**(142)**	**(395)**	**-**	**(395)**
Collection of debts written off in previous years	**321**	**-**	**90**	**411**	**-**	**411**
Net accounting write-offs	**70**	**(2)**	**(52)**	**16**	**-**	**16**
Adjustments from translation of financial statements	**(6)**	**1**	**1**	**(4)**	**-**	**(4)**
Balance of allowance for credit losses at end of the reporting period[1]	**2,778**	**510**	**755**	**4,043**	**2**	**4,045**
[1]Of which: in respect of off-balance sheet credit instruments	**438**	**-**	**33**	**471**	**-**	**471**

	For the three months ended 31 March 2015 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of allowance for credit losses at beginning of reporting period	3,317	513	652	4,482	4	4,486
Expenses in respect of credit losses	37	(3)	48	82	(1)	81
Accounting write-offs	(185)	(1)	(148)	(334)	-	(334)
Collection of debts written off in previous years	81	-	98	179	-	179
Net accounting write-offs	(104)	(1)	(50)	(155)	-	(155)
Adjustments from translation of financial statements	6	(1)	(1)	4	-	4
Balance of allowance for credit losses at end of the reporting period[1]	3,256	508	649	4,413	3	4,416
[1]Of which: in respect of off-balance sheet credit instruments	426	-	39	465	-	465

Note 7 – Deposits of the Public

A. Types of deposits by location raised and type of depositor

	31 March 2016	31 March 2015	31 December 2015
	(Unaudited)		(Audited)
	(NIS millions)		
In Israel			
On demand			
Non-interest bearing	**69,624**	63,099	72,060
Interest bearing	**82,158**	69,470	80,521
Total on demand	**151,782**	132,569	152,581
Fixed term	**153,794**	145,405	149,697
Total deposits in Israel[1]	**305,576**	277,974	302,278
Outside Israel			
On demand			
Non-interest bearing	**8,844**	9,917	9,872
Interest bearing	**3,426**	2,775	3,693
Total on demand	**12,270**	12,692	13,565
Fixed term	**12,508**	14,351	12,850
Total deposits outside Israel	**24,778**	27,043	26,415
Total deposits of the public	**330,354**	305,017	328,693
[1]Of which:			
Deposits of private persons	138,638	125,648	135,595
Deposits of institutional entities	57,620	55,250 (a)	55,889 (a)
Deposits of corporations and others	109,318	97,076 (a)	110,794 (a)

B. Deposits of the public by size

	31 March 2016	31 March 2015	31 December 2015
	(Unaudited)		(Audited)
	(NIS millions)		
Up to 1	**95,200**	86,624	95,789
From 1 to 10	**86,700**	78,491	83,813
From 10 to 100	**56,951**	53,290	58,268
From 100 to 500	**34,933**	29,141	30,868
Above 500	**56,570**	57,471	59,955
Total	**330,354**	305,017	328,693

(a) Reclassified.

Note 8 – Employee Rights

A. Signing of collective labor agreement

On 17 February 2016, a special collective agreement was signed by the representatives of the Bank's employees and the Bank, for conversion of the rights that accrued in favor of the Bank's employees into shares of the Bank to be issued to employees for the same amount as the rights, based on the amount in which those rights are recorded in the books of the Bank, and as described below.

The issuance of the shares was carried out at the market price of the shares on the date determined in the outline plan, which was published for purposes of carrying out the issuance. The issuance of the shares was carried out in exchange for a waiver by the employees on the rights that were converted that were recorded in the books of the Bank, for an amount of the value of the shares to be issued. The shares issued will be blocked for two years.
The Bank dealt with the issuance of the shares in settlement of the relevant liabilities.

The rights that were converted into shares:

1.1 Annual bonus for the year 2015. This conversion applied for all the employees, including office holders in the subsidiaries of the Bank who are employees of the subsidiaries.

1.2 Voluntary conversion of up to 25% of pension rights ("non-contributory pension"), accumulating in favor of the employees entitled to the same, to shares of the Bank, in exchange for a waiver of rights to that amount, as recorded in favor of the employee in the books of the Bank, as at 31 December 2015, except for utilizing a discount rate of 3.5%, instead of a discount rate of about 2.68%, which was utilized pursuant to the directives of the Bank of Israel. Every employee under a "first generation" arrangement entitled to a "non-contributory pension" was entitled to choose the percentage of the rights to be converted into the shares of the bank. Employees whose salary for purposes of social contributions did not exceed NIS 10,000 for the month of December 2015, were not entitled to convert the aforementioned rights. The reduction in liabilities was charged to other comprehensive income.

1.3 The conversion of the eligibility recorded in the books of the Bank to "Jubilee" bonuses and "Jubilee" vacations that were accrued in favor of the employees entitled to "Jubilee" bonuses, whose date of payment is from 1 January 2017. This conversion was carried out for all the employees eligible for "Jubilee" bonuses, except for employees entitled to "Jubilee" bonuses in 2016. The reduction in liabilities was charged to other comprehensive income.

The Bank applied the conversion of the relevant rights also to managers employed by the Bank under personal contracts.

On 18 February 2016, the Bank published an outline plan for issuance of shares to the employees, to carry out that stated in the special collective agreement. Pursuant to the outline plan, employees were able to convert rights as set out in paragraph 1.2 above from 8 March 2016 and at the end of the response period determined, the issuance of shares took place.

The results of the offer to employees and corporate officers pursuant to the outline were published in an Immediate Report on 20 March 2016, as follows:

Note 8 – Employee Rights (cont.)

1. The total amount of employees’ rights and the rights of the corporate officers that were converted into Bank shares pursuant to the Outline amounts to some NIS 636 million, divided as follows: (a) with respect to employees’ rights to receive jubilee bonuses - some NIS 259 million; (b) with respect to the rights of employees and corporate officers to receive their 2015 bonus - some NIS 292 million; and (c) with respect to social security rights – some NIS 85 million.
2. The value of a Bank share, for the purpose of the conversion of rights, is NIS 13.0 (the closing price for the Bank’s shares on 6 March 2016). Accordingly, the board of directors approved the issue of 48,938,037 shares, which constitute some 3.21% of the Bank’s issued and paid-up capital (after the issue). In accordance with the Outline’s provisions, the shares will be allocated to the Trustee, who will hold the shares in trust for the employees, in accordance with the provisions of section 102 of the Income Tax Ordinance.

3. The total amount of shares issued pursuant to the Outline, as described above, includes 1,955,016 shares which were issued to the Bank’s corporate officers.

B. Remuneration Law for Office Holders in Financial Corporations (Special Approval and Disallowance of Expenditure for Tax Purposes for Exceptional Remuneration), 2016

On 12 April 2016, the Remuneration Law for Office holders in Financial Corporations (Special Approval and Disallowance of Expenditure for Tax Purposes for Exceptional Remuneration) 2016 was published (henceforth: "The Remuneration Limitation Law") . The Law sets the limitations on remuneration for office holders or other employees in financial corporations (hereinafter: "the remuneration"), as follows:

- The method of approving remuneration was set: with the expected cost being estimated at NIS 2.5 million per year.
- No agreement will be approved where the expected cost will exceed NIS 2.5 million per year, unless the ratio between the expected cost for full time position under this remuneration and the cost of the lowest remuneration, according to the cost of a full time position that the Financial Corporation paid directly or indirectly to an employee in the corporation, (including a contractor's employee), in the year previous to the date of the agreement, is less than 35.
- The sum of the remuneration of the same employee/office holder will be calculated on a group basis, i.e. it will also include remuneration from corporations connected by definition to this law.
- For the purpose of calculating the financial institutions' taxable income it is defined that an expense that exceeds the ceiling defined in the Law will not be eligible for deduction as a recognized expense. The ceiling defined in the Law is not more than NIS 2.5 million per year and if the remuneration exceeds NIS 2.5 million per year, the ceiling will be reduced by the difference between the remuneration and NIS 2.5 million (hereinafter: "the ceiling")
- Rules are defined for reporting to the tax authorities on details of remuneration that exceed the ceiling.
- Sanction is defined; according to which a corporation that does not comply with the rules, the agreement will be regarded as invalid (in accordance with section 280 of the Companies Law).

Note 8 – Employee Rights (cont.)

Regarding new agreements from the date of publication of the Law and thereafter, limitations on salary will apply at the time of the Law's publication, and the effect on taxable income of the financial corporation and reporting to the Taxes Authority will apply from 1 January 2017. Regarding existing agreements approved before the date of publication, limitations on salary and then effect on taxable income of the financial corporation and reporting to the Taxes Authority will apply six months after the Law's publication.

On 7 April 2016, the Supervisor of Banks published a letter to the Chairmen and CEO's of the banking corporations, according to which the banking corporations are required to estimate the possible impact and risks to the Bank from the time the Law becomes effective, including an examination of the possibilities of departure of key personnel, and the effects on the Bank's long-term plans including the ability to undertake significant efficiency programs, in accordance with the Banking Supervision Department's requirements.

In addition the banking corporations are required to examine the necessity to revise the obligations to employees' rights in the banks' next financial reports against the background of the changes that occurred under the circumstances that may affect the estimates on retirement in the banking corporations.

The coming into force of the Remuneration Restriction Law will oblige the Bank to negatively impact the terms of employment of office holders and in this connection the Bank's Remuneration Committee is studying the adoption of a new Remuneration Policy. In addition, the Law's entry into force is expected to negatively impact, in a more limited manner, certain employment conditions of key Bank personnel, who are employed under personal contracts. This expected impact in employment conditions is anticipated to entitle office holders and key personnel to give notice of their termination of their duties in the Bank, under eligibility to terms of dismissal, as defined in the terms of employment in the Bank, and given them various entitlements, including increased severance pay or early pension rights, until they reach retirement age.

As set forth in Note 23.3.C to the Bank's 2015 annual financial statements, the Bank makes a provision for liabilities deriving from the termination of employer-employee relationships, in accordance with an assessment of the likelihood of realization of the exposure to payment of the said amounts, based, inter alia, on past experience and the expectation that most of the senior managers will continue working in the bank until retirement age. Against the background of the enactment of the Salary Remuneration Law, the Management of the Bank has made a renewed estimate of the likelihood of realization of the exposure to payment of the entitlements of office holders and key personnel in connection with termination of employer-employee relationships, under terms of dismissal, against the backdrop of the new legal situation created, and based on various parameters examined.

Against the background of the significant increase in the probability of members of management ending their term of office in the relatively near future because of the deterioration in the conditions expected for them following the Law become effective, the Board of Directors of Bank Leumi, in view of the management's estimation and in accordance with a legal opinion, approved updating the provision for the termination of employee-employer relationships, according to the accumulated rights, in accordance with the terms of employment of members of the management and other managers employed under personal contracts.

Note 8 – Employee Rights (cont.)

Pursuant to the abovementioned, the Bank increased the amount of the provision in the financial statements as at 31 March 2016 in respect of the population of the above office holders and key personnel by about NIS 117 million, out of which NIS 50 million in respect of office holders, including the President and CEO. In accordance with accounting principles and the Public Reporting Directives, the said update to the estimate was charged to other comprehensive income. As set forth in Note 1 to the 2015 Annual Financial Statements (Principal Accounting Policy), this amount will be amortized in subsequent reporting periods to the statement of profit and loss.

C. Streamlining

On 12 January 2016, the Banking Supervision Department published a letter regarding "Operational Streamlining of the Banking System in Israel". Pursuant to the letter, the board of directors of a banking corporation must draw up a multi-year streamlining plan. A banking corporation which meets the conditions specified in the letter will receive relief, according to which it will able to spread the effect of the plan over five years on a straight-line basis for the purposes of computing capital adequacy.

The Bank is in the stages of examining a multi-year streamlining program.

D. Composition of benefits

1. Employee benefits

	As at 31 March		As at 31 December
	2016	2015	2015
	Unaudited		Audited
	NIS millions		
Post-retirement benefits - pension and severance pay			
Amount of liability	**16,544**	17,782 (a)	15,764
Fair value of plan assets	**6,693**	7,258 (a)	6,766
Excess liabilities over plan assets (included under other liabilities)	**9,851**	10,524	8,998
Long-service (Jubilee) bonus			
Amount of liability	**127**	569 (a)	524
Fair value of plan assets	**-**	-	-
Excess liabilities over plan assets (included under other liabilities)	**127**	569	524
Other benefits			
Amount of liability	**532**	664 (a)	549
Fair value of plan assets	**-**	-	-
Excess liabilities over plan assets (included under other liabilities)	**532**	664	549
Total[1]			
Excess liabilities in respect of employee rights over plan assets (included under "Other liabilities")	**10,510**	11,757	10,071
[1]Of which: in respect of employee benefits overseas	**37**	226	111

(a) Restated.
(b) Reclassified.

Note 8 – Employee Rights (cont.)

D. Composition of benefits (cont.)

2. Defined benefit pension plan

A. Commitment and state of funding

1. Change in commitment in respect of forecast benefit

	As at 31 March			As at 31 December	
	2016	2015		2015	
	Unaudited			Audited	
	NIS millions				
Commitment in respect of forecast benefit at the beginning of the period	**15,764**	16,256		16,256	
Service cost	**42**	54	(a)	198	
Interest cost	**172**	193		735	
Deposits of plan participants	**12**	11	(a)	46	
Actuarial loss (profit)	**772**	1,422		(701)	
Changes in foreign currency exchange rates	**(17)**	2		(9)	
Benefits paid	**(205)**	(156)		(641)	
Amendments to plan including structural amendments	**-**	-		(22)	(a)
Reductions, disposals, special contractual benefits in respect of dismissal	**-**	-		(98)	(a)
Other	**4**	-		-	
Commitment in respect of forecast benefit at the end of the period	**16,544**	17,782		15,764	
Commitment in respect of accumulated benefit at the end of the period	**15,654**	16,890	(b)	15,074	

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2. Change in fair value of plan assets and state of funding of the plan

	As at 31 March		As at 31 December
	2016	2015 (a)	2015
	Unaudited		Audited
	NIS millions		
Fair value of plan assets at the beginning of the period	**6,766**	7,041	7,041
Actual return on plan assets:	**(48)**	236	53
Deposits in the plan by the banking corporation	**32**	31	169
Deposits by plan participants	**12**	11	46
Changes in foreign currency exchange rates	**(17)**	-	(11)
Benefits paid	**(52)**	(61)	(403)
Amendments to plan including structual changes	**-**	-	(22)
Reductions, disposals, special contractual benefits in respect of dismissal	**-**	-	(107)
Fair value of plan assets at the end of the period	**6,693**	7,258	6,766
State of funding - net liability recognized at the end of the period (included in other liabilities)	**9,851**	10,524	8,998

(a) Reclassified

(b) Restated.

Note 8 – Employee Rights (cont'd)

D. Composition of benefits (cont.)

2. Defined benefit pension plan

A. Commitment and state of funding

3. Amounts recognized in the consolidated balance sheet

	As at 31 March		As at 31 December
	2016	2015	2015
	Unaudited		Audited
	NIS millions		
Amounts recognized under other assets	**-**	-	-
Amounts recognized under other liabilities	**9,851**	10,524 (a)	8,998
Liability net recognized at the end of the period	**9,851**	10,524	8,998

(a) Restated.

4. Amounts recognized in accumulated other comprehensive income (loss) before the effect of tax

	As at 31 March		As at 31 December
	2016	2015 (a)	2015
	Unaudited		Audited
	NIS millions		
Net actuarial loss	**3,179**	3,196	2,329
Net liability in respect of transition	**-**	974	-
Closing balance in accumulated other income	**3,179**	4,170	2,329

(a) Restated.

B. Expense for the period

1. Benefit cost components included in profit and loss

	For the three months ended 31 March		For the year ended 31 December
	2016	2015	2015
Service cost	**42**	54 (a)	198
Interest cost	**172**	193	735
Forecast return on plan assets	**(91)**	(90)	(392)
Amortization of amounts not recognized - net actuarial loss	**53**	66	206
Reductions, disposals, special contractual benefits in respect of dismissal	**-**	-	9
Other including structural change	**-**	-	30
Total cost of benefit, net	**176**	223	786

(a) Restated.

Note 8 – Employee Rights (cont'd)

D. Composition of benefits (cont.)

2. Defined benefit pension plan (cont'd)

B. Expense for the period

2. Changes in plan assets and commitment for benefit recognized in other comprehensive income (loss) before the effect of tax

	For the three months ended 31 March		For the year ended 31 December
	2016	2015	2015
Net actuarial loss (profit) for the period	**911**	1,276	(362)
Amortization of amounts not recognized - net actuarial profit	**(53)**	(66)	(206)
Changes in foreign currency exchange rates	**(8)**	3	(5) (a)
Other including structural change	**-**	-	(30) (a)
Total recognized in other comprehensive income	**850**	1,213	(603)
Net cost of benefit	176	223	786
Total recognized in cost of benefit, net, for the period and in other comprehensive income	**1,026**	1,436	183

(a) Reclassified.

3. Estimate of amounts included in accumulated other comprehensive income that are expected to be deducted from accumulated other comprehensive income to appear as an expense in the statement of profit and loss in 2016 before the effect of tax

	For the nine months ended 31 December 2016
	Unaudited
	NIS million
Net actuarial loss	**218**
Total expected to be amortized from accumulated other comprehensive income	**218**

Note 8 – Employee Rights (cont'd)

D. Composition of benefits (cont.)

3. Assumptions[a]

A. Assumptions based on a weighted average used for determining the commitment in respect of a benefit and for measuring the cost of the benefit net for the periods ended

1. Basic assumptions used for determining the commitment in respect of the benefit

	As at 31 March		As at 31 December
	2016	2015	2015
	Unaudited		
	Percentage		
Discount rate	**2.37**	1.86	2.68
CPI discount rate	**1.86**	1.91	1.78
Employee turnover rate	**0.1-3.7**	0.1-3.7	0.1-3.7
Rate of growth of remuneration	**0-6.3**	0.8-7.2	0-6.3

2. Basic assumptions used for measuring the cost of the benefit net for the period

	As at 31 March		As at 31 December
	2016	2015	2015
	Unaudited		
	Percentage		
Discount rate	**2.68%**	2.63%	2.91%
Long term forecast return on plan assets (b)	**5.50%**	5.50%	5.50%
Rate of growth in remuneration	**0-6.3**	0-6.3	0-6.3

(a) The assumptions relate to data of the Bank only.

B. Effect of a change of one percentage point on the commitment in respect of a forecast benefit before effect of tax[a]

	Increase of one percentage point			Decrease of one percentage point		
	As at 31 March		As at 31 December	As at 31 March		As at 31 December
	2016	2015	2015	**2016**	2015	2015
	Unaudited					
	NIS millions					
Discount rate	(2,228)	(2,442) (b)	(2,059)	2,803	3,113 (b)	2,577
CPI discount rate	(146)	(254)	(206)	147	260	210
Employee turnover rate	250	275 (b)	237	(267)	(277) (b)	(256)
Rate of growth in remuneration	657	731	661	(581)	(654)	(585)

(a) The assumptions relate to data of the Bank only.
(b) Restated.

Note 8 – Employee Rights (cont'd)

The level of the liability for employee rights is affected by several key variables that include market variables (rates of interest for discounting the liability over various periods) and actuarial variables as mentioned, with some of the actuarial variables being behavioral variables of employees. It is possible that there will be a link between changes in market variables and changes in actuarial behavioral variables. For example, it is possible that if there is a sharp increase in interest rates in the Israeli economy, and in its wake government bond yields will also rise (which will decrease the level of pension liabilities), the percentage of employees electing for a pension track will also decrease (a decision which will also reduce the level of the Bank's liability for pensions).

4. Plan assets

A. Composition of the fair value of plan assets

	As at 31 March		As at 31 December
	2016	2015	2015
	Unaudited		
	NIS millions		
Cash and deposits in banks	**136**	252	183
Shares	**2,607**	2,437	2,363
Government bonds	**1,505**	1,905	1,895
Corporate bonds	**2,096**	2,187	1,838
Other	**349**	477	487
Total	**6,693**	7,258	6,766

Note 8 – Employee Rights (cont'd)

D. Composition of benefits (cont.)

4. Plan assets

B. The fair value of plan assets by type of assets and target for allocation in 2016

	Allocation target	Percentage of plan assets		
		As at 31 March		As at 31 December
	2017	2016	2015	2015
		Unaudited		
	Percentage			
Cash and deposits in banks	**2**	**3**	3	3
Shares	**36**	**39**	34	35
Government bonds	**25**	**22**	26	28
Corporate bonds	**30**	**31**	30	27
Other	**7**	**5**	7	7
Total	**100**	**100**	100	100

C. Cash flows

1. Deposits

	Forecast (a)	For the three months ended 31 March		For the year ended 31 December
	2016	2016	2015 (b)	2015
	Unaudited			
	NIS millions			
Deposits	**131**	**44**	42	**215**

(a) Estimate of deposits that the Bank expects to pay into a defined benefit pension plan during the remainder of 2016.
(b) Restated.

2. Benefits that the Bank expects to pay in the future[(a)]

	Unaudited
Year	NIS millions
2016	419
2017	568
2018	601
2019	655
2020	675
2021-2015	4,271
2026 and thereafter	11,159
Total	18,348

(a) In discounted values.

Note 9A – Capital

Changes in the Bank's equity

The cumulative terms set in the remuneration policy were met for the vesting into shares of the second third of the PSU units (that were allocated to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office-holders in the Bank as part of the approval of the performance-based annual bonus to office holders in the Bank, in respect of half of the bonus for 2013) (henceforth: **"2014 PSU units"**), and the second third of the 2014 PSU units vested into shares. Accordingly, on 13 March 2016, office holders in the Bank were allocated blocked shares according to the number of PSU units that vested on that date. In addition, the terms were met for the vesting of the second third of the RSU units (allocated in 2013 to two office holders in the Bank) and so the second third of the RSU units vested into shares. Accordingly, on 14 April 2016, two office holders in the Bank were allocated shares in accordance with the number of RSU units that vested on that date.

For further details, see Note 24A.B. and 24A.C to the 2015 annual financial statements.

Pursuant to that set forth in the Remuneration Policy, the shares allocated due to the vesting of the 2014 PSU units and RSU units mentioned above, were deposited with the Remuneration Plan Trustee.

The first of the three tranches, of the shares allocated in respect of the vesting of 2014 PSU units, that vested as stated on 31 March 2015, was blocked for a period of one more year until 13 April 2016 (henceforth: "the blocking period of the first tranche"). In addition, the second of the three tranches was blocked until the end of the blocking period of the first tranche.

The first of the three tranches, of the shares allocated in respect of the vesting of RSU units, that vested as stated on 14 April 2015, was blocked until 13 April 2016. The second of the three tranches that vested as mentioned on 14 April 2016, is not blocked.

For further details, see Note 23.I and 24A.B to the 2015 annual financial statements.

Pursuant to the provisions of the Bank's Remuneration Policy, on 15 March 2016, the Bank issued 938,657 new PSU units (henceforth: "**2016 PSU units**"), in the name of the Trustee, ESOP Management and Trust Services Ltd., to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office holders in the Bank in respect of half of the bonus for the year 2015. If all the terms are met for exercising the said 2016 PSU units at each of the vesting dates, as stated in detail in the Report of the Private Offering published by the Bank on 29 February 2016 (Reference 2016-01-037192) (including clarifications published on 13 March 2016) (henceforth: **"the Private Offering Report"**), the said PSU units will vest into 938,657 ordinary shares of NIS 1 par value each of the Bank, which will constitute about 0.064% of the issued and paid-up capital of the Bank at the date of issuance of the units.

If the terms set for the vesting of the 2016 PSU units into shares are not met at any of the vesting dates, the units which were to have been vested at that date will expire and become void, and all their associated rights will expire and become void.

The 2016 PSU units allocated as above are not marketable, and pursuant to the approval of the Tel-Aviv Stock Exchange Ltd. (henceforth: **"the Stock Exchange"**), the shares deriving from the vesting of the above units will be listed for trading on the Stock Exchange in the name of the nominee company of Bank Leumi Le-Israel B.M.

For further details, see Note 23.G to the 2015 annual financial statements.

Note 9A – Capital (cont.)

Changes in the Bank's equity (cont.)

On 20 March 2016, the Board of Directors decided to issue 48,938,037 ordinary shares of NIS 1 par value of the Bank, representing approximately 3.21% of the issued and paid-up capital of the Bank after the allocation, in the name of the Trustee, Tamir Fishman Trusts 2004 Ltd., in respect of the results of the offer to employees and office holders reported by the Bank on 16 March (Reference No. 2016-01-007473) and on 20 March 2016 (Reference No. 2016-01-010026) in accordance with an outline published by the Bank on 18 February 2016, (Conversion of employees and office holders' rights) (Reference 2016-01-030790), as amended on 23 February 2016 (Reference 2016-01-033361).

For more details in connection with the outline of the issuance to employees and office holders, see Note 24A.D. to the annual financial statements for 2015.

Pursuant to the Shelf Proposal Report dated 20 January 2016, the Bank issued, on 21 January 2016, the amount of NIS 926 million in Series 400 Subordinated Notes.

