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

Condensed Financial Statements
as at 30 September 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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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 30 September		For the nine months ended 30 September		For the year ended 31 December
	2016	2015	**2016**	2015	2015
			Unaudited		Audited
	NIS millions		NIS millions		
Interest income	**2,607**	2,463	**7,236**	6,783	8,784
Interest expenses	**637**	588	**1,577**	1,392	1,666
Net interest income	**1,970**	1,875	**5,659**	5,391	7,118
Expenses in respect of credit losses	**106**	73	**(171)**	166	199
Net interest income after expenses in respect of credit losses	**1,864**	1,802	**5,830**	5,225	6,919
Non-interest income					
Non-interest financing income	**499**	325	**1,057**	1,539	1,610
Commissions	**996**	1,013	**2,973**	3,099	4,092
Other income	**19**	6	**54**	114	595
Total non-interest income	**1,514**	1,344	**4,084**	4,752	6,297
Operating and other expenses					
Salaries and related expenses	**1,312**	1,360	**4,024**	4,123	5,448
Building and equipment maintenance and depreciation	**456**	427	**1,314**	1,282	1,702
Amortization of intangible assets and goodwill	**-**	-	**-**	-	5
Other expenses	**187**	334	**962**	1,113	1,681
Total operating and other expenses	**1,955**	2,121	**6,300**	6,518	8,836
Profit before taxes	**1,423**	1,025	**3,614**	3,459	4,380
Provision for taxes on profit	**514**	327	**1,292**	1,189	1,691
Profit after taxes	**909**	698	**2,322**	2,270	2,689
Banking corporation's share in profits of companies included on equity basis after tax	**21**	15	**56**	161	177
Net profit					
Before attributing to non-controlling interests	**930**	713	**2,378**	2,431	2,866
Attributed to non-controlling interests	**(11)**	(9)	**(30)**	(27)	(31)
Attributed to shareholders of the banking corporation	**919**	704	**2,348**	2,404	2,835
Basic and diluted earnings per share:					
Net profit attributed to shareholders of the banking corporation (in NIS)	**0.60**	0.48	**1.54**	1.63	1.92

Total assets under management of the Group (both balance sheet and off-balance sheet*) amounted to NIS 1,241 billion at 30 September 2016, compared with NIS 1,214 billion at the end of 2015, an increase of 2.2%.

* 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:

	30 September 2016	30 September 2015	31 December 2015
	Unaudited		Audited
	NIS millions		
Assets			
Cash and deposits with banks	**59,067**	52,562	60,455
Securities	**82,493**	67,545	69,475
Securities borrowed or purchased under agreements to resell	**896**	1,420	1,764
Credit to the public	**267,895**	263,822	265,070
Allowance for credit losses	**(3,527)**	(3,813)	(3,671)
Credit to the public, net	**264,368**	260,009	261,399
Credit to governments	**623**	474	453
Investments in companies included on equity basis	**897**	948	924
Buildings and equipment	**3,044**	2,992	3,095
Intangible assets and goodwill	**17**	18	18
Assets in respect of derivative instruments	**11,630**	15,314	11,250
Other assets	**8,723**	7,242	7,666
Total assets	**431,758**	408,524	416,499
Liabilities and equity			
Deposits of the public	**336,851**	317,991	328,693
Deposits from banks	**3,589**	3,650	3,859
Deposits from governments	**661**	644	750
Securities lent or sold under agreements to repurchase	**553**	503	938
Debentures, bonds and subordinated notes	**23,765**	22,187	21,308
Liabilities in respect of derivative instruments	**12,634**	14,766	11,098
Other liabilities	**22,117**	19,873	20,746
Total liabilities	**400,170**	379,614	387,392
Non-controlling interests	**360**	335	340
Equity attributable to shareholders of the banking corporation	**31,228**	28,575	28,767
Total equity	**31,588**	28,910	29,107
Total liabilities and equity	**431,758**	408,524	416,499

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

	30 September 2016	30 September 2015	31 December 2015
Credit to the public, net, to total balance sheet	**61.2**	63.6	62.8
Securities to total balance sheet	**19.1**	16.5	16.7
Deposits of the public to total balance sheet	**78.0**	77.8	78.9
Deposits of the public to total credit, net	**127.4**	122.3	125.7
Total equity to risk assets (a)	**15.04**	13.63	13.74
Tier 1 capital to risk assets	**10.86**	9.30	9.58
Leveraging ratio	**6.81**	6.34	6.27
Liquidity coverage ratio	**130.0**	104.0	105.0
Equity (excluding non-controlling interests) to balance sheet	**7.2**	7.0	6.9
Net profit to average equity (excluding non-controlling interests) (c)	**10.7**	11.9	10.3
Rate of provision for tax on the profit before taxes	**35.7**	34.4	38.6
Expenses in respect of credit losses to credit to the public, net (c)	**(0.09)**	0.09	0.08
Of which: expenses in respect of collective allowance to credit to the public, net (c)	**0.24**	0.19	0.17
Expenses in respect of credit losses to total risk of credit to the public (c)	**(0.06)**	0.06	0.05
Interest income, net to total balance sheet (c)	**1.75**	1.76	1.71
Total income to total assets (b)(c)	**3.02**	3.32	3.22
Total income to total assets managed by the Group (b)(c)(d)	**1.05**	1.13	1.11
Total operating and other expenses to total balance sheet (c)	**1.95**	2.13	2.12
Total operating and other expenses to total assets managed by the Group (c)(d)	**0.68**	0.73	0.73
Net profit to total average assets (c)(e)	**0.66**	0.79	0.69
Interest margin	**1.76**	1.88	1.84
Operating and other expenses (excluding early retirement expenses) to total income (b)	**64.7**	64.3	65.9
Non-interest income to operating and other expenses (excluding early retirement expenses)	**64.8**	72.9	71.3
Non-interest income to total income (b)	**41.9**	46.9	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.

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

The Director's Report includes, 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 plans", "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.

Principal changes in the past period

Streamlining

On January 12 2016, the Banking Supervision Department published a letter regarding "Operational streamlining of the banking system in Israel" (hereinafter – "the Streamlining Provision". Pursuant to the letter, the board of directors of a banking corporation is to drew up a multi-year efficiency plan. A banking corporation which meets the conditions defined in the letter will receive a relief, according to which it may spread the effect of the costs of the plan over five years on a straight-line basis for the purposes of calculating capital adequacy.

On June 1 2016, the Board of Directors of the Bank approved an efficiency plan, following the receipt of approval in principle from the Banking Supervision Department in accordance with the requirements of the Streamlining Provision.

The main points of the Streamlining Provisions and the related changes (hereinafter: "the efficiency plan"):

- Realization of the plan will be accompanied by a number of operational and organizational changes.
- Pursuant to the plan, 700 employees would be eligible to early retirement and to receive benefits in connection with early retirement;
- The benefits offered were: (a) Increased severance pay of up to 270% or (b) An early retirement arrangement until the lawful retirement age, for those eligible for non-contributory pension from the Bank who comply with the parameters defined in the plan. As part of the retirement conditions, additional non-material benefits were granted.
- Early retirement will take place, as far as possible, by the end of 2016.

In order to implement the efficiency plan, as well as the additional voluntary retirement plan, insofar as it is decided to adopt them as part of the Bank's multi-year program, and in order to obtain the support of the employees and the employee association in the realization of the plan, Bank management reached an agreement with the employees' association for a one-time bonus payment ("signing-up bonus"). The aforementioned bonus to employees organized under collective labor agreements was paid in June 2016. The total cost of the signing-up bonus stands at NIS 155 million, before tax.

The main accounting treatment, as included in the financial statements of the second quarter of 2016, is as follows:

- The costs of the actuarial liability for employees due to the efficiency plan, amounting to NIS 529 million, before tax, (NIS 339 million after tax) were accounted for as an actuarial loss and recorded in other comprehensive income (with these costs being amortized to profit and loss as set forth in Note 1 to the financial statements for 2015, Significant Accounting Policies, page 113).
- The costs of the signing-up bonus, amounting to NIS 155 million, before tax, (NIS 99 million after tax), were charged to profit and loss.
- In accordance with the accounting principles applicable to the Bank, various terms and restrictions were imposed, including quantitative ones, regarding the scope of the efficiency plan. In light of this, the Board of Directors decided that no changes or extensions would be made to the plan, if these changes make it impossible to account for the plan as stated above.

Pursuant to the directives of the Bank of Israel, the Bank will enjoy a relief in the calculations of capital adequacy ratios in respect of the cost of the efficiency plan amounting to NIS 438 million (after tax). Accordingly, the effect of the efficiency plan will be spread, commencing June 2017.

695 employees have signed retirement arrangements as part of the efficiency plan and they are expected to cease their employment by 30 December 2016. In addition, over the next five years, a further 640 employees are due to retire on pension by natural retirement. The Bank is prepared for the retirement and is investing efforts in adapting the organizational structures, filling in gaps in critical areas, training, and retention of know-how through methodology and a plan formulated on the subject.

For further information, relating to the efficiency plan, see Note 8.

Part of the information presented in this chapter is "Forward-looking information" – For the significance of this term, see the Chapter "Forward-Looking Information".

Trends, Phenomena, Developments and Material Changes

Principal Developments in the Economy[1]

The Composite State-of-the Economy Index published each month by the Bank of Israel increased in the first nine months of the year by 2.2% (3.0% in annual terms). The growth rate reflects a "growth environment", similar to that in which the economy has been in recent years.

The global economy

In October 2016, the International Monetary Fund (IMF) revised the forecast for the development of growth around the world in 2016. Compared with a previous announcement in July 2016, the forecast among the advanced countries for 2016 was revised slightly downward. According to the Fund's revised projection, growth in the United States and the Euro Area in 2016 is expected to amount to 1.6% and 1.7%, respectively, compared to 2.6% and 2.0%, respectively in 2015. The forecast for growth of global output in 2016 is 3.1%. According to IMF assessment, the effect of the Brexit has been moderate (except for the weakness of the pound) while the downward revision made in the growth rate in the United States is primarily attributable to weak economic activity in the second quarter of the year.

The State Budget and its Financing

During the first nine months of the year, the Government's budget deficit amounted to some NIS 6.1 billion, with the deficit target for the whole of 2016 standing at NIS 35 billion (2.9% of GDP). At the same time, according to Ministry of Finance estimates, in the twelve months ended September 2016, the deficit represented 2.2% of GDP. Part of the explanation for the relatively low deficit derives from the increase in State tax revenues. During the period January – September, there was an increase of NIS 5.8 billion in tax revenues, compared with the original revenue forecast, on the basis of which the State budget was built. This forecast was revised downwards in July, while, in the third quarter, there was a surplus of NIS 2.1 billion compared to the revised forecast.

Foreign trade and capital movements

Israel's trade deficit in the months January – September amounted to US$ 10.2 billion, an increase of US$ 4.4 billion, compared with the deficit in the corresponding period last year. The increase in the trade deficit derives from a fall in exports (particularly in the chemical and electronic components sectors), compared with an increase in most import components, with the exception of energy materials.

In the first eight 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$ 6.7 billion, while financial investments of foreign residents amounted US$ 0.3 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$ 2.0 billion.

Exchange Rate and Foreign Currency Reserves

In the first nine months of the year, the shekel appreciated against the dollar by a rate of some 3.7%, against the pound sterling by 15.8%, and against the euro, by 1.0%. Against this background, the real rate of exchange of the shekel against the basket of currencies (reflecting Israel's trade with rest of the world) was at its lowest level since 2002.

Foreign currency balances in the Bank of Israel at the end of September 2016 amounted to US$ 98.4 billion, compared with US$ 90.6 billion at the end of 2015.

In the first nine months of the year, foreign currency purchases by the Bank of Israel totaled US$ 1.2 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$ 4.6 billion during this period.

Inflation and Monetary Policy

The consumer price index ("published for the month") was unchanged in the period, January – September, while in the twelve months ending September 2016, it fell by 0.4%. This rate is below the lower limit of the Government's price stability target range of 1% - 3% and reflects a very moderate inflationary environment.

The consumer price index ("last published index") was unchanged in the first nine months of the year.

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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.

During the first nine months of the year, as in the decision for October and November, there was no change in Bank of Israel's interest rate, and it stands at 0.1%. In the November 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 contemplates that the chances of achieving the inflation target remain high.

Israeli capital market

The shares and convertible securities index fell by 9.0% in the first nine months of the year, following an increase of 6.8% in 2015. In the third quarter of the year, rate increases of 2.3% were recorded as the effect the recovery of stock exchanges around the world following the results of the referendum in the UK.

Average daily trading volumes of shares and convertible securities decreased in the first nine months of the year by 13.9%, compared with the average for 2015, and amounted to NIS 1,248 million.

The Government bond market was characterized during the first nine months of the year by a trend of price increases. The price of index-linked Government bonds rose by 2.5%, while unlinked Government bonds increased by 2.1% (the fixed-interest bond indices rose by 2.5%, while the variable interest (*Gilon*) bond index recorded a slight increase of 0.1%). A possible explanation for this rise in prices in the first half of the year and the decreases in the third quarter is the shifting between assets with a high risk level (shares) to a lower risk level (bonds), while, in the background is the growing risk in the global markets, particularly on the effect of the Brexit and the large economic developments around the world.

In the index-linked non-government debenture market (corporate bonds) in the first nine months of the year, there were price increases of some 3.6%, 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 at the end of August 2016 amounted to NIS 3,383 billion, an increase of 2.0% since the beginning of the year. The moderate increase occurred against a background of the increase in the balance of unlinked and index-linked assets. The proportion of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public at the end of August 2016 reached 22.4%, compared with 23.0% in December 2015.

Bank Credit

Bank credit in the economy granted to the private sector, which includes corporate credit and household credit, (before allowances for credit losses), expanded in the first eight months of the year by 3.7%. This was a consequence of a 2.6% increase in credit extended to the corporate sector and a 4.6% expansion of credit extended to the household sector. The development of the components of credit to the household sector indicated an increase of 4.7% in housing credit and 4.5% in non-housing credit (consumer credit).

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

	30 September		31 December	
	2016	2015	2015	2014
	NIS			
Exchange rate:				
U.S. Dollar	**3.758**	3.923	3.902	3.889
Euro	**4.203**	4.404	4.247	4.725
Pound Sterling	**4.872**	5.952	5.784	6.064
Swiss Franc	**3.881**	4.029	3.925	3.929
Consumer price index:	(points)			
The "known" index	**99.2**	99.9	99.2	100.1
The index for	**99.1**	99.5	99.1	100.1

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

	30 September		Year
	2016	2015	2015
	(in percentages)		
Rate of decrease in the "last published" index	**-**	(0.2)	(0.9)
Rate of increase (decrease) in the U.S. dollar exchange rate	**(3.7)**	0.9	0.3
Rate of increase (decrease) in the euro exchange rate	**(1.0)**	(6.8)	(10.1)
Rate of decrease in the pound sterling exchange rate	**(15.8)**	(1.8)	(4.6)
Rate of increase (decrease) in the Swiss franc exchange rate	**(1.1)**	2.5	(0.1)

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

	2016			2015			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	(in percentages)						
Rate of increase (decrease) in the "last published" index	**0.4**	0.5	(0.9)	(0.7)	0.3	1.1	(1.6)
Rate of increase (decrease) in the U.S. dollar exchange rate	**(2.3)**	2.1	(3.5)	(0.5)	4.1	(5.3)	2.3
Rate of increase (decrease) in the euro exchange rate	**(1.9)**	(0.0)	0.9	(3.6)	4.4	(1.3)	(9.6)
Rate of increase (decrease) in the pound sterling exchange rate	**(5.8)**	(4.7)	(6.2)	(2.8)	0.4	0.8	(3.0)
Rate of increase (decrease) in the Swiss franc exchange rate	**(1.4)**	0.5	(0.2)	(2.6)	(0.6)	(0.9)	4.1

Material changes in the financial results

Net interest income increased in first nine months of 2016 by NIS 268 million, an increase of 5%. due to an increase in the balance of credit which offset the effect of the decline in interest rates.

Expenses in respect of credit losses fell by NIS 337 million. In the first nine months of 2016, income of NIS 171 million was recorded, reflecting a rate of income of 0.09% of net credit to the public. In the corresponding period last year, an expense of NIS 166 million was recorded, reflecting a rate of expense of 0.09% of net credit to the public. Most of the difference compared with the corresponding period last year is attributable to significant collections made in the Bank's activity vis-à-vis large borrowers.

Non-interest financial income fell by NIS 482 million. The decrease is attributable to the fact that in the first nine months last year, sales of the Israel Corporation (NIS 811 million) and Mobileye (NIS 288 million) and income from dividend in respect of the shares of Kenon Holdings (NIS 130 million) were recorded, while in the first nine months of 2016, income amounting to NIS 378 million was recorded from the Visa Europe transaction. In addition, there was an increase in the reported period in profits from sales of available-for-sale debentures, compared with the corresponding period last year.

Operating expenses fell by NIS 218 million, a decrease of 3.3%, due to a decrease in the volume of salary expenses amounting to NIS 99 million and a decrease in other expenses, mainly due an insurance refund received in the third quarter of the year in respect of an arrangement with overseas authorities in respect of the U.S. customers affair amounting to NIS 235 million. On the other hand, there was an increase in other operating expenses, mainly due to the insurance of sales guarantees which was made in the first half of the year and in computer expenses.

The Group's share in the net profits of companies included on equity basis fell by NIS 105 million compared with the corresponding period last year, mainly against the background of the recording of equity profits amounting to NIS 114 million in respect of the Israel Corporation up to the date of its sale last year.

The net profit attributable to shareholders of the banking corporation (hereinafter, "the net profit") in the first nine months of 2016 amounted to NIS 2,348 million, compared with NIS 2,404 million in the corresponding period last year. As aforesaid, the profit for the year was affected by an insurance refund in respect of the arrangement with overseas authorities, a profit from the sale of the Visa Europe transaction and from recognition of a tax shield in respect of liquidity and sale processes of subsidiaries as set forth above. The profit last year was significantly affected by profits from the sale of Israel Corporation and from equity profits of this company.

The net profit per share attributable to the shareholders of the banking corporation in the first nine months of 2016 was NIS 1.54, compared with NIS 1.63 in the first nine months of 2015.

The net profit of Leumi Group in the third quarter of 2016 amounted to NIS 919 million, compared with NIS 704 million and increase of 30.5%. It should be noted that the profit in 2016 was affected by an insurance refund in respect of the arrangement with overseas authorities as set forth above. The net profit in the corresponding quarter last year was affected by profit from the sale of the Israel Corporation amounting to NIS 289 million, before tax.

Significant Developments in Income, Expenses and Other Comprehensive Income

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

	For the three months ended			
	30 September 2016	30 September 2015	Change	
	NIS millions		NIS millions	%
Net income interest	**1,970**	1,875	95	5.1
Expenses (income) in respect of credit losses	**106**	73	33	45.2
Noninterest income	**1,514**	1,344	170	12.6
Operating and other expenses	**1,955**	2,121	(166)	(7.8)
Profit before taxes	**1,423**	1,025	398	38.8
Provision for tax	**514**	327	187	57.2
Profit after taxes	**909**	698	211	30.2
The Bank's share in profits (losses) of companies included on equity basis	**21**	15	6	40.0
Loss (net profit) attributed to non-controlling interests	**(11)**	(9)	(2)	22.2
Net profit attributed to shareholders in the banking corporation	**919**	704	215	30.5
Return on equity (in percentages)	**12.7**	10.4		
Profit per share (NIS)	**0.60**	0.48		

The change in net profit in the first half of 2016 compared with the corresponding period last year is as follows:

	For the nine months ended			
	30 September 2016	30 September 2015	Change	
	NIS millions		NIS millions	%
Net income interest	**5,659**	5,391	268	5.0
Expenses (income) in respect of credit losses	**(171)**	166	(337)	-
Noninterest income	**4,084**	4,752	(668)	(14.1)
Operating and other expenses	**6,300**	6,518	(218)	(3.3)
Profit before taxes	**3,614**	3,459	155	4.5
Provision for tax	**1,292**	1,189	103	8.7
Profit after taxes	**2,322**	2,270	52	2.3
The Bank's share in profits (losses) of companies included on equity basis	**56**	161	(105)	(65.2)
Loss (net profit) attributed to non-controlling interests	**(30)**	(27)	(3)	11.1
Net profit attributed to shareholders in the banking corporation	**2,348**	2,404	(56)	(2.3)
Return on equity (in percentages)	**10.7**	11.9		
Profit per share (NIS)	**1.54**	1.63		

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

	2016			2015			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Net income interest	**1,970**	2,034	1,655	1,727	1,875	2,000	1,516
Income (expenses) in respect of credit losses	**106**	(154)	(123)	33	73	12	81
Non-interest income	**1,514**	1,538	1,032	1,545	1,344	983	2,425
Other operating expenses	**1,955**	2,355	1,990	2,318	2,121	2,162	2,235
Profit before taxes	**1,423**	1,371	820	921	1,025	809	1,625
Provision for tax	**514**	407	371	502	327	297	565
Profit after taxes	**909**	964	449	419	698	512	1,060
The Bank's share in profits (losses) of companies included on equity basis	**21**	16	19	16	15	15	131
Net loss (profit) attributed to non-controlling interests	**(11)**	(10)	(9)	(4)	(9)	(9)	(9)
Net profit attributed to shareholders in the banking corporation	**919**	970	459	431	704	518	1,182
Return on equity (in percentages)	12.7	13.7	6.6	6.1	10.4	7.8	19.3
Profit per share (NIS)	**0.60**	0.64	0.30	0.29	0.48	0.35	0.80

Net interest income

Net interest income of Leumi Group in the first nine months of 2016 amounted to NIS 5,659 million, compared with NIS 5,391 million in the corresponding period last year, an increase of NIS 268 million, or 5.0%.