The Subordinated Notes are repayable in one amount on 21 January 2026 with an option to the issuer of early repayment not before 21 January 2021, and not later than 21 February 2021, are not linked to any linkage base, bear fixed annual interest of 3.25% per annum, until the early repayment. At that time, on the assumption of non-realization of the right of the Bank to early repayment, the nominal interest of the Note will be updated according to the difference between Ogen interest (as defined in the Shelf Proposal Report) on the date of issuance and that at the date of the interest adjustment.

If there are circumstances of a defining event (a defining event of non-sustainability or a defining event for the absorption of losses of principal, whichever the earlier), the Subordinated Notes will be converted into shares at the market price of the shares on the date of conversion or at the floor rate determined (NIS 6.78 per share).

The Subordinated Notes are eligible for inclusion in Tier 2 capital as of the date of issuance.

Note 9B –Capital Adequacy, Leverage and Liquidity

General

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives No. 201-211 on *Measurement and Capital Adequacy*, so as to adapt them to the Basel III directives.

It should be emphasized that the Basel III directives set forth significant changes in the calculation of regulatory capital requirements, *inter alia*, relating to:

1. Regulatory capital components
2. Deductions from capital and regulatory adjustments
3. Treatment of exposures to financial corporations
4. Treatment of exposures to credit risk in respect of impaired debts
5. Allocation of capital in respect of CVA risk.

The amendments to the above directives came into effect on 1 January 2014, and implementation is gradual pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299 on *Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions*.

Pursuant to the transitional provisions, regulatory adjustments and deductions from capital as well as minority interests not eligible for inclusion in regulatory capital are gradually deducted from the capital at the rate of 20% per annum, from 1 January 2014 until 1 January 2018. Capital instruments no loner eligible as regulatory capital were recognized up to the ceiling of 80% pm 1 January 2014, and ever subsequent year this ceiling is reduced by an additional 10% until 1 January 2022. As of 2016, the rate of deductions from regulatory capital is 60% and the ceiling for eligible instruments as regulatory capital is 60%.

In addition, on 29 August 2013, a circular of the Banking Supervision Department was published on *Basel Disclosure Requirements relating to the Composition of Capital*, which set forth updated disclosure requirements that banks will be required to include as part of the adoption of the Basel III directives.

On 22 October 2015, the Banking Supervision Department published a final circular on "Capital Requirements in respect of Exposures to Central Counterparties ((hereinafter: "the circular"). The circular amends Proper Conduct of Banking Business Directives 203 and 204 with the aim of adapting them to the Basel Committee recommendation relating capital requirements of banking corporations to central counterparties. The circular sets out the new instructions that will apply to exposures to central counterparties caused by OTC derivatives, derivative transactions quoted on the Tel Aviv Stock Exchange and securities financing transactions.

The directives define what is a qualified central counterparty and what is not a qualified central counterparty, with reduced capital requirements determined for the former. The main changes relate to calculating the following exposures:

1. As a rule, exposures of a banking corporation that is a member of a clearing house to a central counterparty will be given a risk weighting of 2% compared with a zero exposure value prior to the amendment.
2. Exposures of a banking corporation to a customer active in the Stock Exchange that were calculated according to Stock Exchange rules will be canceled. Pursuant to the amendment, the capital requirement for these exposures is to be calculated as if it were a two-sided transaction, including the allocation of capital in respect of CVA risk.
3. In addition, provisions were set out regarding calculating exposures of a banking corporation to a customer active by means of a member of the clearing house as well as the treatment of collateral

deposited by a banking corporation with a member of the clearing house or with a central counterparty.

4. Exposures to a central counterparty that is not qualified will be weighted in accordance with the relevant risk weighting for the counterparty whereas transfers to a risk fund will be weighted at 1250%.

The aforesaid in this circular will come into effect on 1 July 2016. Through 30 June 2017, the Tel Aviv Stock Exchange may be considered a qualified central counterparty. The Bank is taking steps to update the manner of calculating the capital ratios and the leverage ratio in accordance with the update of the said directive. In addition, the Bank is examining the effect of the update of the said directive on its capital planning, capital targets and leverage targets. On the assumption that the Tel Aviv Stock Exchange will be recognized by the middle of 2017 as a qualifying central counterparty, the impact on Leumi's implementation of the directive, based on data from the end of 2015, is not material. If the Tel Aviv Stock Exchange will not be recognized as a qualifying central counterparty, the estimated increase in total risk assets at the end of 2015 is about NIS 3.5 billion, a decrease of 0.11% in the capital adequacy ratio of Tier 1 shareholders' equity.

Insurance for the Portfolio of Guarantees under the Sales Law

On 8 March 2016, agreements were completed with international reinsurers, with a high international ranking, for the purchase of insurance **for the Portfolio of Guarantees under the Sales Law** (Apartments) and obligations to issue such guarantees. The insurance policy guarantees the Bank in the event it is required to pay due to the realization of the guarantees, under the terms of the policy. Purchasing insurance enables the reduction in restricted capital for credit risk arising from the issuance of guarantees, using the policy as a "Credit Risk Mitigator ", in accordance with Proper Conduct of Banking Business Directive No. 203, and contributed to an improvement of approximately 0.23% in the capital adequacy ratio of Tier 1 shareholders' equity.

Capital deduction in respect of deferred tax asset

On 4 April 2016, an updated FAQ was published by the Banking Supervision Department for implementation of Proper Conduct of Banking Business Directives concerning the measurement and adequacy of capital adequacy. The aim of the update is to clarify the handling of the salary tax component with regard to the calculation of capital requirements and deduction from capital in respect of a deferred tax asset. According to the clarification, a banking corporation which concludes that under the circumstances at the time of the report, it is virtually certain regarding a deferred tax asset in the amount of salary tax included in the Bank's books, it will not be possible to apply the deduction threshold contained in Section 13 of the Directive on that part of the deferred tax asset. To this end, the Bank will be entitled to apply the test of the deduction threshold on the amount of net deferred taxes, after deduction of salary tax as stated above. The deferred tax asset as stated not deducted from equity will be weighted as a risk asset by 250%. The Bank implements guidelines from the date of their publication on a prospective basis, without aadjusting comparative figures and subject to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299 of the Banking Supervision Department. This update contributed to an improvement of approximately 0.20% in the Bank's capital adequacy ratio of Tier 1 shareholders' equity and approximately 0.17% in the total capital ratio.

Note 9B –Capital Adequacy, Leverage and Liquidity (cont.)

	31 March 2016	31 March 2015 (b)	31 December 2015
	Unaudited		Audited
	(NIS millions)		
A. Data			
Capital for purposes of calculating capital ratio			
Tier 1 capital, after regulatory adjustments and deductions	**29,719**	27,416	29,001
Tier 2 capital, after deductions	**12,890**	13,329	12,593
Total capital	**42,609**	40,745	41,594
Weighted balances of risk assets			
Credit risk	**272,523**	271,585	277,034
Market risk	**5,793**	5,952	5,167
Operational risk (b)	**20,100**	20,376	20,432
Total weighted balances of risk assets	**298,416**	297,913	302,633
Ratio of capital to risk components			
Ratio of Tier 1 capital to risk components	**9.96%**	9.20%	9.58%
Ratio of total capital to risk components	**14.28%**	13.68%	13.74%
Minimum Tier 1 capital ratio required by the Supervisor of Banks (a)	**9.14%**	9.00%	9.10%
Minimum total capital ratio required by the Supervisor of Banks (a)	**12.64%**	12.50%	12.60%
B. Principal subsidiary companies			
Leumi Card Ltd.			
Ratio of Tier 1 capital to risk components	**16.75%**	16.14%	16.89%
Ratio of total capital to risk components	**17.68%**	17.09%	17.82%
Minimum Tier 1 capital ratio required by the Supervisor of Banks (c)	**9.00%**	9.00%	9.00%
Minimum total capital ratio required by the Supervisor of Banks (c)	**12.50%**	12.50%	12.50%
Bank Leumi USA (d)			
Ratio of Tier 1 capital to risk components	**12.45%**	11.89%	12.33%
Ratio of total capital to risk components	**15.21%**	14.58%	15.13%
Minimum Tier 1 shareholders' equity ratio required by the local authorities	**8.00%**	8.00%	8.00%
Minimum total capital ratio required by the local authorities	**10.00%**	10.00%	10.00%

(a) Including capital requirements at a rate expressing 0.27% of the balance of housing loans at the reporting date. This requirement is being implemented gradually in equal quarterly amounts from 1 April 2015 to 1 January 2017. Accordingly, the minimum Tier 1 shareholders' equity ratio and the minimum total equity ratio required by the Supervisor of Banks as at 1 January 2017, according to data at the reporting date, are 10.27% and13.77%, respectively.

(b) Restated including implementation of to the directives of the Supervisor of Banks on capitalization of software costs.

General note:
On 31 December 2015, Arab Israel Bank merged with Leumi.

Note 9B –Capital Adequacy, Leverage and Liquidity (cont.)

C. Effect of the transitional provisions on Tier 1 shareholders' equity ratio

	31 March 2016	31 March 2015 (b) (c)	31 December 2014 (c)
	(Unaudited)		(Audited)
	(%)		
Ratio of capital to risk components			
Ratio of Tier 1 shareholders' equity to risk components before application of the effect of the transitional provisions	**9.53**	8.19	8.93
Effect of the transitional provisions	**0.43**	1.01	0.65
Ratio of Tier 1 shareholders' equity to risk components	**9.96**	9.20	9.58

(a) Restated including implementation of the directives of the Supervisor of Banks on capitalization of software costs.

D. Capital components subject to volatility

The Standards regarding employee rights which adopted for the first time in January 2015, is a factor expected to have a most significant impact on Leumi's Tier 1 shareholders' equity, mainly due to the fact that the liability is measured in accordance with market interest rates at historically low levels and because of the high volatility that measurement of this kind brings with it. The Bank is examining and implementing a number of ways to moderate the volatility in equity arising from the Standards - such as a purchase, directly or indirectly, of instruments that hedge the effect of changes in discounting factors (wholly or partly) used to discount obligations for employee benefits.

E. Leverage ratio pursuant to the directive of the Supervisor of Banks

On 28 April 2015, the Supervisor of Banks issued Proper Conduct of Banking Business Directive no. 218 on the subject of the leverage ratio. The directive sets a simple, transparent and non-risk based leverage ratio to act as a supplementary and reliable measure of risk-based capital requirements, and is intended to limit the accumulation of leverage in the banking corporation.

The leverage ratio is expressed as a percentage, and is defines as the ratio between the measurement of equity and the measurement of exposure. Equity for purposes of measuring the leverage ratio is the Tier 1 capital as defined in Proper Conduct of Banking Business Directive No. 202, taking into account the transitional arrangements that were set. The total exposure measurement of the Bank is the amount of balance-sheet exposures, exposures to derivatives and securities financing transactions, and off-balance sheet items. In general, this measurement will be consistent with the accounting values and risk weights are not taken into account. In addition, the Bank is not allowed to use physical or financial collateral, guarantees or other techniques for credit risk mitigation, to reduce the exposure measurement, unless specifically permitted in accordance with the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, the Bank calculates the exposure to derivatives with Appendix III of Proper Conduct of Banking Business Directive No. 203, and exposures for off-balance sheet items by the conversion of the notional value of the items by credit conversion coefficients as stipulated in Proper Conduct of Banking Business Directive No. 203.

Pursuant to the Directive, banking corporations will have a leverage ratio of not less than 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis is 20% or more of total balance sheet assets in the banking system, will have a leverage ratio of not less than 6%. Pursuant to that stated above, the minimum leverage ratio required from the Bank is 6%.

A banking corporation is required to comply with the minimum leverage ratio from 1 January 2018. A banking corporation meeting the minimum leverage ratio applying to it on the date of publication of the Directive shall not go below the threshold defined. According to the Directive, a banking corporation that on the date of publication of the Directive does not meet the minimum leverage ratio applying to it, is required to increase the leverage ratio in fixed quarterly installments until 1 January 2018.

Note 9B –Capital Adequacy, Leverage and Liquidity (cont.)

	31 March 2016	31 December 2015
	Unaudited	Audited
	NIS millions	
A. In consolidated terms		
Tier 1 capital	**29,719**	29,001
Total exposures	**467,663**	462,680
Leverage ratio		
Leverage ratio	**6.35%**	6.27%
Minimum leverage ratio required by the Supervisor of Banks	**6.00%**	6.00%
B. Significant subsidiary companies		
Leumi Card Ltd.		
Leverage ratio	**11.52%**	11.66%
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**	5.00%
Bank Leumi USA (a)		
Leverage ratio	**10.31%**	9.98%

(a) Implemented in accordance with local regulations, under which there are no requirements for a minimum leverage ratio.

E. Liquidity coverage ratio pursuant to the directive of the Supervisor of Banks

On 28 September 2014, a circular was issued in which was added Proper Conduct of Banking Business Directive No. 221 on the liquidity coverage ratio, which adopts the recommendations of the Basel Committee regarding the liquidity coverage ratio in the banking system in Israel. The liquidity coverage ratio examines a horizon of 30 days in an extreme scenario and is designed to ensure that the banking corporation's inventory of high-quality liquid assets that responds to the liquidity needs of the corporation for this time horizon. As part of the directive, the method is determined for calculating the liquidity coverage ratio, including setting the characteristics and operational requirements for the "inventory of high-quality liquid assets" (the numerator) and safety coefficients in respect of them and the net cash outflow expected in the stress scenario defined in the directive for 30 calendar days (the denominator).

The stress scenario determined in the directive combines a shock specific to the corporation with systemic shock in which standard withdrawal rates for cash outflows and deposit rates for cash inflows have been set out in accordance with the different categories of balances.

The liquidity coverage ratio was introduced as of 1 April 2015.

In accordance with the transitional provisions, with effect from 1 April 2015 the minimum requirement was set at 60% and will grow to 80% on 1 January 2016 and to 100% in 1 January 2017 and thereafter. However, in a period of financial pressure a banking corporation may fall below these minimum requirements.

Note 9B –Capital Adequacy, Leverage and Liquidity (cont.)

In addition, on 28 September 2014, a circular was issued on the subject of a Temporary Directive - Implementation of Disclosure Requirements under the Third Pillar of Basel - Disclosure of the Liquidity Coverage Ratio (hereinafter: the "circular"). In the framework of the circular the Public Reporting Directives have been amended to incorporate the disclosure requirements that the banks are required to include as part of the adoption of the liquidity coverage ratio.

Accordingly, it was determined, inter alia, that as of 1 April 2015, disclosure requirements were added for the liquidity coverage ratio in consolidated and single entity terms (subject to its application) in the Note to the financial statements, whose name will be changed to "Note on Capital Adequacy and Liquidity Pursuant to the Directives of the Supervisor of Banks".

The liquidity coverage ratio of the banking corporation is calculated based on average daily observations and the consolidated liquidity coverage ratio is calculated based on the average of monthly observations for the period.

	For the three months ended 31 March	For the year ended 31 December
	2016	2015
	Unaudited	Audited
	Percentage	
A. In consolidated terms		
Liquidity cover ratio	**125**	105
Minimum liquidity cover ratio required by the Supervisor of Banks	**80**	60
B. In terms of the banking corporation		
Liquidity cover ratio	**124**	103
Minimum liquidity cover ratio required by the Supervisor of Banks	**80**	60

Leumi Card and Bank Leumi USA have no requirements for a liquidity cover ratio.

Note 10 - Contingent Liabilities and Special Commitments

A. Contingent liabilities and special commitments

	31 March 2016	31 March 2015	31 December 2015
	Unaudited		Audited
	NIS millions		
(1) Long-term rental contracts - Rental of buildings, equipment and vehicles and maintenance fees regarding commitments payable in the following years			
First year	**274**	272	324
Second year	**205**	210	223
Third year	**182**	191	197
Fourth year	**154**	172	164
Fifth year	**121**	137	138
After five years	**1,206**	872	1,248
Total	**2,142**	1,854	2,294
(2) Commitments to purchase securities	**709**	719	466
(3) Commitments to invest in buildings, equipment and others	**3,669**	190	377

B. Legal claims

In the regular course of business, legal claims have been filed against the Bank and certain consolidated companies, including petitions for approval of class actions.

In Note 25 to the financial statements of the Bank at 31 December 2015, information was included regarding the significant claims at the date of the said statements. In the Note below, information is included regarding material claims submitted in the period of the report and after the reporting period, and changes that occurred regarding material claims submitted in previous reporting periods, and does not include information on claims reported in Note 25 to the Annual Report that were filed before the period of the report and in which there was no change.

In the opinion of the Management of the Bank and the managements of the consolidated companies, the total additional exposure arising from legal claims filed against the Bank and against the consolidated companies on various subjects, the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, amounts to some NIS 48 million.

1. In the opinion of the Management of the Bank and the managements of the consolidated companies, based on legal opinions regarding the chances of the claims succeeding, including the petitions for approval of class actions, appropriate provisions have been recorded in the financial statements, insofar as required, to cover damages resulting from the said claims.

   A. On 12 September 2006, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, against Bank Hapoalim and against Israel Discount Bank in an amount claimed against all respondents of NIS 7 billion, while in the body of the claim, it is contended that the damage to the group which the claimant wishes to represent amounts to NIS 10 billion. According to the petitioner, the respondent banks charged their customers with interest for unlinked shekel credit, a commission for credit allotment and fixed management fees with regard to debitory current accounts at identical rates and amounts, as a result of a prohibited restrictive arrangement.

Note 10 - Contingent Liabilities and Special Commitments (cont'd)

At the same time, as part of the appeal proceedings against the decision of the Anti-Trust Commissioner dated 26 April 2009, under the heading "Restrictive Arrangements between Bank Hapoalim, Bank Leumi, Bank Discount, Bank Mizrahi, and the First International Bank, concerning the Transfer of Information relating to Commissions" ("the decision"), the Anti-Trust Tribunal on 15 June 2014 gave effect to an agreed order for agreement between the banks appealing to the Anti-Trust Commissioner, under which, inter alia, subject to the deposit of an amount of NIS 70 million (the Bank's share – NIS 21.425 million) with a trustee, the decision would be void. This amount was deposited with a trustee ("the Trustee"). It was also decided in the framework of the agreed order that the banks that are party to it can use these funds to make settlement agreements in various claims, including the claims listed in this paragraph B below, and in paragraph B below, (and additional claims detailed in paragraphs 1.2A and B in Note 25 to the financial statements of the Bank as at 31 December 2015), subject to terms set forth in the order.

On 11 December 2014 a petition was filed in the court requesting approval of a compromise arrangement according to which the respondent banks will pay to the members of the Group a total of NIS 35 million from the money deposited with the trustee. In January 2015 the petitioners, in the process described in paragraph B below, filed a petition to cancel the decision regarding publication of the arrangement or alternatively, to delay until after the decision between the process described herein, and that described in paragraph B below. In the hearing that took place on 25 March 2015 the parties were asked to consider the court's proposal regarding continuation of the management of the two proceedings (and inter-alia, to consider a merger. The parties acted to prepare a revised compromise arrangement, paying attention to the court's comments. On 25 February 2016 a revised a compromise arrangement was filed in the court for approval as described in this paragraph, and that described in paragraph B below, according to which all the respondent banks will pay to the members of the Group, in the two proceedings together, a total of NIS 47 million (not including fees and remunerations to attorneys and petitioners in the two proceedings) whereby NIS 35 million from the total amount will be paid from the money deposited with the trustee, as stated above, and to which NIS 12 million will be added by the banks (the Bank's portion of this additional amount is NIS 4.5 million). On 15 May 2016, the Court approved the compromise agreement with the effect of a judgment.

B. On 23 November 2006, a claim and a petition to approve the claim as a class action were filed in the Jerusalem District Court against the Bank, against Bank Hapoalim B.M. and against Israel Discount Bank Ltd. The petitioners allege that in respect of credit to the household sector, the banks collect interest at a rate that is much higher than that collected from the commercial sector and from the corporate sector.. The alleged damage is NIS 5.6 billion according to one method, and NIS 5.2 billion according to a second method. The damage claimed attributed to the Bank’s customers is at least NIS 1.6 billion.. On 21 January 2014, the Court decided to transfer the proceedings in the claim to the Tel-Aviv-Jaffa Court that is dealing with the proceedings described in Section A above. See paragraph A above for an update regarding proceedings in this claim as well.

C. On 1 April 2007, a petition was filed with the Tel Aviv District Court to approve a class action against the Bank, and against three other banks and also against other respondents that are, allegedly, members of the Stock Exchange. According to the petitioners, the respondents charged the managers of mutual funds under their control commissions for buying and selling of securities (brokerage commissions) and for performing transactions in foreign currency, which were higher than the fees charged to other institutions and that, according to the petitioners, is in violation of the provisions of the Joint Investment Trust Law, 1994, as worded then, and a breach of other obligations. The petitioners claimed that the collection of the (alleged) excessive fees continued unlawfully even after the sale of control of the mutual funds by the banks to the other respondents. According to the petitioners, the total amount of damages caused to all the members of the group by all the respondents amounts to approximately NIS 386 million, of which damages of NIS 130 million is attributed to the Bank. On 10 May 2016, the Court handed down its verdict rejecting the petition for approval of the class action.

D. On 17 March 2014, a special manager of a company in liquidation (the "Company" and "the Special Manager") filed a petition in the Central District Court to issue instructions against the Bank, in which it requested that the Court declare that the Bank will bear the payment to the Company (the liquidation fund) in an aggregate amount of NIS 1,200 million, of which an amount of NIS 635 million to cover all the company's debts to its creditors and an amount of NIS 565 million for repayment of the full value of the assets of the Company in the principal amount standing according to the special manager as at 25 March 2001 in the amount of NIS 165 million, plus interest from that date at the rate the Company was obliged to pay the Bank. According to the special manager, the Bank is to bear individual responsibility for the liabilities of the company, since allegedly the Bank is to be deemed an "office holder" in the company due to its alleged control over the company; since the Bank is to be deemed as a "director de-facto" or a "shadow director" in the company; because of its responsibility in jointly committing and / or jointly misleading in allegedly fraudulent actions detailed in the petition; and because of the doctrine of lender liability.

It should be noted that as part of the motion, the special manager retained the right to file additional proceedings against the Bank and / or other officers of the company and / or individuals on behalf of the Bank and lawyers advising the Bank. The Bank has filed its response to the petition.

On 20 April 2015, the Supreme Court decided that insofar as it will be decided to take further action, a new official would be appointed for the Company, unrelated to the previous special manager or his firm, and he will deal with all future matters, if any. The attorney of the firm of the special manager that filed the petition may continue dealing with the pending proceedings only. On 17 September 2015, the Official Receiver filed a petition to appoint another lawyer to a role in the case, who would be authorized to carry out further investigations in this proceeding. The Bank has filed its response to the petition. On 20 March 2016 the Court decided to dismiss the petition of the Official Receiver.

E. On 6 January 2015, a petition was filed with the Central District Court, for approval of a class action for an amount claimed of NIS 400 million, based on estimates and valuations of the expert of the petitioner. According to the petitioner, the Bank is violating the provisions of the Interest Rate Law (Determination of the Maximum Interest Rate), 1970, under which interest on arrears is not to be charged on index-linked loans at a rate exceeding 17% per annum, in that it charges interest on arrears on index-linked loans at the rate of 18.3891% per annum, which according to the petitioner, exceeds the rate allowed. The petitioner attached an expert opinion to the request. On 15 June 2015, the petitioner filed an amended petition according to which, in light of proceedings in the Supreme Court which support the position of the Bank, it reduces the relief requested for a future change in the manner of interest collection. On 16 September 2015, the Bank filed a petition for dismissal of the petition for approval, inter alia on the grounds that in the situation where the Bank is acting lawfully and according to the ruling of the Supreme Court, there are no grounds for the claim against it and it is not possible to approve a class action. On 20 December 2015, the Central District Court decided to dismiss the petition for approval of a class action and on 14 January 2016, an appeal was filed against this decision.

2. In addition, there are legal claims pending against the Bank, including petitions for the approval of class actions, as detailed below. In the opinion of the Management of the Bank, based on legal opinions with regard to the chances of these legal proceedings, it is not possible, at this stage, to estimate the chances of the claims, and therefore no provision has been recorded in respect thereof.

A. On 29 April 2015, a petition was filed in the Tel Aviv District Court for approval of a class action against the Bank. The action pertains to the petitioner's claim that the funds of Holocaust survivors, which were deposited before the Second World War in the Anglo-Palestine Bank and not withdrawn by the customers during the war, were returned to the survivors or their heirs and allegedly were not revalued in real terms. The petitioner claims personal damages of NIS 251,266 and the amount of the group claim is estimated by him at NIS 150 million. On 5 August 2015, the Bank filed a petition for dismissal of the petition for approval and the personal claim of the petitioner. The petition to dismiss was rejected and the Bank has to submit its response.

B. On 22 July 2015, the Bank received a petition for approval of a class action, filed against the Bank in the Central District Court. The petition concerns the claim of the petitioner that payments made directly to the Bank on account of a debt in respect of which a collection process is being conducted by the Enforcement and Collection Authority, are reported late by the Bank to the Enforcement and Collection Authority, resulting in the creation of an alleged discrepancy between the actual debt and the debt recorded in the file of the Enforcement and Collection Authority.
In addition, the petitioner claims that when the Bank makes a late report of a payment, the debtor receives a credit for interest charged during the period between the payment and the report. The petitioner claims that, up to the end of 2010, the credit received was at an interest rate lower than the banking interest accrued on the debt. Only in 2010, a change was made in the Enforcement and Collection Authority’s systems that enabled the crediting of interest at the appropriate rate. The petitioner claims personal injury of NIS 33.46, and estimates the amount of the group claim in NIS millions, without specifying an amount or a detailed calculation.

C. On 11 February 2016, petition for approval of a class action was filed with the Tel Aviv District Court against the Bank and against four other banks. The action relates to the petitioner's claim that the banks give various benefits in student accounts, but restricts the age of the students eligible for the benefits, which the petitioner claims is contrary to the law. The petitioner claims personal damages of NIS 11 thousand, and the amount of the claim for the whole group the petitioner wishes to represent in the class action against the five banks together is estimated at NIS 219 million.

D. In the United States District Court for the District of Colombia a petition was filed on 7 March 2016, by a large number of petitioners, against tens of plaintiffs, among them: the Bank, Bank Leumi USA, Bank Hapoalim, private individuals such as: Sheldon Adelson, Irving Moskovitz, Haim Saban, Lev Leviev and others, and against various institutions, such as the Friendly Associations connected with settlements, construction companies such as Africa Israel and Dania Cebus and other companies such as Volvo, HP, Motorola, Israel Chemicals, Ahava (Dead Sea Products), and more.
The subject of the petition, the petition claimed that persons and the above institutions support settlements, in such a way as to harm Palestinian residents, their property and their rights, against the Banks it is claimed, inter-alia, that the transfer of funds by the entities supporting settlements was made through Bank Transfers, where, according to the petitioners, the Banks knew from the "know the customer" rules, what the transferred funds were intended for, and executed the transfers in order to promote their business and profits.
The amount of the petition against all the plaintiffs together stands at $34.5 billion. The legal or economic basis for this amount was not clarified, and no explanation given to relate the petitioners with the unrealistic sum requested in the petition, or details of the damages claimed against the Bank.

3. Below are details of claims and petitions for approval of class actions in material amounts filed against the Bank's subsidiary companies. In the opinion of the management of the Bank, based on the opinion of the management of the relevant subsidiaries that are based on the opinion of its legal counsel with regard to the chances of these legal proceedings, appropriate provisions have been included in the financial statements, where required, to cover damage resulting from the said claims:

   On 23 June 2009, a petition was filed in the Tel Aviv District Court for approval of a class action against Standard and Force Elevators Ltd, Keshet Bonds Ltd ("Keshet"), Bank Leumi Le'Israel Trust Company ("The Trust Company") and 6 other plaintiffs. This petition was withdrawn and amalgamated with a similar petition which was resubmitted as an amalgamated petition. The amount of the class action claimed from all the plaintiffs stood at NIS 286 million. In the complaint no clear connection of a specific sum was made for each plaintiff. The petition for approval relates to bonds issued by Keshet, that were issued in NOTES, issued by Lehman Brothers Bankhaus A G. The petitioner claims that with the crash of Lehman Brothers, the price of the bonds fell and their trading ceased. Against the Trust Company, that acted as trustee for holding the bonds issued by Keshet, the petitioner claimed that according to the petitioner, no actions were taken to prevent or minimalize, the damage caused to the bond holders. On 16 May 2016, the Court approved a compromise arrangement in the claim. The amount to be paid to the group members represented is about NIS 5.3 million. Out of this amount, the Trust Company's portion of the payment is NIS 195,000.

4. Below are details of claims and petitions for approval of class actions in material amounts filed against the Bank's subsidiary companies. In the opinion of the management of the Bank, based on the opinion of the management of the relevant subsidiaries that are based on the opinion of its legal counsel with regard to the chances of these legal proceedings. It is not possible at this stage to evaluate their chances and for this reason no provision has been made in their respect.

   On 28 April 2014, a petition for approval of a class action was filed with the Central District Court against Leumi Card, Isracard, and C.A.L., in the amount of NIS 1.7 billion, relating to the charging of vendors with interchange commission in respect of transactions executed by means of debit cards and prepaid cards that are reloaded in advance. The petitioner claims that the interchange commission charged on these cards (as opposed to credit cards), did not receive approval from the Anti-Trust Court, and is a restrictive arrangement. In addition, the arrangement between the respondents, under which proceeds of transactions are transferred to vendors with a delay of some 20 days, is also a restrictive arrangement or a discriminating condition in a uniform contract. An amended petition for withdrawal that was submitted, was approved by the Court in July 2015. In addition, a number of petitions were filed with the Court to replace the petitioner and his representative. On 20 October 2015, the Court ordered that each of the groups requesting to serve as representatives of the group is required to file a document with the Court explaining, inter alia, how it intends to conduct the action, and the Court will give its decision with reference to the identity of the petitioners (and their representatives) that will be chosen to stand behind the petition for approval as a class action. It was further decided that the group that is chosen will be required to file an amended petition for approval, the date of whose filing will be decided after a decision is given regarding the identity of the petitioners. On 9 March 2016, the Court determined the identity of the group that will serve as representative in the petition. The Court also determined that an amended petition will be submitted for approval of the petition as a class action, and afterward answers and responses to questions will be submitted.

5. For details of legal proceedings regarding US customers see paragraph C.1.A in this Note, below.

B. Contingent liabilities and other special commitments

1. The US customers affair:

For details of the US customers affair, including arrangements with the U.S. authorities and details of the legal proceedings– see Note 25 to the annual financial statements for 31 December 2015.
In this Note, updates will be brought that occurred in the period of the report that were not published in the annual financial statements.

In the framework of the DPA, Leumi Group undertook, inter alia, to take certain actions related to the provision of services to US customers, and to develop and implement a compliance program with the FATCA provisions. In the framework of the agreement with the New York Department of Financial Services (NYDFS) also, certain obligations were imposed on the Bank including the appointment of a monitor to examine, inter alia, the Group's activities. The monitor commenced his duties on 15 July 2015. During the period of the report, the NYDFS raised a claim that the period of the monitor's activities may be extended. At his stage, it is not possible to evaluate if the period will be extended.

In order to comply with the provisions of the arrangements as aforesaid, the Bank has appointed a special steering committee which supervises the fulfillment of the undertakings of the Bank and its offices in accordance with the arrangements, and submits regular reports thereon to the Bank's management and Board of Directors.

A. Legal proceedings

Pursuant to of the investigations of the US authorities, a number of actions have been served against the Bank and office holders who served and who are serving in the Bank and the Group:

In the opinion of the Management of the Bank, based on legal opinions with regard to the chances of these actions, (inasmuch as they refer to claims against the Bank), it is not possible at this stage to evaluate their chances (except for the claim set out in paragraph 2 below) and for this reason no provision has been made in their respect.

1. On 1 September 2013, a petition for approval of a derivative action was filed in the Economic Division of the Tel Aviv District Court against former senior officers of the Bank. The petitioner claimed that, as part of investigations of the U.S. tax authorities, it was found that representatives of the Bank and representatives of Bank Leumi USA assisted customers that are US taxpayers to execute transactions that prevented the US tax authorities from collecting taxes from their citizens. On 6 January 2015, the petitioner filed an amended petition to approve the filing of a derivative action against officers in the Bank and other corporations controlled by the bank ("Leumi Group") as well as against the Bank's external auditors. According to that claimed in the amended petition, the damage caused to Leumi Group by the investigations of the US authorities and the arrangements signed with them is about NIS 2.1 billion.

   In February 2015 the Board of Directors appointed an independent claims committee, for an overall review of the advisable course of legal action to the Bank in light of the totality of events in connection with the US customers affair, and on 11 March 2015, a decision was handed down by the Hon Judge Khaled Kabub of the Tel-Aviv District Court (Economic Department) approving the appointment of the Committee and postponing proceedings in the claims filed in connection with the US customers affair, to enable the committee to make its recommendations.

   On 12 October 2015, the Bank notified the Court of the report of the independent committee and the adoption of the conclusions and recommendations by the Board of Directors, and on 3 February 2016 a notice was submitted to the court regarding the decision of the Bank's Board of Director's audit committee on 2 February 2016, to adopt the opinion of the independent expert accountant whom it appointed, according to which there was no fault in the work of the accountants who audit everything related to the US customers' affair.

On 1 March 2016 a request was submitted to the court to approve a compromise agreement, according to which, without admitting any claim from among the claims of the plaintiff in the request for approval, the officers and managers respondents will pay the Bank, through the insurers holding the office holder insurance that the Bank purchased, a total sum of US$ 92 million (below "the compromise amount") in accordance with the contract structure and the composition of the insurers according to the policy and without mutual responsibility between the insurers (the total includes the portion insured by the Bank's "Captive" for a total of US$ 26.25 million, and a sum of US$ 12 million that was already approved by the insurers for payment). Furthermore, without admitting any allegation on their part, beyond the letter of the law. Some of the respondents to the request for approval Ms. Galia Maor, Eitan Raff, and Zvi Itzkovitz, will return to the Bank part of the bonuses that they received from the Bank during the period relevant to the US customers' affair, in a form and distribution notified to the Bank, and without mutual responsibility , and a total amount of NIS 5.1 million.

A hearing was set in June 2016 for the compromise arrangement and the arrangement that was submitted in the request for approval for a class action described in paragraph 2 below.

2. On 19 January 2015, a petition was filed in the Tel Aviv District Court (Economic Division), to approve a class action against the Bank, and against 19 other respondents, who were or are directors in the Bank. According to the plaintiffs, as part of investigation proceedings by various agencies in the US, the Bank admitted that it and other companies in the Leumi Group acted to help its (US taxpayer) customers to evade reporting and from tax payments. It is argued that the investigation proceedings led to the Bank writing off NIS 1.438 billion from its equity, and that the members of the Board of Directors who held office in 2002-2010 were negligent in not employing supervision and control that allowed this illegal conduct of the Bank and, as a result, caused damage to members of the Group by writing off funds from the Bank's equity, and cutting the potential return on their investment in the shares of the Bank. The amount of the claim amounts to approximately NIS 475 million and it was argued that minimum damage to the shareholders group that sold their shares between 21 March 2013 (which is, according to the plaintiffs, the date of the initial inclusion of a provision in the financial statements for the investigation) and 15 January 2015 ranged from the above amount to NIS 825 million. On 17 March 2016 a request was submitted to the court to approve a compromise agreement in this complaint, according to which the Bank will pay to the members of the Group an amount of NIS 10,080,000, including costs and fees of an external prosecutor, fee for a trustee, and other distribution expenses.

   Payment according to this compromise agreement is dependent on approval of the compromise agreement in the procedure as detailed in paragraph 1 above. In a final and valid verdict, and on receipt of the compromise amount contained in the agreement in the above procedure, as detailed in paragraph 1 above, and the payment will be made from these funds.

3. On 3 March 2015, a petition was filed with the Court in the State of New York, USA, by a shareholder in the Bank, who is a resident of Israel, (below "the petitioner")for a derivative action on behalf of the Bank and on behalf of Bank Leumi USA against subsidiaries of the Bank and against 61 directors and officers, who served in the past and some of them still holding office in the Bank and in the subsidiaries of the Bank. The claim pertains to the alleged liability of the respondents for the payment of sums borne by the Bank and its subsidiaries as a result of the arrangements that were signed with the US authorities. On 12 October 2015, the Bank submitted to the Tel Aviv District Court, as mentioned in paragraph 1 above, the report of the Independent Claims Committee. At the same time, the Bank claimed that, in the Bank's opinion, the claim submitted in New York should be dismissed out right since there is no point in conducting proceedings in

New York at the same time a similar claim is being conducted in Israel, and moreover the purpose of the Committee's recommendations is to arrive at an overall arrangement. The Bank further notified the Court that insofar as agreement is not achieved regarding the US derivative claim, the Bank will be requesting a blocking order obliging the dismissal of the proceedings being conducted in New York and/or will take any other measure that is relevant. On 1 February 2016 the Bank (and other companies in the Group)submitted a request to the court handling the process detailed in paragraph 1 above, to grant a blocking order which will order the plaintiff and anyone acting for him, to desist from continuing to conduct the complaint herein described in this paragraph and/or conducting any other derivative relating to the cause and complaints contained in the request described in paragraph 1 above, in courts in Israel or abroad.

On 3 March 2016 the court dealing with the process detailed in paragraph 1 above decided to give a blocking order according to which the plaintiff in the process detailed in this paragraph is forbidden to continue with the request to approve a derivative action that he submitted in the name of the Bank's Group in the USA, or to submit another request to approve a derivative action against the Bank Group in another location, in relation to the US customers' affair. On 30 March 2016 the plaintiff requested approval from the Supreme Court to appeal (alternatively notice of appeal) against this decision.

On 11 May 2016, the Bank and Bank Leumi (USA) submitted a petition to the Court to dismiss the proceedings under this paragraph that the plaintiff filed with the Court in New York.

4. **Examination by the US Securities and Exchange Commission (SEC)**

There is an investigation pending by the United States Securities and Exchange Commission (SEC) in connection with the Group's activities in securities and securities counseling vis-à-vis US residents. The Group provided the SEC during the period of the report with the documents it required.

According to the legal advice received by the Group from its attorneys in the US, due to the broad discretion given to the SEC and due to the special facts concerning the Group, the Group is unable at this stage to evaluate the amount that the Group may be required to pay pursuant to this investigation. Since it is not possible to evaluate the total amount of the expense that may be incurred by the Group regarding this investigation, the Group, based on the opinion of the US legal counsel assisting the Group in the SEC investigation, was of the opinion that there is no justification to make any provision in the financial statements in respect of it. Nevertheless, pursuant to the instructions of the Bank of Israel, from 25 May 2015, according to which the Bank is to include a "provision in the amount of the loss expected in respect of the investigation. For reasons of prudence, this provision will not be less than US$ 5 million". The Bank made a provision in the financial statements as at 31 March 2015 of US$ 5 million.

2. Other proceedings

A. On 16 February 2014, a petition was submitted to the Economic Department of the District Court in Tel Aviv against the Bank, for disclosure and perusal of documents. According to the plaintiff the purpose of the request was to examine the possibility of submitting a derivative action in the name of the Bank against the office holders of the Bank in regards to credit that the Bank provided, according to the plaintiff, to Ganden Holdings Ltd, ("Ganden") for the purpose of financing the purchase of IDB Holdings Ltd. shares. On 8 April 2016 the Court approved the mediation agreement, according to which the Bank declared that it took it upon itself certain procedures in the procedures that relate to the provision of credit to borrowers for purpose of financing the purchase of means of control in significant sums. The procedure ends with the approval of the mediated agreement.

B. On 19 July 2015, a petition was submitted to the Economic Department of the District Court in Tel Aviv against the Bank, for disclosure and perusal of documents that was submitted according to the petitioner's claim, pursuant to Section 198A of the Companies Law, 1999.

The petition was for the disclosure of various documents in connection with the Bank's handling of the debt of Delek Real Estate Ltd. This petition was intended, according to the petitioner's claim, to examine the need to submit a petition for approval of the submission of a derivative action in the name of the Bank against its office-holders. The background to the petition is the petitioner's claim that, during the years 2012-2013, the Bank made a waiver in the amount of about NIS 120 million of the debts of Delek Real Estate Ltd., according to the petitioner's claim, without justification and notwithstanding that the value of the collateral made it possible, allegedly, to collect the debt in full. The Bank submitted its response to the petition. On 24 March 2016 the court decided to delete the petition after determining, amongst other things, that there were no evident grounds to the complaint, according to which office holders violated their obligations to the Bank. On 1 May 2016, the plaintiff submitted a petition for leave of appeal against this decision to the Supreme Court.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates

A. Scope of activity on consolidated basis

	31 March 2016 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives (a)						
Swaps	-	2,343	-	-	-	2,343
Total	-	2,343	-	-	-	2,343
Of which: interest rate swap contracts in which the banking institution agreed rate of interest	-	2,343	-	-	-	2,343
b) ALM derivatives (a)(b)						
Futures contracts	-	28,795	18	48,636	223	77,672
Forward contracts	12,154	14,200	190,277	325	15	216,971
Exchange-traded options						
Options written	-	1,289	17,010	11,033	143	29,475
Options purchased	-	1,289	17,529	11,033	143	29,994
Other options						
Options written	-	11,575	16,832	3,393	128	31,928
Options purchased	-	6,791	16,880	3,405	128	27,204
Swaps	587	261,936	27,740	26,745	380	317,388
Total	12,741	325,875	286,286	104,570	1,160	730,632
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	138,792	-	-	-	138,792
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	30	30
Spot foreign exchange contrac	-	-	23,296	-	-	23,296
Total	-	-	23,296	-	30	23,326
Grand total	12,741	328,218	309,582	104,570	1,190	756,301

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's assets and liabilities not designated for hedging.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity (cont'd)

	31 March 2016 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives (a)						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	180	-	-	-	180
b) ALM derivatives (a)(b)						
Gross positive fair value	379	7,163	3,997	1,576	38	13,153
Gross negative fair value	439	6,935	4,880	1,565	37	13,856
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	1	1
e) Total						
Gross positive fair value (c)	379	7,163	3,997	1,576	38	13,153
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	379	7,163	3,997	1,576	38	13,153
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	40	17	177	-	34	268
Gross negative fair value (c)	439	7,115	4,880	1,565	38	14,037
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative	439	7,115	4,880	1,565	38	14,037
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	1	7	465	-	3	476

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.
(c) Of which: gross positive fair value of assets in respect of embedded derivative instruments in the amount of NIS 3 million (and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 41 million).

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity on consolidated basis (cont'd)

	31 March 2015 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives (a)						
Swaps	-	2,376	-	-	-	2,376
Total	-	2,376 (c)	-	-	-	2,376
Of which: interest rate swap contracts in which the banking institution agreed rate of interest	-	2,376	-	-	-	2,376
b) ALM derivatives (a)(b)						
Futures contracts	-	8,249	407	61,410	398	70,464
Forward contracts	13,156	15,301	229,749 (c)	533	25	258,764
Exchange-traded options						
Options written	-	476	12,337	12,399	34	25,246
Options purchased	-	476	12,328	12,399	34	25,237
Other options						
Options written	-	13,875	27,349	4,227	89	45,540
Options purchased	-	10,969	25,994	4,254	127	41,344
Swaps	663	296,716	30,421	23,657	426	351,883
Total	13,819	346,062	338,585	118,879	1,133	818,478
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	147,328	-	-	-	147,328
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	-	-
Spot foreign exchange contracts	-	-	9,703	-	-	9,703
Total	-	-	9,703	-	-	9,703
Grand total	13,819	348,438	348,288	118,879	1,133	830,557

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's assets and liabilities not designated for hedging.
(c) Reclassified.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity on consolidated basis (cont'd)

	31 March 2015 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives (a)						
Gross negative fair value	-	159	-	-	-	159
b) ALM derivatives (a)(b)						
Gross positive fair value	306	9,583	7,564	1,323	58	18,834
Gross negative fair value	327	9,146	7,087	1,352	57	17,969
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-	-
e) Total						
Gross positive fair value (c)	306	9,583	7,564	1,323	58	18,834
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	306	9,583	7,564	1,323	58	18,834
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	18	31	300	16	1	366
Gross negative fair value (c)	327	9,305	7,087	1,352	57	18,128
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	327	9,305	7,087	1,352	57	18,128
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	-	7	904	110	2	1,023

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's assets and liabilities not designated for hedging.
(c) Of which: gross positive fair value of assets in respect of embedded derivative instruments in the amount of NIS 3 million (and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 42 million).

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity on consolidated basis (cont'd)

	31 December 2015 (Audited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives (a)						
Swaps	-	2,443	-	-	-	2,443
Total	-	2,443	-	-	-	2,443
Of which: interest rate swap contracts in which the banking institution agreed rate of interest	-	2,443	-	-	-	2,443
b) ALM derivatives (a)(b)						
Futures contracts	-	14,589	10	58,799	217	73,615
Forward contracts	12,525	14,300	179,448	366	11	206,650
Exchange-traded options						
Options written	-	262	14,797	11,129	100	26,288
Options purchased	-	250	15,292	11,129	101	26,772
Other options						
Options written	-	10,797	15,997	3,144	139	30,077
Options purchased	-	8,037	16,567	3,245	139	27,988
Swaps	587	268,113	28,668	27,384	299	325,051
Total	13,112	316,348	270,779	115,196	1,006	716,441
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	137,675	-	-	-	137,675
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	40	40
Spot foreign exchange contrac	-	-	9,086	-	-	9,086
Total	-	-	9,086	-	40	9,126
Grand total	13,112	318,791	279,865	115,196	1,046	728,010

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's assets and liabilities not designated for hedging.

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Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity on consolidated basis (cont'd)

	31 December 2015 (Audited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives (a)						
Gross positive fair value	-	1	-	-	-	1
Gross negative fair value	-	146	-	-	-	146
b) ALM derivatives (a)(b)						
Gross positive fair value	344	6,375	3,245	1,245	46	11,255
Gross negative fair value	392	5,949	3,340	1,258	45	10,984
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	1	1
e) Total						
Gross positive fair value (c)	344	6,376	3,245	1,245	46	11,256
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	344	6,376	3,245	1,245	46	11,256
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	31	20	147	65	-	263
Gross negative fair value (c)	392	6,095	3,340	1,258	46	11,131
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	392	6,095	3,340	1,258	46	11,131
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	-	6	482	37	-	525

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's assets and liabilities not designated for hedging.
(c) Of which: gross positive fair value of assets in respect of embedded derivative instruments in the amount of NIS 6 million (and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 33 million).

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

B. Credit risk in respect of derivative instruments by counterparty to the contract

	31 March 2016 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Book balance of assets in respect of derivative instruments (a) (b)	**188**	**8,383**	**2,260**	**27**	**2,295**	**13,153**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	**-**	**6,432**	**1,985**	**27**	**839**	**9,283**
Mitigation of credit risk in respect of cash collateral received	**-**	**829**	**229**	**-**	**5**	**1,063**
Net amount of assets in respect of derivative instruments	**188**	**1,122**	**46**	**-**	**1,451**	**2,807**
Off-balance sheet credit risk in respect of derivative instruments (d)	**-**	**3,513**	**1,155**	**68**	**4,500**	**9,236**
Mitigation of off-balance sheet credit risk	**-**	**1,710**	**592**	**41**	**1,741**	**4,084**
Net off-balance sheet credit risk in respect of derivative instruments	**-**	**1,803**	**563**	**27**	**2,759**	**5,152**
Total credit risk in respect of derivative instruments	**188**	**2,925**	**609**	**27**	**4,210**	**7,959**
Book balance of liabilities in respect of derivative instruments (a) (c)	**208**	**7,178**	**2,240**	**40**	**4,371**	**14,037**
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	**-**	**6,432**	**1,985**	**27**	**839**	**9,283**
Cash collateral pledged	**-**	**458**	**168**	**12**	**757**	**1,395**
Net amount of liabilities in respect of derivative instruments	**208**	**288**	**87**	**1**	**2,775**	**3,359**

See notes on page 177.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

B. Credit risk in respect of derivative instruments by counterparty to the contract (cont'd)

	31 March 2015 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Book balance of assets in respect of derivative instruments (a) (b)	173	11,368	3,438	4	3,851	18,834
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	3,753	1,191	4	929	5,877
Mitigation of credit risk in respect of cash collateral received	-	1,617	650	-	-	2,267
Net amount of assets in respect of derivative instruments	173	5,998	1,597	-	2,922	10,690
Off-balance sheet credit risk in respect of derivative instruments (d)	-	4,176	1,209	86	5,411	10,882
Mitigation of off-balance sheet credit risk	-	243	27	51	1,029	1,350
Net off-balance sheet credit risk in respect of derivative instruments	-	3,933	1,182	35	4,382	9,532
Total credit risk in respect of derivative instruments	173	9,931	2,779	35	7,304	20,222
Book balance of liabilities in respect of derivative instruments	202	9,920	3,057	107	4,842	18,128
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	3,753	1,191	4	929	5,877
Cash collateral pledged	-	375	148	74	56	653
Net amount of liabilities in respect of derivative instruments	202	5,792	1,718	29	3,857	11,598

See notes on page 177.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

B. Credit risk in respect of derivative instruments by counterparty to the contract (cont'd)

	31 December 2015 (Audited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Book balance of assets in respect of derivative instruments (a) (b)	169	6,653	1,880	6	2,548	11,256
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	2,951	1,085	6	821	4,863
Mitigation of credit risk in respect of cash collateral received	-	731	252	-	96	1,079
Net amount of assets in respect of derivative instruments	169	2,971	543	-	1,631	5,314
Off-balance sheet credit risk in respect of derivative instruments (d)	-	3,551	1,220	71	4,963	9,805
Mitigation of off-balance sheet credit risk	-	379	97	43	2,392	2,911
Net off-balance sheet credit risk in respect of derivative instruments	-	3,172	1,123	28	2,571	6,894
Total credit risk in respect of derivative instruments	169	6,143	1,666	28	4,202	12,208
Book balance of liabilities in respect of derivative instruments (a) (c)	194	6,427	1,707	91	2,712	11,131
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	2,951	1,085	6	821	4,863
Cash collateral pledged	-	341	68	29	1	439
Net amount of liabilities in respect of derivative instruments	194	3,135	554	56	1,890	5,829

(a) The Bank did not offset master netting arrangements.
(b) Of which a book balance of assets in respect of standalone derivative instruments in the amount of NIS 13,150 million (at 31 March 2015 - NIS 18,831 million, at 31 December 2015 – NIS 11,250 million).
(c) Of which a book balance of standalone derivative instruments in the amount of NIS 13,996 million (at 31 March 2015 - NIS 18,086 million, at 31 December 2015 – NIS 11,098 million).
(d) Credit risk in respect of off-balance sheet financial instruments (imcluding in respect of derivative instruments with negative fair value) before mitigation of credit risk, as calculated for the purpose of single borrower credit limitations.