The increase in net interest income in the first nine months 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.

Net interest income in the third quarter of 2016 amounted to NIS 1,970 million compared with NIS 1,875 million in the corresponding period last year, an increase of NIS 95 million, or 5.1%.

The ratio of net interest income to the average balance of interest-bearing assets (the net yield on interest-bearing assets) is 1.95%, compared with 2.04% in the corresponding period last year.

The overall **interest gap** in the first nine months of 2016 is 1.76%, compared with a gap of 1.88% in the corresponding period last year.

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

In the unlinked shekel segment, the interest gap was 2.07%, compared with 2.27% in the corresponding period last year. The interest gap in the foreign currency segment was 1.12%, compared with 1.32% in the corresponding period last year. In the index-linked segment, the interest gap was 0.73%, compared with 0.58% 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

	First nine months			
	2016	2015	Change	
	NIS millions		NIS million	%
Individual expense (income) in respect of credit losses	**(640)**	(200)	(440)	-
Collective expenses (income) in respect of credit losses	**469**	366	103	28.1
Total expense (income) in respect of credit losses	**(171)**	166	(337)	-
Percentage ratios:				
Rate of individual expenses (income) in respect of credit losses to total credit to the public, net	**(0.33)**	(0.10)		
Rate of collective expense in respect of credit losses to total credit to the public, net	**0.24**	0.19		
Rate of total expenses (income) in respect of credit losses to total credit to the public, net	**(0.09)**	0.09		

	2016			2015			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Individual expense (income) in respect of credit losses	**(111)**	(254)	(275)	(54)	(14)	(112)	(74)
Collective expense in respect of credit losses	**217**	100	152	87	87	124	155
Total expense (income) in respect of credit losses	**106**	(154)	(123)	33	73	12	81
terms):							
Rate of individual expenses (income) in respect of credit losses to total credit to the public, net	**(0.17)**	(0.38)	(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	**0.33**	0.15	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	**0.16**	(0.23)	(0.19)	0.05	0.11	0.02	0.13

Income in respect of credit losses of Leumi Group amounted to NIS 171 million in the first nine months of 2016, compared with expenses of NIS 166 million in the corresponding period last year. Income in the first nine months of 2016 derives from large collections during the current nine-month period.

Income in respect of credit losses in the second quarter of 2016 amounted to NIS 106 million (0.16%) of credit to the public, net, compared with expenses of NIS 73 million, 0.11% of credit to the public, in the corresponding period last year.

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

Non-interest income

	For the nine months ended			
	30 September 2016	30 September 2015	Change	
	NIS million		NIS million	%
Non-interest financial income	**1,057**	1,539	(482)	(31.3)
Commissions	**2,973**	3,099	(126)	(4.1)
Other income	**54**	114	(60)	(52.6)
Total	**4,084**	4,752	(668)	(14.1)

Development in noninterest income by quarter is as follows:

	2016			2015			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Non-interest financial income	**499**	534	24	71	325	(105)	1,319
Commissions	**996**	989	988	993	1,013	1,035	1,051
Other income	**19**	15	20	481	6	53	55
Total	**1,514**	1,538	1,032	1,545	1,344	983	2,425

Non-interest income of Leumi Group in the first nine months of 2016 amounted to NIS 4,084 million compared with NIS 4,752 million in the corresponding period last year, a decrease of NIS 668 million, or 14.1%.

The decrease in non-interest income is primarily attributable to the fact that in the first nine months last year, income amounting to NIS 1,099 million from the sale of the Israel Corporation and Mobileye and income from a division in respect of the shares of Kenon Holdings (NIS 130 million) were recorded, while in the first nine months of 2015, there was income amounting to NIS 378 million from the Visa Europe transaction. In addition, there was an increase in the reported period in profits from the sales of available-for-sale debentures, compared with the corresponding period last year.
The decrease in commissions is primarily attributable to the sale of the activity of the offices in Switzerland and Luxembourg.

Non-interest income in the second quarter of 2016 amounted NIS 1,514 million, compared with NIS 1,344 million in the corresponding period last year, an increase of NIS 170 million, or 12.6%, due to an increase in profits from sales of available-for-sale debentures.

The table below presents details of non-interest financing income:

	For the nine months ended			
	30 September 2016	30 September 2015	Change	
	NIS millions		NIS millions	%
Net income (expenses) in respect of derivative instruments and net exchange rate differences	**115**	(124)	239	+
Profits from sale of available-for-sale debentures, net	**345**	154	191	+
Profits from investments in shares including dividends (a)	**538**	1,468	(930)	(63.4)
Net profits in respect of loans sold	**45**	11	34	+
Realized and unrealized profits and losses and adjustments of debentures and shares available for trade to fair value, net	**14**	30	(16)	(53.3)
Total	**1,057**	1,539	(482)	(31.3)

	2016			2015			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions		NIS millions				
Net income (expenses) in respect of derivative instruments and net exchange rate differences	**261**	(92)	(54)	177	(254)	209	(79)
Profits from sale of available-for-sale debentures, net	**286**	50	9	27	35	15	104
Profits from investments in shares including dividends (a)	**28**	427	83	(165)	403	40	1,025
Net profits in respect of loans sold	**31**	14	-	-	11	-	-
Realized and unrealized profits (losses) from adjustments of debentures and shares available for trade to fair value, net	**(107)**	135	(14)	32	130	(369)	269
Total	**499**	534	24	71	325	(105)	1,319

(a) The second quarter of 2016 includes mainly profit from the Visa Europe transaction amounting to NIS 378 million. 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.

Visa Europe

On 3 November, 2015, the companies Visa Europe Ltd. and Visa Inc. (NYSE: V), gave notice regarding their engagement in an agreement according to which Visa Inc. will purchase Visa Europe. The Bank is a member in Visa Europe Ltd. and it is entitled to receive a share of the proceeds in accordance with a formula for allocating the proceeds between the members in Visa Europe.

In June 2016, the regulatory approvals required for completion of the Visa Europe transaction were received and the Bank received the proceeds in cash in respect of the transaction, amounting to 69 million euros (NIS 300 million). In addition, income amounting to NIS 78 million was recorded in respect of the right to future payments in cash and convertible shares.

The following table presents a breakdown of commissions:

	For the nine months ended			
	30 September 2016	30 September 2015	Change	
	NIS millions		NIS millions	%
Account management	**537**	579	(42)	(7.3)
Activity in certain securities and derivative instruments	**449**	522	(73)	(14.0)
Credit cards	**766**	719	47	6.5
Treatment of credit	**135**	155	(20)	(12.9)
Commissions for distribution of financial products	**210**	231	(21)	(9.1)
Conversion differences	**246**	243	3	1.2
Commissions from financing	**398**	408	(10)	(2.5)
Other commissions	**232**	242	(10)	(4.1)
Total commissions	**2,973**	3,099	(126)	(4.1)

Total income from commissions in the first nine months 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, and from the sale of the activity in Luxembourg in the first quarter of 2016 (effect of NIS 44 million) also from a contraction in the commissions related to the capital market and as a result of a fall in the various commission tariffs.

	2016	**2016**		2015			
	3rd quarter	**2nd quarter**	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Account management	**180**	178	179	183	182	188	209
Activity in certain securities and derivative instruments	**143**	144	162	153	154	174	194
Credit cards	**268**	258	240	244	253	236	230
Treatment of credit	**42**	45	48	45	45	58	52
Commissions for distribution of financial products	**72**	70	68	75	76	79	76
Conversion differences	**82**	82	82	82	83	80	80
Commissions from financing transactions	**130**	136	132	134	143	139	126
Other commissions	**79**	76	77	77	77	81	84
Total commissions	**996**	989	988	993	1,013	1,035	1,051

Income from commissions accounts for 47.2% of the operating and other expenses, compared with 47.5% in the corresponding period last year and 46.3% for the whole of 2015.

Details of other income are as follows:

	For the nine months ended			
	30 September 2016	30 September 2015	Change	
	NIS millions		NIS millions	%
Profits from severance pay fund	**20**	20	-	-
Other income	**34**	94	(60)	(63.8)
Total	**54**	114	(60)	(52.6)

	2016			2015			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Profits from severance pay fund	**15**	5	-	15	(24)	6	38
Other income (a)	**4**	10	20	466	30	47	17
Total	**19**	15	20	481	6	53	55

(a) In the fourth 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 non-interest income as a percentage of total income (i.e. net interest income and non-interest income) was 41.9%, compared with 46.9% in the corresponding period last year and in the whole of 2015.

Operating and other expenses

	For the nine months ended			
	30 September 2016	30 September 2015	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	**4,024**	4,123	(99)	(2.4)
Depreciation and amortization	**492**	491	1	0.2
Buildings and equipment maintenance expenses	**822**	791	31	3.9
Other expenses	**962**	1,113	(151)	(13.6)
Total operating and other expenses	**6,300**	6,518	(218)	(3.3)

	2016			2015			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Salaries and related expenses	**1,312**	1,510	1,202	1,325	1,360	1,345	1,418
Depreciation and amortization	**172**	175	145	169	156	173	162
Buildings and equipment maintenance expenses	**284**	266	272	256	271	261	259
Other expenses	**187**	404	371	568	334	383	396
Total operating and other expenses	**1,955**	2,355	1,990	2,318	2,121	2,162	2,235

Total operating and other expenses of the Leumi Group in the first nine months of 2016 amounted to NIS 6,300 million, compared with NIS 6,518 million in the corresponding period last year, a decrease of 3.3%.

In the third quarter of 2016, operating expenses amounted to NIS 1,955 million, compared with NIS 2,121 million in the corresponding period last year, a decrease of NIS 166 million, or 7.8%, due to a decrease in other expenses as a result of an insurance refund received in respect of the arrangement with overseas authorities.

Salary expenses

	For the nine months ended			
	30 September 2016	30 September 2015	Change	
	NIS millions		NIS millions	%
Salary and related expenses	**2,853**	2,864	(11)	(0.4)
Yield bonus	**351**	479	(128)	(26.7)
Pension, severance pay and voluntary retirement expenses, net of fund profits	**727**	873	(146)	(16.7)
Total salary expenses before non-recurring bonuses	**3,931**	4,216	(285)	(6.8)
Non-recurring bonus and effect of collective agreements (a)	**93**	(93)	186	+
Total salary expenses	**4,024**	4,123	(99)	(2)

(a) In 2016, including a signing-on bonus for employees for the purpose of implementing the efficiency plan and, in 2015, including a collective agreement signing-on bonus.

Salary expenses in the first nine months of 2016 amounted to NIS 4,024 million, compared with NIS 4,123 million in the corresponding period last year, a decrease of NIS 88 million, or 2.4%.

The decrease in total salary expenses derives mainly from a decrease in the provision for expected yield bonus 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, salary expenses were reduced in the first quarter of 2016 and in the first quarter of 2015, due to the effect of signing collective agreements in these quarters (For further information, see Note 8).

	2016			2015			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Salary and related expenses	**956**	930	967	1,016	992	913	960
Yield bonus	**107**	174	70	43	96	228	155
Pension, severance pay and voluntary retirement expenses, net of fund profits	**249**	251	227	266	272	204	396
Total salary expenses before non-recurring bonuses	**1,312**	1,355	1,264	1,325	1,360	1,345	1,511
Non-recurring bonus (a)	**-**	155	(62)	-	-	-	(93)
Total salary expenses	**1,312**	1,510	1,202	1,325	1,360	1,345	1,418

(a) In 2016, including a signing-on bonus for employees for the purpose of implementing the efficiency plan and, in 2015, including a collective agreement signing-on bonus.

For further information, see Note 8.

Salary and related expenses account for 63.9% of total operating expenses, compared with 63.3% 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 2,276 million in the first nine months of 2016, compared with NIS 2,395 million in the corresponding period last year.

Operating and other expenses, excluding salary, in the third quarter of the year amounted NIS 643 million, compared with NIS 761 million in the corresponding period last year, a decrease of NIS 118 million or 15.5%, due to a decrease in other expenses as a result an insurance refund, amounting to NIS 235 million, received in respect of received in respect of the arrangement with overseas authorities.

Operating expenses constitute 64.7% of total income, compared with 64.3% in the corresponding period last year, and 65.9% in the whole of 2015. In the third quarter of 2016, operating expenses constituted 54.1% of total income, compared with 65.9% in the corresponding quarter last year. The decrease in the percentage derives from an insurance refund received in respect of the arrangement with overseas authorities and a decrease in salary expenses.

Total operating and other expenses (in annual terms) constitute 1.95% of the total balance sheet, compared with 2.13% 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 nine months of 2016 amounted to NIS 1,292 million, compared with NIS 1,189 million in the corresponding period last year. The rate of the provision in the first nine months of 2016 was 35.7% of the pre-tax profit, compared with 34.4% in the corresponding period last year, an increase of 1.3 percentage points.

In the first quarter of 2016, tax expenses amounting to NIS 122 million were recorded, 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, while in the second quarter, tax income (net) of NIS 174 million was recorded, due to the liquidation proceedings and sale of subsidiaries.

Profit after taxes

Profit after taxes for the first nine months of 2016 amounted to NIS 2,322 million, compared with NIS 2,270 million in the corresponding period last year, a decrease of 2.3%. Profit after taxes in the third quarter of 2016 amounted to NIS 909 million, compared with NIS 698 million in the corresponding period last year, an increase of 30.2%.

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 56 million in the first nine months of 2016, compared with a profit of NIS 161 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 portfolio in accordance with the market value of the investment as of 31 March 2015. In the second quarter of 2016, the Bank realized the balance of the shares held in the Israel Corporation. For further information, the chapter on "Securities".

Profits of companies included on equity basis in the first nine months of 2016 include mainly profits from companies included on equity basis in the subsidiary, Leumi Partners.

Net profit

Net profit before attribution to holders of non-controlling interests amounted to NIS 2,378 million in the first nine months of 2016, compared with a profit of NIS 2,431 million in the corresponding period last year, a decrease of 2.2%. Net profit before attribution to holders of non-controlling interests in the third quarter of 2016 amounted to NIS 930 million, compared with NIS 713 million in the corresponding period last year, a decrease of 30.4%.

Net profit attributable to holders of non-controlling interests in the first nine months of 2016 amounted to NIS 30 million, compared with NIS 27 million in the corresponding period last year.

Net profit attributable to the shareholders of the banking corporation for the first nine months of 2016 amounted to NIS 2,348 million, compared with a profit of NIS 2,404 million in the corresponding period last year, a decrease of 2.3%. Net profit attributable to the shareholders of the banking corporation for the third quarter of 2016 amounted to NIS 919 million, compared with a profit of NIS 704 million in the corresponding period last year, an increase of 30.5%.

The following is a condensed statement of the comprehensive profit:

Changes in accumulated other comprehensive income (loss) for the three-month period ended 30 September 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 30 June 2015	526	(96)	39	(1,273)	(804)	(7)	(797)
Net change in the period	(470)	39	3	28	(400)	2	(402)
Balance at 30 September 2015	56	(57)	42	(1,245)	(1,204)	(5)	(1,199)
Balance at 30 June 2016	438	(79)	37	(2,616)	(2,220)	(4)	(2,216)
Net change in the period	**(217)**	**(31)**	**(14)**	**507**	**245**	**-**	**245**
Balance at 30 September 2016	**221**	**(110)**	**23**	**(2,109)**	**(1,975)**	**(4)**	**(1,971)**

	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	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 Bank, including adjustments in respect of companies included on equity basis of Leumi Partners.

(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 30 September 2016 amounted to NIS 431.8 billion, compared with NIS 416.5 billion at the end of 2015, an increase of 3.7%, and compared with September 2015, an increase of 5.7%.

Out of the Group's total assets, the value of assets denominated in or linked to foreign currency was about NIS 91.3 billion, some 21.2% of total assets. In the first nine months of 2016, the shekel appreciated against the US dollar by 3.7% and the shekel appreciated against the euro by 1.0%. The change in the exchange rates of the shekel against foreign currencies contributed to a decrease of about 0.7% in the Group's total balance sheet, so that canceling the effect of the change, the total balance sheet increased to about NIS 434.5 billion.

Total assets under Group 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 1,241 billion, compared with a total of NIS 1,214 billion at the end of 2015 (US$ 330 billion and US$ 311 billion, respectively).

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

	30 September 2016	31 December 2015	From December 2015	From September 2015
	NIS millions		Change %	
Total assets	**431,758**	416,499	3.7	5.7
Cash and deposits with banks	**59,067**	60,455	(2.3)	12.4
Securities	**82,493**	69,475	18.7	22.1
Credit to the public, net	**264,368**	261,399	1.1	1.7
Buildings and equipment	**3,044**	3,095	(1.6)	1.7
Deposits of the public	**336,851**	328,693	2.5	5.9
Deposits from banks	**3,589**	3,859	(7.0)	(1.7)
Debentures, notes and subordinated notes	**23,765**	21,308	11.5	7.1
Equity attributed to shareholders of the banking corporation	**31,228**	28,767	8.6	9.3

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

	30 September 2016	31 December 2015	From December 2015	From September 2015
	NIS millions		Change %	
Documentary credits, net	**1,565**	1,755	(10.8)	(4.3)
Guarantees securing credit, net	**5,761**	6,058	(4.9)	0.9
Guarantess to apartment purchasers, net	**19,343**	19,292	0.3	2.6
Other guarantees and liabilities, net	**15,627**	16,903	(7.5)	(5.7)
Derivative instruments (a)	**685,071**	616,885	11.1	0.8
Options of all types	**126,028**	111,125	13.4	(1.2)

(a) Including "forward" transactions, financial swap 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:

	30 September	31 December 2015	Change	
	NIS millions		NIS millions	%
Securities portfolios (a)	**602,673**	592,820	9,853	1.7
Assets in respect of which operating services are provided: (a)(b)(c)				
Mutual funds	**50,221**	59,451	(9,230)	(15.5)
Provident and pension funds	**75,261**	71,221	4,040	5.7
Supplementary training funds	**80,736**	73,569	7,167	9.7

(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 30 September 2016 amounted to NIS 264.4 billion, compared with NIS 261.4 billion at the end of 2015, an increase of 1.1%, and compared with September 2015, an increase of 1.7%.

The change of the exchange rate of the shekel against all foreign currencies contributed to a decrease of 0.5% in total credit to the public. Excluding the effect of the change, there was an increase of 1.6% in total credit to the public, so that excluding the effect of the change, total credit was NIS 265.6 billion.

As well as granting credit to the public, the Group invests in the securities of companies, amounting to NIS 14,331 million at 30 September 2016, compared with NIS 14,095 million at the end of 2015. These investments also involve credit risk.

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

	30 September 2016	31 December 2015	Change	
	NIS millions	NIS millions	NIS millions	%
Individuals - housing loans	**81,648**	81,805	(157)	(0.2)
Individuals - other	**38,663**	37,986	677	1.8
Construction and real estate	**49,943**	49,912	31	0.1
Commercial	**26,695**	26,548	147	0.6
Industry	**19,455**	20,251	(796)	(3.9)
Other	**51,491**	48,568	2,923	6.0
Total	**267,895**	265,070	2,825	1.1

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

Problem debts

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

	30 September 2016			31 December 2015		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions			NIS millions		
Impaired debts	**3,354**	**131**	**3,485**	3,037	150	3,187
Substandard debts	**958**	**126**	**1,084**	1,168	220	1,392
Special mention debts	**2,277**	**1,209**	**3,486**	2,498	851	3,349
Total	**6,589**	**1,466**	**8,055**	**6,703**	1,221	7,928

Problem credit risk:

	30 September 2016	31 December 2015
	NIS millions	
Commercial problem credit risk	**8,483**	8,461
Retail problem credit risk	**1,364**	1,303
Total	**9,847**	9,764
Allowance for credit losses	**1,792**	1,836
Problem credit after allowance for credit losses	**8,055**	7,928

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

Credit to governments as at 30 September 2016 amounted to NIS 623 million, an increase of NIS 170 million or 37.5%, compared with 31 December 2015.

Securities

The Group’s investments in securities as at 30 September 2016 amounted to NIS 82.5 billion, compared with NIS 69.5 billion at the end of 2015, an increase of 18.7%.

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 there is impairment of an other than temporary nature, the difference is charged to the profit and loss account.

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

	30 September 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	**39,349**	**7,528**	**46,877**	28,553	6,664	35,217
Foreign governments	**8,461**	**4,236**	**12,697**	8,128	3,058	11,186
Financial institutions in Israel	**36**	**157**	**193**	35	238	273
Foreign financial institutions.	**7,042**	**101**	**7,143**	6,262	148	6,410
Asset-backed (ABS) or mortgage-backed (MBS)	**10,007**	**269**	**10,276**	9,566	751	10,317
Others in Israel	**396**	**180**	**576**	586	152	738
Others abroad	**2,004**	**609**	**2,613**	1,694	320	2,014
Shares and mutual funds	**2,101**	**17**	**2,118**	2,703	617	3,320
Total securities	**69,396**	**13,097**	**82,493**	57,527	11,948	69,475

(a) Unrealized profits (losses) from adjustments to fair value amounting to NIS 539 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 27 million which were recorded in profit and loss (31 December 2015 –NIS (100) million)

As at 30 September 2016, 84.1% of the Group’s *nostro* portfolio was classified as available-for-sale securities and 15.9% as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. About 2.6% 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 on the value of securities according to the method of measurement, see Note 15A.