Note:
In the three month period ended 31 March 2016, in the corresponding period last year, and in December 2015, no credit losses were recognized in respect of derivative instruments.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

C. Repayment Dates – Nominal Amounts: Balances

	31 March 2016 (Unaudited)				
	Unaudited				
	Up to three months	From three months to one year	From one to five years	Over five years	Total
	(NIS millions)				
Interest contracts:					
Shekel – index	**512**	**3,774**	**5,680**	**2,775**	**12,741**
Other	**37,024**	**72,466**	**140,951**	**77,777**	**328,218**
Foreign currency contracts	**185,502**	**87,637**	**29,086**	**7,357**	**309,582**
Contracts in respect of shares	**77,282**	**26,278**	**1,006**	**4**	**104,570**
Commodities and other contracts	**844**	**271**	**75**	**-**	**1,190**
Total	**301,164**	**190,426**	**176,798**	**87,913**	**756,301**
Total 31 March 2015 (Unaudited)	337,927	196,676	195,624	100,330	830,557
Total 31 December 2015 (Audited)	297,910	168,935	166,537	94,628	728,010

Note 12A – Regulatory operating segments

Regulatory operating segments

On 3 November 2014, a circular regarding reporting on operating segments and a file of questions and answers for implementation was published. On 10 September 2015, an update to the file of questions and answers was published.

The circular updates the Public Reporting Directives in all matters related to the reporting requirements for regulatory operating segments, and, *inter alia*, includes a change in certain definitions and instructions according to which the banks will be required to categorize customers to regulatory segments and update their reports.

The new rules will apply from the financial statements for 2015 and thereafter in the manner set forth below:

1. In the financial statements for 2015, there is a disclosure requirement in connection with the balance sheet data in relation to the regulatory operating segments as defined in the new provisions. In accordance with the new provisions, it is permissible not to provide disclosure of comparative figures for balance sheet data of regulatory operating segments, but rather to include comparative figures, in accordance with the Public Reporting Directives which were in effect prior to the introduction of the circular. In addition, disclosure is not required of the Financial Management segment.
   These disclosure requirements are in addition to the disclosure requirements on operating segments in accordance with the Public Reporting Directives which were in effect prior to the introduction of the circular.
2. With effect from the financial statements for the first quarter of 2016, full disclosure is required according to the new rules, except for disclosure of the Financial Management segment. Comparative figures should be retroactively adjusted. It is permitted to present comparative figures of one year only in the 2016 statements, in relation to the note on regulatory operating segments. For the purpose of presenting the comparative figures, it will be possible to rely on the classification of the customer to the regulatory operating segments as of 1 January 2016.
3. Commencing with the financial statements for the first quarter of 2017, the requirements of the circular must be implemented in full.

Note 12A – Regulatory operating segments (cont.)

The following is a description of the main operating segments prescribed by the Bank of Israel directives:

1. Households segment - The provision of banking services to private individuals, except customers included in Private Banking.
2. Private Banking segment -The provision of banking services to private individuals whose balance of the financial asset portfolio they have in the Bank (including monetary deposits, securities portfolio and other monetary assets) exceeds NIS 3 million.
3. Small and micro-businesses segment - The provision of banking services to businesses whose activity turnover (annual total sales or annual total income) is less than NIS 50 million.
4. Mid-sized business segment - The provision of banking services to a business whose activity turnover is greater than or equal to NIS 50 million and less than NIS 250 million.
5. Large businesses segment - The provision of banking services to a business whose activity turnover is greater than or equal to NIS 250 million.
6. Financial management segment - Includes the following activities:
   a. Trading activity – Investment in securities for trading, market-making activity in securities and derivative instruments, activity in derivative instruments non-designated for hedging and not part of the management of the assets and liabilities of the banking corporation, repurchase and lending transactions of securities for trading, short selling of securities, underwriting of securities services.
   b. Asset and liability management activity – Including investment in available-for-sale debentures and debentures held to maturity, that are not attributed to other activity segments (with a borrower having no indebtedness to the Bank, apart from securities), hedging derivative instruments and derivative instruments which are part of asset and liability management, deposits in banks and from banks in Israel and around the world, hedging or protective exchange rate differences of investments in overseas offices, deposits in and of governments.
   c. Non-bank investment activity – Investment in vas shares and investment in companies included on equity basis of businesses.
   d. Other – Management, operating, trust and custody services for banks, consultancy services, selling activity and credit portfolio management, and financial product development activities.
7. Other segment - Including discontinued activities, designated profits and other results connected to employee rights not attributed to the other activity segments, activities not attributed to other segments, and adjustments between the total of all the items attributed to the segments and the total of all the items in the consolidated financial statements.

Note 12A – Regulatory operating segments (cont.)

Information on regulatory operating segments - consolidated

	For the three months ended 31 March 2016			
	Activity in Israel			
	Households	Private banking	Small and micro businesses	Mid-sized businesses
Interest income from outside entities	570	2	491	167
Interest expense to outside entities	8	-	14	12
Interest income, net:				
From outside entities	562	2	477	155
Intersegmental	46	19	(26)	1
Total interest income (expenses)	608	21	451	156
Non-interest income (expenses), net:				
From outside entities	273	26	123	117
Intersegmental	153	17	81	(25)
Total non-interest income (expenses)	426	43	204	92
Total income (expenses)	1,034	64	655	248
Expenses in respect of credit losses	85	3	63	(26)
Operating and other expenses:				
To outside entities	910	38	345	114
Intersegmental	8	-	-	-
Total operating and other expenses	918	38	345	114
Profit (loss) before taxes	31	23	247	160
Provision for taxes on the profit	4	7	88	58
Profit (loss) after taxes	27	16	159	102
Share of the banking corporation in profits of companies included on equity basis	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	27	16	159	102
Net profit (loss) attributed to non-controlling interests	(10)	-	(1)	-
Net profit (loss) attributed to shareholders of the banking corporation	17	16	158	102
Average balance of assets (a)	116,256	589	56,394	26,422
Of which: Investments in companies included on equity basis (a)	3	-	-	-
Average balance of credit to the public (a)	114,640	549	55,809	25,000
Balance of credit to the public at the end of the reporting period	113,714	587	58,838	25,108
Balance of impaired debts	367	-	1,409	371
Balance of debts in arrears of more than 90 days	715	-	127	6
Average balance of liabilities (a)	115,187	30,115	39,024	28,221
Of which: Average balance of deposits of the public (a)	110,415	29,996	37,638	27,447
Balance of deposits of the public at the end of the reporting period	111,502	28,662	40,301	27,654
Average balance of risk assets (a) (b)	72,931	405	48,301	29,498
Balance of risk assets at the end of the reporting period (b)	72,348	400	46,821	29,584
Average balance of assets under management (a) (c)	79,443	53,781	32,779	20,239
Distribution of interest income (expenses), net:				
Margin on credit granting activity	551	4	434	147
Margin on deposit taking activity	57	17	17	9
Total interest income, net	608	21	451	156

(a) Average balances were calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.
(b) Risk assets – as calculated for capital adequacy purposes.
(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers.

					Activity abroad				
Large businesses	Instiitutional entities	Finnancial management segment	Other segment	Total activity in Israel	Private persons	Business activity	Other	Total activity abroad	Total
229	2	205	1	1,667	15	213	30	258	1,925
31	56	117	-	238	11	16	5	32	270
198	(54)	88	1	1,429	4	197	25	226	1,655
(10)	64	(110)	6	(10)	36	(18)	(8)	10	-
188	10	(22)	7	1,419	40	179	17	236	1,655
83	26	356	8	1,012	41	28	(49)	20	1,032
55	7	(243)	(47)	(2)	-	-	2	2	-
138	33	113	(39)	1,010	41	28	(47)	22	1,032
326	43	91	(32)	2,429	81	207	(30)	258	2,687
(227)	(8)	(4)	2	(112)	-	(1)	(10)	(11)	(123)
127	32	71	143	1,780	72	109	29	210	1,990
-	-	25	(33)	-	-	-	-	-	-
127	32	96	110	1,780	72	109	29	210	1,990
426	19	(1)	(144)	761	9	99	(49)	59	820
153	7	(3)	35	349	(2)	31	(7)	22	371
273	12	2	(179)	412	11	68	(42)	37	449
-	-	19	-	19	-	-	-	-	19
273	12	21	(179)	431	11	68	(42)	37	468
-	-	2	-	(9)	-	-	-	-	(9)
273	12	23	(179)	422	11	68	(42)	37	459
46,384	3,833	148,472	1,149	399,499	3,028	20,746	11,036	34,810	434,309
-	-	896	-	899	-	-	-	-	899
45,814	667	235	3	242,717	2,152	19,194	12	21,358	264,075
45,913	928	167	4	245,259	2,130	20,305	11	22,446	267,705
797	-	-	-	2,945	51	695	-	746	3,691
2	-	-	1	850	1	6	-	7	857
40,146	57,256	78,367	596	388,912	9,462	15,052	2,710	27,224	416,136
38,655	53,503	2,306	22	299,982	8,767	13,188	1,577	23,532	323,514
37,455	57,620	2,336	40	305,570	8,459	14,272	2,053	24,784	330,354
65,354	1,512	30,445	13,186	261,632	3,215	15,900	6,717	25,832	287,464
60,895	1,852	31,584	11,847	255,331	2,434	17,510	437	20,381	275,712
74,177	287,962	223,332	-	771,713	12,989	2,300	2,540	17,829	789,542
180	2	333	1	1,652	3	581	17	601	2,253
8	8	(355)	6	(233)	37	(402)	-	(365)	(598)
188	10	(22)	7	1,419	40	179	17	236	1,655

Note 12A – Regulatory operating segments (cont.)

Information on regulatory operating segments – consolidated (cont.)

	For the three months ended 31 March 2015			
	Activity in Israel			
	Households	Private banking	Small and micro businesses	Mid-sized businesses
Interest income from outside entities	323	1	415	147
Interest expense to outside entities	(42)	(17)	5	3
Interest income (expenses), net				
From outside entities	365	18	410	144
Intersegmental	247	(5)	(19)	9
Total interest income (expenses)	612	13	391	153
Non-interest income (expenses), net:				
From outside entities	311	32	241	28
Intersegmental	113	17	(25)	72
Total non-interest income (expenses)	424	49	216	100
Total income (expenses)	1,036	62	607	253
Expenses in respect of credit losses	45	5	47	(46)
Operating and other expenses:				
To outside entities	990	41	360	121
Intersegmental	(17)	-	-	-
Total operating and other expenses	973	41	360	121
Profit (loss) before taxes	18	16	200	178
Provision for taxes on the profit	4	6	75	66
Profit (loss) after taxes	14	10	125	112
Share of the banking corporation in profits of companies included on equity basis	1	-	-	-
Net profit (loss) before attribution to non-controlling interests	15	10	125	112
Net profit (loss) attributed to non-controlling interests	(7)	-	(1)	-
Net profit (loss) attributed to shareholders of the banking corporation	8	10	124	112
Average balance of assets	108,356	477	52,565	26,246
Of which: Investments in companies included on equity basis	3	-	-	-
Average balance of credit to the public	107,146	447	52,244	25,150
Balance of credit to the public at the end of the reporting period	107,792	471	53,314	24,045
Balance of impaired debts	428	-	2,138	393
Balance of debts in arrears of more than 90 days	770	-	119	6
Average balance of liabilities (a)	102,495	24,904	34,538	23,527
Of which: Average balance of deposits of the public (a)	97,668	24,820	32,369	22,873
Balance of deposits of the public at the end of the reporting period	99,474	24,944	33,573	23,538
Average balance of risk assets (a) (b)	72,461	344	48,329	32,113
Balance of risk assets at the end of the reporting period (b)	70,684	335	47,032	31,265
Average balance of assets under management (a) (c)	91,308	55,491	39,051	22,136
Distribution of interest income, net:				
Margin on credit granting activity	552	-	378	146
Margin on deposit taking activity	60	13	13	7
Total interest income, net	612	13	391	153

(a) Average balances to be calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.
(b) Risk assets – as calculated for capital adequacy purposes.
(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers.

					Activity abroad				
Large businesses	Instiitutional entities	Finnancial management segment	Other segment	Total activity in Israel	Private persons	Business activity	Other	Total activity abroad	Total
227	1	139	-	1,253	32	200	17	249	1,502
17	10	(22)	-	(46)	12	16	4	32	(14)
210	(9)	161	-	1,299	20	184	13	217	1,516
17	16	(261)	1	5	29	(24)	(10)	(5)	-
227	7	(100)	1	1,304	49	160	3	212	1,516
(89)	(6)	1,826	53	2,396	73	11	(55)	29	2,425
221	33	(443)	(15)	(27)	1	-	26	27	-
132	27	1,383	38	2,369	74	11	(29)	56	2,425
359	34	1,283	39	3,673	123	171	(26)	268	3,941
79	-	-	(3)	127	1	(18)	(29)	(46)	81
131	34	62	180	1,919	166	128	22	316	2,235
-	-	31	(14)	-	-	-	-	-	-
131	34	93	166	1,919	166	128	22	316	2,235
149	-	1,190	(124)	1,627	(44)	61	(19)	(2)	1,625
55	-	414	(77)	543	1	25	(4)	22	565
94	-	776	(47)	1,084	(45)	36	(15)	(24)	1,060
-	-	130	-	131	-	-	-	-	131
94	-	906	(47)	1,215	(45)	36	(15)	(24)	1,191
(1)	-	-	-	(9)	1	-	(1)	-	(9)
93	-	906	(47)	1,206	(44)	36	(16)	(24)	1,182
47,714	1,233	127,927	7,393	371,911	6,245	19,961	9,683	35,889	407,800
-	-	892	-	895	-	-	1	1	896
46,649	1,021	793	533	233,983	3,239	20,155	40	23,434	257,417
44,054	1,066	711	-	231,453	2,599	20,090	81	22,770	254,223
845	-	2	-	3,806	42	999	-	1,041	4,847
2	-	-	-	897	24	7	-	31	928
42,461	59,768	75,911	4,780	368,384	14,652	14,327	1,993	30,972	399,356
40,695	54,540	1,538	1	274,504	14,032	14,065	594	28,691	303,195
39,308	55,250	1,719	2	277,808	11,956	14,065	1,188	27,209	305,017
68,825	1,583	41,180	5,068	269,902	5,025	18,623	4,480	28,127	298,029
66,975	1,540	31,582	4,931	254,344	5,025	18,623	4,480	28,127	282,471
81,944	275,381	233,705	-	799,016	28,537	4,320	1,447	34,304	833,320
221	1	(38)	-	1,260	12	94	3	109	1,369
6	6	(62)	1	44	37	66	-	103	147
227	7	(100)	1	1,304	49	160	3	212	1,516

Note 12B – Operating segments – Management Approach

The report of the operating segments according to the management's approach presents the Bank's results according to business lines, in accordance with the Bank's organizational structure.

The business lines specialize in providing service to customer segments having similar characteristics and needs.

The Bank in Israel is organized into six business lines:

1. Banking – providing banking services to private and small business customers. The business line includes the mortgage department and private banking department.
2. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.
3. Corporate - providing banking and financial services to large companies and international corporations in the economy, with their activity in Israel and abroad.
4. Real estate - providing banking and financial services to the real estate and construction segment.
5. Capital market – managing the Bank's nostro, managing assets and commitments, and managing investments and financial assets.
6. Other – activities not attributed to other business lines.

Operational results are attributed to the business line in which the customer's account is managed.

- Net interest income - the business line is credited with interest received from loans that it made available, less the cost of raising the sources (transfer cost). In addition, the business line is credited with the transfer cost for deposits that were raised less the interest that was paid to the customer.
- Noninterest incomes (financing incomes that are not from interest, commissions and other income) – are attributed to the business line according to the customer's activity.
- Business line expenses – include the direct expenses of the business line, and also expenses of headquarters' units providing services are charged to the business line.

The results of the business lines' activity, both on the side of the balance sheet and on the profit and loss side, are regularly examined by the management. Examination of the results is done using targets set within the framework of the annual work plan and against data from the corresponding period in the previous year. In addition, an examination is carried out of a variety of additional metrics relating to the business line's activity.

Note 12B – Operating segments – Management Approach (cont.)

Below is a condensed summary of operating results by management approach

For the three months ended 31 March 2016

NIS millions

	Bank						Subsidiaries in Israel (a)	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income (expenses), net	**911**	**221**	**115**	**142**	**21**	**(14)**	**40**	**219**	**1,655**
Non-interest income (expenses)	**431**	**107**	**52**	**85**	**(54)**	**65**	**324**	**22**	**1,032**
Total income (expenses)	**1,342**	**328**	**167**	**227**	**(33)**	**51**	**364**	**241**	**2,687**
Expenses (income) in respect of credit losses	**154**	**(11)**	**(82)**	**(176)**	**(4)**	**5**	**2**	**(11)**	**(123)**
Total operating and other expenses	**1,051**	**163**	**87**	**42**	**71**	**155**	**213**	**208**	**1,990**
Profit (loss) before tax	**137**	**176**	**162**	**361**	**(100)**	**(109)**	**149**	**44**	**820**
Tax expenses (income)	**70**	**85**	**78**	**175**	**(48)**	**(52)**	**45**	**18**	**371**
Net profit (loss) attributed to shareholders of the banking corporation	**67**	**91**	**84**	**186**	**(51)**	**(57)**	**113**	**26**	**459**
Balances as at 31 March 2016									
Credit to the public, net	**139,269**	**33,722**	**32,074**	**24,364**	**3,788**	**2,639**	**6,234**	**22,043**	**264,133**
Deposits of the public	**180,748**	**39,678**	**17,794**	**6,587**	**60,561**	**124**	**78**	**24,784**	**330,354**
Assets under management	**180,009**	**25,607**	**17,073**	**2,556**	**334,291**	**23,970**	**183,630**	**19,144**	**786,280**

For the three months ended 31 March 2015

NIS millions

	Bank						Subsidiaries in Israel	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	781	200	149	122	(85)	13	120	216	1,516
Non-interest income	452	112	53	81	433	599	639	56	2,425
Total income	1,233	312	202	203	348	612	759	272	3,941
Expenses (income) in respect of credit losses	80	(37)	50	32	1	(1)	2	(46)	81
Total operating and other expenses	1,042	181	92	43	78	208	273	318	2,235
Profit before tax	111	168	60	128	269	405	484	-	1,625
Tax expenses	36	59	21	44	96	151	135	23	565
Net profit attributed to shareholders of the banking corporation	75	109	39	84	296	254	348	(23)	1,182
Balances as at 31 March 2015									
Credit to the public, net	125,138	30,323	31,731	23,483	3,948	2,330	11,088	22,234	250,275
Total assets	129,665	32,283	33,073	23,458	130,606	1,759	14,423	34,052	399,319
Deposits of the public	153,196	36,215	18,571	6,850	58,632	(560)	4,903	27,210	305,017
Assets under management	194,864	31,436	18,140	2,167	334,747	31,428	195,799	26,578	835,159
Balances as at 31 December 2015									
Credit to the public, net	133,050	32,857	30,740	24,323	2,887	2,509	11,689	23,344	261,339
Total assets	168,774	41,593	20,139	6,859	59,350	166	5,250	26,562	328,693
Deposits of the public	181,825	28,401	17,381	1,754	336,709	23,854	187,755	19,382	797,061

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses

A. Debts[a] and off-balance sheet credit instruments
Allowance for credit losses

1. Change in balance of allowance for credit losses

	For the three months ended 31 March 2016 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of allowance for credit losses at beginning of the reporting period	**2,933**	**513**	**707**	**4,153**	**3**	**4,156**
Expenses (income) in respect of credit losses	**(219)**	**(2)**	**99**	**(122)**	**(1)**	**(123)**
Accounting write-offs	**(251)**	**(2)**	**(142)**	**(395)**	**-**	**(395)**
Collection of debts written off in previous years	**321**	**-**	**90**	**411**	**-**	**411**
Net accounting write-offs	**70**	**(2)**	**(52)**	**16**	**-**	**16**
Adjustments from translation of financial statements	**(6)**	**1**	**1**	**(4)**	**-**	**(4)**
Balance of allowance for credit losses at end of the reporting period[1]	**2,778**	**510**	**755**	**4,043**	**2**	**4,045**
[1]Of which: in respect of off-balance sheet credit instruments	**438**	**-**	**33**	**471**	**-**	**471**

	For the three months ended 31 March 2015 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of allowance for credit losses at beginning of reporting period	3,317	513	652	4,482	4	4,486
Expenses in respect of credit losses	37	(3)	48	82	(1)	81
Accounting write-offs	(185)	(1)	(148)	(334)	-	(334)
Collection of debts written off in previous years	81	-	98	179	-	179
Net accounting write-offs	(104)	(1)	(50)	(155)	-	(155)
Adjustments from translation of financial statements	6	(1)	(1)	4	-	4
Balance of allowance for credit losses at end of the reporting period[1]	3,256	508	649	4,413	3	4,416
[1]Of which: in respect of off-balance sheet credit instruments	426	-	39	465	-	465

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont.)

A. Debts[a] and off-balance sheet credit instruments (cont'd)

2. Additional information on the method of calculating the credit loss allowance in respect of debts[a] and on debts[a] on which it was calculated

	31 March 2016 (Unaudited)					
	Credit to the public				Banks and	
	Commercial	Residential	Other private	Total	govern-ments	Total
	(NIS millions)					
Recorded debt balance of debts[a]						
Examined on an individual basis	**113,292**	**61**	**1,374**	**114,727**	**8,174**	**122,901**
Examined on a collective basis[1]	**35,575**	**81,419**	**35,984**	**152,978**	**3,561**	**156,539**
[1]Of which: the allowance was calculated by extent of arrears (c)	**1,032** (c)	**80,366**	**-**	**81,398**	**-**	**81,398**
Total debts(a)[2]	**148,867**	**81,480**	**37,358**	**267,705**	**11,735**	**279,440**
[2]Of which:						
Debts under restructuring	**1,748**	**-**	**107**	**1,855**	**-**	**1,855**
Other impaired debts	**1,729**	**-**	**107**	**1,836**	**-**	**1,836**
Total impaired debts	**3,477** (c)	**-**	**214**	**3,691**	**-**	**3,691**
Debts in arrears of 90 days or more	**62**	(c) **719**	**76**	**857**	**-**	**857**
Other problem debts	**3,091**	(c) **28**	**245**	**3,364**	**-**	**3,364**
Total impaired debts	**6,630**	(c)**747**	**535**	**7,912**	**-**	**7,912**
Allowance for credit losses for debts[a]:						
Examined on an individual basis	**1,987**	**13**	**115**	**2,115**	**2**	**2,117**
Examined on a collective basis[3]	**353**	**497**	**607**	**1,457**	**-**	**1,457**
[3]Of which the allowance was calculated by extent of arrears (b)	**-**	**495**	**-**	**495**	**-**	**495**
Total allowance for credit losses[4]	**2,340**	**510**	**722**	**3,572**	**2**	**3,574**
[4]Of which in respect of impaired debts	**667**	**-**	**23**	**690**	**-**	**690**

(a) Credit to the public, credit to governments, deposits in banks (excluding in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Including the balance of the allowance in excess of that required by the extent of arrears method calculated on a collective basis in the amount of NIS 307 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont.)

A. Debts[a] and off-balance sheet credit instruments (cont'd)

2. Additional information on the method of calculating the credit loss allowance in respect of debts[a] and on debts[a] on which it was calculated

	31 March 2015 (Unaudited)					
	Credit to the public				Banks and govern-ments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Recorded debt balance of debts[a]						
Examined on an individual basis	106,882	46	872	107,800	10,056	117,856
Examined on a collective basis[1]	35,914	76,092	34,417	146,423	1,782	148,205
[1]Of which: the allowance was calculated by extent of arrears	1,269(c)	73,679(c)	-	74,948	-	74,948
Total debts(a)2	142,796	76,138	35,289	254,223	11,838	266,061
[2]Of which:						
Debts under restructuring	2,441	-	100	2,541	-	2,541
Other impaired debts	2,245	-	61	2,306	-	2,306
Total impaired debts	4,686	-	161	4,847	-	4,847
Debts in arrears of 90 days or more	69	766	93	928	-	928
Other problem debts	4,237	8	268	4,513	-	4,513
Total impaired debts	8,992	774	522	10,288	-	10,288
Allowance for credit losses for debts[a]:						
Examined on an individual basis	2,542	14	80	2,636	3	2,639
Examined on a collective basis[3]	288	494	530	1,312	-	1,312
[3]Of which the allowance was calculated by extent of arrears (b)	1 (c)	491 (c)	-	492	-	492
Total allowance for credit losses[4]	2,830	508	610	3,948	3	3,951
[4]Of which in respect of impaired debts	1,074	-	83	1,157	-	1,157

(a) Credit to the public, credit to governments, deposits in banks (excluding in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Including the balance of the allowance in excess of that required by the extent of arrears method, calculated on a collective basis in the amount of NIS 296 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction.

(d) Restated.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont.)

A. Debts[a] and off-balance sheet credit instruments (cont'd)

2. Additional information on the method of calculating the credit loss allowance in respect of debts[a] and on debts[a] on which it was calculated

	31 December 2015 (Audited)					
	Credit to the public				Banks and govern-ments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Recorded debt balance of debts[a]						
Examined on an individual basis	107,768	45	852	108,665	7,515	116,180
Examined on a collective basis[1]	38,097	81,760 (c)	36,548	156,405	3,254	159,659
[1]Of which: the allowance was calculated by extent of arrears	1,014 (c)	80,616	-	81,630	-	81,630
Total debts(a)[2]	145,865	81,805	37,400	265,070	10,769	275,839
[2]Of which:						
Debts under restructuring	2,192	-	86	2,278	-	2,278
Other impaired debts	1,617	-	26	1,643	-	1,643
Total impaired debts	3,809	-	112	3,921	-	3,921
Debts in arrears of 90 days or more	67	770	105	942	-	942
Other problem debts	3,151 (d)	11	299 (d)	3,461	-	3,461
Total impaired debts	7,027	781	516	8,324	-	8,324
Allowance for credit losses for debts[a]:						
Examined on an individual basis	2,177	15	93	2,285	3	2,288
Examined on a collective basis[3]	307	498	581	1,386	-	1,386
[3]Of which the allowance was calculated by extent of arrears (b)	1	497	-	498	-	498
Total allowance for credit losses[4]	2,484	513	674	3,671	3	3,674
[4]Of which in respect of impaired debts	824	-	43 (d)	867	-	867

(a) Credit to the public, credit to governments, deposits in banks (excluding in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(b) Including the balance of the allowance in excess of that required by the extent of arrears method, calculated on a collective basis in the amount of NIS 296 million.
(c) Including the balance of housing loans granted to purchasing groups in process of construction.
(d) Reclassified.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts [a]

1. Credit quality and arrears

	31 March 2016 (Unaudited)					
		Problem debts (b)			Unimpaired debts - additional information	
	Non problematic	Not impaired	Impaired (c)	Total	In arrears of 90 days or more (d)	In arrears of 30 to 89 days (e)
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction (g)	15,464	294	274	16,032	9	33
Construction & real estate - real estate activities (g)	23,737	708	734	25,179	5	19
Financial services	10,576	13	46	10,635	2	1
Commercial - other	65,694	1,746	1,741	69,181	40	142
Total commercial	115,471	2,761	2,795	121,027	56	195
Private individuals - housing loans (f)	79,607	747	-	80,354	719 (i)	493
Private individuals - other	36,637	318	141	37,096	75	281
Total public - activity in Israel	231,715	3,826	2,936	238,477	850	969
Israeli banks	2,354	-	-	2,354	-	-
Government of Israel	196	-	-	196	-	-
Total activity in Israel	234,265	3,826	2,936	241,027	850	969
Activity of borrowers abroad						
Public - commercial						
Construction & real estate (g)	8,711	115	377	9,203	4	33
Commercial - other	18,055	277	305	18,637	2	48
Total commercial	26,766	392	682	27,840	6	81
Private individuals	1,312	3	73	1,388	1	3
Total public - activity abroad	28,078	395	755	29,228	7	84
Foreign banks	8,969	-	-	8,969	-	-
Foreign governments	216	-	-	216	-	-
Total activity abroad	37,263	395	755	38,413	7	84
Total public	259,793	4,221	3,691	267,705	857	1,053
Total banks	11,323	-	-	11,323	-	-
Total governments	412	-	-	412	-	-
Total	271,528	4,221	3,691	279,440	857	1,053

See notes on page 194.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

1. Credit quality and arrears (cont'd)

	31 March 2015 (Unaudited)					
		Problem debts (b)			Unimpaired debts - additional information	
	Non problematic	Not impaired	Impaired (c)	Total	In arrears of 90 days or more (d)(g)	In arrears of 30 to 89 days (e)(g)
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	15,661	263	619	16,543	8	24
Construction & real estate - real estate activities	21,027	503	1,338	22,868	5	21
Financial services	10,026	28	17	10,071	1	10
Commercial - other	61,190	3,019	1,655	65,864	48	91
Total commercial	107,904	3,813	3,629	115,346	62	146
Private individuals - housing loans (f)	74,206	757	-	74,963	749	468
Private individuals - other	34,476	335	102	34,913	86	194
Total public - activity in Israel	216,586	4,905	3,731	225,222	897	808
Israeli banks	1,662	-	-	1,662	-	-
Government of Israel	249	-	-	249	-	-
Total activity in Israel	218,497	4,905	3,731	227,133	897	808
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	8,610	25	545	9,180	5	48
Commercial - other	17,290	468	512	18,270	2	365
Total commercial	25,900	493	1,057	27,450	7	413
Private individuals	1,466	26	59	1,551	24	4
Total public - activity abroad	27,366	519	1,116	29,001	31	417
Foreign banks (g)	9,743	-	-	9,743	-	-
Foreign governments	184	-	-	184	-	-
Total activity abroad	37,293	519	1,116	38,928	31	417
Total public	243,952	5,424	4,847	254,223	928	1,225
Total banks	11,405	-	-	11,405	-	-
Total governments	433	-	-	433	-	-
Total	255,790	5,424	4,847	266,061	928	1,225

See notes on page 194.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

1. Credit quality and arrears (cont'd)

	31 December 2015 (Audited)					
		Problem debts (b)			Unimpaired debts - additional information	
	Non problematic	Not impaired	Impaired (c)	Total	In arrears of 90 days or more (d)	In arrears of 30 to 89 days (e)
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	14,705	420	563	15,688	11	33
Construction & real estate - real estate activities	23,182 (g)	553	918	24,653	6	13
Financial services	9,495	13	62	9,570	2	1
Commercial - other	64,014	1,798	1,502	67,314	42	108
Total commercial	111,396	2,784	3,045	117,225	61	155
Private individuals - housing loans (f)	79,852	781	-	80,633	753	481
Private individuals - other	36,546	385	60	36,991	105	187
Total public - activity in Israel	227,794	3,950	3,105	234,849	919	823
Israeli banks	2,146	-	-	2,146	-	-
Government of Israel	262	-	-	262	-	-
Total activity in Israel	230,202	3,950	3,105	237,257	919	823
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	9,283	66	434	9,783	4	113
Commercial - other	18,159	368	330	18,857	2	128
Total commercial	27,442	434	764	28,640	6	241
Private individuals	1,510	19	52	1,581	17	4
Total public - activity abroad	28,952	453	816	30,221	23	245
Foreign banks	8,170	-	-	8,170	-	-
Foreign governments	191	-	-	191	-	-
Total activity abroad	37,313	453	816	38,582	23	245
Total public	256,746	4,403	3,921	265,070	942	1,068
Total banks	10,316	-	-	10,316	-	-
Total governments	453	-	-	453	-	-
Total	267,515	4,403	3,921	275,839	942	1,068

See notes on page 194.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

1. Credit quality and arrears (cont'd)

Notes:

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Impaired, substandard or special mention credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision that are in arrears of 90 days or more.

(c) As a rule, impaired debts do not accrue interest income. For information on certain impaired debts under troubled debt restructuring, see Note 13(B)(2)C below.

(d) Classified as problem debts that are not impaired, accruing interest income.

(e) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of NIS 524 million were classified as problem debts that are not impaired (31 March 2015 – NIS 482 million, 31 December 2015 – NIS 503 million).

(f) Including balance of housing loans in the amount of NIS 144 million (31 March 2015 – NIS 159 million, 31 December 2015 – NIS 144 million) with a provision by extent of arrears, in which an arrangement was signed for the repayment of arrears by the borrower, with a change made to the repayment schedule in respect of the loan balance of which the repayment date has not yet arrived.

(g) 5.3% of credit for income generating properties granted by the Construction and Real Estate Division of the Bank has LTV rates in excess of 85%.

(h) Reclassified.

(i) The balance of non-impaired debts in arrears of 90 days or more, as of 31 March 2016, NIS 857 million, is credit granted by the Bank, of which NIS 138 million is for non-housing loans for which the period of arrears is 90-149 days and NIS 719 million for housing loans, of which a total of NIS 169 million is in arrears of up to 149 days, NIS 159 million is in arrears of 150-249 days and the balance is in respect of a debt in arrears of 150 days or more.

Credit quality – status of debts in arrears[(a)]

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming (not accruing interest income) after 90 days of arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is one day of arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears). In most cases after 150 days of arrears, the Bank performs a charge-off of the debt. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)
2. Additional information on impaired debts
a. Impaired debts and individual allowance

	31 March 2016 (Unaudited)				
	Balance (b) of impaired debts in respect of which there is an andividual allowance (c)	Balance of individual allowance (c)	Balance (b) of impaired debts in respect of which there is no individual allowance (c)	Total balance (b) of impaired debts	Principal contractual balance of impaired debts
	(NIS millions)				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate - construction	104	22	170	274	851
Construction & real estate - real estate activities	591	117	143	734	1,948
Financial services	-	-	46	46	561
Commercial - other	1,417	305	324	1,741	4,979
Total commercial	2,112	444	683	2,795	8,339
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	75	6	66	141	2,080
Total public - activity in Israel	2,187	450	749	2,936	10,419
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	2,187	450	749	2,936	10,419
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	262	134	115	377	508
Commercial - other	244	89	61	305	594
Total commercial	506	223	176	682	1,102
Private individuals	35	17	38	73	119
Total public - activity abroad	541	240	214	755	1,221
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	541	240	214	755	1,221
Total public	2,728	690	963	3,691	11,640
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	2,728	690	963	3,691	11,640
Of which:					
Measured by present value of cash flows	2,076	427	517	2,593	
Debts under troubled debt restructuring	1,183	175	672	1,855	

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(b) Recorded balance of debt.
(c) Individual allowance for credit losses.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

a. Impaired debts and individual allowance (cont'd)

	31 March 2015 (Unaudited)				
	Balance (b) of impaired debts in respect of which there is an andividual allowance (c)	Balance of individual allowance (c)	Balance (b) of impaired debts in respect of which there is no individual allowance (c)	Total balance (b) of impaired debts	Principal contractual balance of impaired debts
	(NIS millions)				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate - construction	187	54	432	619	1,185
Construction & real estate - real estate activities	981	304	357	1,338	2,568
Financial services	5	2	12	17	531
Commercial - other	1,120	382	535	1,655	5,106
Total commercial	2,293	742	1,336	3,629	9,390
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	82	61	20	102	1,867
Total public - activity in Israel	2,375	803	1,356	3,731	11,257
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	2,375	803	1,356	3,731	11,257
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	296	174	249	545	705
Commercial - other	335	158	177	512	849
Total commercial	631	332	426	1,057	1,554
Private individuals	32	22	27	59	90
Total public - activity abroad	663	354	453	1,116	1,644
Foreign banks	-	-	-	-	1
Foreign governments	-	-	-	-	-
Total activity abroad	663	354	453	1,116	1,645
Total public	3,038	1,157	1,809	4,847	12,901
Total banks	-	-	-	-	1
Total governments	-	-	-	-	-
Total	3,038	1,157	1,809	4,847	12,902
Of which:					
Measured by present value of cash flows	1,416	725	1,160	2,576	
Debts under troubled debt restructuring (d)	1,565	404	976	2,541	

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(b) Recorded balance of debt.
(c) Individual allowance for credit losses.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

a. Impaired debts and individual allowance (cont'd)

	31 December 2015 (Audited)				
	Balance (b) of impaired debts in respect of which there is an andividual allowance (c)	Balance of individual allowance (c)	Balance (b) of impaired debts in respect of which there is no individual allowance (c)	Total balance (b) of impaired debts	Principal contractual balance of impaired debts
	(NIS millions)				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate - construction	149	33	414	563	1,084
Construction & real estate - real estate activities	666	186 (d)	252	918	2,214
Financial services	1	1	61	62	589
Commercial - other	1,103	333	399	1,502	4,856
Total commercial	1,919	553 (d)	1,126	3,045	8,743
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	51	25 (d)	9	60	1,958
Total public - activity in Israel	1,970	578	1,135	3,105	10,701
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,970	578	1,135	3,105	10,701
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	295	146	139	434	634
Commercial - other	261	125	69	330	599
Total commercial	556	271	208	764	1,233
Private individuals	29	18	23	52	96
Total public - activity abroad	585	289	231	816	1,329
Foreign banks	-	-	-	-	1
Foreign governments	-	-	-	-	-
Total public - activity abroad	585	289	231	816	1,330
Total public	2,555	867	1,366	3,921	12,030
Total banks	-	-	-	-	1
Total governments	-	-	-	-	-
Total	2,555	867	1,366	3,921	12,031
Of which:					
Measured by present value of cash flows	1,549	572	950	2,499	
Debts under troubled debt restructuring	1,425	308	853	2,278	

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Recorded balance of debt.

(c) Individual allowance for credit losses.

(d) Reclassified.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)
2. Additional information on impaired debts (cont'd)
b. Average balance and interest income

	For the three months ended 31 March 2016			For the three months ended 31 March 2015		
	Average balance (b) of impaired debts	Interest income recorded (c)	Of which: recorded on cash basis	Average balance of impaired debts (b) (e)	Interest income recorded (c)	Of which: recorded on cash basis
	(Unaudited)					
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**415**	**2**	**1**	555	(1)	(1)
Construction & real estate - real estate activities	**824**	**-**	**-**	1,379	1	1
Financial services	**54**	**-**	**-**	126	-	-
Commercial - other	**1,618**	**5**	**3**	1,590	(1)	(1)
Total commercial	**2,911**	**7**	**4**	3,650	(1)	(1)
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**99**	**1**	**-**	104	(3)	(3)
Total public - activity in Israel	**3,010**	**8**	**4**	3,754	(4)	(4)
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**3,010**	**8**	**4**	3,754	(4)	(4)
Activity of borrowers abroad						
Public - commercial	**-**	**-**	**-**	-	-	-
Construction & real estate	**410**	**2**	**2**	627	(2)	(2)
Commercial - other	**273**	**2**	**2**	697	(4)	(4)
Total commercial	**683**	**4**	**4**	1,324	(6)	(6)
Private individuals	**66**	**1**	**1**	70	(1)	(1)
Total public - activity abroad	**749**	**5**	**5**	1,394	(7)	(7)
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**749**	**5**	**5**	1,394	(7)	(7)
Total public	**3,759**	**13**	**9**	5,148	(11)	(11)
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**3,759**	**13** (d)	**9**	5,148	(11) (d)	(11)

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Average recorded balance of debt of impaired debts during the reporting period.

(c) Interest income recorded in the reporting period, in respect of the average balance of impaired debts, at the time the debts were classified as impaired.

(d) If the impaired debts had accumulated interest according to the original terms, interest income would have been recorded for the three month period ended 31 March 2016 in the amount of NIS 80 million (31 March 2015 – NIS 102 million).

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring[d]

	31 March 2016			31 March 2015		
	Not accruing interest income	Accruing (b) not in arrears	Total (c)	Not accruing interest income	Accruing (b) not in arrears	Total (c)
	Unaudited					
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**132**	**24**	**156**	454	18	472
Construction & real estate - real estate activities	**316**	**131**	**447**	829	4	833
Financial services	**1**	**13**	**14**	11	-	11
Commercial - other	**704**	**92**	**796**	541	28	569
Total commercial	**1,153**	**260**	**1,413**	1,835	50	1,885
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**59**	**20**	**79**	66	-	66
Total public - activity in Israel	**1,212**	**280**	**1,492**	1,901	50	1,951
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**1,212**	**280**	**1,492**	1,901	50	1,951
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**160**	**102**	**262**	177	135	312
Commercial - other	**34**	**39**	**73**	107	137	244
Total commercial	**194**	**141**	**335**	284	272	556
Private individuals	**7**	**21**	**28**	25	9	34
Total public - activity abroad	**201**	**162**	**363**	309	281	590
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**201**	**162**	**363**	309	281	590
Total public	**1,413**	**442**	**1,855**	2,210	331	2,541
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**1,413**	**442**	**1,855**	2,210	331	2,541

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Accumulating interest income.

(c) Included in impaired debts.

(d) Liabilities for granting additional credit to borrowers for whom there was a troubled debt restructuring in which changes were made to the terms of the credit amounted to 69 million for 31 March 2016 (31 March 2015 – NIS 92 million).

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring (cont'd)

	31 December 2015 (Audited)		
	Not accruing interest income	Accruing (b) not in arrears	Total (c)
	(NIS millions)		
Activity of borrowers in Israel			
Public - commercial			
Construction & real estate - construction	456	14	470
Construction & real estate - real estate activities	613	4	617
Financial services	1	-	1
Commercial - other	519	29	548
Total commercial	1,589	47	1,636
Private individuals - housing loans	-	-	-
Private individuals - other	56	-	56
Total public - activity in Israel	1,645	47	1,692
Israeli banks	-	-	-
Government of Israel	-	-	-
Total activity in Israel	1,645	47	1,692
Activity of borrowers abroad			
Public - commercial			
Construction & real estate	146	267	413
Commercial - other	40	103	143
Total commercial	186	370	556
Private individuals	8	22	30
Total public - activity abroad	194	392	586
Foreign banks	-	-	-
Foreign governments	-	-	-
Total activity abroad	194	392	586
Total public	1,839	439	2,278
Total banks	-	-	-
Total governments	-	-	-
Total	1,839	439	2,278

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(b) Accumulating interest income.
(c) Included in impaired debts.

Liabilities for granting additional credit to borrowers for whom there was a troubled debt restructuring in which changes were made to the terms of the credit amounted at 31 December 2015 to NIS 43 million.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring (cont'd)

1. Restructurings carried out

	For the three months ended 31 March 2016			For the three months ended 31 March 2015		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	debt balance before restructuring	Recorded debt balance after restructuring
	(Unaudited)					
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	51	3	3	15	3	48
Construction & real estate - real estate activities	11	-	-	-	-	-
Financial services	3	-	-	-	-	-
Commercial - other	217	15	15	30	5	5
Total commercial	282	18	18	45	8	53
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	1,580	5	2	252	3	3
Total public - activity in Israel	1,862	23	20	297	11	56
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	1,862	23	20	297	11	56
Activity of borrowers abroad						
Public - commercial	-	-	-	-	-	-
Construction & real estate	2	14	14	6	10	9
Commercial - other	4	8	8	7	65	65
Total commercial	6	22	22	13	75	74
Private individuals	2	-	-	2	-	-
Total public - activity abroad	8	22	22	15	75	74
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	8	22	22	15	75	74
Total public	1,870	45	42	312	86	130
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	1,870	45	42	312	86	130

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring (cont'd)

2. Failed restructurings carried out[(b)]

	For the three months ended 31 March 2016		For the three months ended 31 March 2015	
	Number of contracts	Recorded debt balance (c)	Number of contracts	Recorded debt balance (c)
	(Unaudited)			
	(NIS millions)			
Activity of borrowers in Israel				
Public - commercial				
Construction & real estate - construction	**15**	**2**	11	8
Construction & real estate - real estate activities	**1**	**-**	1	-
Financial services	**1**	**-**	-	-
Commercial - other	**47**	**6**	17	2
Total commercial	**64**	**8**	29	10
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - other	**253**	**4**	115	1
Total public - activity in Israel	**317**	**12**	144	11
Israeli banks	**-**	**-**	-	-
Government of Israel	**-**	**-**	-	-
Total activity in Israel	**317**	**12**	144	11
Activity of borrowers abroad				
Public - commercial				
Construction & real estate	**3**	**1**	4	1
Commercial - other	**4**	**1**	1	-
Total commercial	**7**	**2**	5	1
Private individuals	**-**	**-**	2	-
Total public - activity abroad	**7**	**2**	7	1
Foreign banks	**-**	**-**	-	-
Foreign governments	**-**	**-**	-	-
Total activity abroad	**7**	**2**	7	1
Total public	**324**	**14**	151	12
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**324**	**14**	151	12

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Debts that during the reporting year went into arrears of 30 days or more and underwent a troubled debt restructuring during the 12 months preceding the date they became debts in arrears.

(c) Recorded balance of debt at the end of the quarter in which the failure was carried out.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

3. Additional information on housing loans

Balances at the end of the period by loan to value ratio (LTV)[(b)], type of repayment and type of interest

		31 March 2016 (Unaudited)			
Balance of housing loans		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total
		(NIS millions)			
First charge: rate of financing	Up to 60%	**51,249**	**3,553**	**34,402**	**1,894**
	Above 60%	**29,439**	**1,151**	**20,955**	**578**
Second charge or without charge		**792**	**22**	**597**	**70**
Total		**81,480**	**4,726**	**55,954**	**2,542**

		31 March 2015 (Unaudited) (c)			
Balance of housing loans		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total (c)
		(NIS millions)			
First charge: rate of financing	Up to 60%	46,630	3,914	33,615	1,952
	Above 60%	28,757	1,333	21,573	816
Second charge or without charge		751	32	579	57
Total		76,138	5,279	55,766	2,825

		31 December 2015 (Audited) (c)			
Balance of housing loans		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total (c)
		(NIS millions)			
First charge: rate of financing	Up to 60%	50,828	3,748	35,307	3,173
	Above 60%	30,149	1,145	21,714	926
Second charge or without charge		828	26	603	118
Total		81,805	4,919	57,624	4,217

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) The ratio between the approved facility when the facility was granted and the value of the property, as approved by the Bank when the facility was granted. The LTV ratio is another indication of the Bank as to the assessment of customer risk when the facility was granted. On a quarterly basis, the minimum collective allowance of 0.35% is examined as required in Bank of Israel directives against the ratio of 0.75% required on credit with an LTV higher than 60%. It should be noted that the collective allowance is higher than the allowance required according to the LTV.

(c) Restated.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

C. Off-balance sheet financial instruments

	31 March 2016		31 March 2015		31 December 2015	
	Contract balances (a)	Balance of allowance for credit losses	Contract balances (a)	Balance of allowance for credit losses	Contract balances (a)	Balance of allowance for credit losses
	Unaudited				Audited	
	NIS millions					
Balances of contracts or their stated amounts as at the end of the period Transactions in which the balance reflects a credit risk:						
Documentary credits	**1,653**	**5**	2,029	4	1,759	4
Credit guarantees	**6,020**	**101**	6,025	92	6,136	78
Guarantees to apartment purchasers	**19,001**	**21**	18,296	27	19,313	21
Other guarantees and liabilities (b)	**16,633**	**200**	17,705	192	17,131	228
Unutilized credit card facilities	**24,871**	**24**	27,316	34	24,090	30
Other unutilized revolving credit facilities and credit facilities in accounts on demand	**13,069**	**25**	13,606	42	13,607	37
Irrevocable commitments to provide credit which has been approved and not yet granted[1]	**24,791**	**72**	24,451	58	25,350	68
Commitments to issue guarantees	**14,239**	**23**	14,084	16	14,423	16
Unutilized facilities for activity in derivative instruments	**4,059**	**-**	5,480	-	4,115	-
Approval in principle for a guaranteed rate of interest	**3,974**	**-**	4,971	-	3,874	-

[1]Of which: credit exposures in respect of the obligation to provide liquidity to securitization structures under the auspices of others not utilized in the amount of NIS 226 million (31 March 2015 – NIS 239 million, 31 December 2015 - NIS 218 million). The above commitments represent a relatively small part of the commitments of those securitization entities.

(a) The balances of the contracts or their stated amounts at the year-end, before the effect of the allowance for credit losses.

(b) Including the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House in the amount of NIS 188 million (31 December 2015 – NIS 230 million).