Available-for-sale portfolio

1. In first nine months of 2016, there was an increase in other comprehensive income in respect of available-for-sale securities amounting to NIS 210 million (before the effect of tax). The increase derives from an increase in value amounting to NIS 1,062 million, which was partly offset by securities which were sold and classified to profit and loss, amounting to NIS 852 million (before tax). This compared with a decrease in other comprehensive income in respect of available securities amounting to NIS 402 million (before tax) in the corresponding period last year which derived from a decrease in profit from securities which were sold and classified to profit and loss amounting to NIS 932 million (before tax), which was partly offset by an increase in value of NIS 530 million.

2. Net profits from the sale of available-for-sale debentures amounting to NIS 345 million were recorded to profit and loss, compared with profits of NIS 154 million in the corresponding period last year, and net profits from the sale of available-for-sale shares amounting to NIS 507 million, compared with profits of NIS 778 million 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 30 September 2016, amounted to a positive amount of NIS 221 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 equity, on the basis of the criteria set forth in Significant Accounting Policies - 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 30 September 2016, there was NIS 13.1 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 30 September 2016, the trading portfolio constitutes 15.9% 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 46 million were recorded in the statement of profit and loss, compared with profits amounting to NIS 87 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 57 million in the corresponding period last year.

Investments in securities issued abroad

The Group’s securities portfolio includes NIS 36.1 billion (US$ 9.6 billion) of securities issued abroad. Approximately 95% of the portfolio is invested in debt instruments, all of which (except for 0.6%) are investment grade securities, of which 94% are rated 'A-' and above). 5% of the portfolio is invested in shares and funds. Of the said portfolio, NIS 30.8 billion (US$ 8.2 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 30 September 2016, amounted to NIS 10.3 billion (US$ 2.7 billion), similar to the end of 2015. Of the said portfolio as of 30 September 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 30 September 2016 includes an investment in mortgage-backed debentures amounting to NIS 8.1 billion. 93% 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 30 September 2016, the accumulated net increase in value charged to shareholders' equity resulting from the mortgage-backed securities portfolio was about NIS 18 million.

The total of the mortgage-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 about NIS 1,490 million.

The projected term to maturity for all the mortgage-backed securities portfolio is an average of about 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 (credit for car purchase and other types of credit), amounting to about NIS 1.9 billion. Of these, CLO-type debentures amount to about NIS 1.6 billion. The projected term to maturity of the debenture portfolio backed by assets other than mortgages is about 2.7 years on average.

B. Investments in non-asset backed securities issued abroad

The Group's securities portfolio as at 30 September 2016 includes about NIS 25.8 billion (US$ 6.9 billion) of non-asset-backed securities. Of these securities, NIS 20.8 billion (US$ 5.5 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 is mainly securities issued by the Israeli government.

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

As at 30 September 2016, the 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 325 million (NIS 202 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. These include mainly securities of countries, 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 30 September 2016 amounted to about NIS 5.0 billion (US$ 1.3 billion). The difference between fair value and adjusted cost, if there is such a difference, is recorded to profit and loss.

Investments in debentures - issued in Israel

Investments in debentures issued in Israel amounted to NIS 46.0 billion on 30 September 2016, of which NIS 45.2 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. About 56.2% of the investments in corporate debentures amounting to NIS 0.4 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 0.4 billion include a capital reserve amounting to NIS 18 million.

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

Investments in shares and funds

Total investments in shares and funds amounted to some NIS 2,118 million on 30 September 2016, of which NIS 1,154 million was in listed shares and NIS 964 million was in non-listed shares. Of the total investment, NIS 2,101 million is classified in the available-for-sale portfolio and NIS 17 million is classified in the trading portfolio.

The capital required in respect of these investments at 30 September 2016 was NIS 265 million.

For further information, see Note 5.

Main changes in investment in shares

The Israel Corporation

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 about 5.86% of the issued and paid up capital of the Israel Corporation, in return for 17,906,037 shares of Israel Chemicals Ltd. (ICL) which is about 1.4% of the issued and paid up capital of ICL. Profit before tax recorded by the Bank in respect of the sale of the shares is some NIS 87 million.

ICL

In the second quarter, the Bank sold NIS 16.8 million shares of ICL, representing about 1.3% of the issued and paid-up capital of ICL. The loss before tax recorded by the Bank in respect of the sale of the shares was about NIS 38 million.

In the third quarter, the Bank sold the balance of the shares in ICL, 1,150,000 shares, representing 1.9% of the issued and paid-up capital of ICL. The Bank has recorded a loss before tax amounting to NIS 3 million in respect of the sale of the shares.

Kenon

On 23 June 2016, the Bank sold 3.8 million shares in Kenon Holdings Ltd (hereinafter: "Kenon") representing some 7.08% of the issued and paid-up capital of Kenon, to Ansonia Holdings Singapore B.V.

The shares were sold at a price of NIS 42 per share and the total proceeds of the transaction amounted to about NIS 159 million. The profit before tax recorded by the Bank in respect of the sale of the shares was about NIS 9.5 million. Following the abovementioned sale, the Bank holds 3,733,614 shares of Kenon, constituting about 6.95% of the issued and paid-up capital of Kenon.

Deposits of the Public

Deposits of the public in the Group amounted to NIS 336.9 billion at 30 September 2016, compared with NIS 328.7 billion at the end of 2015, an increase of 2.5%, and a decrease of 5.9% compared with September 2015.

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 change in the shekel, the increase in deposits of the public was 3.5%.

Debentures, capital notes and subordinated notes

Debentures, capital notes and subordinated notes totaled NIS 23.8 billion on 30 September 2016, compared with NIS 21.3 billion as at the end of 2015, an increase of 11.5%. In the first nine months of 2016, NIS 2.6 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 Israel Securities Authority.

On 21 January 2016, the Bank made a further issue of Series 177 under the above shelf prospectus amounting to about NIS 3.6 billion.

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, the Bank issued a total of NIS 926 million of Series 400 subordinated notes on 21 January 2026.

The subordinated 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 defining event (a defining event of non-existence or a defining event for absorbing losses pf principal, whichever is earlier), the subordinated notes will be converted to shares at the market 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 30 September 2016, other assets amounted to NIS 8.7 billion, compared with NIS 7.7 billion at the end of 2015, an increase of 13.8%.

The debit balance in respect of the fair value of derivative instruments made with and for customers increased from NIS 11.3 billion at the end of 2015 to NIS 11.6 billion at 30 September 2016.

Other liabilities and credit balances in respect of derivative instruments

Other liabilities amounted to NIS 22.1 billion at 30 September 2016, compared with NIS 20.7 billion at the end of 2015, an increase of 6.6%.

The credit balance in respect of the fair value of derivative instruments made with and for customers amounted to NIS 12.6 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 30 September 2016 amounted to NIS 31,228 million, compared with NIS 28,767 million at the end of 2015, an increase of 8.6%. The increase derives, *inter alia*, from net profit for the period and from the issue of shares to employees and office holders in the amount of NIS 636 million in accordance with the special collective agreement regarding 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 30 September 2016 reached 7.2%, compared with 6.9% at 31 December 2015.

Capital adequacy structure

	30 September 2016	30 September 2015	31 December 2015
	Unaudited		Audited
	NIS millions		
Capital for purposes of calculating capital ratio			
Tier 1 shareholders' equity, after regulatory adjustments and deductions	**32,255**	28,708	29,001
Tier 2 capital, after deductions	**12,405**	13,354	12,593
Total capital	**44,660**	42,062	41,594
Weighted balances of risk assets			
Credit risk	**271,243**	281,275	277,034
Market risk	**5,212**	7,045	5,167
Operational risk	**20,518**	20,227	20,432
Total weighted balances of risk assets	**296,973**	308,547	302,633
Ratio of capital to risk components			
Ratio of Tier 1 shareholders' equity to risk components	**10.86%**	9.30%	9.58%
Ratio of total capital to risk components	**15.04%**	13.63%	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, other intangible 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 subordinated 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 subordinated notes, which are eligible for inclusion in Tier 2.

For further information with regards to the issuance, see chapter "Structure and Development of the Assets, Liabilities, Capital and Capital Adequacy", in section "Debentures, capital notes and subordinated 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 calculated 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 maintain 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. Further to above, on 15 November 2016, the Board of Directors decided that the detailed discussion set out above will take place by the date of submitting the annual financial statements.

The standards regarding employees' rights which were initially implemented in January 2015 is a factor which has a particularly significant impact on the Tier 1 shareholders' equity of Leumi, mainly due to the fact that the measurement of the obligation is in accordance with market interest which is at historically low levels and due to the high volatility the measurement of which type results in the Bank's regulatory capital.

In this context, on 12 July 2016, the Bank received specific approval from the Bank of Israel regarding the method of calculating the capitalization interest to be used in computing the liability for employee rights for the purpose of measuring regulatory capital. Pursuant to the approval, capitalization interest will be calculated according to a moving average of the market yield for a period of eight quarters ended on the reporting date. The change is being implemented from the financial statements for the period ended 30 June 2016 and through the financial statements for 31 December 2020 (inclusive). The change in the method has significantly moderated the fluctuations arising from changes in capitalization interest. The change in the method of calculation increased regulatory capital as of 30 June 2016, amounting to NIS 380 million.

On 15 November 2016, the Board of Directors of the Bank resolved, based on the recommendation of the Audit Committee, to calculate the pension liability to employees, a fixed margin of international AA-rated debentures. The effect of the change on regulatory capital as of 30 September 2016 totaled NIS 296 million.

For further information, relating to the discounting methodology, see Chapter, Accounting Policy and Estimates on Critical Subjects

As of 30 September 2016, the Bank's Tier 1 capital adequacy is 10.86%. During the first nine months of 2016, a number of significant steps were taken which improved 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 will hold 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%, correct as of 31 March 2016.

  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 Bank's Tier 1 capital adequacy ratio as of 31 March 2016.

- **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.299 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 as of 31 March 2016.

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. In accordance with the agreement, Harel will participate with the Bank in the extension of housing loans, in which the ratio of the amount of the loan to the value of its asset (LTV) is only up to 60% (as long as Harel is not given regulatory approval to participate in loans at a higher financing rate). On 13 June 2016, after fulfillment of the conditions precedent in the agreement, the parties commenced the joint extension of housing loans pursuant to the agreement.

The Bank estimates that the amounts of participation by Harel in the extension of housing loans jointly with the Bank in 2016 and 2017 will amount to NIS 4 billion.

In addition, on 27 September 2016, an agreement was signed between institutional entities from the Menora Mivtahim Group ("the sale agreement" and Menora Mivtahim", respectively), according to which, subject to the fulfillment of various conditions precedent, the Bank will sell to Menora Mivtahim, with effect from 31 October 2016 (or another date as will be agreed by the parties), 80% of the Bank's rights and the related obligations in the housing loan portfolio (as defined on Proper Conduct of Banking Management no. 451), which is secured, inter alia, by mortgages on the interests in land and/or pledges on the contractual rights in land, as applicable, and which fulfil the criteria in the sale agreement ("the loan portfolio").

The Bank will continue to hold the remaining 20% of the abovementioned loan portfolio, such that the rights and related obligations to be sold to Menora Mivtahim will be gradually equal (*pari passu*) to those that will remain with the Bank. The amount of the loans in the loan portfolio is estimated at an aggregate amount of NIS 2 billion, in a way that the part which was sold to Menora Mivtahim was estimated at NIS 1.6 billion. At the same time as the signing of the sale agreement, a management agreement was signed between the Bank and Menora Mivtahim, whereby, on completion of the transaction, the Bank will manage its share in the acquired loan portfolio for Menora Mivtahim, against part to be made to the Bank (the management agreement").

On October 27, 2016, the pending conditions provided in the agreement were completely fulfilled. The parties are taking steps to carry out the rest of the steps required to complete the transaction, and when they are completed, the transaction will be considered effective from 31 October 2016, in accordance with the provisions stipulated in the agreement.

The completion of the transaction is not expected to have a significant effect on the Bank's financial results.

Efficiency Plan

On 12 January 2016, the Supervisor of Banks published a circular on "Operating Efficiency of the Banking System in Israel". According to this circular, a banking corporation which meets the conditions defined, will receive a relief according to which, for the purpose of calculating the capital adequacy ratios and leverage ratio, it will be able to spread the effect of the plan over five years on a straight-line basis commencing mid-2017. On 1 June 2016, the Board of Directors of the Bank approved the efficiency plan, the cost of which was estimated at NIS 438 million. Excluding the abovementioned relief, the implementation of the efficiency plan, as of 30 September 2016, would result in a decrease of 0.13% in the capital adequacy ratio.

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

  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.

In a circular issued by the Banking Supervision Department on 9 June 2016, it was determined that the circular will apply from 1 January 2017, and, that, until 30 June 2017, the Tel Aviv Stock Exchange may be considered an eligible central counterparty, even if it has yet to be declared as eligible. For implementation of the refund, given that the Tel Aviv Stock Exchange is eligible, no significant effect on Tier 1 shareholders' equity adequacy is expected. If the Tel Aviv Stock Exchange is not recognized as an eligible central counterparty, the estimated increase in total risk assets in the end of the third quarter of 2016 data is NIS 2.8 billion, a decrease of 0.1% 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 297.0 billion at the end of September 2016. Every increase of 1% in the risk assets (approximately NIS 3 billion) will reduce the Tier 1 shareholders' equity capital adequacy ratio by 0.11%, and the overall capital ratio by 0.15%.
- Profit that will accrue or a change in the capital reserve – The Tier 1 shareholders' equity of Leumi amounted to NIS 32.3 billion at the end of September 2016. The overall capital amounted to NIS 44.7 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%.
- Liabilities regarding employee rights –The actuarial liability for employees is discounted according to a moving average of eight quarters of market yields which are influenced by the Government of Israel debenture curve and by the United States AA corporate debenture margin. A change of 0.1% across the interest curve for discounting, under the assumption that the curve rises and falls consistently, means an accumulated effect of 0.07% in the Tier 1 shareholders' equity ratio and in the overall capital ratio - of this, according to a moving average calculation for eight quarters, an increase of 0.01% in the Tier 1 shareholders' equity ratio and in the overall capital ratio for the current quarter.

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 30 September 2016 was 6.81%.

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 liabilities, 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 lines according to the customer's activity.
- Business line expenses – include the direct expenses of the business lines, and also expenses of headquarters' units providing services are charged to the business lines.

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 Board of Directors and 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. Additionally, an examination is carried out of a variety of additional metrics relating to the business lines' activity.

Below is a condensed summary of operating results by management approach

	For the three months ended 30 September 2016								
	NIS millions								
	Bank (a)						Subsidiaries in Israel	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Capital Markets	Adjustments and others			Total
Interest income, net	**962**	**229**	**123**	**132**	**223**	**19**	**57**	**225**	**1,970**
Non-interest income	**445**	**100**	**48**	**79**	**471**	**63**	**297**	**11**	**1,514**
Total income	**1,407**	**329**	**171**	**211**	**694**	**82**	**354**	**236**	**3,484**
Expenses (income) in respect of credit losses	**225**	**(19)**	**(31)**	**(78)**	**(12)**	**(7)**	**9**	**19**	**106**
Total operating and other expenses	**1,168**	**176**	**93**	**34**	**140**	**(106)**	**226**	**224**	**1,955**
Profit before tax	**14**	**172**	**109**	**255**	**566**	**195**	**119**	**(7)**	**1,423**
Tax expenses (income)	**10**	**77**	**67**	**123**	**219**	**(28)**	**32**	**14**	**514**
Net profit (loss) attributed to shareholders of the banking corporation	**4**	**95**	**42**	**132**	**349**	**223**	**95**	**(21)**	**919**

	For the three months ended 30 September 2015								
	NIS millions								
	Bank						Subsidiaries in Israel (a)	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Capital Markets	Other and adjustments			Total
Interest income, net	802	201	143	137	245	8	122	217	1,875
Non-interest income	431	92	47	104	(105)	435	291	49	1,344
Total income	1,233	293	190	241	140	443	413	266	3,219
Expenses (income) in respect of credit losses	123	(45)	(46)	20	(4)	(24)	20	29	73
Total operating and other expenses	1,048	179	90	44	79	151	253	277	2,121
Profit (loss) before tax	62	159	146	177	65	316	140	(40)	1,025
Tax expenses (income)	20	66	59	74	31	20	41	16	327
Net profit (loss) attributed to shareholders of the banking corporation	42	93	87	103	34	296	105	(56)	704

(a) Data of the subsidiary, Arab Israel Bank, were presented in 2015 in subsidiaries in Israel. For the third quarter of 2016, data for the Arab Israel Bank are presented as a part of the single entity data of the Bank, by virtue of the merger of the Arab Israel Bank with Leumi on 31 December 2015.

	For the nine months ended 30 September 2016								
	NIS millions								
	Bank (a)						**Subsidiaries in Israel (a)**	**Subsidiaries abroad**	
	Banking	**Commercial**	**Corporate**	**Real Estate**	**Capital Markets**	**Adjustments and others**			**Total**
Interest income, net	**2,790**	**667**	**384**	**400**	**543**	**44**	**157**	**674**	**5,659**
Non-interest income	**1,319**	**302**	**159**	**255**	**548**	**597**	**857**	**47**	**4,084**
Total income	**4,109**	**969**	**543**	**655**	**1,091**	**641**	**1,014**	**721**	**9,743**
Expenses (income) in respect of credit losses	**521**	**(20)**	**(334)**	**(309)**	**(41)**	**(14)**	**24**	**2**	**(171)**
Total operating and other expenses	**3,434**	**540**	**288**	**139**	**306**	**271**	**671**	**651**	**6,300**
Profit (loss) before tax	**154**	**449**	**589**	**825**	**826**	**384**	**319**	**68**	**3,614**
Tax expenses (income)	**55**	**161**	**212**	**296**	**297**	**29**	**190**	**52**	**1,292**
Net profit (loss) attributed to shareholders of the banking corporation	**99**	**288**	**377**	**529**	**532**	**355**	**152**	**16**	**2,348**
Balances as at 30 September 2016									
Credit to the public	**140,697**	**34,034**	**29,502**	**22,250**	**3,145**	**3,453**	**7,451**	**23,836**	**264,368**
Deposits of the public	**187,441**	**39,458**	**18,077**	**6,887**	**57,886**	**22**	**110**	**26,970**	**336,851**
Assets under management	**178,602**	**26,297**	**18,402**	**1,812**	**354,172**	**23,897**	**185,615**	**20,094**	**808,891**

	For the nine months ended 30 September 2015								
	NIS millions								
	Bank						Subsidiaries in Israel (a)	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	2,375	603	430	402	561	25	357	638	5,391
Non-interest income	1,317	312	152	281	200	1,091	1,207	192	4,752
Total income	3,692	915	582	683	761	1,116	1,564	830	10,143
Expenses (income) in respect of credit losses	291	(111)	(11)	35	(14)	(32)	26	(18)	166
Total operating and other expenses	3,205	553	279	132	248	443	804	854	6,518
Profit before tax	196	473	314	516	527	705	734	(6)	3,459
Tax expenses (income)	63	179	119	195	198	159	218	58	1,189
Net profit (loss) attributed to shareholders of the banking corporation	133	294	195	321	457	546	522	(64)	2,404
Balances as at 30 September 2015									
Credit to the public, net	131,082	31,249	31,981	25,088	2,917	2,637	11,820	23,235	260,009
Deposits of the public	162,538	38,372	17,519	8,135	59,779	121	5,186	26,341	317,991
Assets under management	183,996	28,660	19,490	2,132	313,998	27,813	188,696	21,534	786,319
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	261,399
Deposits of the public	168,774	41,593	20,139	6,859	59,350	166	5,250	26,562	328,693
Assets under management	181,825	28,401	17,381	1,754	336,709	23,854	187,755	19,382	797,061

(a) Data of the subsidiary, the Arab Israel Bank, were reported in 2015 under subsidiaries in Israel. For the first nine months of 2016, data for the Arab Israel Bank are reported as a part of the single entity data of the Bank, by virtue of the merger of the Arab Israel Bank with 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 (hereinafter "the circular") 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 amendments to the directives are intended to require reporting on operating segments in accordance with a uniform and comparable format determined by the Banking Supervision Department, which is based on the classification of customers by activity turnover.

When a banking corporation has no information regarding the income turnover of a corporate customer, who has no indebtedness vis-à-vis the banking corporation (including a credit framework, etc.), the banking corporation is entitled to classify it to the relevant regulatory activity segment according to the amount of financial assets after multiplying by a coefficient of 10.

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 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 businesses whose activity turnover is greater than or equal to NIS 250 million.
6. Institutional entities – including provident funds, mutual funds, pension funds, training funds, insurance companies, according to the definition of the Supervisor of Banks.
7. 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 available for sale 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.

8. 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 principal balance sheet items:

	Credit to the public, before allowance for credit losses			Deposits of the public		
	30 September 2016	31 December 2015	Change	**30 September 2016**	31 December 2015	Change
	NIS millions		%	NIS millions		%
Activity in Israel						
Households (a)	**116,168**	116,071	0.1	**114,459**	108,676	5.3
Private Banking	**616**	612	0.7	**28,413**	26,097	8.9
Small and micro businesses	**59,761**	57,741	3.5	**38,788**	39,308	(1.3)
Mid-sized businesses	**25,074**	24,578	2.0	**27,784**	30,233	(8.1)
Large businesses	**40,875**	41,566	(1.7)	**45,490**	41,924	8.5
Institutional entities	**1,168**	714	63.6	**54,948**	55,892	(1.7)
Financial management segment and other	-	-	-	-	-	-
Total activity in Israel	**243,662**	241,282	1.0	**309,882**	302,130	2.6
Activity abroad						
Private individuals	**1,669**	2,412	(30.8)	**7,512**	10,045	(25.2)
Business activity	**22,559**	21,362	5.6	**19,441**	16,484	17.9
Other (b)	**5**	14	(64.3)	**16**	34	(52.9)
Total activity abroad	**24,233**	23,788	1.9	**26,969**	26,563	1.5
Total	**267,895**	265,070	1.1	**336,851**	328,693	2.5

(a) As at 30 September 2016, credit to households includes housing loans (mortgages) in the amount of NIS 75.3 billion, compared with NIS 76.2 billion as at 31 December 2015, a decrease of 1.2%.