Note 14 –Assets and Liabilities by Linkage Basis

	31 March 2016 (Unaudited)						
	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non-monetary items (b)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	44,997	242	6,699	912	2,506	292	55,648
Securities	37,928	2,919	31,940	1,886	1,444	2,610	78,727
Securities borrowed or purchased under agreements to resell	1,621	-	-	-	-	-	1,621
Credit to the public, net (c)	177,017	48,477	27,817	5,234	5,387	201	264,133
Credit to governments	53	143	159	57	-	-	412
Investments in companies included on equity basis	-	-	-	-	-	899	899
Buildings and equipment	-	-	-	-	-	3,060	3,060
Assets in respect of derivative instruments	8,796	129	2,014	455	288	1,468	13,150
Intangible assets and goodwill	6,459	3	846	7	39	536	7,890
Other assets	-	-	-	-	-	17	17
Total assets	276,871	51,913	69,475	8,551	9,664	9,083	425,557
Liabilities							
Deposits of the public	198,602	25,731	83,860	12,903	8,736	522	330,354
Deposits from banks	1,963	33	2,022	382	41	-	4,441
Deposits from governments	53	1	746	8	-	-	808
Securities lent or sold under agreements to repurchase	845	-	-	-	-	-	845
Debentures, bonds and subordinated notes	6,606	18,154	-	-	-	50	24,810
Liabilities in respect of derivative instruments	9,053	172	2,307	618	425	1,421	13,996
Other liabilities	8,073	10,941	769	42	193	632	20,650
Total liabilities	225,195	55,032	89,704	13,953	9,395	2,625	395,904
Surplus assets (liabilities) (d)	51,676	(3,119)	(20,229)	(5,402)	269	6,458	29,653
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	-	-	-	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(22,366)	(950)	19,324	5,026	(1,073)	39	-
Options in the money, net (in terms of underlying asset)	(380)	-	546	(257)	91	-	-
Options out of the money, net (in terms of underlying asset)	617	-	(573)	(145)	101	-	-
Total	29,547	(4,069)	(932)	(778)	(612)	6,497	29,653
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	(347)	-	513	(306)	140	-	-
Options out of the money, net (discounted par value)	960	-	47	(1,021)	14	-	-

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.
(c) After deducting credit loss allowances attributed to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,572 million.
(d) Shareholders' equity including minority interests.

Note 14 –Assets and Liabilities by Linkage Basis (cont.)

	31 March 2015 (Unaudited)						
	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non-monetary items (b)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	40,495	248	6,341	862	3,656	167	51,769
Securities	24,817	2,257	29,256	1,962	1,598	4,489	64,379
Securities borrowed or purchased under agreements to resell	2,187	-	-	10	-	-	2,197
Credit to the public, net (c)	159,975	50,308	29,666	4,833	5,275	218	250,275
Credit to governments	61	187	134	51	-	-	433
Investments in companies included on equity basis	-	-	-	-	-	896	896
Buildings and equipment	-	-	-	-	-	3,103(e)	3,103
Assets in respect of derivative instruments	9,270	170	7,996	69	108	1,218	18,831
Intangible assets and goodwill	5,654 (e)	4	1,130	9	43	578	7,418
Other assets	-	-	-	-	-	18	18
Total assets	242,459	53,174	74,523	7,796	10,680	10,687	399,319
Liabilities							
Deposits of the public	177,344	26,874	75,972	15,251	9,138	438	305,017
Deposits from banks	1,546	48	3,811	560	222	-	6,187
Deposits from governments	25	1	483	8	-	-	517
Securities lent or sold under agreements to repurchase	1,384	-	-	-	-	-	1,384
Debentures, bonds and subordinated notes	4,528	15,018	-	-	-	50	19,596
Liabilities in respect of derivative instruments	9,364	279	6,964	178	97	1,204	18,086
Other liabilities	8,326 (e)	11,226 (e)	992	40	215	792	21,591
Total liabilities	202,517	53,446	88,222	16,037	9,672	2,484	372,378
Surplus assets (liabilities) (d)	39,942	(272)	(13,699)	(8,241)	1,008	8,203	26,941
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(18,269)	(1,398)	13,867	8,179	(1,729)	(650)	-
Options in the money, net (in terms of underlying asset)	380	-	(546)	49	117	-	-
Options out of the money, net (in terms of underlying asset)	552	-	(427)	(109)	(16)	-	-
Total	22,605	(1,670)	(805)	(122)	(620)	7,553	26,941
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	777	-	(942)	21	144	-	-
Options out of the money, net (discounted par value)	266	-	(82)	(345)	161	-	-

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.
(c) After deducting credit loss allowances attributed to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,948 million.
(d) Shareholders' equity including minority interests.
(e) Restated - see Note 1.A.2.
(f) Restated pursuant to implementation of the directives of the Supervisor on capitalization of software costs.

Note 14 –Assets and Liabilities by Linkage Basis (cont.)

	31 December 2015 (Audited)						
	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non-monetary items (b)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	50,912	246	5,951	763	2,407	176	60,455
Securities	32,331	1,933	28,228	2,023	1,640	3,320	69,475
Securities borrowed or purchased under agreements to resell	1,764	-	-	-	-	-	1,764
Credit to the public, net (c)	172,545	49,178	28,768	4,809	5,849	250	261,399
Credit to governments	67	195	130	61	-	-	453
Investments in companies included on equity basis	-	(f) - (f)	-	-	-	(f) 924 (f)	924
Buildings and equipment	-	-	-	-	-	3,095	3,095
Assets in respect of derivative instruments	6,402	115	3,466	308	243	716	11,250
Intangible assets and goodwill	6,138	5	896	6	44	577	7,666
Other assets	-	-	-	-	-	18	18
Total assets	270,159	51,672	67,439	7,970	10,183	9,076	416,499
Liabilities							
Deposits of the public	195,425	25,583	84,646	13,709	8,866	464	328,693
Deposits from banks	1,886	72	1,470	385	46	-	3,859
Deposits from governments	39	1	703	7	-	-	750
Securities lent or sold under agreements to repurchase	938	-	-	-	-	-	938
Debentures, bonds and subordinated notes	5,704	15,604	-	-	-	-	21,308
Liabilities in respect of derivative instruments	6,356	222	3,266	305	247	702	11,098
Other liabilities	9,170	9,515	964	51	215	831	20,746
Total liabilities	219,518	50,997	91,049	14,457	9,374	1,997	387,392
Surplus assets (liabilities) (d)	50,641	675	(23,610)	(6,487)	809	7,079	29,107
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(26,357)	(1,308)	23,871	5,617	(1,427)	(396)	-
Options in the money, net (in terms of underlying asset)	616	-	(654)	102	(64)	-	-
Options out of the money, net (in terms of underlying asset)	533	-	(483)	(9)	(41)	-	-
Total	25,433	(633)	(876)	(777)	(723)	6,683	29,107
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	1,425	-	(1,257)	(100)	(68)	-	-
Options out of the money, net (discounted par value)	1,305	-	(1,112)	(416)	223	-	-

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.
(c) After deducting credit loss allowances attributed to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,671 million.
(d) Shareholders' equity including minority interests.

Note 15A – Balances and fair value assessments of financial instruments

A. General

This note includes information regarding the determination of the fair value of financial instruments according to directives of the Supervisor of Banks. Most of the financial instruments of the Bank do not have a "market value" because they do not have an active trading market. Their fair value is therefore determined on the basis of the present value of future cash flows, discounted at an interest rate that reflects the interest at which the Bank would have effected a similar transaction on the reporting date. The estimated fair value is calculated by means of estimating future cash flows and a subjective determination of the discount rate. Therefore, in respect of most financial instruments, the reported fair value does not necessarily indicate the realizable value of the financial instrument on the reporting date. The estimate of fair value is made on the basis of interest rates in effect on the reporting date and does not take into account interest rate fluctuations. Under different interest rates the fair value calculated may be significantly different. This is true especially in respect of financial instruments with interest at fixed rates or those which are non-interest bearing. Furthermore, the determination of fair value does not take into account commissions that will be received or paid over the course of business. In addition, the difference between the balance sheet value and the fair value may not be realized because in most cases the Bank may hold the financial instrument until maturity. Therefore, it should be noted that the data included in this note do not purport to reflect the value of the Bank as a going concern. Furthermore, because of the wide range of valuation techniques and estimates that can be applied in the calculation of fair value, caution must be exercised when comparing fair values of different banks.

B. Principal methods and assumptions used in estimating the fair value of financial instruments

Financial assets:

Credit to the public - the fair value of credit to the public is determined on the basis of the present value of future cash flows discounted at an appropriate discount rate. The balance of credit was classified into a number of categories according to the operating segment and the credit rating of the borrowers. Future cash flows (principal and interest) were calculated in respect of each category according to the various linkage bases. These receipts were discounted at an interest rate that reflects the rate of risk and average margin inherent in that category of credit and the term of the credit.

The interest rate is usually determined according to the interest rate used in similar transactions on the reporting date.

The fair value of debit balances in current accounts was valued at book value.
The fair value of impaired debts was calculated using interest rates that reflect the inherent high credit risk. In any case, these interest rates reflect the highest rates of interest used by the Group in transactions on the reporting date in the same segment.

The fair value of current account balances classified as impaired loans was calculated in accordance with an estimate of their average duration and based on maximum interest rates in the Bank.

The future cash flows in respect of impaired debts were calculated after deducting the effect of accounting write-offs and allowances for credit losses.

Note 15A – Balances and fair value assessments of financial instruments (cont.)

Deposits with banks and credit to governments - by the discounted future cash flows method, at interest rates at which similar transactions were executed on the reporting date.

Securities – Quoted securities at their market value. Unquoted securities, shares at cost, and debentures according to a model which takes into account the present value of future cash flows discounted at the appropriate discount rate, and which also takes into account the probability of default and market value.

Financial liabilities:

Deposits of the public - The balance of the deposits is classified according to a number of categories according to operating segments, adjustment basis and the terms of deposit. Future cash flows (principal and interest) were calculated in respect of each category. These payments were discounted at an interest rate that reflects the average interest rate the Group pays on similar deposits in the same category for the period remaining until maturity. The balance sheet amount of current accounts and deposits without a repayment date is considered to be an estimate of their fair value.

Deposits from banks and deposits from governments - The fair value estimated by the discounted future cash flows method, at the rate of interest at which the Group raises similar deposits on the reporting date.

Debentures, bonds and subordinated notes - At their fair value or by the discounted future cash flows method, at the rate of interest at which the Group raises similar deposits or at the rate at which it issues similar bonds on the reporting date.

Other financial assets and liabilities:

Derivative instruments:

Derivative instruments that have an active market were valued at market value and, when there are a number of markets in which the instrument is traded, the value is determined according to the most active market.

Derivative instruments that are not traded on an active market were valued on the basis of models the Bank uses in its current operations as at the reporting date, which take into account the risks inherent in the financial instrument.

Off-balance sheet financial instruments in which the balance reflects a credit risk:

The balance sheet value approximates the fair value, since the terms of transactions in the balance sheet do not differ materially from the terms of similar transactions on the reporting date.

Note 15A – Balances and fair value assessments of financial instruments (cont.)

	31 March 2016 (Unaudited)				
	Book value	Fair value			
		Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	55,648	45,991	8,016	1,686	55,693
Securities (b)	78,727	56,155	20,253	2,319	78,727
Securities borrowed or purchased under agreements to resell	1,621	1,621	-	-	1,621
Credit to the public, net	264,133	2,537	72,163	189,740	264,440
Credit to governments	412	-	15	409	424
Assets in respect of derivative instruments	13,150	1,141	10,435	1,574	13,150
Other financial assets	1,473	398	-	1,076	1,474
Total financial assets	415,164 (c)	107,843	110,882	196,804	415,529
Financial liabilities					
Deposits of the public	330,354	3,652	207,509	121,462	332,623
Deposits from banks	4,441	-	4,266	41	4,307
Deposits from governments	808	-	747	87	834
Securities lent or sold under agreements to repurchase	845	845	-	-	845
Debentures, notes and subordinated notes	24,810	18,941	377	5,742	25,060
Liabilities in respect of derivative instruments	13,996	1,142	12,612	242	13,996
Other financial liabilities	7,385	1,173	5,120	1,093	7,386
Total financial liabilitiies	382,639 (c)	25,753	230,631	128,667	385,051
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	337	-	-	337	337
In addition, liabilities in respect of employee rights, gross - pension and severance pay (d)	16,544	-	182	16,362	16,544

(a) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(b) For further details on the book value and fair value of securities, see Note 5 - Securities.

(c) Of which: assets and liabilities in the amounts of NIS 129,714 million and NIS 129,736 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further details of instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 15B - 15D.

(d) The liability is shown gross, and does not take the plan assets managed in its respect into account.

Note 15A – Balances and fair value assessments of financial instruments (cont.)

	31 March 2015 (Unaudited)				
	Book	Fair value			
	value	Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	51,769	44,023	6,410	1,379	51,812
Securities (b)	64,379	43,797	17,208	3,374	64,379
Securities borrowed or purchased under agreements to resell	2,197	2,197	-	-	2,197
Credit to the public, net	250,275	2,193	65,805	182,415	250,413
Credit to governments	433	-	12	433	445
Assets in respect of derivative instruments	18,831	751	15,163	2,917	18,831
Other financial assets	1,321	567	509	245	1,321
Total financial assets	389,205 (c)	93,528	105,107	190,763	389,398
Financial liabilities					
Deposits of the public	305,017	2,338	181,689	123,344	307,371
Deposits from banks	6,187	-	5,992	148	6,140
Deposits from governments	517	-	443	104	547
Securities lent or sold under agreements to repurchase	1,384	1,384	-	-	1,384
Debentures, notes and subordinated notes	19,596	15,677	358	6,053	22,088
Liabilities in respect of derivative instruments	18,086	752	17,038	296	18,086
Other financial liabilities	7,513	1,294 (d)	5,021 (d)	1,187 (d)	7,502
Total financial liabilitiies	358,300 (c)	21,445	210,541	131,132	363,118
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	324	-	-	324	324

(a) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(b) For further details on the book value and fair value of securities, see Note 5 - Securities.

(c) Of which: assets and liabilities in the amounts of NIS 121,332 million and NIS 150,052 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further details of instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 15B – 15D.

(d) Reclassified.

Note 15A – Balances and fair value assessments of financial instruments (cont.)

	31 December 2015 (Audited)				
	Book value	Fair value			
		Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	60,455	52,418	6,431	1,656	60,505
Securities (b)	69,475	46,931	19,491	3,053	69,475
Securities borrowed or purchased under agreements to resell	1,764	1,764	-	-	1,764
Credit to the public, net	261,399	2,246	68,534	190,601	261,381
Credit to governments	453	-	26	441	467
Assets in respect of derivative instruments	11,250	916	8,931	1,403	11,250
Other financial assets	1,643	551	-	1,093	1,644
Total financial assets	406,439 (c)	104,826	103,413	198,247	406,486
Financial liabilities					
Deposits of the public	328,693	2,666	203,012	124,612	330,290
Deposits from banks	3,859	-	3,777	56	3,833
Deposits from governments	750	-	688	86	774
Securities lent or sold under agreements to repurchase	938	938	-	-	938
Debentures, notes and subordinated notes	21,308	17,880	340	4,724	22,944
Liabilities in respect of derivative instruments	11,098	914	9,932	252	11,098
Other financial liabilities	7,871	1,363	5,025	1,480	7,868
Total financial liabilitiies	374,517 (c)	23,761	222,774	131,210	377,745
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	347	-	-	347	347
In addition, liabilities in respect of employee rights, gross - pension and severance pay (d)	15,764	-	194	15,570	15,764

(a) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(b) For further details on the book value and fair value of securities, see the note on securities.

(c) Of which: Assets and liabilities in the amounts of NIS 113,254 million and NIS 130,250 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further details of instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 15B - 15D.

(d) The liability is shown gross, and does not take the plan assets managed in its respect into account.

Note 15A – Items measured at fair value

A. Items measured for fair value on a recurring basis

	As at 31 March 2016 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Assets				
Securities available for sale:				
Israeli government bonds	34,932	1,876	-	36,808
Foreign government bonds	11,018	740	-	11,758
Bonds of Israeli financial institutions	-	35	-	35
Bonds of overseas financial institutions	75	5,396	-	5,471
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	8,704	1,253	9,957
Other bonds in Israel	107	448	-	555
Other bonds abroad	-	1,777	-	1,777
Shares and mutual funds available for sale	1,530	-	-	1,530
Total securities available for sale	47,662	18,976	1,253	67,891
Securities held for trading:				
Government of Israel bonds	5,179	111	-	5,290
Foreign government bonds	2,833	-	-	2,833
Bonds of financial institutions in Israel	347	-	-	347
Bonds of financial institutions abroad	-	144	-	144
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	697	-	697
Other bonds in Israel	120	-	-	120
Other bonds abroad	-	325	-	325
Shares and mutual funds held for trading	14	-	-	14
Total securities held for trading	8,493	1,277	-	9,770
Assets in respect of derivative instruments:				
Shekel-index contracts	-	177	202	379
Interest contracts	23	6,822	312	7,157
Foreign currency contracts	-	2,882	903	3,785
Share contracts	712	545	134	1,391
Commodities and other contracts	6	9	23	38
Activity in Maof market	400	-	-	400
Total assets in respect of derivative instruments:	1,141	10,435	1,574	13,150
Others:				
Credit and deposits in respect of lending of securites	2,536	3	-	2,539
Securities borrowed or purchased under agreements to resell	1,621	-	-	1,621
Other	398	-	-	398
Total others	4,555	3	-	4,558
Total assets	61,851	30,691	2,827	95,369

Note 15A – Items measured at fair value (cont.)
A. Items measured at fair value on a recurring basis (cont.)

	As at 31 March 2016 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Liabilities				
Liabilities in respect of derivative instruments:				
Shekel-index contracts	-	378	61	439
Interest contracts	30	7,085	-	7,115
Foreign currency contracts	-	4,475	181	4,656
Share contracts	712	642	-	1,354
Commodities and other contracts	6	32	-	38
Activity in Maof market	394	-	-	394
Total liabilities in respect of derivative instruments	1,142	12,612	242	13,996
Others:				
Deposits in respect of lending of securites	3,652	24	17	3,693
Securities lent or sold under agreements to repurchase	845	-	-	845
Others	1,173	-	-	1,173
Total others	5,670	24	17	5,711
Total liabilities	6,812	12,636	259	19,707

Note 15A – Items measured at fair value (cont.)
A. Items measured at fair value on a recurring basis (cont.)

	As at 31 March 2015 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Assets				
Securities available for sale:				
Israeli government bonds	18,311	1,601	-	19,912
Foreign government bonds	11,753	418	-	12,171
Bonds of Israeli financial institutions	-	48	-	48
Bonds of overseas financial institutions	94	6,525	-	6,619
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	5,420	1,968	7,388
Other bonds in Israel	577	258	-	835
Other bonds abroad	331	1,143	-	1,474
Shares and mutual funds available for sale	2,369	-	-	2,369
Total securities available for sale	33,435	15,413	1,968	50,816
Securities held for trading:				
Government of Israel bonds	7,725	323	-	8,048
Foreign government bonds	1,400	7	-	1,407
Bonds of financial institutions in Israel	244	-	-	244
Bonds of financial institutions abroad	-	234	-	234
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	980	-	980
Other bonds in Israel	279	-	-	279
Other bonds abroad	-	251	-	251
Shares and mutual funds held for trading	714	-	-	714
Total securities held for trading	10,362	1,795	-	12,157
Assets in respect of derivative instruments:				
Shekel-index contracts	-	77	229	306
Interest contracts	8	9,083	489	9,580
Foreign currency contracts	1	5,412	1,999	7,412
Share contracts	373	588	153	1,114
Commodities and other contracts	8	3	47	58
Activity in Maof market	361	-	-	361
Total assets in respect of derivative instruments	751	15,163	2,917	18,831
Others:				
Credit and deposits in respect of lending of securites	2,192	3	-	2,195
Securities borrowed or purchased under agreements to resell	2,197	-	-	2,197
Other	559	-	-	559
Total others	4,948	3	-	4,951
Total assets	49,496	32,374	4,885	86,755

Note 15A – Items measured at fair value (cont.)
A. Items measured at fair value on a recurring basis (cont.)

	As at 31 March 2015 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Liabilities				
Liabilities in respect of derivative instruments:				
Shekel-index contracts	-	278	49	327
Interest contracts	8	9,296	1	9,305
Foreign currency contracts	1	6,646	246	6,893
Share contracts	373	769	-	1,142
Commodities and other contracts	8	49	-	57
Activity in Maof market	362	-	-	362
Total liabilities in respect of derivative instruments	752	17,038	296	18,086
Others:				
Deposits in respect of lending of securites	2,339	27	15	2,381
Securities lent or sold under agreements to repurchase	1,384	-	-	1,384
Others	1,294 (a)	-	-	1,294
Total others	5,017	27	15	5,059
Total liabilities	5,769	17,065	311	23,145

(a) Restated.

Note 15A – Items measured at fair value (cont.)
A. Items measured at fair value on a recurring basis (cont.)

	As at 31 December 2015 (Audited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Assets				
Securities available for sale:				
Israeli government bonds	26,954	1,599	-	28,553
Foreign government bonds	7,339	789	-	8,128
Bonds of Israeli financial institutions	-	35	-	35
Bonds of overseas financial institutions	157	6,105	-	6,262
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	7,563	2,003	9,566
Other bonds in Israel	113	473	-	586
Other bonds abroad	20	1,674	-	1,694
Shares and mutual funds available for sale	1,653	-	-	1,653
Total securities available for sale	36,236	18,238	2,003	56,477
Securities held for trading:				
Government of Israel bonds	6,632	32	-	6,664
Foreign government bonds	3,056	2	-	3,058
Bonds of financial institutions in Israel	238	-	-	238
Bonds of financial institutions abroad	-	148	-	148
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	751	-	751
Other bonds in Israel	152	-	-	152
Other bonds abroad	-	320	-	320
Shares and mutual funds held for trading	617	-	-	617
Total securities held for trading	10,695	1,253	-	11,948
Assets in respect of derivative instruments:				
Shekel-index contracts	-	170	174	344
Interest contracts	30	6,043	297	6,370
Foreign currency contracts	-	2,292	770	3,062
Share contracts	517	420	129	1,066
Commodities and other contracts	7	6	33	46
Activity in Maof market	362	-	-	362
Total assets in respect of derivative instruments	916	8,931	1,403	11,250
Others:				
Credit and deposits in respect of lending of securites	2,246	6	-	2,252
Securities borrowed or purchased under agreements to resell	1,764	-	-	1,764
Other	551	-	-	551
Total others	4,561	6	-	4,567
Total assets	52,408	28,428	3,406	84,242

Note 15A – Items measured at fair value (cont.)
A. Items measured at fair value on a recurring basis (cont.)

	As at 31 December 2015 (Audited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Liabilities				
Liabilities in respect of derivative instruments:				
Shekel-index contracts	-	339	53	392
Interest contracts	30	6,065	-	6,095
Foreign currency contracts	-	2,930	199	3,129
Share contracts	517	559	-	1,076
Commodities and other contracts	7	39	-	46
Activity in Maof market	360	-	-	360
Total liabilities in respect of derivative instruments:	914	9,932	252	11,098
Others:				
Deposits in respect of lending of securites	2,666	20	13	2,699
Securities lent or sold under agreements to repurchase	938	-	-	938
Others	1,363	-	-	1,363
Total others	4,967	20	13	5,000
Total liabilities	5,881	9,952	265	16,098

Note 15A – Items measured at fair value (cont.)
B. Items measured for fair value on a non-recurring basis

	As at 31 March 2016 (Unaudited)				
	Fair value measurements using:				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value for period
	(NIS millions)				
Collateral-dependent impaired credit	**-**	**-**	**838**	**838**	**122**
Other assets	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**838**	**838**	**122**

	As at 31 March 2015 (Unaudited)				
	Fair value measurements using:				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value for period
	(NIS millions)				
Collateral-dependent impaired credit	-	-	1,842	1,842	(4)
Other assets	-	-	-	-	-
Total	-	-	1,842	1,842	(4)

	As at 31 December 2015 (Audited)				
	Fair value measurements using:				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value for period
	(NIS millions)				
Collateral-dependent impaired credit	-	-	1,132	1,132	14
Other assets	-	-	-	-	-
Total	-	-	1,132	1,132	14

Note 15C – Changes in items measured for fair value on a recurring basis included in Level 3

	For the three months ended 31 March 2016 (Unaudited)										
	Changes in items measured for fair value included in Level 3										
		Realized and unrealized profits (losses), net, included									
	Fair value at beginning of the year	In profit and loss statement (a)	In other comprehensive income (b)	Acquisitions and issues	Sales	Extinguishments	Adjustments from translation of financial statements	Transfers to Level 3	Transfers from Level 3	Fair value at 31 March 2016	Unrealized profits (losses) in respect of instruments held at 31 March 2016
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,003	(735)	(4)	-	-	(11)	-	-	-	1,253	(4)
Total bonds available for sale	2,003	(735)	(4)	-	-	(11)	-	-	-	1,253	(4)
Total shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Total shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	174	9	-	-	-	-	-	19	-	202	(4)
Interest contracts	297	58	-	-	-	(43)	-	-	-	312	10
Foreign currency contracts	770	(98)	-	231	-	-	-	-	-	903	421
Share contracts	129	5	-	-	-	-	-	-	-	134	37
Commodities and other contracts	33	(10)	-	-	-	-	-	-	-	23	5
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-	-
Total assets in respect of derivative instruments	1,403	(36)	-	231	-	(43)	-	19	-	1,574	469
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	3,406	(771)	(4)	231	-	(54)	-	19	-	2,827	465
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	53	(4)	-	-	-	-	-	12	-	61	17
Foreign currency contracts	199	(18)	-	-	-	-	-	-	-	181	(39)
Share contracts	-	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	252	(22)	-	-	-	-	-	12	-	242	(22)
Total others	13	4	-	-	-	-	-	-	-	17	17
Total liabilities	265	(18)	-	-	-	-	-	12	-	259	(5)

(a) Realized profits (losses) were included in the statement of profit and loss under non-interest financing income.
(b) Unrealized profits (losses) were included in the statement of changes in equity under accumulated other comprehensive income (loss).

Note 15C – Changes in items measured for fair value on a recurring basis included in Level 3 (cont.)

	For the three months ended 31 March 2015 (Unaudited)										
		Realized and unrealized profits (losses), net, included									
	Fair value at beginning of the year	In profit and loss statement (a)	In other comprehensive income (b)	Acqui-sitions and issues	Sales	Extinguish-ments	Adjustments from translation of financial statements	Transfers to Level 3 (a)	Transfers from Level 3 (a)	Fair value at 31 March 2014	Unrealized profits (losses) in respect of instruments held at 31 March 2015
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,009	19	4	95	(100)	(59)	-	-	-	1,968	5
Others in Israel	-	-	-	-	-	-	-	-	-	-	-
Others abroad	-	-	-	-	-	-	-	-	-	-	-
Total bonds available for sale	2,009	19	4	95	(100)	(59)	-	-	-	1,968	5
Shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts (a)	145	75	-	-	-	-	-	9	-	229	17
Interest contracts (a)	423	92	-	-	-	(26)	-	-	-	489	69
Foreign currency contracts	2,307	(821)	-	513	-	-	-	-	-	1,999	970
Share contracts	64	89	-	-	-	-	-	-	-	153	114
Commodities and other contracts	64	(17)	-	-	-	-	-	-	-	47	2
Total assets in respect of derivative instruments	3,003	(582)	-	513	-	(26)	-	9	-	2,917	1,172
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	5,012	(563)	4	608	(100)	(85)	-	9	-	4,885	1,177
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts (a)	41	6	-	-	-	-	-	2	-	49	(14)
Interest contracts (a)	-	1	-	-	-	-	-	-	-	1	-
Foreign currency contracts	110	136	-	-	-	-	-	-	-	246	178
Total liabilities in respect of derivative instruments	151	143	-	-	-	-	-	2	-	296	164
Total others	11	4	-	-	-	-	-	-	-	15	15
Total liabilities	162	147	-	-	-	-	-	2	-	311	179

(a) Realized profits (losses) were included in the statement of profit and loss under non-interest financing income.

(b) Unrealized profits (losses) were included in the statement of changes in equity under accumulated other comprehensive income (loss).

Note 15C – Changes in items measured for fair value on a recurring basis included in Level 3 (cont.)

	For the year ended 31 December 2014 (Audited)										
		Realized and unrealized profits (losses), net, included									
	Fair value at beginning of the year	In profit and loss statement (a)	In other comprehensive income (b)	Acqui-sitions and issues	Sales	Extinguish-ments	Adjustments from translation of financial statements	Transfers to Level 3	Transfers from Level 3	Fair value at 31 December 2015	Unrealized profits (losses) in respect of instruments held at 31 December 2015
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,009	48	(11)	508	(138)	(413)	-	-	-	2,003	(250)
Others in Israel	-	-	-	-	-	-	-	-	-	-	-
Total bonds available for sale	2,009	48	(11)	508	(138)	(413)	-	-	-	2,003	(250)
Shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	145	(23)	-	-	-	-	-	52	-	174	66
Interest contracts	423	(11)	-	-	-	(115)	-	-	-	297	(83)
Foreign currency contracts	2,307	(3,478)	-	1,941	-	-	-	-	-	770	230
Share contracts	64	65	-	-	-	-	-	-	-	129	108
Commodities and other contracts	64	(31)	-	-	-	-	-	-	-	33	32
Total assets in respect of derivative instruments	3,003	(3,478)	-	1,941	-	(115)	-	52	-	1,403	353
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	5,012	(3,430)	(11)	2,449	(138)	(528)	-	52	-	3,406	103
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	41	(37)	-	-	-	-	-	49	-	53	49
Foreign currency contracts	110	89	-	-	-	-	-	-	-	199	123
Total liabilities in respect of derivative instruments	151	52	-	-	-	-	-	49	-	252	172
Total others	11	2	-	-	-	-	-	-	-	13	13
Total liabilities	162	54	-	-	-	-	-	49	-	265	185

(a) Realized profits (losses) were included in the statement of profit and loss under non-interest financing income.

(b) Unrealized profits (losses) were included in the statement of changes in equity under accumulated other comprehensive income (loss).

Note 15D – Quantitative information regarding items measured for fair value included in Level 3

Quantitative information regarding Level 3 fair value measurement

	31 March 2016 (Unaudited)				
	Fair value	**Assessment technique**	**Unobservable inputs**	**Range**	**Average (3)**
A. Items measured for fair value on a recurring basis					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,253	Discounting cash flows	Margin Probability of default Rate of early repayment Loss rate	70-160 bp 2.5%-6% 20% 30%	115 bp 4.25% 20.00% 30.00%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	94	Discounting cash flows	Inflationary expectations	(0.1%)-(0.1%)	(0.10%)
	108	Discounting cash flows	Transaction counterparty risk	0.57%-100%(*)	3.52%
Interest contracts	312	Discounting cash flows	Transaction counterparty risk	0.57%-100%(*)	3.52%
Foreign currency contracts	106	Discounting cash flows	Inflationary expectations	(0.1%)-(0.1%)	(0.10%)
	797	Discounting cash flows	Transaction counterparty risk	0.57%-100%(*)	3.52%
Share contracts	134	Discounting cash flows	Transaction counterparty risk	0.57%-100%(*)	3.52%
Commodities contracts	23	Discounting cash flows	Transaction counterparty risk	0.57%-100%(*)	3.52%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Shekel/index interest contracts	61	Discounting cash flows	Inflationary expectations	(0.1%)-(0.1%)	(0.10%)
Foreign currency contracts	181	Discounting cash flows	Inflationary expectations	(0.1%)-(0.1%)	(0.10%)
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	838	Fair value of collateral			

* In respect of a failed counterparty.

B. Qualitative information regarding Level 3 fair value measurement

1. Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
   Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
2. Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction.
   Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
3. The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 15D – Quantitative information regarding items measured for fair value included in Level 3 (cont.)

Quantitative information regarding Level 3 fair value measurement (in NIS millions)

	31 March 2015 (Unaudited)				
	Fair value	**Assessment technique**	**Unobservable inputs**	**Range**	**Average (3)**
A. Items measured for fair value on a recurring basis					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,968	Discounting cash flows	Margin Probability of default Rate of early repayment Loss rate	70-160 bp 2.5%-6% 20% 30%-40%	115 bp 4.25% 20% 30%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	121	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.50%
	108	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.35%
Interest contracts	489	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.35%
Foreign currency contracts	118	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.25%
	1,881	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.35%
Share contracts	153	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.35%
Commodities contracts	47	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.35%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	49	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.25%
Foreign currency contracts	246	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.25%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	1,842	Fair value of collateral			

* In respect of a failed counterparty.

B. Qualitative information regarding Level 3 fair value measurement

1. Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
   Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
2. Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction.
   Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
3. The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 15D – Quantitative information regarding items measured for fair value included in Level 3 (cont.)

A. Quantitative information regarding Level 3 fair value measurement (in NIS millions)

	31 December 2015 (Audited)				
	Fair value	**Assessment technique**	**Unobservable inputs**	**Range**	**Average (3)**
A. Items measured for fair value on a recurring basis					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	2,003	Discounting cash flows	Margin Probability of default Rate of early repayment Loss rate	70-160 bp 2.5%-6% 20% 30%	115 bp 4.25% 20% 30%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	85	Discounting cash flows	Inflation forecasts	(0.2%)-0.0%	(0.10%)
	89	Discounting cash flows	Transaction counterparty risk	0.52%-100%(*)	1.49%
Interest contracts	297	Discounting cash flows	Transaction counterparty risk	0.52%-100%(*)	1.49%
Foreign currency contracts	95	Discounting cash flows	Inflation forecasts	(0.2%)-0.0%	(0.10%)
	675	Discounting cash flows	Transaction counterparty risk	0.52%-100%(*)	1.49%
Share contracts	129	Discounting cash flows	Transaction counterparty risk	0.52%-100%(*)	1.49%
Commodities contracts	33	Discounting cash flows	Transaction counterparty risk	0.52%-100%(*)	1.49%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Shekel-index interest contracts	53	Discounting cash flows	Inflation forecasts	(0.2%)-0.0%	(0.10%)
Foreign currency contracts	199	Discounting cash flows	Inflation forecasts	(0.2%)-0.0%	(0.10%)
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	1,132	Fair value of collateral			

* In respect of a failed counterparty.

B. Qualitative information regarding fair value measurement in Level 3

1. Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
   Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
2. Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction.
   Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
3. The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 16– Events after the reporting period

A. Bank Leumi Jersey

On 8 April 2016, the transaction was completed for the engagement of the sub-subsidiary Bank Leumi Jersey in an agreement to sell its holdings in its subsidiary Leumi Overseas Trust Corporation, after receiving the relevant permits required for carrying out the agreement.

B. Sale of the Israel Corporation

On 21 April 2016, in an off-floor transaction, the Bank sold the balance of the shares it held in the Israel Corporation Ltd., 451,252 shares, representing about 5.86% of the issued and paid=up capital of the Israel Corporation, for 17,906,037 shares in Israel Chemicals Ltd. (CIL), representing 1.4% of the issued and paid-up share capital of CIL.

C. Appointments and resignations

1. **Mr. Ron Fainaro**, member of Management of the Bank and Head of the Finance Division, will be appointed CEO of Leumi Card. The appointment will come into effect subject to the receipt of Bank of Israel approval. Mr. Fainaro will cease serving in the Bank after the appointment of his replacement.
2. **Prof. Danny Tsiddon**, Deputy CEO, gave notice of his resignation from the Bank and will finish his duties during 2016 after 12 years in the Bank when his replacement takes up his position.
3. **Mr. Omer Ziv** will be appointed as Head of the Financial Division and member of Bank Management with the rank of First Executive Vice President. The appointment will come into effect during 2016, subject to the approval of the Bank of Israel.

D. Change in the rate of Companies Tax

On 5 January 2016, the Amendment to the Income Tax Ordinance (No. 216) Law, 2016 was published, reducing the rate of Companies Tax from 26.5% to 25%.
The balances of deferred taxes as at 31 March 2016 were calculated in accordance with the new tax rate. The effect of the change on the financial statements as at 31 March 2016 is expressed in a reduction of the balance of deferred taxes by NIS 148 million, of which NIS 122 million was charged to profit and loss and NIS 26 million was charged to capital reserve.

Bank Leumi Le-Israel B.M. and its Investee Companies
Corporate Governance, Additional Details and Appendices

Table of contents

Changes in the Board of Directors

On 24 January 2016, Mr. Moshe Dovrat ceased to serve as a director in the Bank.

During July 2016, Mr. David Brodet, Chairman of the Board of Directors, and Mr. Yoav Nardi are expected to cease their service as directors in the Bank.

On 10 April 2016, the Bank published an advance notice on the intention to convene an annual general meeting, and on the agenda, *inter alia*, will be discussed the election of three directors with a different status in the Bank (a director who is not an external director as stated in Section 11D (a)(3) to the Banking Ordinance 1941) for a period of three years.

On 3 May 2016, the Bank received a notice from the Committee on Appointment of Directors in Banking Corporations, which was appointed under Section 36a to the Banking Law concerning the list of candidates for the position of directors in the Bank to be elected at the Annual General Meeting (Hereinafter: "the Directors' Appointment Committee "), including the following candidates to be elected as directors in the Bank: (1) Mr. David Brodet; (2) Mr Yoav Nardi; (3) Ms. Esther Levanon; and (4) Ms. Regina Unger.

In addition, in accordance with directives, Section 11D (a)(3) to the Banking Ordinance, the Jewish Colonial Trust (JCT) Ltd., a shareholder holding about 4.81% of the Bank's capital, proposed Dr. Yoffi Tirosh as a candidate to serve on the Bank's Board of Directors.

For further information, see the Bank's "Immediate Reports" as at 10 April 2016 (Ref: 2016-01-045841) and 4 May 2016 (Ref: 2016-01-058591).

During January 2017, Prof. G. Shalev, Ms. N. Segal and Mr. S. Hermesh are expected to cease their service as directors in the Bank. The Bank plans to convene an additional general meeting and on the agenda, *inter alia*, will be discussed the election of three directors to the Board of Directors of the bank, including an external director according to the Companies Law, 1999. The Bank received a notice from the Directors' Appointment Committee regarding the proposed candidates to be elected as directors at this general meeting.

For additional details regarding the candidates proposed by the Directors' Appointment Committee, see the Bank's "Immediate Reports" as at 4 May 2016 (Ref No.: 2016-01-058591)

The Board of Directors currently numbers 14 directors.

Internal Auditor

Details of the internal audit in the Group, including the professional standards according to which the internal audit operates, the annual and multiyear work plan and the considerations in determining it, are included in the Financial Statements 2015.

The work plan of the Internal Audit Division for 2016 was submitted to the Audit Committee on 28 December 2015 and approved in the Committee on 31 December 2015, and was submitted to the Board of Directors on 5 January 2016 and approved in the Board of Directors on 10 January 2016.

The Internal Auditor's annual report for 2015 was submitted to the Audit Committee on 18 February 2016 and discussed by the Committee on 23 February 2016, and was submitted to the Board of Directors on 2 March 2016 and discussed therein on 10 March 2016.

The annual reports of the internal auditors of the subsidiaries in Israel for 2015 were submitted to the Audit Committee on 30 March 2016 and were discussed therein on 3 April 2016.

The annual reports of the internal auditors in the overseas offices for 2015 were submitted to the Audit Committee on 4 May 2016 and were discussed therein on 8 May 2016.

Control of the Bank

As of 24 March 2012, the Bank is defined, according to the provisions of the law, as a banking corporation without core control and there is no shareholder who is defined as a controlling shareholder in the Bank.

For updated information regarding the holdings of interested parties in the Bank, see Immediate Report on the Position of holdings of Interested Parties and Senior Office Holders, dated 7 April 2016 (Ref. No. 2016-01-044562 and Immediate Report on Changes in the Holdings of Interested Parties and Senior Office Holders dated 14 April 2016 (Ref. No. 2016-01-044563).

Annual General Meeting and Election of Directors

On 10 April 2016, an advance notice on the intention to convene a general meeting was published, and on the agenda, *inter alia*, will be discussed the appointment of three directors with status of "Different Director", as outlined in the chapter "Changes in the Board of Directors", above, and in the Amendment of the Bank's Regulation on various subjects.

Appointments and Retirements

Appointments:

Mr. Danny Cohen, member of Bank Management, Head of the Human Resources Division and Chairman of the Board of Directors of the Arab Israel Bank, was appointed to the position of Head of the Banking Division, with effect from 1 January 2016.

Ms. Tamar Yassur, member of Bank Management, Head of the Banking Division and Chairman of the Board of Directors of Leumi Card, was appointed to the position of Head of the Digital Banking Division with effect from 1 January 2016, and, at the same time, she will continue in her position as Chairman of the Board of Directors of Leumi Card.

Ms. Michal Dana joined the Bank on 21 October 2015 and will be appointed to the position of Head of the Human Resources Division, and a member of Bank Management with the rank of First Executive Vice President, with effect from 1 January 2016.

Adv. Livnat Ein-Shai Vilder was appointed to the position of the Bank's Secretary in status of office holder who is not a member of Management, with effect from 1 March 2016.

Mr. Ron Fainaro, a member of Bank Management and Head of the Financial Division will be appointed to the position of CEO of Leumi Card. The appointment will take effect subject to the receipt of approval from the Bank of Israel. Mr. Fainaro will cease to serve in his position in the Bank after his replacement is appointed.

Mr. Omer Ziv will be appointed as Head of the Financial Division and member of Bank Management with the rank of First Executive Vice President. The appointment will come into effect during 2016, subject to the approval of Bank of Israel.

Retirements:

Prof. Dani Tzidon, Deputy CEO announced his retirement from the Bank, and will cease to serve in his position during 2016 after 12 years of employment in the Bank, three years of which he served as Deputy CEO.

Mr. Heny Heller, CEO of Leumi Card, will cease to serve in his position during 2016, after 16 years of employment in the Bank, three and a half years of which he served as CEO.

Organizational Structure

Digital Banking Division

On 1 January 2016, a new division was set up in Leumi for Digital Banking, which is subordinate to the President and CEO. The establishment of the division constitutes an additional and significant step in the digital revolution. The division leads and implements the digital innovativeness in the Leumi Group.

Banking Division

In light of changes and trends in the global business environment and in banking in Israel, it was decided to make a gradual transition from a geographical structure (regions) to a structure of four lines of business, which will operate as independent profit centers: Private Banking (an existing department), Small Businesses (set up on 1 January 2016), Premium Banking and Retail Banking. The preparations and transition from areas to lines of business will span the whole year.

Investment Counseling Department

On 1 January 2016, the Investment Consulting Department was transferred to the responsibility of the Head of the Banking Division. Until the end of 2015, the Department was the responsibility of the Head of the Human Resources Division.

Legislation and Regulation relating to the Banking System

Some of the information in this chapter is "forward-looking information". For the meaning of this term and the consequences arising from this meaning, see the chapter, "Forward-Looking Information".

See a detailed description in the Financial Statements for 2015 – pages 505 - 535

A large number of proposals for regulatory changes and changes in various provisions of the law were published during the reporting period, which may have an impact on the characteristics of the Group's activity, the scope of activity in some of the Group's areas, the rate of profitability in some of the Group's activities and on the credit risks and operating and legal risks to which the Group is exposed. Most of the directives are at various stages of discussion, and consequently it is not possible to assess whether they will be issued as binding directives, and if issued, what the ultimate directives that are established will be. Accordingly, at this stage, it is not possible to estimate the impact that those regulations will have on the overall activity of the Group, if any.

Legislation

Amendment to Annual Vacation Law

On 8 February 2016, the Annual Vacation Law, 1951, was amended. According to the amendment, it was decided that in the period from 1 July 2016 until 31 December 2016, an employee will be eligible to 15 vacation days in each of the first four years of his employment, and from 1 January 2017, an employee will be eligible to 16 vacation days in each of the first five years of his employment.

Prohibition of Money Laundering Law (Amendment No. 14), 2016

On 7 April 2016, an amendment to the Prohibition of Money Laundering Law was published, determining that serious tax offences according to the Income Tax Ordinance, the Value Added Tax Law, and the Land Appreciation Tax Law, will be recognized as predicate offences according to the Prohibition of Money Laundering Law, and will be subject to sanctions under this law, including severe punishment of up to 10 years imprisonment and possible forfeit of property.

As a rule, tax offences will be considered as predicate offences under certain conditions and *inter alia*, if the tax offence crossed a certain monetary threshold, or was committed with sophistication, or in connection with crime organizations and terrorism, or by someone who is not the person liable to the taxation.

In addition, the amendment provides an arrangement that allows the transfer of information from the Money Laundering & Terror Financing Prohibition Authority to the Tax Authority for the purpose of crime investigation and prevention under the law.

The law will come into effect six months from the date of its publication.

Credit Data Service Law, 2016

On 12 April 2016 the Credit Data Service Law was published.

The Law establishes a comprehensive arrangement of credit data sharing, and includes directives for the gathering of credit data from the information sources stipulated by law, saving them in a central database that will be operated by the Bank of Israel and furnishing the credit data in the database to credit bureau for it to be processed and transferred, *inter alia*, to credit providers.

The Law provides instructions with regard to the retention of customers' personal information and customer privacy.

Most sections of the Law will enter into effect within six months from its publication date. Under certain circumstances it will be possible to extend the Law's enter into effect date for additional periods, provided that the total delays will not exceed four years from date of publication of the Law.

Remuneration Law for Officeholders in Financial Corporations (special approval and non recognition as an allowable tax deductible expense since it is exceptional remuneration), 2016

On 12 April, the Remuneration Law for Office Holders in Financial Corporations (special approval and non recognition of exceptional remuneration as a tax deductible expense), 2016, was published. The Law establishes restrictions on the remuneration of office holders or other employees in financial corporations (hereinafter: "the remuneration"), as follows:

- The benchmark for approving the remuneration was established; in respect of which the projected expenditure is expected to exceed NIS 2.5 million per year.
- No agreement will be approved when the expected expenditure in respect of the remuneration exceeds NIS 2.5 million, unless the ratio between the projected expenditure, according to the cost of a full salary, resulting from this remuneration and the expenditure, resulting from the lowest remuneration, according to the cost of a full salary that the financial corporation paid directly or indirectly to the employee in the corporation (including contractors' employees) in the year prior to the date of the agreement, is lower than 35.
- The amount of remuneration of the said employee / office holder, will be calculated on a collective basis, i.e. it will also include remuneration from related corporations as they are defined in this law.
- For the purpose of calculating the taxable income of a financial corporation, it was decided that an expense which exceeds the ceiling, as defined by law, may not be deducted as a recognized expense. The ceiling defined in the law does not exceed NIS 2.5 million per year, and in the event that the remuneration exceeds NIS 2.5 million per year, the ceiling will be reduced to the amount of the difference between the remuneration and NIS 2.5 million (Hereinafter: "the ceiling").
- The rules for reporting to the Tax Authority with regards to remuneration details that exceed the ceiling were determined.
- A sanction was set, according to which a corporation that does not comply with the rules- the agreement will be regarded as an invalid transaction (according to Section 280 of the Companies Law).

With regard to agreements that were approved on the day of publication of the Law and thereafter, wage restrictions will come into force from the day of publication, while the effect on taxable income of the financial institution and the report to the tax authority will apply from 1 January 2017. With regard to agreements that were approved prior to the date of publication, wage restrictions and the effect on taxable income of the financial institution and the report to the tax authority will apply from the end of six months from the date of publication.

On 7 April 2016, the Supervisor of Banks published a letter to the Chairpersons and CEOs of the banking corporations, according to which the banking corporations are required to estimate the possible implications and risks to the Bank when the law comes into force, including examination of the likelihood of key employees terminating their service and to examine the impact on the Bank's long-term plans, including the ability to significantly streamline operations in accordance with supervisory requirements.

In addition, the banking corporations are required to examine the need to update obligations regarding employees' rights in the Banks' upcoming financial statements, given that the changes in circumstances are likely to have implications for the banking corporations' retirement estimates.

Against the background of the increasing likelihood that members of management and other managers who are employed under personal contracts in the Bank, will terminate their service in the relatively near future, due to the expected worsening of their conditions when the law comes into force, the Bank's Board of Directors, in light of management's assessment and in accordance with legal opinions, approved a provision in respect of the termination of employee-employer relations with respect to estimating the Bank's increasing exposure, according to the rights that have accumulated to date, in accordance with the terms of employment of members of management and other managers who are employed under personal contracts, if their employment was discontinued during the reporting period.

Legislative proposals

A Draft Law to Broaden Tax Collection and Increase Enforcement (the means to enforce tax payment and deter against money laundering (Legislative Amendments), 2015

On 12 October 2015, the Knesset approved a draft law to broaden tax collection and increase enforcement (the means to enforce tax payment and deter against money laundering) (Legislative Amendments), 2015. The proposed amended law is currently being discussed in the Knesset's Constitution, Law and Justice Committee.

The draft law proposes to authorize the tax authorities to request information from financial entities regarding their customers, with regard to various characteristics of tax evasion, such as the transfer of funds overseas to countries which are tax havens. Requests for the aforesaid information will be subject to the approval of the Public Committee and the government's legal advisor.

Memorandum of the Securities Law (Amendment No.) (Structural Change of the Stock Exchange), 2016

On 22 February 2016 the Ministry of Finance published a memorandum of the Securities Law (Amendment No.)(Structural Change of the Stock Exchange), 2016

The memorandum proposes to change the ownership structure on the stock exchange while turning it into a for-profit company.

It is also proposed to widen the company base in the stock exchange and make it accessible to a larger number of eligible traders in such a way that access to trade will no longer be dependent on ownership rights in the stock exchange but rather will be based on contractual arrangements between the stock exchange and potential members.

In addition, the memorandum discussed the following issues: strengthening the supervisory mechanisms on the stock exchange, stipulating conditions for the provision of a license to open the stock exchange, control permits and corporate governance arrangements.