(b) Including financial management and institutional entities and other segments.

The following are principal data according to operating segments of total assets and total assets under management:

	Total assets			Assets under management		
	30 September 2016	31 December 2015	Change	**30 September 2016**	31 December 2015	Change
	NIS millions		%	NIS millions		%
Activity in Israel						
Households	**116,101**	115,004	1.0	**80,402**	83,179	(3.3)
Private Banking	**637**	554	15.0	**50,385**	50,413	(0.1)
Small and micro businesses	**59,286**	56,190	5.5	**37,702**	35,841	5.2
Mid-sized businesses	**25,418**	25,881	(1.8)	**20,208**	20,058	0.7
Large businesses	**52,584**	46,234	13.7	**64,938**	76,437	(15.0)
Institutional entities	**1,909**	1,266	50.8	**496,324**	470,689	5.4
Financial management segment and other	**138,990**	136,229	2.0	**38,838**	41,065	(5.4)
Total activity in Israel	**394,925**	381,358	3.6	**788,797**	777,682	1.4
Activity abroad						
Private individuals	**1,831**	3,248	(43.6)	**14,616**	15,102	(3.2)
Business activity	**22,400**	21,261	5.4	**2,749**	1,989	38.2
Other	**12,602**	10,632	18.5	**2,729**	2,288	19.3
Total activity abroad	**36,833**	35,141	4.8	**20,094**	19,379	3.7
Total	**431,758**	416,499	3.7	**808,891**	797,061	1.5

Net profit by operating segment

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 is as follows:

	For the three months ended				For the nine months ended			
	30 September 2016	30 September 2015	Change		**30 September 2016**	30 September 2015	Change	
	NIS millions		NIS millions	%	NIS millions		NIS millions	%
Activity in Israel								
Households	**(93)**	1	(94)	-	**(188)**	(35)	(153)	-
Private Banking	**18**	8	10	+	**54**	42	12	28.6
Small and micro businesses	**148**	42	106	+	**423**	304	119	39.1
Mid-sized businesses	**114**	50	64	+	**323**	236	87	36.9
Large businesses	**190**	289	(99)	(34.3)	**828**	544	284	52.2
Institutional entities	**(7)**	(10)	3	30.0	**(1)**	(13)	12	92.3
Financial management segment and other	**369**	337	32	9.5	**714**	1,303	(589)	(45.2)
Other segment	**187**	(14)	201	+	**30**	(89)	119	+
Total activity in Israel	**926**	703	223	31.7	**2,183**	2,292	(109)	(4.8)
Activity abroad								
Private individuals	**(29)**	(48)	19	39.6	**(10)**	(113)	103	91.2
Business activity	**(2)**	17	(19)	-	**140**	129	11	8.5
Other	**24**	32	(8)	(25.0)	**35**	96	(61)	(63.5)
Total activity abroad	**(7)**	1	(8)	-	**165**	112	53	47.3
Total	**919**	704	215	30.5	**2,348**	2,404	(56)	(2.3)

(a) Including the Financial Management and Institutional Entities segments

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:

	For the three months ended 30 September				For the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Net interest income	**639**	624	15	2.4	**1,873**	1,821	52	2.9
Non-interest income	**451**	422	29	6.9	**1,299**	1,266	33	2.6
Total income	**1,090**	1,046	44	4.2	**3,172**	3,087	85	2.8
Expenses in respect of credit losses	**147**	110	37	33.6	**353**	210	143	68.1
Total operating and other expenses	**1,075**	932	143	15.3	**3,090**	2,925	165	5.6
Profit before tax	**(132)**	4	(136)	-	**(271)**	(48)	(223)	-
Tax expenses	**(47)**	(3)	(44)	-	**(106)**	(30)	(76)	-
Net profit attributed to shareholders of the banking corporation	**(93)**	1	(94)	-	**(188)**	(35)	(153)	-

	Average balances for the three months ended 30 September				Average balances for the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
Credit to the public	**115,667**	111,531	4,136	3.7	**114,863**	109,740	5,123	4.7
Total assets	**116,716**	112,547	4,169	3.7	**115,791**	110,679	5,112	4.6
Deposits of the public	**117,936**	103,402	14,534	14.1	**113,916**	101,250	12,666	12.5
Assets under management	**79,782**	88,737	(8,955)	(10.1)	**79,388**	90,083	(10,695)	(11.9)

Main changes in the volume of activity

Total credit to households on 30 September 2016 amounted to about NIS 116.2 billion, compared with NIS 116.1 billion at the end of 2015, an increase of 0.1%. Of this, consumer credit totaled NIS 40.9 billion, accounting for 35.2%, and credit for housing totaled NIS 75.3 billion, accounting for 64.8%. Deposits of the public increased from NIS 108.7 billion at the end of 2015 to NIS 114.5 billion at 30 September 2016, an increase of 5.3%.

Main changes in the net profit

The loss in the household segment in the first nine months of 2016 totaled NIS 188 million, compared with a loss of NIS 35 million in the corresponding period last year, an increase of NIS 153 million. This increase in the loss in the household segment is attributable to an increase in expenses in respect of credit losses amounting to NIS 143 million and an increase in operating and other expenses amounting to NIS 165 million, mainly due to the loading of the costs of the signing-on bonus. On the other hand, there was an increase in total income amounting to NIS 85 million which offset the increase in the loss.

It should be clarified with regard to the method of attribution of noninterest income in a 'credit card' product that a situation of inter-segmental income and expenses 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 the first nine months of 2016 to NIS 178 million, compared with NIS 198 million in the corresponding period in 2015, a decrease of NIS 20 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 30 September 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 28.5 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 30 September				For the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Net interest income	**20**	15	5	33.3	**62**	43	19	44.2
Non-interest income	**44**	42	2	4.8	**130**	139	(9)	(6.5)
Total income	**64**	57	7	12.3	**192**	182	10	5.5
Expenses (income) in respect of credit losses	**-**	-	-	-	**1**	(9)	10	+
Total operating and other expenses	**35**	43	(8)	(18.6)	**106**	122	(16)	(13.1)
Profit before tax	**29**	14	15	+	**85**	69	16	23.2
Tax expense (benefit)	**11**	6	5	83.3	**31**	27	4	14.8
Net profit attributed to shareholders of the banking corporation	**18**	8	10	+	**54**	42	12	28.6

	Average balances for the three months ended 30 September				Average balances for the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Credit to the public	**608**	519	89	17.1	**604**	492	112	22.8
Total assets	**632**	542	90	16.6	**630**	517	113	21.9
Deposits of the public	**28,858**	24,953	3,905	15.6	**29,129**	24,811	4,318	17.4
Assets under management	**51,206**	53,890	(2,684)	(5.0)	**51,643**	54,693	(3,050)	(5.6)

Main changes in volume of activity

On 30 September 2016, credit to the public, net, amounted to NIS 0.6 billion, similar to the end of 2015. Deposits of the public totaled NIS 28.4 billion, compared with NIS 26.1 billion at the end of 2015, an increase of NIS 2.3 billion or 8.9%.

Main changes in the net profit

The profit in the private banking segment in the first nine months of 2016 amounted to NIS 54 million, compared with NIS 42 million in the corresponding period last year, an increase of 28.6%.

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 30 September				For the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Net interest income	**465**	383	82	21.4	**1,362**	1,195	167	14.0
Non-interest income	**207**	208	(1)	(0.5)	**624**	641	(17)	(2.7)
Total income	**672**	591	81	13.7	**1,986**	1,836	150	8.2
Expenses in respect of credit losses	**56**	136	(80)	(58.8)	**194**	217	(23)	(10.6)
Total operating and other expenses	**385**	385	-	-	**1,130**	1,128	2	0.2
Profit before tax	**231**	70	161	+	**662**	491	171	34.8
Tax expenses	**82**	27	55	+	**236**	184	52	28.3
Net profit attributed to shareholders of the banking corporation	**148**	42	106	+	**423**	304	119	39.1

	Average balances for the three months ended 30 September				Average balances for the nine months ended 30 September			
					2016	2015		
	2016	2015	Change	%	NIS millions		Change	%
Credit to the public	**58,804**	54,805	3,999	7.3	**57,937**	53,915	4,022	7.5
Total assets	**59,299**	54,982	4,317	7.9	**58,224**	54,136	4,088	7.6
Deposits of the public	**37,339**	35,966	1,373	3.8	**38,151**	34,693	3,458	10.0
Assets under management	**36,262**	38,302	(2,040)	(5.3)	**35,500**	38,782	(3,282)	(8.5)

Main changes in the volume of activity

Total credit to the small and micro-business segment in Israel amounted to NIS 59.8 billion at 30 September 2016, compared with NIS 57.7 billion at the end of 2015, an increase of 3.6%. Deposits of the public amounted to NIS 38.8 billion, compared with NIS 39.3 billion at the end of 2015, a decrease of 1.3%

Main changes in the net profit

Net profit in the small and micro business segment in the first nine months of 2016 amounted to NIS 423 million, compared with NIS 304 million in the corresponding period last year, an increase of 39.1%.

The increase in net profit for the first nine months of 2016 compared with the corresponding period last year derives from, on the one hand, an increase in net interest income amounting to NIS 167 million, and a decrease in expenses in respect of credit losses amounting to NIS 23 million. The increase was offset by tax expenses amounting to NIS 52 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:

	For the three months ended 30 September				For the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Net interest income	**171**	143	28	19.6	**479**	434	45	10.4
Non-interest income	**81**	36	45	+	**267**	228	39	17.1
Total income	**252**	179	73	40.8	**746**	662	84	12.7
Expenses in respect of credit losses	**(29)**	(20)	(9)	45.0	**(98)**	(83)	(15)	18.1
Total operating and other expenses	**116**	119	(3)	(2.5)	**352**	367	(15)	(4.1)
Profit before tax	**165**	80	85	+	**492**	378	114	30.2
Tax expenses	**51**	30	21	70.0	**168**	141	27	19.1
Net profit attributed to shareholders of the banking corporation	**114**	50	64	+	**323**	236	87	36.9

	Average balances for the three months ended 30 September				Average balances for the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Credit to the public	**25,205**	23,969	1,236	5.2	**25,372**	24,253	1,119	4.6
Total assets	**25,468**	25,239	229	0.9	**26,102**	25,412	690	2.7
Deposits of the public	**27,326**	22,850	4,476	19.6	**27,451**	22,838	4,613	20.2
Assets under management	**20,317**	21,397	(1,080)	(5.0)	**20,342**	21,626	(1,284)	(5.9)

Main changes in the volume of activity

On 30 September 2016, credit to the public in the medium-sized business segment amounted to NIS 25.1 billion, compared with NIS 24.6 billion at the end of 2015, an increase of NIS 0.5 billion, or 2.0%. Deposits of the public amounted to NIS 27.8 billion, compared with NIS 30.2 billion at the end of 2015, an increase of NIS 2.4 million, or 8.1%.

Main changes in the net profit

Net profit in the medium-sized business segment amounted to NIS 323 million in the first nine months of 2016, compared with NIS 236 million in the corresponding period last year, an increase of 36.9 %. The increase in profit is primarily attributable to an increase in the balances of monetary assets and a decrease in a provision for legal claims.

E. Large business segment in Israel

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

	For the three months ended 30 September				For the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Net interest income	**221**	273	(52)	(19.0)	**657**	730	(73)	(10.0)
Non-interest income	**134**	147	(13)	(8.8)	**419**	418	1	0.2
Total income	**355**	420	(65)	(15.5)	**1,076**	1,148	(72)	(6.3)
Expenses (income) in respect of credit losses	**(83)**	(177)	94	53.1	**(622)**	(136)	(486)	-
Total operating and other expenses	**142**	131	11	8.4	**406**	408	(2)	(0.5)
Profit before tax	**296**	466	(170)	(36.5)	**1,292**	876	416	47.5
Tax expenses	**104**	176	(72)	(40.9)	**462**	329	133	40.4
Net profit attributed to shareholders of the banking corporation	**190**	289	(99)	(34.3)	**828**	544	284	52.2

	Average balances for the three months ended 30 September				Average balances for the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Credit to the public	**45,300**	47,155	(1,855)	(3.9)	**46,074**	44,456	1,618	3.6
Total assets	**45,725**	47,323	(1,598)	(3.4)	**46,946**	45,109	1,837	4.1
Deposits of the public	**43,192**	42,855	337	0.8	**45,637**	44,035	1,602	3.6
Assets under management	**71,343**	82,821	(11,478)	(13.9)	**72,156**	83,137	(10,981)	(13.2)

Main changes in the volume of activity

Credit to the public in the large business segment at 30 September 2016 amounted to NIS 40.9 billion, compared with NIS 41.6 billion at the end of 2015, a decrease of 1.7%. Deposits of the public at 30 September 2016 amounted to NIS 45.5 billion, compared with NIS 41.9 billion at the end of 2015, an increase of 8.5%.

Main changes in the net profit

Net profit in the large business segment in the first nine months 2016 totaled NIS 828 million, compared with NIS 544 million in the corresponding period last year, an increase of NIS 284 million.

The increase in profit derives from an increase in credit loss income amounting to NIS 486 million, as a result of collections recorded. On the other hand, an increase in tax expenses amounting to NIS 133 million was recorded.

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 30 September				For the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Net interest income	**13**	10	3	30.0	**35**	26	9	34.6
Non-interest income	**47**	42	5	11.9	**159**	138	21	15.2
Total income	**60**	52	8	15.4	**194**	164	30	18.3
Expenses (income) in respect of credit losses	**(5)**	(1)	(4)	-	**(2)**	(7)	5	71.4
Total operating and other expenses	**74**	69	5	7.2	**198**	191	7	3.7
Profit (loss) before tax	**(9)**	(16)	7	43.8	**(2)**	(20)	18	90.0
Tax expenses (income)	**(2)**	(6)	4	66.7	**(1)**	(7)	6	85.7
Net profit (loss) attributed to shareholders of the banking corporation	**(7)**	(10)	3	30.0	**(1)**	(13)	12	92.3

	Average balances for the three months ended 30 September				Average balances for the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Credit to the public	**1,865**	1,361	504	37.0	**1,394**	1,055	339	32.1
Total assets	**3,053**	1,601	1,452	90.7	**2,495**	1,599	896	56.0
Deposits of the public	**55,239**	54,163	1,076	2.0	**54,863**	53,541	1,322	2.5
Assets under management	**481,825**	462,889	18,936	4.1	**478,504**	465,481	13,023	2.8

Main changes in the volume of activity

Total credit, net, to institutional entities amounted to NIS 1.2 billion at 30 September 2016, compared with NIS 0.7 billion at the end of 2015, an increase of 63.6%. Deposits of the public fell from NIS 55.9 billion at the end of 2015 to NIS 54.9 billion at 30 September 2016, a decrease of 1.7%.

Main changes in the net profit

The loss in the institutional entities segment in the first nine months of 2016 amounted to NIS 1 million, compared with a loss of NIS 13 million in the corresponding period last year, a decrease in the loss of NIS 12 million.

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 30 September				**For the nine months ended 30 September**			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Net interest income (expenses)	**236**	224	12	5.4	548	519	29	5.6
Non-interest income	**442**	338	104	30.8	994	1,530	(536)	(35.0)
Total income	**678**	562	116	20.6	1,542	2,049	(507)	(24.7)
Expenses in respect of credit losses	**6**	(10)	16	+	24	18	6	33.3
Total operating and other expenses	**86**	59	27	45.8	242	209	33	15.8
Profit before tax	**586**	513	73	14.2	1,276	1,822	(546)	(30.0)
Tax expenses (income)	**238**	189	49	25.9	617	676	(59)	(8.7)
Net profit attributed to shareholders of the banking corporation	**369**	337	32	9.5	714	1,303	(589)	(45.2)

	Average balances for the three months ended 30 September				**Average balances for the nine months ended 30 September**			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Total assets	**141,562**	118,824	22,738	19.1	**138,191**	122,443	15,748	12.9
Assets under management	**39,325**	44,703	(5,378)	(12.0)	**39,144**	45,863	(6,719)	(14.7)

In the first nine months of 2016, the net profit of the segment amounted to NIS 714 million, compared with a profit of NIS 1,303 million in the corresponding period last year. This segment includes the Group's share in the profits of companies included on equity basis. The decrease in net profit is attributable to the decrease in non-interest income amounting to NIS 536 million, mainly as a result of profits from the sale of shares of the Israel Corporation and Mobileye amounting to NIS 1,099 million which were recorded last year, compared with income of NIS 378 million from the Visa Europe transaction which was recorded this year.

H. Foreign operations

Below is a summary of the results of foreign operations:

	For the three months ended 30 September				For the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Net interest income	**218**	217	1	0.5	**668**	637	31	4.9
Non-interest income	**73**	74	(1)	(1.4)	**223**	289	(66)	(22.8)
Total income	**291**	291	-	-	**891**	926	(35)	(3.8)
Expenses (income) in respect of credit losses	**11**	38	(27)	(71.1)	**(25)**	(37)	12	32.4
Total operating and other expenses	**277**	240	37	15.4	**706**	802	(96)	(12.0)
Profit(loss) before tax	**3**	13	(10)	(76.9)	**210**	161	49	30.4
Tax expenses	**10**	13	(3)	(23.1)	**45**	50	(5)	(10.0)
Net profit (loss) attributed to shareholders of the banking corporation	**(7)**	1	(8)	-	**165**	112	53	47.3

	Average balances for the three months ended 30 September				Average balances for the nine months ended 30 September			
	2016	2015	Change		**2016**	2015	Change	
	NIS millions			%	NIS millions			%
Credit to the public	23,247	22,164	1,083	4.9	23,167	22,935	232	1.0
Total assets	36,242	33,387	2,855	8.6	35,284	34,491	793	2.3
Deposits of the public	26,786	25,372	1,414	5.6	26,030	27,843	(1,813)	(6.5)
Assets under management	20,388	22,890	(2,502)	(10.9)	19,451	30,125	(10,674)	(35.4)

Main changes in the volume of activity

Total credit to the public for foreign operations, amounted to NIS 24.2 billion at 30 September 2016, compared with NIS 23.8 billion at the end of 2015, an increase of 1.9%. Deposits of the public increased from NIS 26.6 billion to NIS 27.0 billion, an increase of 1.5%.

Main changes in the net profit

Net profit in the foreign operations segment in the first nine months of 2016 amounted to NIS 165 million, compared with a profit of NIS 112 million in the corresponding period last year, an increase of NIS 53 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 nine months ended			
	30 September 2016	30 September 2015	Change	
	NIS millions		NIS millions	%
The Bank	**2,212**	1,756	456	26.0
Consolidated companies in Israel (a)	**175**	529	(354)	(66.9)
Overseas consolidated companies (b)	**(44)**	(8)	(36)	-
Companies included on equity basis (a)	**5**	127	(122)	(96.1)
Net profit	**2,348**	2,404	(56)	(2.3)
Profit of overseas subsidiaries, in nominal terms (US$ millions) (c)	**39**	11	28	+

(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 increase in the net profit in the first nine months of 2016, compared with the corresponding period last year is attributable to an increase in net interest income and from income in respect of credit losses, compared with credit loss expenses recorded last year. In addition, due to the merger of the Arab Israel Bank, on 31 December 2015, the profit of the period includes the profits of the Arab Israel Bank while, last year, the profits of the Arab Israel Bank were presented within subsidiaries in Israel. The increase was offset by a decrease in profits from non-recurring sales of shares of the Israel Corporation in 2015.

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 212 million, as a result of profit from the sale of shares of Mobileye which were recorded last year. In the first nine months of 2016, the profits of the Arab Israel Bank were included 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 70 million were included in the profits of subsidiaries in Israel.

Subsidiaries abroad

The total contribution to the profit of the overseas offices (excluding overseas branches) as a convenience translation to U.S. dollars amounted to a profit of US$ 39 million, compared with a profit of US$ 11 million in the corresponding period last year. The overseas offices' contribution to profit in shekels and with certain adjustments to Israeli accounting principles, amounted to a loss of NIS 44 million, compared with a loss of NIS 8 million in the corresponding period last year. The loss in shekels in the first nine months of 2016 derives from exchange rate differences in respect of subsidiaries whose functional currency is the shekel, which were offset by the profits of the offices in the functional currency in nominal terms. In the corresponding period last year, the loss was attributable to expenses recorded in respect of the expected costs of closing the office in Switzerland

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 on the basis of the equity value in the profits of the Israel Corporation is for the first half 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.

In the second quarter of 2016, the Bank sold the balance of the shares it held in the Israel Corporation. For further information, see Chapter "Securities".

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 investee companies (including investment in capital notes) amounted to NIS 11.7 billion on 30 September 2016, compared with NIS 12.5 billion on 31 December 2015, and their contribution to the Group net operating profit amounted to some NIS 136 million, compared with a profit NIS 648 million in the corresponding period last year.

Consolidated companies in Israel

The Bank's total investments in consolidated companies in Israel amounted to NIS 5,714 million on 30 September 2016, compared with NIS 6,260 million on 31 December 2015. Their contribution to the Group net operating profit amounted to some NIS 175 million in the first nine months of 2016, compared with NIS 529 million in the corresponding period last year, a decrease of 66.8%. The Group’s return on its investment in the consolidated companies in Israel was 4.0% in the first nine months of 2016 compared with 11.9% in the corresponding period last year.

Arab Israel Bank

The Arab Israel Bank was merged with and in Leumi on 31 December 2015. Following letters of complaint sent in November 2015 by a senior office holder who served in the Arab Israel Bank until the merger, 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 apparent failure to report a customer's 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 officials in the Arab Israel Bank into what took place in these branches.

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

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 profit		
	For the nine months ended 30 September				
	2016	2015	**2016**	2015	Change
	%		NIS millions		%
Arab Israel Bank (c)	**-**	14.5	**-**	70.0	-
Leumi Card	**11.9**	12.1	**118.4**	113.2	4.6
Leumi Partners (b)	**11.9**	39.1	**116.7**	328.3	(64.5)
Maalot	**34.9**	42.7	**12.8**	10.9	17.4
Leumi-Tech	**0.6**	0.1	**4.8**	1.1	+
Financial holdings	**-**	0.2	**(85.6)**	0.7	-
Others	**0.8**	0.4	**8.3**	4.4	88.6
Total consolidated companies in Israel	**4.0**	11.9	**175.4**	528.6	(66.8)

(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 offices on 30 September 2016 amounted to NIS 4,180 million, compared with NIS 4,295 million at 31 December 2015.

The contribution of the overseas offices to net profit in shekels of the Group in the first nine months of 2016 amounted to a loss of NIS 44 million compared with a loss of NIS 8 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 had no material impact on the Group's results of operation.

In July 2016, approval was received from the Supervisor of Banks in Luxembourg for the return of the company's banking license and its entry into liquidation proceedings. The name of the bank was changed to BLLux Company S.A. In September 2016 the liquidation proceeding began.

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.

On 3 October 2016, the transaction to sell the activity of Bank Leumi Jersey, the sub-subsidiary of the Bank to EFG Private Bank (Channel Islands) Ltd. was completed, this inter alia, following the receipt of the regulatory approvals required for this purpose. In light of the relatively limited scope of activity of Leumi Jersey, which is not material in relation to the activity of the Bank Group, the execution of the transaction did not have a significant impact on the Bank's activity.

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

	Return on Group investment		Contribution to Group net profit		
	For the nine months ended 30 September				
	2016	2015	**2016**	2015	Change
	%		NIS millions		%
Leumi USA (BLC)	**3.3**	2.7	**69.4**	51.0	36.1
Of which: Leumi USA	**3.7**	3.1	**66.8**	49.8	34.1
Leumi UK (a)	**-**	9.7	**(64.2)**	59.0	-
Leumi Switzerland	**-**	-	**(13.1)**	(62.7)	79.1
Leumi Luxembourg	**2.0**	-	**1.6**	(7.1)	+
Leumi Re	**-**	-	**(51.2)**	(28.9)	77.2
Leumi Romania	**9.9**	-	**11.4**	(2.8)	+
Others	**1.8**	-	**2.2**	(16.1)	+
Total	**-**	-	**(43.9)**	(7.6)	-

(a) The loss in shekels in the office in the United Kingdom in the first nine months of 2016 is attributable to negative rate differences due to the appreciation of the pound sterling by 15.8%, following the Brexit. The Bank has no economic exposure to the pound sterling as there are foreign currency deposits against the investment in the office.

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

	For the nine months ended			
	30 September 2016	30 September 2015	Change	Change
	In millions			%
Leumi USA (BLC) - US$	**18**	13	5	38.5
Of which: Leumi USA	**18**	13	5	38.5
Leumi UK - £	**13**	12	1	8.3
Leumi Switzerland - CHF	**(2)**	(7)	5	71.4
Leumi Luxembourg - €	**1**	1	-	-
Leumi Romania – ron (a)	**13**	7	6	85.7
Leumi Re - US$	**2**	(12)	14	+
Others - US$	**-**	(4)	4	+
Total translated to the dollar	**39**	11	28	+

(a) 1 ron = NIS 0.9428

In connection with legal claims and other issues related to the consolidated companies, see Note 10.

Activities of Companies Included on Equity Basis

Total investments of the Group in companies included on equity basis at 30 September 2016 totaled NIS 897 million, compared with NIS 924 million at 31 December 2015. The contribution to net profit of the companies included on equity basis in the first nine months of 2016 amounted to NIS 56 million, compared with a total of NIS 161 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 114 to 119) 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 third quarter of 2016, volatility in the local and global markets moderated. However, some of the fears which have accompanied the markets for a number of quarters are still apparent: a slowdown in growth in China and its effect on the world economy, and concerns regarding a change in the route for raising interest rates in the United States, and the continuing effect of negative interest on a number of economies around the world, and the effects of united Kingdom's exit from the European Union (Brexit).

In addition, during the third quarter, concerns were expressed regarding the stability of the European banking system. These fears were reflected in the falls in share prices, the opening of CDS margins, etc. In the weeks following the end of the quarter, the fears expressed receded a little.

In November, elections were held in the United States, at the end of which, Donald Trump was elected. The effects of the election results on the global economy are unknown at this stage and volatility in the markets is expected to continue in the short term.

In Israel, there was a marked improvement in the growth rate and the continuation of low-level inflation.

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 the inflation data and the global environment.

The trend of numerous regulatory changes, affecting the business model of the global banking system in Israel continues with the publication of a law memorandum regarding credit associations, the publication of conclusions of the Strum Committee, and others.

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.

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 120 to 142) 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 third quarter of the year, there was no material change in the risk profile of the credit portfolio.

Problem Credit Risk

	30 September 2016		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	**4,078**	**260**	**4,338**
Subordinate credit risk	**1,229**	**182**	**1,411**
Credit risk under special mention (b)	**2,840**	**1,258**	**4,098**
Total problem credit	**8,147**	**1,700**	**9,847**
Of which: Unimpaired debts in arrears 90 days or more (b)	**961**	**-**	**-**
2. Non-performing assets:			
Impaired debts	**3,551**	**-**	**-**
Assets received in respect of credit cleared	**12**	**-**	**-**
Total non-performing assets	**3,563**	**-**	**-**

	30 September 2015		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	4,323	312	4,635
Subordinate credit risk	1,712	400	2,112
Credit risk under special mention (b)	3,338	1,382	4,720
Total problem credit	9,373	2,094	11,467
Of which: Unimpaired debts in arrears 90 days or more (b)	1,024	-	-
2. Non-performing assets:			
Impaired debts	4,012	-	-
Assets received in respect of credit cleared	7	-	-
Total non-performing assets	4,019	-	-

	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 mention (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, substandard 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

	30 September 2016	30 September 2015	31 December 2015
	%		
Balance of impaired credit to the public as a percentage of the balance of credit to the public	**1.5**	1.6	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	**0.4**	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**	3.5	3.1
Expenses in respect of credit losses as a percentage of the average balance of credit to the public	**0.1**	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**	(0.1)	(0.2)

Details of Credit Risk Metrics of the Credit Loss Allowance

	30 September 2016	30 September 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**	1.6	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	**98.5**	100.2	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 balance of credit to the public in arrears of 90 days or more	**79.7**	81.0	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	**0.9**	(7.7)	(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.

On 29 September 2016, the Supervisor of Banks published an amendment to Proper Conduct of Banking Management Regulation no. 315, on a supplementary provision for doubtful debts. According to the amendment, the method of measuring sector indebtedness will be changed, such that the credit risk deriving from bank guarantees to a mortgagee (sale guarantees) against which the banks have effected insurance vis-à-vis the abovementioned overseas insurance companies. for the purposes of this regulation, will be mainly classified in the financial services sector, instead of credit to the real estate sector. As a result of this change, the ratio of concentration to the construction and real estate fell.

Overall credit risk to the public by sector of the economy

	30 September 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	**2,159**	**2,019**	**140**	**2,157**	**1,819**	**140**	**74**	**13**	**4**	**(49)**
Mining and quarrying	**799**	**799**	**-**	**680**	**268**	**-**	**-**	**-**	**-**	**-**
Industry	**22,622**	**21,318**	**1,304**	**22,353**	**15,122**	**1,300**	**493**	**(173)**	**(174)**	**(543)**
Construction and real estate - construction (g)	**46,694**	**45,223**	**1,471**	**46,487**	**16,181**	**1,471**	**261**	**(32)**	**8**	**(304)**
Construction and real estate - real estate activity	**26,803**	**25,602**	**1,201**	**26,733**	**24,007**	**1,199**	**830**	**(223)**	**(74)**	**(445)**
Electricity and water	**4,822**	**4,454**	**368**	**4,550**	**3,084**	**368**	**270**	**24**	**1**	**(54)**
Commerce (h)	**27,499**	**26,241**	**1,258**	**27,339**	**22,097**	**1,230**	**273**	**38**	**(14)**	**(351)**
Hotels, catering services and food	**2,844**	**2,453**	**391**	**2,793**	**2,525**	**391**	**255**	**(77)**	**(81)**	**(33)**
Transport and storage	**7,736**	**7,471**	**265**	**7,623**	**6,237**	**264**	**195**	**13**	**7**	**(41)**
Communications and computer services	**6,385**	**6,156**	**229**	**5,696**	**4,276**	**225**	**214**	**(9)**	**(1)**	**(68)**
Financial services	**19,733**	**19,198**	**535**	**14,174**	**10,050**	**535**	**531**	**(100)**	**(22)**	**(222)**
Business and other services	**8,725**	**8,569**	**156**	**8,687**	**6,050**	**156**	**68**	**72**	**28**	**(139)**
Public and community services	**8,302**	**8,248**	**54**	**8,288**	**6,974**	**54**	**31**	**16**	**9**	**(51)**
Total commercial	**185,123**	**177,751**	**7,372**	**177,560**	**118,690**	**7,333**	**3,495**	**(438)**	**(309)**	**(2,300)**
Private individuals - housing loans	**82,673**	**81,975**	**698**	**82,673**	**80,594**	**697**	**-**	**-**	**21**	**(475)**
Private individuals - other	**67,518**	**66,904**	**614**	**67,509**	**38,105**	**614**	**122**	**282**	**207**	**(776)**
Total public - activity in Israel	**335,314**	**326,630**	**8,684**	**327,742**	**237,389**	**8,644**	**3,617**	**(156)**	**(81)**	**(3,551)**
Banks in Israel	**7,856**	**7,856**	**-**	**2,261**	**2,179**	**-**	**-**	**(1)**	**-**	**(2)**
Government of Israel	**47,996**	**47,996**	**-**	**226**	**226**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**391,166**	**382,482**	**8,684**	**330,229**	**239,794**	**8,644**	**3,617**	**(157)**	**(81)**	**(3,553)**

(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 239,794, 47,590, 896, 5,046, 97,840 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 under 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 1,044 million, which were extended to purchasing groups in the process of construction.

Overall risk of credit to the public by sector of the economy (cont'd.)

	30 September 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	**69**	**68**	**1**	**67**	**50**	**1**	**1**	**(1)**	**-**	**(1)**
Mining and quarrying	**41**	**41**	**-**	**32**	**26**	**-**	**-**	**-**	**-**	**-**
Industry	**8,329**	**8,064**	**265**	**6,806**	**4,333**	**266**	**47**	**(23)**	**18**	**(42)**
Construction and real estate (g)	**13,528**	**12,994**	**534**	**13,122**	**9,755**	**534**	**340**	**(26)**	**(2)**	**(198)**
Electricity and water	**179**	**179**	**-**	**93**	**46**	**-**	**-**	**-**	**-**	**-**
Commerce	**6,676**	**6,598**	**78**	**6,577**	**4,598**	**78**	**67**	**23**	**6**	**(91)**
Hotels, catering services and food	**1,961**	**1,955**	**6**	**1,961**	**1,645**	**6**	**-**	**(1)**	**-**	**(9)**
Transport and storage	**118**	**57**	**61**	**102**	**97**	**61**	**61**	**13**	**19**	**(15)**
Communications and computer services	**2,078**	**2,078**	**-**	**1,826**	**877**	**-**	**-**	**-**	**-**	**(1)**
Financial services	**17,075**	**16,956**	**119**	**2,420**	**1,735**	**119**	**119**	**(7)**	**(3)**	**(48)**
Business and other services	**6,353**	**6,314**	**39**	**6,219**	**5,240**	**39**	**21**	**8**	**-**	**(24)**
Public and community services	**695**	**687**	**8**	**692**	**492**	**8**	**8**	**(1)**	**-**	**(18)**
Total commercial	**57,102**	**55,991**	**1,111**	**39,917**	**28,894**	**1,112**	**664**	**(15)**	**38**	**(447)**
Private individuals - housing loans	**1,062**	**1,016**	**46**	**1,062**	**1,054**	**47**	**47**	**1**	**6**	**(11)**
Private individuals - other	**635**	**629**	**6**	**632**	**558**	**5**	**5**	**-**	**-**	**(5)**
Total public - activity abroad	**58,799**	**57,636**	**1,163**	**41,611**	**30,506**	**1,164**	**716**	**(14)**	**44**	**(463)**
Banks abroad	**23,304**	**23,304**	**-**	**11,516**	**9,617**	**-**	**-**	**-**	**-**	**-**
Governments abroad	**13,541**	**13,541**	**-**	**843**	**397**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**95,644**	**94,481**	**1,163**	**53,970**	**40,520**	**1,164**	**716**	**(14)**	**44**	**(463)**
Total	**486,810**	**476,963**	**9,847**	**384,199**	**280,314**	**9,808**	**4,333**	**(171)**	**(37)**	**(4,016)**

(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 40,520, 32,785, -, 6,586, 15,753 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 under 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.)

	30 September 2015									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					[1]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	2,001	1,914	87	1,996	1,702	86	43	19	(13)	(43)
Mining and quarrying	693	684	9	595	272	9	-	(3)	-	(1)
Industry	25,515	22,826	2,689	24,881	15,864	2,682	413	32	(38)	(506)
Construction and real estate - construction(g)	48,357	46,698	1,659	48,262	16,973	1,659	679	54	(19)	(338)
Construction and real estate - real estate activity	26,919	25,007	1,912	26,856	24,182	1,912	1,241	(18)	4	(630)
Electricity and water	5,740	5,677	63	4,735	3,173	63	-	-	-	(34)
Commerce (h)	26,559	25,348	1,211	26,375	21,472	1,179	221	(49)	5	(328)
Hotels, catering services and food	2,968	2,772	196	2,941	2,590	196	150	9	5	(36)
Transport and storage	6,776	6,363	413	6,692	5,919	413	287	12	10	(50)
Communications and computer services	6,473	6,125	348	6,048	4,264	346	333	7	(9)	(148)
Financial services	23,352	23,275	77	15,447	9,239	77	65	(126)	17	(270)
Business and other services	7,401	7,285	116	7,358	5,173	104	36	27	22	(78)
Public and community services	7,647	7,617	30	7,600	6,363	30	12	-	2	(42)
Total commercial	190,401	181,591	8,810	179,786	117,186	8,756	3,480	(36)	(14)	(2,504)
Private individuals - housing loans	82,072	81,318	754	82,072	79,496	754	-	11	4	(501)
Private individuals - other	69,503	69,099	404	69,490	36,542	404	74	199	183	(654)
Total public - activity in Israel	341,976	332,008	9,968	331,348	233,224	9,914	3,554	174	173	(3,659)
Banks in Israel	7,170	7,170	-	3,284	2,288	-	-	2	-	(2)
Government of Israel	39,240	39,240	-	283	283	-	-	-	-	-
Total activity in Israel	388,386	378,418	9,968	334,915	235,795	9,914	3,554	176	173	(3,661)

(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 235,793, 39,023, 1,420, 7,361, 104,789 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 under 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 1,214 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.)

	30 September 2015									
	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 abroad										
Agriculture	113	109	4	113	50	4	4	1	-	(2)
Mining and quarrying	10	10	-	1	1	-	-	-	-	-
Industry	8,933	8,468	465	8,307	5,253	465	129	(8)	4	(123)
Construction and real estate (g)	13,589	13,038	551	13,028	8,914	551	521	9	36	(269)
Electricity and water	374	374	-	137	83	-	-	-	-	(1)
Commerce	7,396	7,302	94	7,362	4,922	94	93	(8)	50	(97)
Hotels, catering services and food	1,239	1,201	38	1,232	1,141	38	38	(2)	-	(10)
Transport and storage	256	162	94	236	129	94	94	(2)	5	(25)
Communications and computer services	1,867	1,865	2	1,718	792	2	2	(1)	-	(1)
Financial services	16,691	16,593	98	3,460	2,348	98	98	26	10	(74)
Business and other services	5,123	5,046	77	4,910	4,420	77	34	(3)	(1)	(15)
Public and community services	902	901	1	844	441	1	1	(17)	49	(18)
Total commercial	56,493	55,069	1,424	41,348	28,494	1,424	1,014	(5)	153	(635)
Private individuals - housing loans	1,222	1,171	51	1,222	1,216	51	30	-	2	(16)
Private individuals - other	997	973	24	989	888	24	23	(2)	4	(8)
Total public - activity abroad	58,712	57,213	1,499	43,559	30,598	1,499	1,067	(7)	159	(659)
Banks abroad	24,067	24,067	-	12,032	10,167	-	-	(3)	-	(1)
Governments abroad	10,140	10,140	-	494	191	-	-	-	-	-
Total activity abroad	92,919	91,420	1,499	56,085	40,956	1,499	1,067	(10)	159	(660)
Total	481,305	469,838	11,467	391,000	276,751	11,413	4,621	166	332	(4,321)

(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 40,958, 24,574, -, 7,951, 19,436 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 under 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 (cont'd.)

	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:			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 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 (h)	26,552	25,614	938	26,374	21,531	908	244	(42)	12	(306)
Hotels, catering services and food	3,030	2,840	190	3,030	2,666	190	138	4	3	(31)
Transport and storage	6,757	6,420	337	6,645	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 under 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:			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	127	125	2	127	72	2	2	2	1	(2)
Mining and quarrying	76	76	-	37	28	-	-	-	-	-
Industry	8,239	7,909	330	6,984	4,582	330	98	(4)	27	(92)
Construction and real estate (g)	13,291	12,654	637	12,761	9,571	637	434	10	79	(230)
Electricity and water	371	371	-	88	56	-	-	-	-	-
Commerce	7,712	7,680	32	7,623	5,017	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	235	149	86	217	192	86	86	(2)	9	(31)
Communications and computer services	2,076	2,076	-	1,766	661	-	-	(1)	-	(1)
Financial services	16,994	16,902	92	2,768	1,587	92	92	45	7	(68)
Business and other services	5,477	5,426	51	5,407	4,460	51	2	(2)	(1)	(16)
Public and community services	512	511	1	501	387	1	1	(39)	14	(19)
Total commercial	56,687	55,428	1,259	39,856	28,054	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	1,120	1,098	22	1,108	995	22	22	-	8	(6)
Total public - activity abroad	58,983	57,652	1,331	42,140	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	52,739	38,582	1,331	821	3	231	(571)
Total	472,153	462,389	9,764	383,613	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 under 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 30 September 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 30 September 2016, the Group has no credit exposure to large borrowers, groups of borrowers and banking groups of borrowers whose indebtedness 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 exceed 1% of total assets or exceeds 20% of total equity for the purpose of calculating capital ratios, whichever the lower:

	30 September 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	**8,707**	**2,937**	**9,794**	**24,692**	**13,230**	**11,462**
United Kingdom	**246**	**3,130**	**3,804**	**7,098**	**1,759**	**5,339**
France	**1,452**	**471**	**993**	**-**	**-**	**-**
Switzerland	**-**	**850**	**893**	**69**	**49**	**20**
Germany	**-**	**2,009**	**708**	**-**	**-**	**-**
Others	**2,041**	**5,014**	**4,923**	**1,173**	**631**	**542**
Total exposure to foreign countries	**12,446**	**14,411**	**21,115**	**33,032**	**15,669**	**17,363**
Total exposure to LDC countries	**292**	**1,068**	**740**	**1,150**	**630**	**520**
Total exposure to GIIPS countries (d)	**374**	**8**	**357**	**-**	**-**	**-**

	30 September 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	**32,900**	**762**	**328**	**6,742**	**-**	**5,286**	**16,152**
United Kingdom	**12,519**	**226**	**225**	**3,357**	**-**	**2,927**	**4,253**
France	**2,916**	**6**	**6**	**1,073**	**-**	**1,881**	**1,035**
Switzerland	**1,763**	**-**	**-**	**384**	**-**	**1,081**	**662**
Germany	**2,717**	**-**	**-**	**187**	**-**	**1,756**	**961**
Others	**12,520**	**212**	**194**	**2,927**	**-**	**4,170**	**7,808**
Total exposure to foreign countries	**65,335**	**1,206**	**753**	**14,670**	**-**	**17,101**	**30,871**
Total exposure to LDC countries	**2,620**	**169**	**154**	**1,965**	**-**	**304**	**1,796**
Total exposure to GIIPS countries (d)	**739**	**-**	**-**	**175**	**-**	**537**	**202**

(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, and before the effect of mutual offsetting in respect of derivatives.

(b) Credit risk in off-balance sheet financial instruments as computed for the purpose of the indebtedness of a borrower, before the effect of mutual offsetting in respect of derivatives.