Draft Law for the Insolvency and Economic Rehabilitation Law, 2016

On 7 March 2016 the proposed Insolvency and Economic Rehabilitation Law was approved in a first reading. The proposal includes a comprehensive reform, both structurally and materially, in insolvency proceedings of individuals and corporations. The proposal includes instructions related to all kinds of debtors, alongside instructions dealing with the unique aspects of various kinds of debtors – units and corporations. The proposal includes, *inter alia*, the following innovations:

- The definition of insolvent will be according to a cash flow test, and accordingly, an insolvent is anyone who is unable to pay his debts when due, this, in place of the balance sheet test which is currently used.
- A creditor will be able to submit a request for the grant of an order for opening proceedings only when the debtor has not paid him a debt when due. A future creditor will not be entitled to submit a request to start proceedings, except in circumstances in which the debtor is acting in order to defraud his creditors, to prefer creditors or conceal assets.
- The court which is qualified in the insolvency proceedings of an individual will be the magistrates' court, while the insolvency proceedings for a corporation will continue to be conducted in a district court.
- The start of insolvency proceedings against a corporation will commence in a consolidated proceeding in which it will be established whether the corporation is insolvent. After this decision the court will decide on the way in which it is appropriate to deal with the corporation's insolvency – recovery proceedings or liquidation proceedings.
- With regard to individuals – The management of a large part of the proceedings will be transferred from the District Court to the Official Receiver referred to in the proposed law as "the Official Receiver") and to the Magistrates Court. The proceedings will begin in the period of examination, which will coincide with grant of the order for opening proceedings, in which the economic position of the debtor will be investigated, during which a stay of the proceeding will be in force. At the end of the examination, the Official Receiver will submit a report to the court on the basis of which a recovery program for the debtor will be established, on the completion of which the individual will be discharged of his debts.

If the individual does not have the ability to pay his creditors, he will be discharged immediately. In addition, it is proposed to provide alternative tracks for debtors without any means, and debtors with small debts, which will be dealt with mainly by the Enforcement and Collection Authority, usually, without the involvement of the court.

- The preferred status of some of the "debts with preferential right" will be cancelled.
- A floating lien will apply only to the assets of the debtor at the time of granting the order and to the assets that will be due to the debtor at this date and thereafter as consideration for the abovementioned assets or as an alternate asset which is identifiable and consistent.
- A secured creditor in a floating lien will be entitled to repay his secured debt from the floating lien only up to the amount equivalent to 75% of the value of the assets to which the lien applies. The balance of the assets under the lien will be used as payment to the general creditors.
- Directors in a corporation in insolvency are required to take reasonable steps to minimize the scope of the insolvency.
- For the first time, a part has been added relating to the management of insolvency proceedings which has international aspects.
- A corporation will be able to execute a debt arrangement at an early stage, even before insolvency, with the aim of stopping its deterioration, this, in accordance with the recommendations of the Committee to Examine Debt Arrangements in Israel (the Endoren Committee).

Banking Law Draft (Licensing) (Amendment – Branch Closures), 2015

On 9 March 2016, the Knesset plenum approved in a preliminary reading the draft of the Banking Law (Licensing) (Amendment – Branch Closures), 2015, in a preliminary reading. In accordance with the proposal, a banking corporation will not close a branch as long as the Supervisor was notified thereof at least 60 days prior to the branch closure, and the Supervisor or a Bank of Israel employee authorized for that purpose by the Supervisor did not express, within the said period, his consent or opposition to the branch closure.

Draft Law for the Supervision of Financial Services (Provident Funds) (Amendment No. 15), 2016

On 14 March 2016 the Knesset plenum approved in a first reading a draft of the Law for the Supervision of Financial Services (Provident Funds) (Amendment No. 15), 2016 in a first reading. As part of the draft, it was suggested, *inter alia*, to allow companies that manage provident funds to establish an additional savings product that will be called "Provident Funds for Investment" intended to pay a capital amount to a plan member. The funds in the provident fund for investment will be liquid and the saver will be able to withdraw them in one payment, without tax benefits or receive an exemption from capital gains tax if the plan member decides to receive them as an allowance.

Draft Law for the Supervision of Financial Services (Legislation Amendments), 2016

On 21 March 2016, the Knesset plenum approved in a first reading the draft Law for the Supervision of Financial Services (Legislation Amendments), 2016 in a first reading.

As part of the draft, it was proposed to change the Capital Markets Division in the Finance Ministry to an authority that will be called: Capital Markets, Insurance and Savings Authority. The authority will operate as an independent unit in the Finance Ministry which the Finance Minister will supervise.

It was also proposed that the Finance Minister will appoint, with the approval of the government, a supervisor of the Capital Markets, Insurance and Savings, and he will be responsible for fulfilling the roles and routine management of the Authority. The aim of this is to provide the supervisor of the Capital Markets, Insurance and Savings with greater administrative independence and freedom than he has today.

Proposed law for the Supervision of Financial Services (Provident Funds) (Amendment No. 16), 2016 - General Collective (Framework) Agreement to increase pension insurance contributions in the market

On 23 February 2016, the Presidency of Business Organizations and the New General Workers' Union signed a General Collective (Framework) Agreement to increase pension insurance contributions in the market, designed to establish an increase in deposit rates that will apply to all employees and employers in the market ("the framework agreement"). The condition for the framework agreement to come into effect is to extend its provisions to all employees in the extension order and amendment of "the general approval regarding the employers' payments to a pension and insurance funds instead of severance pay".
On 21 March 2016, a bill was published by the Government – a proposed law for the Supervision of Financial Services **(**Provident Funds) (Amendment No. 16) 2016, The bill proposes, in accordance with the directives of the framework agreement, to amend Section 20 to the Supervision of Financial Services Law (Provident Funds), 2005 and provide that, if it is stipulated by law or in the agreement that the rate of the deposit to a particular provident fund stands at a certain rate of an employee's salary and includes a payment of the employer to purchase preferred insurance at the rate required to ensure 75% of the employee's salary or at a rate of 2.5% of his salary, as aforesaid, whichever the lower, and the rate of the deposit according to law or the agreement to a different type of provident fund stands at a lower rate, the said stipulation will not be considered a stipulation of the employer with regard to the deposit rate for the employee for a particular type of provident fund, provided that the employee will be entitled to a deposit rate to the employer's payment components of no less than the deposit set in the proposed third supplement(from 1 July 2016. 6.25%, from 1 July 2017, 6.5%).

Draft Law for a Warning Obligation in the Advertising and Telemarketing of a Loan (Legislation Amendments), 2015

On 23 March 2016 the Knesset plenum approved in a preliminary reading the draft law for a Warning Obligation in the Advertising and Telemarketing of a Loan (Legislation Amendments), 2015, according to which it was proposed to determine that a banking corporation or a non-banking lender will not engage in advertising that encourages taking a debt or a loan and will not market loans over the phone, unless a warning is attached to the advertisement that failure to meet the repayment of the loan may result in legal expenses, fines, foreclosure of account and execution acts from the part of the lender.

Material Directives of the Bank of Israel

Permit to open partial and mobile branches

On 28 February 2016, the Supervisor of Banks published a format of a permit to open partial and mobile branches. The permit will enable banks to open partial branches at various sites. The partial branch can be operated from a suitable room with signposts of the Bank or via a branch that can be moved move and operated from various sites, including from within a suitable vehicle. The branch will operate at regular intervals, as set by the Bank, at least once a month.

The services in the branch will only be available to individual customers or small businesses.

A bank will be permitted to provide the full range of bank services in the said branch, excluding: signing of guarantees, extending housing loans and investments consulting and marketing.

Amendment to the Banking Management Directive 329 on the subject of restrictions in the provision of housing loans

On 1 May 2016, the Bank of Israel published an amendment to Directive 329 on the subject of restrictions in the provision of housing loans.

As part of the amendment, it was determined that, for the purpose of calculating the financing rate of the housing loan to those eligible for housing in projects in which the State gives a discount on the cost of

land, such as "a target price" and "a home owner price ", a banking corporation will be authorized to base the value of the property on an appraisal, rather than on the actual purchase price. It was determined that if the appraisal is higher than NIS 1.8 million, the value of the property should be based on NIS 1.8 million, or on the purchase price, whichever is higher. It was further determined that the purchaser must pay at least NIS 100 thousand of the purchase out of his own sources.

When penalties, in respect of a breach of the terms of the plan in these projects, are levied, these amounts must be deducted from the value of the apartment, unless the Bank has a preferential right over the right of the State to a penalty upon the realization of the property.

Proper Conduct of Banking Business Directive 472, on the subject of clearing entities and the clearing of debit card transactions

On 1 May 2016, the Banking Supervision Department published Proper Banking Management Regulation No. 472, on the subject of clearing entities and the clearing of debit card transactions.

This directive relates for the first time, in a designated manner, to financial entities whose main business is the clearing of debit card transactions.

The directive alleviates some of the regulatory requirements which, until now, have been imposed on credit card and clearing companies, and also alleviates the cleared capital requirements, while distinguishing between clearing entities whose scope of credit activity is immaterial, and other clearing agents.

In addition, the directive discusses the following subjects: the existence of an adequate infrastructures of corporate governance; risks management; internal control and IT management; the protection of funds in clearing; management of businesses accounts, relations between clearing entities and businesses, the transfer of funds in immediate debit transactions; the use of the EMV standard, a mechanism for diverting responsibility, the rental to businesses of terminal equipment adapted to new technology (EMV) and details of the provisions of the Proper Conduct of Banking Business Regulations which apply to the clearing entities.

In defining the directive, the relevant sections that apply to clearing entities were transferred from Proper Conduct of Banking Business Directive 470 – Debit Cards, to this directive.

The directive will come into effect on 1 June 2016, with the exception of certain sections that were transferred from Proper Conduct of Banking Business Directive 470, which discuss transactions in an immediate debit card, transactions with a prepaid card and connection to a new terminal, for which different effective dates have been determined.

Material Drafts of the Bank of Israel

Online banking; transmission of messages in the media; types of accounts and conditions that if fulfilled, the customer's signature of agreement will not be required.

On 16 March 2016, the Banking Supervision Department published drafts of various direvtives in the area of online banking. The drafts discuss, *inter alia*, the following topics:

- Opening a new account online.
- Enrolling online banking online;
- Expanding the types of agreements for which the customer's signature at the branch is not required;
- A customer who enrolls for online banking services will be able to make online transactions and payments to a third party and specify regular beneficiaries in his account without the need to attend the branch as has been required until now;
- The restrictions that have been imposed until now, with regard to ceilings for the amounts of transfers by the customers to unlisted beneficiaries, will be removed - along with determining ceilings by the banking corporate, according to the risks management policy that will be devised on the matter.
- A customer who enrolls for online banking services will be able to update details in his account (for example, family name and address) and also obtain a preliminary password and release a blocked password online without the need to go to a branch;
- Subject to the approval of the Supervisor, a customer will be able to obtain collection of information services from any financial entity in which he has an account. The customer will choose the bank in which he wishes the information to be collected.
- A customer who so chooses will be able to receive most of the notices via online banking. The bank will be able to offer the customer the option of receiving alerts which will assist him in managing his account via a mobile phone (SMS text messages) or by e-mail,
- Sending a text message (SMS) to a customer that five checks were refused in his account or for whom restrictions have been imposed on his account.

Alongside these reliefs, the Banking Supervision Department intends to impose on the banks responsibility for the management of the risks inherent in expanding remote banking activity, implementation of various controls and protection of the information.

Draft amendment to Proper Conduct of Banking Business Regulation 454 on the subject of early repayment of non-housing loans

On May 15, 2016 the Bank of Israel published a draft amendment to Regulation 454 on the subject of early repayment of non-housing loans.

The draft includes an amendment to the version of the amended regulation, which entered into effect on April 1, 2016.

Among other things the draft stipulates that the explanation page to the customer regarding the early repayment, may be included as an annex to the loan agreement or the framework agreement provided that it will be presented in bold and highlighted manner in order to avoid duplication.

It was also stipulated that instead of presenting the capitalization component formula and its method of calculation in the explanation page, the banking corporations must refer to a link to the website of the banking corporations, where the capitalization component formula and the method of calculation will be displayed clearly. The link must lead directly to the place in the website where the capitalization component formula and method of calculation are displayed. In addition, the banking corporation must provide the borrower who is interested in that, the formula of the capitalization component and calculation method, in the way it uses to send notices to customers or by any other accepted way chosen by the customer.

In addition the draft includes various clarifications regarding the information that should be included in the explanation page provided to the customer and regarding the classification of the borrower.

Draft Amendment to Proper Conduct of Banking Business Regulation 403 on the subject of non-banking benefits to customers

On May 15, 2016 the Bank of Israel published a revised draft of Proper Conduct of Banking Business Regulation 403 on the subject of non-banking benefits to customers.

This regulation regulated the rules for granting non-banking benefits of banking corporations to their customers. The amendment extends the options available to the banking corporations to give non-banking benefits to their customers while the customer conducts his current account regularly, including enrolling and using online banking services.

The amendment does not allow the banking corporations to give a non-banking benefit while opening a current account (excluding paying money or a small value item for marketing purposes of the banking corporation) or during sale of other banking products including placing a deposit, extension or use of credit, opening an investment portfolio and its management and investment or pension consulting.

International Regulation

Base Erosion Profit Shifting (BEPS)

BEPS is a project initiated by the G20 Forum in cooperation with the OECD, with the aim of contending with international tax planning of global companies, which transfer their profits to territories with beneficient tax regimes, and, in many cases, to tax havens where tax is not imposed at all. The project encompasses a comprehensive plan of action that will supply information, analyses, courses of action and recommendations for contending with the phenomenon. Courses of action have been developed in order to provide governments with tools at a local and international level to cope with the tax planning and to assist countries in ensuring that profits will be taxed in the location where the financial activity of the corporation takes place and where the value is created, and to give businesses greater certainty as a result of a reduction in the number of disputes on international taxation. The BEPS plan of action includes 15 operative recommendations divided into three categories: consistency, content, and transparency. Under the category of transparency, the OECD recommends that multi-national corporations with a turnover of over 750 million euro be obligated to hand over to relevant tax authorities reports that will enable the tax authorities in the relevant countries to examine whether or not profits have been legitimately offset among the related corporations. The recommendations will most likely be expressed in local legislation. On May 13, 2016 the State of Israel signed its joining the implementation of the multilateral convention on inter-state reporting (" CBC"). The Bank has started to prepare for the implementation of the recommendations.

Credit Rating

The table below shows the credit ratings of Israel and of the Bank on 10 May 2016:

	Rating agency	Long-term rating	Outlook	Short-term rating
State of Israel	Moody's	A1	stable	P-1
	S&P	A+	stable	A-1
	Fitch	A	positive	F1
Bank Leumi: foreign currency	Moody's	A2	stable	P-1
	S&P	A-	stable	A-2
	Fitch	A-	stable	F1
Local rating (in Israel)	S&P Ma'alot	AAA	stable	-
	Midroog	Aaa	stable	P-1

On 5 February 2016, S&P Credit Rating Agency affirmed the rating of the State of Israel and the rating outlook.

On 15 March 2016, Fitch Credit Rating Agency affirmed the Bank's rating and the rating outlook.

On 30 March 2016, Moody's Credit Rating Agency affirmed the rating of the State of Israel and the rating outlook.

On 1 April 2016, S&P Credit Rating Agency affirmed the international rating of Banl Leumi USA, a subsidiary of the Bank. The long-term rating of Bank Leumi USA was affirmed at BBB+ level and the rating outlook was affirmed as stable.

On 7 April 2016, Moody's Credit Rating Agency affirmed the Bank's rating and outlook.

On 21 April 2016, Fitch Credit Rating Agency affirmed the rating of the State of Israel and raised the rating outlook to positive from stable.

David Brodet
Chairman of the Board of Directors

Rakefet Russak-Aminoach
President and Chief Executive Officer

Rates of Income and Expenses of the Bank and its Consolidated Companies and an Analysis of the Changes in Income and Expenses[a]

Part A – Average balances and interest rates - assets

	For the three months ended 31 March					
	2016			2015 (j)		
	Average balance (b)	**Interest income**	**Rate of income**	Average balance (b)	Interest income	Rate of income
	NIS millions		%	NIS millions		%
Income-bearing assets						
Credit to the public (c)						
In Israel	**235,460**	**1,510**	**2.59**	225,478	1,127	2.01
Outside Israel	**23,712**	**229**	**3.92**	23,781	220	3.75
Total (i)	**259,172**	**1,739**	**2.71**	249,259	1,347	2.18
Credit to the Government						
In Israel	**423**	**3**	**2.87**	463	1	0.87
Outside Israel	**-**	**-**	**-**	51	-	-
Total	**423**	**3**	**2.87**	514	1	0.78
Deposits in banks						
In Israel	**9,968**	**11**	**0.44**	11,414	13	0.46
Outside Israel	**723**	**4**	**2.23**	1,205	7	2.34
Total	**10,691**	**15**	**0.56**	12,619	20	0.64
Deposits in central banks						
In Israel	**33,437**	**9**	**0.11**	29,560	14	0.19
Outside Israel	**4,970**	**1**	**0.08**	4,902	3	0.25
Total	**38,407**	**10**	**0.10**	34,462	17	0.20
Securities borrowed or purchased under resale agreements						
In Israel	**1,656**	**1**	**0.24**	1,983	2	0.40
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,656**	**1**	**0.24**	1,983	2	0.40
Bonds available for sale (d)						
In Israel	**53,029**	**109**	**0.82**	34,840	85	0.98
Outside Israel	**4,745**	**21**	**1.78**	5,248	20	1.53
Total	**57,774**	**130**	**0.90**	40,088	105	1.05
Bonds for trading (d)						
In Israel	**10,328**	**25**	**0.97**	11,877	8	0.27
Outside Israel	**25**	**2**	**36.05**	345	2	2.34
Total	**10,353**	**27**	**1.05**	12,222	10	0.33
Total interest-bearing assets	**378,476**	**1,925**	**2.05**	351,147	1,502	1.72
Receivables for non-interest bearing credit cards	**7,133**			7,136		
Other non-interest bearing assets (e)	**40,136**			47,694		
Total assets	**425,745**	**1,925**		405,977	1,502	
Total income-bearing assets attributable to activity outside Israel	**34,175**	**257**	**3.04**	35,532	252	2.87

See notes on page 243.

Rates of Income and Expenses of the Bank and its Consolidated Companies and an Analysis of the Changes in Income and Expenses[a] (cont'd)

Part B – Average balances and interest rates – liabilities and equity

	For the three months ended 31 March					
	2016			2015 (j)		
	Average balance (b)	**Interest expense**	**Rate of expense**	Average balance (b)	Interest expense	Rate of expense
	(NIS millions)		**%**	(NIS millions)		%
Interest- bearing liabilities						
Deposits of the public						
In Israel	**238,447**	**(146)**	**(0.24)**	223,539	17	0.03
On demand	**72,395**	**(3)**	**(0.02)**	60,281	(5)	(0.03)
Fixed term	**166,052**	**(143)**	**(0.34)**	163,258	22	0.05
Outside Israel	**16,556**	**(30)**	**(0.72)**	16,901	(31)	(0.73)
On demand	**3,679**	**(2)**	**(0.22)**	2,919	(2)	(0.27)
Fixed term	**12,877**	**(28)**	**(0.87)**	13,982	(29)	(0.83)
Total	**255,003**	**(176)**	**(0.28)**	240,440	(14)	(0.02)
Deposits of the Government						
In Israel	**149**	**(1)**	**(2.66)**	144	(1)	(2.81)
Outside Israel	**604**	**-**	**-**	344	-	-
Total	**753**	**(1)**	**(0.53)**	488	(1)	(0.82)
Deposits from central banks	**-**	**-**	**-**	-	-	-
In Israel	**-**	**-**	**-**	-	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**-**	**-**	**-**	-	-	-
Deposits from banks						
In Israel	**5,151**	**(2)**	**(0.16)**	4,279	(3)	(0.28)
Outside Israel	**16**	**-**	**-**	49	-	-
Total	**5,167**	**(2)**	**(0.15)**	4,328	(3)	(0.28)
Securities lent or sold under resale agreements						
In Israel	**950**	**(1)**	**(0.42)**	1,186	(2)	(0.68)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**950**	**(1)**	**(0.42)**	1,186	(2)	(0.68)
Bonds						
In Israel	**24,259**	**(90)**	**(1.48)**	21,771	34	0.63
Outside Israel	**-**	**-**	**-**	10	-	-
Total	**24,259**	**(90)**	**(1.48)**	21,781	34	(0.79)
Total interest-bearing liabilities	**286,132**	**(270)**	**(0.38)**	268,223	14	0.02
Non-interest bearing deposits of the public	**76,212**			72,048		
Payables for non-interest bearing credit cards	**8,149**			7,764		
Other non-interest bearing liabilities (f)	**26,721**			31,717		
Total liabilities	**397,214**	**(270)**		379,752	14	
Total capital means	**28,531**			26,225		
Total liabilities and capital means	**425,745**	**(270)**		405,977	14	
Interest margin		**1,655**	**1.67**		1,516	1.74
Net yield (g) on income-bearing assets						
In Israel	**344,301**	**1,428**	**1.67**	315,615	1,295	1.65
Outside Israel	**34,175**	**227**	**2.68**	35,532	221	2.51
Total	**378,476**	**1,655**	**1.76**	351,147	1,516	1.74
Total income-bearing liabilities attributable to activity outside Israel	**17,176**	**(30)**	**(0.70)**	17,304	(31)	(0.72)

See notes on page 243.

Rates of Income and Expenses of the Bank and its Consolidated Companies and an Analysis of the Changes in Income and Expenses[a] (cont'd)

Part C – Average balances and interest rates – additional information on interest-bearing assets and liabilities attributed to activity in Israel

	For the three months ended 31 March					
	2016			2015 (j)		
	Average balance (b)	**Interest income (expense)**	**Rate of income (expense)**	Average balance (b)	Interest income (expense)	Rate of income (expense)
	(NIS millions)		%	(NIS millions)		%
Index-linked Israeli currency						
Total interest-bearing assets	**242,409**	**1,457**	**2.43**	212,570	1,394	2.65
Total interest-bearing liabilities	**184,348**	**(147)**	**(0.32)**	163,009	(129)	(0.32)
Interest margin			**2.11**			2.33
Unlinked Israeli currency						
Total interest-bearing assets	**51,629**	**(29)**	**(0.22)**	53,886	(382)	(2.81)
Total interest-bearing liabilities	**43,375**	**(21)**	**(0.19)**	44,478	219	1.96
Interest margin			**(0.42)**			(0.86)
Foreign currency						
Total interest-bearing assets	**50,263**	**240**	**1.92**	49,159	238	1.95
Total interest-bearing liabilities	**41,233**	**(72)**	**(0.70)**	43,432	(45)	(0.42)
Interest margin			**1.22**			1.53
Total activity in Israel						
Total interest-bearing assets	**344,301**	**1,668**	**1.95**	315,615	1,250	1.59
Total interest-bearing liabilities	**268,956**	**(240)**	**(0.36)**	250,919	45	0.07
Interest margin			**1.59**			1.66

See notes on page 243.

Rates of Income and Expenses[a] (cont'd)

Part D – Analysis of changes in interest income and interest expenses

	2016 compared to 2015		
	For the three months ended 31 March		
	Increase (decrease) due to change (h)		Net change
	Amount	Price	
	(NIS millions)		
Interest-bearing assets			
Credit to the public			
In Israel	**71**	**(522)**	**(451)**
Outside Israel	**(1)**	**(437)**	**(438)**
Total	**70**	**(959)**	**(889)**
Other interest-bearing assets			
In Israel	**24**	**(97)**	**(73)**
Outside Israel	**2**	**(61)**	**(59)**
Total	**26**	**(158)**	**(132)**
Total interest income	**96**	**(1,117)**	**(1,021)**
Interest-bearing liabilities			
Deposits of the public			
In Israel	**17**	**(164)**	**(147)**
Outside Israel	**1**	**(64)**	**(63)**
Total	**18**	**(228)**	**(210)**
Other interest-bearing liabilities			
In Israel	**(4)**	**(24)**	**(28)**
Outside Israel	**3**	**(5)**	**(2)**
Total	**(1)**	**(29)**	**(30)**
Total interest expenses	**17**	**(257)**	**(240)**

Notes:

(a) The data in these tables are shown after the effect of hedging derivative instruments.

(b) Based on monthly opening balances, except for the unlinked Israeli currency segment where the average balance is calculated on daily figures, and before deduction of the average balance of credit loss allowances, overseas subsidiaries on the basis of quarterly opening balances.

(c) Before deduction of the average balance of credit loss allowances. Including impaired debts not accumulating interest income.

(d) From the average balance of bonds held for trading and bonds available for sale there has been deducted/added the average balance of unrealized gains/losses from fair value adjustments of bonds for trading and also gains/losses in respect of bonds available for trading that are included in shareholder's equity in the framework of accumulated other comprehensive income under "Adjustments in respect of presentation of available for sale securities at fair value" in respect of bonds transferred from the available for sale portfolio, in the amount of NIS 1,429 million respectively (31 March 2015 – NIS 589 million).

(e) Including book balances of derivative instruments, other non-interest bearing assets, non-monetary assets, and after deducting allowance for credit losses.

(f) Including book balances of derivative instruments, and non-monetary liabilities.

(g) Net yield – net interest income divided by total interest-bearing assets.

(h) The change attributed to the change in amount was calculated by multiplying the new price by the change in amount. The change attributed to the change in price was calculated by multiplying the old amount by the change in price.

(i) Commissions for the three and nine period in an amount of NIS 89 million have been included in interest income from credit to the public (31 March 2015 – NIS 120 million).

(j) Reclassified.