(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 (contd.):

	30 September 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	7,764	3,731	8,954	21,102	10,220	10,882
United Kingdom	39	4,772	3,941	6,606	2,100	4,506
France	571	694	1,269	-	-	-
Switzerland	-	291	1,228	648	4	644
Germany	-	711	1,445	-	-	-
Others	625	4,076	5,486	1,402	678	724
Total exposure to foreign countries	8,999	14,275	22,323	29,758	13,002	16,756
Total exposure to LDC countries	211	1,003	818	1,308	671	637
Total exposure to GIIPS countries (d)	176	119	369	-	-	-

	30 September 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	31,331	692	343	6,623	-	8,254	12,195
United Kingdom	13,258	310	293	4,143	-	1,776	6,976
France	2,534	10	7	1,228	-	916	1,618
Switzerland	2,163	-	-	367	-	827	692
Germany	2,156	-	-	442	-	1,362	794
Others	10,911	434	420	2,494	-	2,750	7,437
Total exposure to foreign countries	62,353	1,446	#######	15,297	-	15,885	29,712
Total exposure to LDC countries	2,669	335	322	1,679	-	606	1,426
Total exposure to GIIPS countries (d)	664	-	-	45	-	298	366

(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 and before the effect of mutual offsetting in respect of derivatives.

(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower, before the effect of mutual offsetting in respect of derivatives.

(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
Country	NIS millions					
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
Total exposure to LDC countries	2,407	210	199	2,128	-	521	1,353
Total exposure to GIIPS countries (d)	562	-	-	250	-	222	340

(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, and before the effect of mutual offsetting in respect of derivatives.
(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower, before the effect of mutual offsetting in respect of derivatives.
(c) Including governments, formal institutions and central banks.
(d) Exposure to GIIPS includes the countries: Portugal, Ireland, Italy, Greece and Spain.

Part B – On 30 September 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 642 million and relates to 10 countries. (At 30 September 2015, this amounted to NIS 1,439 million and related to 12 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 30 September 2016:

	Balance sheet exposure	Off-balance sheet exposure	Total exposure	Percentage of exposure in relation to	Of which problem commercial credit risk
High-income countries	**62,715**	**12,705**	**75,420**	**94.3**	**1,037**
Countries with mid-high income	**2,473**	**1,553**	**4,026**	**5.0**	**165**
Countries with mid-low income	**147**	**411**	**558**	**0.7**	**4**
Countries with low income	**-**	**1**	**1**	**-**	**-**
Total	**65,335**	**14,670**	**80,005**	**100.0**	**1,206**

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

High income - exceeding US$ 12,476 per capita.

Mid-high income - from US$ 4,036 to US$ 12,475 per capita.

Mid-low income - from US$ 1,026 to US$ 4,035 per capita.

Low income – up to US$ 1,025 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 30 September 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-	**16,365**	**2,445**	**18,810**
A+ to A-	**2,891**	**123**	**3,014**
BBB+ to BBB-	**284**	**347**	**631**
BB+ to B-	**3**	**24**	**27**
Below B-	**25**	**-**	**25**
Unrated	**255**	**7**	**262**
Total current credit exposure to foreign financial institutions	**19,823**	**2,946**	**22,769**
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, brokers, dealers, insurance companies and institutional bodies.

(b) Deposits in banks, credit to the public, securities that were borrowed or purchased in the context of resell agreements, other assets in respect of derivatives instruments (fair value of derivatives) and investments in debentures including subordinated bank debentures amounting to NIS 430 million as at 30 September 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:

1. Credit exposures do not include investments in asset-backed securities. (See Note 5).
2. 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.
3. 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:

	For the nine months ended 30 September		
	2016	2015	Change
	NIS millions		%
From Bank funds	**7,932**	12,876	(38.4)
From Ministry of Finance funds:			
Directed loans	**10**	8	25.0
Bullet loans	**17**	7	142.9
Total new loans	**7,959**	12,891	(38.3)
Refinanced loans	**1,589**	4,336	(63.4)
Total performance	**9,548**	17,227	(44.6)

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	%
31 December 2014	73,919	13.0
31 December 2015	79,905	8.1
30 September 2016	**80,147**	**0.3**

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
31 December 2014	36,727	49.7	35,447	48.0	1,745	2.3	73,919
31 December 2015	43,938	55.0	34,511	43.2	1,456	1.8	79,905
30 September 2016	**45,779**	**57.1**	**33,096**	**41.3**	**1,272**	**1.6**	**80,147**

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					
31 December 2014	7,232	11,659	29,495	23,788	1,745	73,919
31 December 2015	12,351	12,477	31,587	22,034	1,456	79,905
30 September 2016	**13,812**	**12,123**	**31,967**	**20,973**	**1,272**	**80,147**

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
	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual average
	Percentage of loans granted %							
Fixed – index-linked	**17.6**	18.9	19.4	9.7	19.9	19.8	23.0	22.9
Variable every 5 years and above – index-linked	**13.4**	12.1	13.9	15.7	13.5	11.6	13.1	17.2
Variable up to 5 years – index-linked	**0.3**	0.6	1.2	1.3	1.5	1.0	1.2	2.0
Fixed – unlinked	**29.7**	32.1	29.0	32.8	30.5	35.8	28.9	21.5
Variable every 5 years and above – unlinked	**8.1**	7.7	6.8	6.8	5.4	5.5	6.6	6.6
Variable up to 5 years – unlinked	**30.5**	28.3	29.4	33.3	28.8	25.8	26.6	28.5
Variable – foreign currency	**0.4**	0.3	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 nine months of 2016 stood at 52.7%, compared with 49.0% 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 nine months of 2016, compared with 30.0% 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
30 September 2016	**80,616**	**704**	**0.9**

The allowance for credit losses as at 30 September 2016, including the collective allowance on housing loans (hereinafter: "the overall allowance") was NIS 469 million, representing 0.59% 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 nine months of 2016, the Bank extended new housing loans amounting to NIS 8.0 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 the Bank at a rate of financing higher than 60% (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) is as follows:

	2016		2015					2014
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
Rate of financing	%							
Between 60% and 70% (inclusive)	**18.4**	**16.3**	15.5	18.6	18.6	18.8	19.2	18.5
Between 70% and 80% (inclusive)	**17.8**	**12.7**	13.5	14.6	17.1	18.1	16.5	14.5
Above 80%	**0.1**	**0.1**	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 30 September 2016 stands at 47.3%, 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 nine months 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 0.24% 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 nine months of 2016, in which repayment dates according to loan contracts are longer than 25 years, stood on average at 35.4% of the total of new credit extended, compared with 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 nine months of 2016 was NIS 575 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 Annual Report on Risks. The chapter below should therefore be 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, while implementing corporate governance which includes the three "lines of defense".

Market risk management policy

Market risk management 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 while 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. 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 actuarial liability 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.

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.

[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 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 employee rights standard and the discounting of the actuarial liability to employees according to market interest rates, the sensitivity of the Bank's capital to changes in interest increases. This exposure is routinely managed as part of the Bank's management of assets and liabilities.

In this context, on 12 July 2016, the Bank received specific approval from the Bank of Israel regarding the method of calculating the discounting of interest to be used for computing the liabilities for employee rights for the purpose of measuring regulatory capital, which also affects the method for managing interest exposure. Accordingly, in September, limits on exposure to interest were approved in the Board of Directors, reflecting the implications of the implementation of the standard and the changes in the deployment of the Bank's assets and liabilities.

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

	30 September 2016			30 September 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	**(122)**	**(97)**	**(2)**	(456)	449	(46)	(641)	708	(66)
Trading portfolio	**(106)**	**100**	**(10)**	(81)	86	(8)	(87)	111	(7)
In foreign currency:									
Banking portfolio	**(53)**	**(29)**	**(2)**	13	(109)	1	(32)	(74)	(3)
Trading portfolio	**(0)**	**(43)**	**1**	(60)	33	(6)	7	(33)	2

	Potential erosion in annual profit for change of 1% in interest			
	30 September 2016 (b)		30 September 2015	31 December 2015
	Israeli currency	Foreign currency		
Total	**343**	**178**	163	379

(a) 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.

(b) Measurement according to the limits approved in September 2016.

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		
	30 September 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 (a)	**1,213**	**(1,629)**	**140**	**(457)**	**348**	**(43)**
	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 (a)	1,472	(1,895)	145	(292)	182	(25)

(a) 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 measurement does not include the effect of the sensitivity of the plan assets to changes in interest which at 30 September 2016 is estimated to be a decrease in the value of the assets amounting to NIS 120 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 arising from the employee rights standard, 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:

	30 September 2016					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	**265,372**	**51,873**	**69,579**	**9,443**	**9,369**	**405,636**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**252,994**	**7,105**	**228,704**	**58,479**	**43,736**	**591,018**
Financial liabilities (a)	**222,530**	**58,922**	**90,107**	**13,638**	**8,196**	**393,393**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**274,966**	**8,753**	**208,751**	**54,477**	**45,419**	**592,366**
Net fair value of financial instruments	**20,870**	**(8,697)**	**(575)**	**(193)**	**(510)**	**10,895**

	30 September 2015					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	243,583	53,083	62,555	8,816	9,314	377,351
Amounts receivable in respect of derivative financial and off-balance sheet instruments	317,886	7,550	248,057	74,384	29,386	677,263
Financial liabilities	204,791	45,679	82,346	14,277	8,185	355,278
Amounts payable in respect of derivative financial and off-balance sheet instruments	337,181	9,434	229,689	69,594	30,956	676,854
Net fair value of financial instruments	19,497	5,520	(1,423)	(671)	(441)	22,482

	31 December 2015					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign			
	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:

	30 September 2016						
	Fair value, net, of financial instruments after the effect of changes in interest rates (a)					Change in fair value	
	Israeli currency		Foreign currency including Israeli currency linked to foreign currency				
	Unlinked	CPI-linked	Dollar(b)	Euro	Others	Total	Total
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	**20,257**	**(7,180)**	**(1,182)**	**(206)**	**(512)**	**282**	**2.59**
Immediate corresponding increase of 0.1%	**20,814**	**(8,524)**	**(632)**	**(194)**	**(511)**	**58**	**0.53**
Immediate corresponding decrease of 1%	**21,380**	**(10,701)**	**(78)**	**(180)**	**(508)**	**(982)**	**(9.01)**

	30 September 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%	18,435	4,995	(1,584)	(703)	(451)	(1,790)	(7.96)
Immediate corresponding increase of 0.1%	19,391	5,467	(1,439)	(674)	(442)	(179)	(0.80)
Immediate corresponding decrease of 1%	20,623	6,088	(1,376)	(636)	(428)	1,789	7.96

	31 December 2015						
	Fair value, net, of financial instruments after the effect of changes in interest rates (a)					Change in fair value	
	Israeli currency		Foreign currency including Israeli currency linked to foreign currency				
	Unlinked	CPI-linked	Dollar(b)	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 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 measurement does not include the effect of the sensitivity of the plan assets to changes in interest which at 30 September 2016 is estimated to be a decrease in the value of the assets amounting to NIS 120 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 (276) million, (31 December 2015 – NIS (250) million), an immediate corresponding decrease of 1% NIS 179 million (31 December 2015 - NIS 144 million).

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

Exposure to interest rate fluctuations

	30 September 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)	187,319	9,843	29,228	20,025	8,728	7,811	1,571
Derivative financial instruments (excluding options)	41,906	84,119	42,732	32,041	24,193	22,299	688
Options (in terms of the underlying asset) (c)	744	665	1,508	1,248	777	2	20
Off-balance sheet financial instruments	-	-	-	-	-	-	-
Total fair value	229,969	94,627	73,468	53,314	33,698	30,112	2,279
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a)	173,377	5,411	7,887	25,433	8,060	2,317	45
Derivative financial instruments (excluding options)	47,781	88,992	56,239	30,283	26,140	22,030	839
Options (in terms of the underlying asset) (c)	692	504	620	704	3	7	63
Off-balance sheet financial instruments	-	-	42	-	-	-	-
Total fair value	221,850	94,907	64,788	56,420	34,203	24,354	947
Financial instruments, net							
Exposure to interest rate changes in the segment	8,119	(280)	8,680	(3,106)	(505)	5,758	1,332
Accumulated exposure in the sector	8,119	7,839	16,519	13,413	12,908	18,666	19,998
Israeli currency – linked to the CPI							
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments							
Financial assets (a)	895	2,806	12,010	14,983	10,543	6,377	2,323
Derivative financial instruments (excluding options)	376	105	1,650	2,491	932	1,551	-
Options (in terms of the underlying asset) (c)	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-
Total fair value	1,271	2,911	13,660	17,474	11,475	7,928	2,323
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a)	2,033	3,511	9,552	8,696	13,250	4,470	921
Derivative financial instruments (excluding options)	174	550	2,115	2,984	855	1,893	63
Options (in terms of the underlying asset) (c)	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	119	-	-	-	-
Total fair value	2,207	4,061	11,786	11,680	14,105	6,363	984
Financial instruments, net							
Exposure to interest rate changes in the segment	(936)	(1,150)	1,874	5,794	(2,630)	1,565	1,339
Accumulated exposure in the sector	(936)	(2,086)	(212)	5,582	2,952	4,517	5,856

(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 past totaling NIS 1,449 million.

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

(c) Duration less than 0.05 years.

Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Average effective duration (b)	30 September 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
110	**737**	**265,372**	**2.65**	**0.63**	243,583	2.75	0.76	257,444	2.87	0.70
52	**-**	**248,030**	**-**	**1.53**	310,737	-	1.41	252,647	-	1.44
-	**-**	**4,964**	**-**	**-**	7,149	-	-	5,787	-	-
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
162	**737**	**518,366**	**2.65**	**1.06**	561,469	2.75	1.11	515,878	2.87	1.06
-	**-**	**222,530**	**0.70**	**0.45**	204,791	0.52	0.34	211,447	0.93	0.41
27	**-**	**272,331**	**-**	**1.45**	331,556	-	1.38	279,269	-	1.35
-	**-**	**2,593**	**-**	**-**	5,612	-	-	4,328	-	-
-	**-**	**42**	**-**	**0.50**	13	-	0.50	29	-	0.50
27	**-**	**497,496**	**0.70**	**1.00**	541,972	0.52	0.97	495,073	0.93	0.94
135										
20,133										
1,829	**107**	**51,873**	**2.10**	**3.90**	53,083	1.88	4.06	52,070	2.00	3.29
-	**-**	**7,105**	**-**	**2.80**	7,550	-	3.24	7,256	-	3.05
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
1,829	**107**	**58,978**	**2.10**	**3.77**	60,633	1.88	3.95	59,326	2.00	3.26
-	**-**	**42,433**	**1.11**	**2.87**	45,679	0.63	2.93	43,990	0.67	3.06
-	**-**	**8,634**	**-**	**2.75**	9,293	-	3.02	8,671	-	2.93
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
-	**-**	**119**	**-**	**-**	141	-	-	125	-	-
-	**-**	**51,186**	**1.11**	**2.84**	55,113	0.63	2.94	52,786	0.67	3.03
1,829	**-**									
7,685	**-**									

Exposure to interest rate fluctuations

	30 September 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)	43,108	15,344	7,775	6,734	6,693	7,210	641
Of which; compound financial instruments	2,909	1,386	836	1,662	1,333	1,629	493
Derivative financial instruments (excluding options)	77,237	122,880	81,381	16,003	11,592	14,285	966
Options (in terms of the underlying asset) (d)	(1,592)	1,320	6,552	61	8	13	208
Off-balance sheet financial instruments	-	-	-	-	-	-	-
Total fair value	118,753	139,544	95,708	22,798	18,293	21,508	1,815
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a)	80,731	10,769	15,441	3,655	849	53	21
Derivative financial instruments (excluding options)	58,288	101,920	90,049	16,971	14,074	17,797	631
Options (in terms of the underlying asset) (d)	(1,589)	1,434	6,730	1,168	770	16	234
Off-balance sheet financial instruments	-	-	7	-	-	-	-
Total fair value	137,430	114,123	112,227	21,794	15,693	17,866	886
Financial instruments, net							
Exposure to interest rate	(18,677)	25,421	(16,519)	1,004	2,600	3,642	929
Accumulated exposure in the sector	(18,677)	6,744	(9,775)	(8,771)	(6,171)	(2,529)	(1,600)
Total exposure to interest rate							
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments							
Financial assets (a) (c)	231,322	27,993	49,013	41,742	25,964	21,398	4,535
Derivative financial instruments (excluding options)	119,519	207,104	125,763	50,535	36,717	38,135	1,654
Options (in terms of the underlying asset) (d)	(848)	1,985	8,060	1,309	785	15	228
Off-balance sheet financial instruments	-	-	-	-	-	-	-
Total fair value	349,993	237,082	182,836	93,586	63,466	59,548	6,417
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a)(c)	256,141	19,691	32,880	37,784	22,159	6,840	987
Derivative financial instruments (excluding options)	106,243	191,462	148,403	50,238	41,069	41,720	1,533
Options (in terms of the underlying asset) (d)	(897)	1,938	7,350	1,872	773	23	297
Off-balance sheet financial instrumen	-	-	168	-	-	-	-
Total fair value	361,487	213,091	188,801	89,894	64,001	48,583	2,817
Financial instruments, net							
Exposure to interest rate	(11,494)	23,991	(5,965)	3,692	(535)	10,965	3,600
Accumulated exposure in the sector	(11,494)	12,497	6,532	10,224	9,689	20,654	24,254
In addition, exposure to interest rates in respect of liabilities for employee rights' gross - pension and severance pay	105	210	943	1,225	1,236	3,207	5,245

					30 September 2015			31 December 2015		
Over twenty years	**Without fixed maturity**	**Total fair value**	**Internal rate of return (%)**	**Average effective duration (b) (Years)**	Total fair value	Internal rate of return (%)	Average effective duration (b) (Years)	Total fair value	Internal rate of return (%)	Average effective duration (b) (Years)
273	**613**	**88,391**	**1.62**	**1.30**	80,685	1.77	1.19	81,601	1.81	1.32
28	**-**	**10,276**	**2.29**	**2.95**	-	-	-	10,317	2.71	2.62
4	**-**	**324,348**	**-**	**0.84**	340,258	-	0.76	266,812	-	1.00
1	**-**	**6,571**	**-**	**-**	11,569	-	-	8,956	-	-
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
278	**613**	**419,310**	**1.62**	**0.92**	432,512	1.77	0.82	357,369	1.81	1.05
1	**18**	**111,538**	**1.54**	**0.20**	104,808	0.78	0.49	110,362	0.99	0.28
146	**-**	**299,876**	**-**	**1.03**	317,743	-	0.91	238,694	-	1.30
1	**-**	**8,764**	**-**	**-**	12,482	-	-	9,963	-	-
-	**-**	**7**	**-**	**0.50**	14	-	0.50	14	-	0.50
148	**18**	**420,185**	**1.54**	**0.79**	435,047	0.78	0.79	359,033	0.99	0.95
130	**-**									
(1,470)	**-**									
2,212	**3,989**	**408,168**	**2.21**	**1.20**	381,974	2.22	1.32	395,236	2.31	1.17
56	**1,437**	**580,920**	**-**	**1.16**	659,876	-	1.09	527,633	-	1.24
1	**-**	**11,535**	**-**	**-**	18,802	-	-	14,743	-	-
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
2,269	**5,426**	**1,000,623**	**2.21**	**1.16**	1,060,652	2.22	1.16	937,612	2.31	1.19
1	**493**	**376,976**	**0.97**	**0.65**	355,992	0.54	0.89	366,647	0.80	0.69
173	**1,235**	**582,076**	**-**	**1.25**	659,966	-	1.18	527,933	-	1.36
1	**26**	**11,383**	**-**	**-**	18,164	-	-	14,291	-	-
-	**184**	**352**	**-**	**0.11**	341	-	-	347	-	0.08
175	**1,938**	**970,787**	**0.97**	**1.00**	1,034,463	0.54	1.06	909,218	0.80	1.06
2,094										
26,348										
4,721	**-**	**16,892**	**2.42**	**15.06**	15,421	2.82	15.50	15,764	2.63	15.76

(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 past totaling NIS 1,449 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 relating to 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 reaches 4.38 years, the duration of total liabilities reaches 2.93 years, and the gap in the internal rate of return (hereinafter – IRR) amounts to 0.52%. The change in fair value in total assets is an increase of NIS 1,358 million and in total liabilities, an increase of NIS 18 million.

6 Further information on 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.

Below is the average duration of assets and liabilities as at:

	30 September 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)	**1.06**	**3.77**	**0.92**	1.06	3.26	1.05
Average duration of liabilities (a)	**1.00**	**2.84**	**0.79**	0.94	3.03	0.95
Duration gap in years	**0.06**	**0.93**	**0.13**	0.12	0.23	0.10
IRR gap (%)	**1.95**	**0.99**	**0.08**	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 0.52%.

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 4.38 years, and the IRR gap amounts to 0.52%.

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, 1.21 years, and in foreign currency, 0.85 years, and the difference in the IRR amounts to 1.85% and 0.31%, 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. 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 30 September		31 December
	2016	2015	2015
	%		
Unlinked	**(18.1)**	(11.1)	(19.3)
CPI-linked *	**16.7**	12.5	19.5
Foreign currency	**1.4**	(0.9)	(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 nine months of 2016, the percentage of capital invested on average over the year in the index-linked segment was 14%. 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 nine months 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 be 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 Directive no. 342 regarding liquidity risk management and the requirements of Proper Conduct of Banking Management Directive 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 80% in 2016 and 100% from the beginning of 2017.

Leumi continued 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 was computed on the basis of the average daily observations and the consolidated liquidity coverage ratio was computed on the basis of the average monthly observations for the period.

	For the nine months ended 30 September
	2016
	%
a. In consolidated data	
Liquidity coverage ratio	**130**
Minimum liquidity coverage ratio required by the Supervisor of Banks	**80**
b. In data of the banking corporation	
Liquidity coverage ratio	**128**
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:

Linkage balance sheets

	30 September 2016			31 December 2015		
	Unlinked	CPI-linked	Foreign currency (b)	Unlinked	CPI-linked	Foreign currency (b)
	NIS millions					
Total assets (a)	**283,376**	**51,169**	**118,196**	271,308	51,672	115,182
Total liabilities (a)	**255,586**	**51,813**	**119,894**	245,875	52,305	117,558
Surplus (deficit) of assets in segme	**27,790**	**(644)**	**(1,698)** (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 offices of the Bank and an investment in shares and reserves classified as a non-monetary item.

For the daily management and reporting, certain changes, taking into account the economic approach of the Bank to basis risks, as opposed to the accounting approach, are being conducted. 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 through indices that are intended to warn of changes in the liquidity position, *inter alia*, by using the regulatory model, and internal models that were 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 September 2016 stood at NIS 44 billion, compared with NIS 47 billion at the end of 2015.

In addition, the Bank has a securities portfolio of some NIS 76 billion, invested mainly in Israeli government debentures and foreign government debentures. This is in comparison with the balance as at 31 December 2015 amounting to NIS 64 billion.

The balance of liquid assets accounted for 31.8% of the Bank's financial assets, an increase of 2.0%, compared with 31 December 2015.

Operational Risks

This chapter is written in greater detail in the 2015 Annual Report (pages 147 to 150). The chapter below should therefore be read in conjunction with the Annual Report.

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 centers in Leumi for monitoring unusual activity and cyber attacks. Leumi continues to improve its ability to defend itself against the cyber threats.

Streamlining operations

695 employees have signed retirement arrangements as part of the streamlining program and are expected to end their employment by 30 December 2016. An additional 640 employees are expected to leave the Bank in the context of natural retirement over the coming five years. The Bank is prepared for the retirement and is investing efforts in adapting the organizational structures, filling gaps in critical areas, training and preserving the know-how using a methodology and a plan formulated on the subject.

Compliance risks

This chapter is written in greater detail in the 2015 Annual Report (pages 151- to 153). The chapter below should therefore be 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 a 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 Bank's Board of Directors, after being validated by an outside specialist, and after the main enforcement procedures had been reviewed by him.

C. Foreign Account Tax Compliance Act – FATCA

In March 2010, the Internal Revenue Code in the United States was amended, so as to bring into effect a reporting regime, aimed at compelling foreign financial institutions (FFI) to transfer information regarding accounts held by U.S. customers. On 14 July 2016, the Law to Amend the Income Tax Ordinance (Amendment no. 227), which adopted the agreement between the State of Israel and the United States regarding FATCA, was published.

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, 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 are 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 proceedings, and it is not possible to estimate the potential exposure as above. Accordingly, no provision is included for this exposure.

Accounting Policy 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 rate of discounting used in the calculation of the Bank's actuarial liability for employee rights for pension has been made until now on the basis of market yields according to the principles provided by the Bank of Israel, according to which the curve is comprised of government debenture yields in Israel plus a margin curve of corporate debentures rated AA and above.

In an examination of the methodology over time, which is unique to Israel, connecting the Israeli risk-free curve to the U.S. AA margin curve, recurring anomalies were discovered which are not reasonable at the economic level. Accordingly, the Bank has decided to adopt the alt discounting methodology presented by the Bank of Israel in its directives, which adds to the curve based in government debentures in Israel, a fixed margin of debentures with an international AA rating, corresponding to the duration of liabilities to employees.

For further information regarding the discounting rate used to compute the actuarial liability for employee rights, see Note 1(a)2.

The change was dealt with prospectively as a change of estimate. The effect of the change in estimate is a decrease in the liabilities in respect of employee rights amounting to NIS 432 million, after the effect of tax, was recorded in other comprehensive income.

In addition, the actuarial computations take into account the forecast real increase in salary 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 30 September 2016, the balance of accumulated other comprehensive income in respect of employee benefits amounted to NIS 2,109 million, after the effect of tax, a decrease of NIS 619 million after the effect of tax compared with 31 December 2015.

On 12 July 2016, the Bank received approval from the Bank of Israel regarding the method of calculating capitalization interest that will be used for computing the obligation for employee rights for the purpose of measuring regulatory capital adequacy. According to the approval, the capitalization interest will be computed according to a moving average of market yields for a period of eight quarters ended on the reporting date. The change will be implemented with effect from the financial statements for a period ended 30 June 2016 through the financial statements at 31 December 2020 (inclusive). A change in the method will significantly moderate the fluctuations deriving from changes in capitalization interest. The change in the calculation method increased regulatory capital at 30 June 2016 by NIS 380 million.

On 15 November 2016, the Board of Directors of the Bank resolved, based on the recommendation of the Audit Committee, to calculate the pension liabilities employees on the basis of a fixed margin of international AA-rated debentures. The effect of the change in the regulatory capital as at 30 September 2016 amounted to NIS 296 million.

For additional information, see Note 1a.2

The balance of the liability for employee benefits as at 30 September 2016 at the capitalization rate on the basis of corporate debentures in Israel ("deep market for the approach of the Israel Securities Authority") is NIS 278 million than the actual 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:

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

During 2016, the Bank has been carrying out a validation and update of material control processes and checks of the effectiveness of the entire Internal Control 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, have 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 the start of use of the Management of Impaired Debts in Leumi 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 problem 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. During the course of preparation of Financial Reports for this quarter, key controls were 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 30 September 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

In the period January-September 2016, the Board of Directors held 30 plenary meetings and 67 committee meetings.

At the Meeting of the Board of Directors that took place on 15 November 2016, it was decided to approve and publish the audited consolidated financial statements of the Group as at 30 September 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

15 November 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 30 September 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.

15 November 2016

Rakefet Russak-Aminoach
President and Chief Executive Officer

Certification

I, Omer Ziv, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended 30 September 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.

15 November 2016

Omer Ziv
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 30 September 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.

15 November 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 30 September 2016 and the condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the nine-month and three-month periods 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 0.02% of total consolidated assets at 30 September 2016 and whose net interest income before credit loss expenses included in the consolidated statements of profit and loss constitute some 0.15% and 0.10% of the total consolidated net interest income before credit loss expenses for the nine-month and three-month periods 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 that stated in Note 10B, paragraphs 2 and 4, regarding claims made against the Bank and against a subsidiary including petitions for their approval as class actions. 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
Certified Public Accountants (Isr.)

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

Joint Auditors

15 November 2016

Bank Leumi Le-Israel B.M. and its Consolidated Companies
Condensed Consolidated Statement of Profit and Loss
for the period ended 30 September 2016

		For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
		2016	2015	**2016**	2015	2015
		Unaudited				Audited
	Note	NIS millions				
Interest income	**2**	**2,607**	2,463	**7,236**	6,783	8,784
Interest expenses	**2**	**637**	588	**1,577**	1,392	1,666
Net interest income	**2**	**1,970**	1,875	**5,659**	5,391	7,118
Expenses (income) in respect of credit losses	**6, 13**	**106**	73	**(171)**	166	199
Net interest income, after expenses in respect of credit losses		**1,864**	1,802	**5,830**	5,225	6,919
Non-interest income						
Non-interest financing income	**3**	**499**	325	**1,057**	1,539	1,610
Commissions		**996**	1,013	**2,973**	3,099	4,092
Other income		**19**	6	**54**	114	595
Total non-interest income		**1,514**	1,344	**4,084**	4,752	6,297
Operating and other expenses						
Salaries and related expenses		**1,312**	1,360	**4,024**	4,123	5,448
Maintenance and depreciation of buildings and equipment		**456**	427	**1,314**	1,282	1,702
Amortization of intangible assets and goodwill		**-**	-	**-**	-	5
Other expenses		**187**	334	**962**	1,113	1,681
Total operating and other expenses		**1,955**	2,121	**6,300**	6,518	8,836
Profit before taxes		**1,423**	1,025	**3,614**	3,459	4,380
Provision for taxes on the profit		**514**	327	**1,292**	1,189	1,691
Profit after taxes		**909**	698	**2,322**	2,270	2,689
Share of the banking corporation in profits after tax of companies included on equity basis		**21**	15	**56**	161	177
Net profit:						
Before attribution to non-controlling interests		**930**	713	**2,378**	2,431	2,866
Attributable to non-controlling interests		**(11)**	(9)	**(30)**	(27)	(31)
Attributable to shareholders of the banking corporation		**919**	704	**2,348**	2,404	2,835
Basic and diluted earnings per share (NIS)						
Net profit attributable to shareholders of the banking corporation		**0.60**	0.48	**1.54**	1.63	1.92

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

David Brodet
Chairman of the
Board of Directors

Rakefet Russak-Aminoach
President and Chief
Executive Officer

Omer Ziv
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: 15 November 2016

Bank Leumi Le-Israel B.M. and its Consolidated Companies
Condensed Consolidated Statement of Comprehensive Income
for the period ended 30 September 2016

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2016	2015	**2016**	2015	2015
	Unaudited				Audited
	NIS millions				
Net profit before attribution to non-controlling interests	**930**	713	**2,378**	2,431	2,866
Less net profit attributed to non-controlling interests	**11**	9	**30**	27	31
Net profit attributed to shareholders of the Bank	**919**	704	**2,348**	2,404	2,835
Other comprehensive income (loss) before taxes:					
Adjustments for showing securities available for sale at fair value, net	**(346)**	(685)	**210**	(402)	(423)
Adjustments for translation of financial statements, net (a), after effect of tax in hedges (b)	**(14)**	2	**(24)**	(4)	(9)
Adjustments of liabilities in respect of employee benefits (c)	**787**	46	**(918)**	1,050	683
Share of the banking corporation in other comprehensive income (loss) of companies included on equity basis	**(14)**	3	**(15)**	15	11
Other comprehensive income (loss) before taxes	**413**	(634)	**(747)**	659	262
Relevant tax effect	**(168)**	234	**224**	(310)	(161)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**245**	(400)	**(523)**	349	101
Less other comprehensive income (loss) attributed to non-controlling interests	**-**	2	**-**	(1)	-
Other comprehensive income (loss) attributed to shareholders of the banking corporation, after taxes	**245**	(402)	**(523)**	350	101
Comprehensive income (loss) before attribution to non-controlling interests	**1,175**	313	**1,855**	2,780	2,967
Less comprehensive income attributed to non-controlling interests	**11**	11	**30**	26	31
Comprehensive income (loss) attributed to shareholders of the Bank	**1,164**	302	**1,825**	2,754	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) Mostly reflects adjustments due to actuarial estimates for the end of defined benefit plan periods and deducting sums previously recorded as other comprehensive income.

See also Note 4 regarding other accumulated comprehensive income

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

Bank Leumi Le-Israel B.M. and its Consolidated Companies
Condensed Consolidated Balance Sheet as at 30 September 2016

		30 September 2016	30 September 2015	31 December 2015
		Unaudited		Audited
		NIS millions		
Assets	**Note**			
Cash and deposits with banks		**59,067**	52,562	60,455
Securities (a)(b)	**5**	**82,493**	67,545	69,475
Securities borrowed or purchased under agreements to resell		**896**	1,420	1,764
Credit to the public	**6, 13**	**267,895**	263,822	265,070
Allowance for credit losses	**6, 13**	**(3,527)**	(3,813)	(3,671)
Credit to the public, net		**264,368**	260,009	261,399
Credit to governments		**623**	474	453
Investments in companies included on equity basis		**897**	948	924
Buildings and equipment		**3,044**	2,992	3,095
Intangible assets and goodwill		**17**	18	18
Assets in respect of derivative instruments	**11**	**11,630**	15,314	11,250
Other assets (a)		**8,723**	7,242	7,666
Total assets		**431,758**	408,524	416,499
Liabilities and equity				
Deposits of the public	**7**	**336,851**	317,991	328,693
Deposits from banks		**3,589**	3,650	3,859
Deposits from governments		**661**	644	750
Securities lent or sold under agreements to repurchase		**553**	503	938
Bonds, debentures and subordinated notes		**23,765**	22,187	21,308
Liabilities in respect of derivative instruments	**11**	**12,634**	14,766	11,098
Other liabilities (a)(c)		**22,117**	19,873	20,746
Total liabilities		**400,170**	379,614	387,392
Non-controlling interests		**360**	335	340
Equity attributable to shareholders of the banking corporation		**31,228**	28,575	28,767
Total equity	**9**	**31,588**	28,910	29,107
Total liabilities and equity		**431,758**	408,524	416,499

(a) For additional information on amounts measured at fair value, see Note 15A.
(b) For additional information on securities pledged to lenders, see Note 5.
(c) Of which: allowance for credit losses in off-balance sheet credit instruments, NIS 487 million (at 30 September 2015 – NIS 505 million, at 31 December 2015 – NIS 482 million).

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

Bank Leumi Le-Israel B.M. and its Consolidated Companies
Condensed Statement of Changes in Shareholders' Equity
for the period ended 30 September 2016

	For the three months ended 30 September 2016 (Unaudited)			
		Capital reserves		
	Share capital	Premium	Share-based payment transactions and others [(a)]	Total share capital and capital reserves
	(NIS millions)			
Balance at 30 June 2016	**7,109**	**1,722**	**36**	**8,867**
Net profit for the period	-	-	-	-
Other comprehensive loss, net, after effect of tax	-	-	-	-
Balance at 30 September 2016	**7,109**	**1,722**	**36**	**8,867**

	For the three months ended 30 September 2015 (Unaudited)			
		Capital reserves		
	Share capital	Premium	Share-based payment transactions and others [(a)]	Total share capital and capital reserves
	(NIS millions)			
Balance at 30 June 2015	7,059	1,129	33	8,221
Net profit for the period	-	-	-	-
Other comprehensive profit, net, after effect of tax	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Balance at 30 September 2015	7,059	1,129	33	8,221

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

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
(2,216)	**23,413**	**-**	**30,064**	**349**	**30,413**
-	**919**	**-**	**919**	**11**	**930**
245	**-**	**-**	**245**	**-**	**245**
(1,971)	**24,332**	**-**	**31,228**	**360**	**31,588**

Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
(797)	20,849	-	28,273	334	28,607
-	704	-	704	9	713
(402)	-	-	(402)	2	(400)
-	-	-	-	(10)	(10)
(1,199)	21,553	-	28,575	335	28,910

Bank Leumi Le-Israel B.M. and its Consolidated Companies
Condensed Statement of Changes in Equity
for the period ended 30 September 2016 (cont.)

	For the nine months ended 30 September 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	-	-	-	-
Issuance of shares	**50**	**593**	**(7)**	**636**
Other comprehensive profit, net, after effect of tax	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Balance at 30 September 2016	**7,109**	**1,722**	**36**	**8,867**

	For the nine months ended 30 September 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 2014 (Audited)	7,059	1,129	33	8,221
Net profit for the period	-	-	-	-
Adjustments for associated companies - net	-	-	-	-
Other comprehensive profit, 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 30 September 2015	7,059	1,129	33	8,221

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

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
-	**2,348**	**-**	**2,348**	**30**	**2,378**
-	-	-	**636**	-	**636**
(523)	-	-	**(523)**	-	**(523)**
-	-	-	-	**(10)**	**(10)**
(1,971)	**24,332**	**-**	**31,228**	**360**	**31,588**

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
-	2,404	-	2,404	27	2,431
-	(18)	-	(18)	-	(18)
350	-	-	350	(1)	349
-	(1)	42	41	-	41
-	-	-	-	(10)	(10)
-	-	-	-	(21)	(21)
(1,199)	21,553	-	28,575	335	28,910

Bank Leumi Le-Israel B.M. and its Consolidated Companies
Condensed Statement of Changes in Equity
for the year ended 31 December 2015

	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 2014	7,059	1,129	33	8,221
Net profit	-	-	-	-
Adjustments in respect of companies included on equity basis, net	-	-	-	-
Benefit to employees in respect of share-based payments	-	-	10	10
Other comprehensive profit, 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.

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
(1,549)	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

Bank Leumi Le-Israel B.M. and its Consolidated Companies
Condensed Consolidated Statement of Cash Flows
for the period ended 30 September 2016

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2016	2015	**2016**	2015	2015
	Unaudited				(Audited)
	NIS millions				
Cash flows generated by operating activity					
Net profit for the period	**930**	713	**2,378**	2,431	2,866
Adjustments:					
Group share in undistributed losses (profits) of companies included on equity basis (a)	**(23)**	(12)	**(29)**	674	666
Depreciation of buildings and equipment (including impairment)	**172**	156	**492**	491	655
Amortization	**-**	-	**-**	36	45
Expenses (income) in respect of credit losses	**106**	73	**(171)**	166	199
Losses on assets transferred to Group ownership	**-**	-	**-**	-	3
Profit from sale of credit portfolio	**(31)**	(11)	**(45)**	(11)	(11)
Profits on sale of securities available for sale (including impairment)	**(294)**	(278)	**(859)**	(932)	(1,075)
Provision for impairment of shares available for sale	**6**	-	**7**	-	283
Realized and unrealized gain from adjustment to fair value of securities held for trading	**107**	(130)	**(14)**	(30)	(62)
Gain on realization of investment in companies included on equity basis	**(35)**	-	**(35)**	(522)	(522)
Gain on realization of buildings and equipment	**-**	(21)	**-**	(43)	(485)
Expenses deriving from share-based payment transactions	**-**	-	**-**	-	10
Deferred taxes , net	**86**	(153)	**(454)**	(290)	(278)
Change in plan assets, net, in respect of employee rights	**166**	67	**315**	356	491
Interest received in excess of accumulated interest (not yet received) for debentures available for sale	**(65)**	19	**219**	89	118
Interest not yet paid for debentures and subordinated notes	**252**	251 (b)	**621**	586 (b)	722 (b)
Effect of exchange-rate differences on balances of cash and cash equivalents	**325**	(465)	**543**	(98)	6
Other, net	**6**	(12)	**4**	13	13
Net change in current assets:					
Deposits in banks	**190**	(391)	**(1,139)**	(394)	888 (b)
Credit to the public	**607**	(5,017)	**(3,812)**	(7,643)	(9,307)
Credit to governments	**(143)**	(39)	**(170)**	55	76
Securities borrowed or purchased under agreements to resell	**580**	757	**868**	580	236
Assets in respect of derivative instruments	**1,368**	(775)	**(381)**	1,600	5,664
Securities held for trading	**(2,144)**	(1,185)	**(1,137)**	744	1,112
Other assets	**(320)**	223	**(398)**	(490)	(807)
Net change in current liabilities:					
Deposits from banks	**(504)**	(1,027)	**(186)**	(935)	(708)
Deposits of the public	**(2,674)**	13,173	**8,885**	14,118	24,931
Deposits from governments	**(13)**	(7)	**(71)**	167	275
Securities lent or sold under agreements to repurchase	**(236)**	(868)	**(385)**	(735)	(300)
Liabilities in respect of derivative instruments	**(1,073)**	283	**1,500**	(907)	(4,538)
Other liabilities	**201**	(547)	**168**	(1,272)	(869)
Net cash generated by operating activity	**(2,453)**	4,777	**6,714**	7,804	20,297

(a) Net of dividends received.

(b) Reclassified.

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

Bank Leumi Le-Israel B.M. and its Consolidated Companies
Condensed Consolidated Statement of Cash Flows (cont.)
for the period ended 30 September 2016

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2016	2015	**2016**	2015	2015
	Unaudited				Audited
	NIS millions				
Cash flows generated by investment activity					
Acquisition of securities available for sale	**(17,990)**	(17,876)	**(77,465)**	(61,785)	(81,408)
Proceeds from sale of securities available for sale	**10,386**	6,480	**30,116**	28,032	33,513
Proceeds from redemption of securities available for sale	**12,083**	9,775	**35,996**	18,779	30,366
Proceeds from sale of credit portfolio	**468**	98	**716**	98	279
Acquisition of shares in companies included on equity basis	**-**	(35)	**-**	(36)	(20)
Proceeds from realization of investment in companies included on equity basis	**68**	-	**68**	711	711
Acquisition of buildings and equipment	**(133)**	(23)	**(489)**	(337)	(627)
Proceeds from realization of buildings and equipment	**4**	29	**9**	71	562
Proceeds from realization of assets transferred to Group ownership	**-**	-	**2**	3	3
Net cash for investment activity	**4,886**	(1,552)	**(11,047)**	(14,464)	(16,621)
Cash flows generated by financing activity					
Issue of debentures and subordinated notes	**-**	2,606 (a)	**4,442**	2,606 (a)	2,606 (a)
Redemption of debentures and subordinated notes	**(638)**	(390) (a)	**(2,606)**	(4,683) (a)	(5,698) (a)
Issue of equity	**-**	-	**636**	-	-
Dividend paid to minority shareholders of consolidated companies	**-**	(10)	**(10)**	(10)	(10)
Additional purchase of shares in consolidated companies	**-**	(1)	**-**	(32)	(41)
Loans to employees for purchase of the Bank's shares	**-**	-	**-**	42	42
Net cash for financing activity (from financing activity)	**(638)**	2,205	**2,462**	(2,077)	(3,101)
Increase (decrease) in cash and cash equivalents	**1,795**	5,430	**(1,871)**	(8,737)	575
Balance of cash and cash equivalents at beginning of period	**54,246**	43,027	**58,130**	57,561	57,561
Effect of movements in exchange rates on cash balances	**(325)**	465	**(543)**	98	(6)
Balance of cash and cash equivalents at end of period	**55,716**	48,922	**55,716**	48,922	58,130

Interest and taxes paid and/or received and dividends received

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2016	2015	**2016**	2015	2015
	Unaudited		Unaudited		Audited
	NIS millions				
Interest received	**2,411**	2,212	**7,370**	7,249	9,830
Interest paid	**(799)**	(719)	**(2,140)**	(2,569)	(3,209)
Dividends received	**-**	163	**34**	1,003	1,013
Taxes paid on income	**(494)**	(491)	**(1,144)**	(1,111)	(1,419)

(a) Net of dividends received.

Condensed Consolidated Statement of Cash Flows (cont'd)

Appendix A – Investment and financing activities not in cash in the reporting period:

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

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 2016 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. The accounting principles used in preparing the interim statements are consistent with those used in preparing the audited financial statements as at 31 December 2015, except as described in paragraph B below. These reports are to be read in conjunction with the annual financial statements as at 31 December 2015 and the accompanying notes.

In most matters, the Supervisor of Banks's directives are based on US GAAP. In other subjects, 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 condensed consolidated interim financial statements were approved for publication by the Board of Directors on 15 November 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.

These estimates are consistent with those used in preparing the annual financial statements as at 31 December 2015 apart from the changes in estimates listed below.

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.

Remuneration of Office-Holders in Financial Corporations Law

Against the background of the enactment of the limitation of salaries, the Bank's management conducted a reevaluation of the probability of the realization of exposure to payment of rights granted to office-holders and key officers in connection with the termination of employee-employer relations under conditions of dismissal, in light of the new legal situation created and based on different parameters examined.
Due to significant growth of the likelihood and the change in dates for the end of tenure for members of Management and other managers employed under personal contracts with the Bank, the Bank decided to update the estimate of the provision for the termination of employee-employer relations.

The effect of the change in the estimate at 31 March 2016 amounted to NIS 117 million before tax and was charged to other comprehensive income. See also Note 8.

The discount rate of the pension liability

The discount rate used to calculate the actuarial liability of the Bank's employees' pension rights was used based on market yields in accordance with the principles set by the Bank of Israel, in which the curve comprises Israel government bond yields in addition to the margin curve of corporate bonds rated internationally as AA plus.

In the examination over time of the methodology, which is unique to Israel, connecting the Israel risk-free curve and the US AA margin curve, repeat anomalies, which are economically unreasonable, were discovered. These anomalies mostly stemmed from extreme and unreasonable changes in forward interest rates that are derived from the margin curve, which bring about extreme changes in the margin curve and, additionally, from discrepancies in adjusting the margin to the corresponding cash flow outlook. After analyzing the reasons for the anomalies, the Bank believes that the discrepancies found in the existing methodology, prevent the Bank from its continued application. Therefore, on 15 November 2015, the Board of Directors of the Bank, based on the recommendation of the Audit Committee, decided to adopt the alternate discount methodology presented by the Bank of Israel in its directives, which adds to the curve that is based on government bonds in Israel, a fixed margin with an international AA rating. In order to apply the alternate methodology, the Bank uses data published by Bank of America Merrill Lynch regarding the margin, which is consistent with the average duration of the liabilities for employee rights. The Bank is of the opinion that the change is expected to lead to a more appropriate measurement and which reflects better the liabilities for employee rights.

The change was treated prospectively as a change in estimate. As a result of the change the liabilities in respect of employees' rights, after tax, decreased by NIS 432 million net, which was recorded in other comprehensive income.

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, based primarily on the classification of customers according to their activity cycle.

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.

An operating segment is a component of the Group that engages in business activities from which it can derive revenues and from which it will incur expenses, whose operating results are reviewed regularly by the management in making decisions about resource allocation and performance evaluations, and which also has separate financial information.

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.
The test will be made at least annually and for shorter periods than a year when there are events or circumstances which may suggest impairment.

- 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 unrecognized losses. 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.

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 other assets".
Below are the main points of the directive:
Impairment of intangible assets with a finite useful 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. The impairment will be allocated proportionally between the Group's assets as long as the value of an individual asset shall not drop below its fair value.
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 which will be capitalized during the development phase.

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 for 2015 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. In addition, it was 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. 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"- Starting from the application date of this circular, International Accounting Standard 21 regarding "The effects of changes in Foreign Currency Exchange Rates" and International Accounting Standard 29 regarding "Financial reporting in hyper-inflationary economies", will not be replaced by the provisions of Topic 830. For the avoidance of doubt, it was clarified that there is no change regarding the date on which the Israeli economy was no longer hyper-inflationary.

Topic 250 regarding "Changes in accounting policies and corrections of errors"- Starting from the application date of this circular, International Accounting Standard 8 regarding "Accounting Policies, Changes in Accounting Estimates and Errors", will not be replaced by the provisions of Topic 250.

Sub-Topic 855-10 regarding "Events after the balance sheet date"- Starting from the application date of this circular, International Accounting Standard 10 will be replaced regarding "Events after the reporting period" by the provisions of Sub-Topic 855-10.
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.

We emphasize that the implementation of the instructions for Topic 830 in the Codification regarding foreign currency in reported periods before 1 January 2019, will not include exchange rates for bonds available for sale within the adjustments for the fair value of these bonds in the capital reserve, but will rather be included in the framework of profit and loss.

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

3. The implementation of US GAAP related to taxes on income.

On 22 October 2015, a circular was issued entitled "The implementation of US GAAP related to taxes on income ". In accordance with the circular, a banking corporation shall implement the generally accepted accounting principles in US banks related to taxes on income in this matter, and among other things, the presentation, measurement and disclosure rules set out in the provisions of Topic 740 of the Codification regarding "Taxes on Income" and in Topic 830-740 in the Codification regarding "Issues in foreign currency – taxes on income ".

The instructions of the circular are to be implemented as of 1 January 2017 and onward.
Upon initial application, the transitional provisions set for in the American Standard are to be complied with, including retroactive adjustment of the comparative figures, if required.

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

4. New standard update on share-based based payment

On 30 March 2016, the IASB in the US published Accounting Standards Update No. 2016-09 in the Codification which is an amendment to the provisions of ASC 718 on "Share-Based Payment".

Pursuant to the amendment:

- Any related tax effects related to share-based payment transactions are to be recognized at the time of settlement or expiration through profit and loss. This change is to be implemented prospectively.

- Excess tax benefits are to be recognized when incurred and not postponed until such time as they reduce the taxable income as previously. This change will be applied retroactively while recording the cumulative impact to the opening balance of retained earnings.

- Any tax-related cash flows in respect of share-based payment will be classified as operating activities in the statement of cash flows.

- Regarding the impact of forfeitures on the recognition of expenses for share-based bonus payments, it is possible to prepare an estimate of forfeitures as required today or alternatively to recognize the impact of the forfeitures at the time of occurrence.

  The provisions of the circular are to be applied from 1 January 2017. Implementing the circular is not expected to have a material effect on the financial statements.

5. Troubled debt restructuring

On 22 May 2016, the Banking Supervision Department published a circular entitled "Troubled debt Restructuring". The circular updates the provisions of reporting to the public, in light of update number 2011-02 to the codification which was published by the FASB and in light of new provisions from the regulatory authorities in the USA.

The key points of the amendment:

- Documentation requirements have been added regarding identifying a troubled debt restructuring and provisions regarding the accounting aspect of handling the restructuring, such as criteria for granting a waiver, the interest rates after restructuring, determining whether the debtor has financial difficulties and analyzing restructured credit.
- When a debt, which was not previously considered a specifically impaired debt, is restructured and has been determined as meeting the definition for a troubled debt restructuring, it is not usually correct to decrease the estimated provision for credit losses at the time of restructuring.
- In the event of a problem debt which has been restructured and thereafter the banking corporation and the debtor entered into an additional restructuring agreement (subsequent restructuring), the banking corporation is not required any longer to regard the debt as a restructured troubled debt anymore, provided that the debtor no longer has financial difficulties at the time of the restructuring and that, in accordance with the subsequent restructuring terms, the banking corporation has not granted a waiver to the debtor. In order to meet these terms, the subsequent restructuring agreement is to be subject to market conditions.

The terms in the circular shall apply to restructurings to be performed or renewed as of 31 December 2016.

The provisions regarding handling a subsequent restructuring shall first be applied prospectively or be applied in respect of debts which have yet to be repaid as at 31 December 2016, for which a subsequent restructuring process was performed, and for which the terms which were required in the provisions were met, this in accordance with the decision of the banking corporation. The comparative figures need not be updated.

6. Reporting by Banking Corporations in accordance with US GAAP

On 13 October 2016, the Banking Supervisions Department published a circular entitled "Banking Corporation Reporting in accordance with the US GAAP".

The circular updates, inter alia, the Public Reporting Directives, and adopts the accounting standards customary in the USA on the following topics:

- Discontinued activities in accordance with Codification Topic 205-20 on "Discontinued Operations".
- Fixed assets in accordance with Codification Topic 360 on "Fixed Assets".
- Earnings per share in accordance with Codification Topic 260 on "Earnings per Share".
- Cash flow statement in accordance with Codification Topic 230-10 on "Statement of Cash Flows".
- Interim Reporting in accordance with Codification Topic 270 on "Interim Reporting".
- Discounting costs of interest in accordance with Codification Topic 835-20 on "Capitalization of Interest ".
- Measurement and disclosure of guarantees in accordance with Codification Topic 460 on "Guarantees".

The provisions of the circular are to be applied as of 1 January 2018. Upon first application, a banking corporation is required to comply with the transitional provisions set forth on the relevant subjects in the US standard mutatis mutandis, including retroactive corrections of the comparative figures, as required according to the US standard rules regarding the relevant subjects.

Additionally, the circular includes certain clarifications regarding reporting taxes on income in accordance with the rules in the US.

The main points of the amendments:

- The transitional provisions have been updated so that temporary differences in respect of prior periods will continue to be treated in accordance with the provisions that applied before 31 December 2016.
- It has been clarified that fines to the tax authorities and interest income and expenses in respect of taxes on income, shall be classified under "taxes on income ".
- It has been clarified that a law shall be considered as "enacted" only upon its publication in the Official Gazette.
- The disclosure requirements in the Public Reporting Directives, as well as the disclosure format regarding "Provision for taxes on profit", have been adjusted to the requirements of the new directives.
- The requirement for a Note on Information based on historical nominal data for tax purposes has been cancelled.

The provisions of the circular are to be applied as of 1 January 2017 and onward, including retroactive corrections of comparative figures.

Note 2 – Interest income and expenses

	For the three months ended 30 September		For the nine months ended 30 September	
	2016	2015	**2016**	2015
	Unaudited			
	NIS millions			
A. Interest income (a)				
From credit to the public	**2,383**	2,311	**6,578**	6,317
From credit to governments	**6**	5	**13**	12
From deposits with Bank of Israel and cash	**10**	5	**29**	31
From deposits with banks	**24**	14	**63**	59
From securities borrowed or purchased under agreement to resell	**1**	1	**2**	3
From debentures (b)	**183**	127	**551**	361
Total interest income	**2,607**	2,463	**7,236**	6,783
B. Interest expenses (a)				
On deposits of the public	**(380)**	(325)	**(944)**	(781)
On deposits from governments	**(1)**	(1)	**(3)**	(3)
On deposits from banks	**(3)**	(4)	**(8)**	(11)
On securities lent or sold under agreement to repurchase	**(1)**	(1)	**(2)**	(3)
On debentures, bonds and subordinated notes	**(252)**	(257)	**(620)**	(594)
Total interest expenses	**(637)**	(588)	**(1,577)**	(1,392)
Total interest income, net	**1,970**	1,875	**5,659**	5,391
C. Details of the net effect of hedging derivative instruments on interest income and expenses (c)				
Interest income	**(11)**	(13)	**(31)**	(34)
D. Details of accumulated interest income from bonds				
Available for sale	**173**	103	**496**	296
For trading	**10**	24	**55**	65
Total included in interest income	**183**	127	**551**	361

(a) Including the effective component of hedging relationships.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 49 million and NIS 152 million for the three-month and nine-month period which ended on 30 September 2016 respectively, NIS 4 million and NIS 101 million for the three-month and nine-month period ended on 30 September 2015, respectively.

(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 30 September		For the nine months ended 30 September	
	2016	2015	**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 (a)				
Net income (expense) from ALM derivative instruments (b)	**(410)**	778	**(910)**	(196)
Total from activity in derivative instruments	**(410)**	778	**(910)**	(196)
A.2. From investment in bonds				
Profits from sale of bonds available for sale(g)	**291**	36	**362**	163
Losses from sale of bonds available for sale(g)	**(5)**	(1)	**(17)**	(9)
Total from investment in bonds	**286**	35	**345**	154
A.3. Exchange rate differentials, net	**671**	(1,031)	**1,025**	73
A.4. Profits (losses) from investment in shares				
Profits from sale of shares available for sale (c)(g)	**17**	318	**592**	885
Losses from sale of shares available for sale (g)(f)	**(15)**	(75)	**(85)**	(107)
Profit from sale of shares in companies included on equity basis	**24**	-	**24**	522
Dividend from shares available for sale	**2**	160	**7**	168
Total from investment in shares	**28**	403	**538**	1,468
A.5. Profits in respect of loans sold, net (i)	**31**	11	**45**	11
Total non-interest financing income in respect of activities not for trading purposes	**606**	196	**1,043**	1,510
B. Non-interest financing income in respect of activities not for trading purposes				
Income net in respect of other derivative instruments	**-**	(1)	**-**	(1)
Realized and unrealized profits from fair value adjustments of bonds held for trading, net (d)	**(107)**	190	**46**	87
Realized and unrealized profits (losses) from fair value adjustments of shares held for trading, net (e)	-	(60)	**(32)**	(57)
Total from trading activities (h)	**(107)**	129	**14**	29
Total non-interest financing income in respect of activities not for trading purposes	499	325	**1,057**	1,539

(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) The first nine months of 2016: Mainly includes profit in the amount of NIS 61 million from selling Dalia in the first quarter, and profits in the amount of NIS 378 million and NIS 87 million, respectively, from the sale of shares in Visa Europe and the Israel Corporation in the second quarter. There were no significant sales in the third quarter.
The first nine months of 2015 Includes mainly profit in the amount of NIS 288 million and NIS 52 million, respectively, from the sale of Mobileye and Safra Fund in the first quarter. There were no significant sales in the second quarter, and in the third quarter there were profits of NIS 289 million on the sale of the Israel Corporation.

(d) Of which: part of the profits in the amount of NIS 22 million and NIS 38 million for the three-month and nine-month period which ended on 30 September 2016, respectively, which relate to listed bonds still held at the balance sheet date.
Of which: part of the profits in the amount of NIS 46 million and NIS 14 million for the three-month and nine-month period which ended on 30 September 2015, respectively, which relate to listed bonds still held at the balance sheet date.

(e) Of which: part of the profits in the amount of NIS (96) million and NIS (128) million for the three-month and nine-month period which ended on 30 September 2015 respectively, which relate to shares for trading still held at the balance sheet date.

(f) Including provisions for impairment related to shares available for sale of NIS 7 million for the nine-month period ended 30 September 2016.

(g) Reclassified from accumulated other comprehensive income.

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

(i) During the first nine months of 2016, loans were sold totaling NIS 684 million in the commercial sector (in the first nine months of 2015 - NIS 87 million in the commercial sector).

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 30 September 2016 and 2015 (Unaudited)

	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 30 June 2015	526	(96)	39	(1,273)	(804)	(7)	(797)
Net change in the period	(470)	39	3	28	(400)	2	(402)
Balance at 30 September 2015	56	(57)	42	(1,245)	(1,204)	(5)	(1,199)
Balance at 30 June 2016	438	(79)	37	(2,616)	(2,220)	(4)	(2,216)
Net change in the period	**(217)**	**(31)**	**(14)**	**507**	**245**	**-**	**245**
Balance at 30 September 2016	**221**	**(110)**	**23**	**(2,109)**	**(1,975)**	**(4)**	**(1,971)**

2. Changes in accumulated other comprehensive income (loss) for the nine-month period ended 30 September 2016 and 2015 (Unaudited)

	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	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 (Audited)	394	(65)	22	(1,904)	(1,553)	(4)	(1,549)
Net change in the period	(338)	8	20	659	349	(1)	350
Balance at 30 September 2015	56	(57)	42	(1,245)	(1,204)	(5)	(1,199)
Balance at 31 December 2015 (Audited)	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change in the period	**154**	**(43)**	**(15)**	**(619)**	**(523)**	**-**	**(523)**
Balance at 30 September 2016	**221**	**(110)**	**23**	**(2,109)**	**(1,975)**	**(4)**	**(1,971)**

(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)

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

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

	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	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 30 September (Unaudited)					
	2016			2015		
	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	**(58)**	**27**	**(31)**	(407)	110	(297)
reclassified to the statement of profit and loss [(a)]	**(288)**	**102**	**(186)**	(278)	105	(173)
Net change in the period	**(346)**	**129**	**(217)**	(685)	215	(470)
Translation adjustments [(b)]						
Adjustments for translation of financial statements	**(71)**	**13**	**(58)**	100	-	100
Hedges [(c)]	**57**	**(30)**	**27**	(98)	37	(61)
Net change in the period	**(14)**	**(17)**	**(31)**	2	37	39
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	**(14)**	**-**	**(14)**	3	-	3
Net change in the period	**(14)**	**-**	**(14)**	3	-	3
Employee benefits						
Actuarial loss (profit) during the period	**686**	**(243)**	**443**	(6)	2	(4)
Amortization of actuarial profit (loss) [(d)]	**101**	**(37)**	**64**	52	(20)	32
Net change in the period	**787**	**(280)**	**507**	46	(18)	28
Total net change in the period	**413**	**(168)**	**245**	(634)	234	(400)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:						
Total net change in the period	**-**	**-**	**-**	2	-	2
Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:						
Total net change in the period	**413**	**(168)**	**245**	(636)	234	(402)

(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 information, see Note 8 – Employee Rights.

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 (cont.)

	For the nine months ended 30 September (Unaudited)					
	2016			2015		
	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	**1,062**	**(354)**	**708**	530	(241)(e)	289
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss [(a)]	**(852)**	**298**	**(554)**	(932)	305(e)	(627)
Net change in the period	**210**	**(56)**	**154**	(402)	64	(338)
Translation adjustments [(b)]						
Adjustments for translation of financial statements	**(111)**	**13**	**(98)**	27	-	27
Hedges [(c)]	**87**	**(32)**	**55**	(31)	12	(19)
Net change in the period	**(24)**	**(19)**	**(43)**	(4)	12	8
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	**(15)**	**-**	**(15)**	15	5	20
Net change in the period	**(15)**	**-**	**(15)**	15	5	20
Employee benefits:						
Actuarial loss (profit) in the period	**(1,151)**	**383**	**(768)**	890	(331)	559
Amortization of actuarial profit (loss) [(d)]	**233**	**(84)**	**149**	160	(60)	100
Net change during the period	**(918)**	**299**	**(619)**	1,050	(391)	659
Total net change during the period	**(747)**	**224**	**(523)**	659	(310)	349
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	**(747)**	**224**	**(523)**	660	(310)	350

(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 information, see Note 8 – Employee Rights.

(e) Reclassified.

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 (cont.)

	For the year ended 31 December (Audited)		
	2015		
	Before tax	Tax effect	After tax
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	369	(203)	166
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss [(a)]	(792)	299	(493)
Net change in the period	(423)	96	(327)
Translation adjustments [(b)]			
Adjustments for translation of financial statements	9	-	9
Hedges [(c)]	(18)	7	(11)
Net change in the period	(9)	7	(2)
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	11	5	16
Net change in the period	11	5	16
Employee benefits:			
Actuarial loss (profit) in the period	464	(190)	274
Amortization of actuarial profit (loss) [(d)]	219	(79)	140
Net change during the period	683	(269)	414
Total net change during the period	262	(161)	101
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:			
Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:			
Total net change in the period	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 information, see Note 8 – Employee Rights.

Note 5 - Securities

	As at 30 September 2016 (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	**39,349**	**39,075**	**275**	**(1)**	**39,349**
Foreign governments	**8,461**	**8,424**	**39**	**(2)**	**8,461**
Financial institutions in Israel	**36**	**35**	**1**	**-**	**36**
Financial institutions abroad*	**7,042**	**7,004**	**52**	**(14)**	**7,042**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**10,007**	**9,976**	**62**	**(31)**	**10,007**
Others in Israel	**396**	**379**	**17**	**-**	**396**
Others abroad	**2,004**	**1,928**	**77**	**(1)**	**2,004**
	67,295	**66,821**	**523**	**(49)**	**67,295**
Shares and mutual funds (b)	**2,101**	**2,036**	**73**	**(8)**	**2,101**
Total securities available for sale	**69,396**	**68,857**	**596 (c)**	**(57) (c)**	**69,396**

(*) Amount of NIS 7.4 billion out of the total of foreign currency securities are Supernationals, Sovereign and Agencies (SSA).

	As at 30 September 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	**7,528**	**7,525**	**9**	**(6)**	**7,528**
Foreign governments	**4,236**	**4,223**	**14**	**(1)**	**4,236**
Financial institutions in Israel	**157**	**156**	**1**	**-**	**157**
Financial institutions abroad	**101**	**100**	**1**	**-**	**101**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**269**	**268**	**3**	**(2)**	**269**
Others in Israel	**180**	**179**	**2**	**(1)**	**180**
Others abroad	**609**	**603**	**8**	**(2)**	**609**
	13,080	**13,054**	**38**	**(12)**	**13,080**
Shares and mutual funds	**17**	**16**	**2**	**(1)**	**17**
Total securities held for trading	**13,097**	**13,070**	**40 (d)**	**(13) (d)**	**13,097**
Total securities (e)	**82,493**	**81,927**	**636**	**(70)**	**82,493**

See notes on page 130.

Note 5 - Securities (cont'd)

	As at 30 September 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	28,887	28,672	216	(1)	28,887
Foreign governments	8,215	8,209	8	(2)	8,215
Financial institutions in Israel	48	46	2	-	48
Financial institutions abroad*	4,968	4,947	41	(20)	4,968
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	7,918	7,919	42	(43)	7,918
Others in Israel	596	569	27	-	596
Others abroad	1,257	1,263	14	(20)	1,257
	51,889	51,625	350	(86)	51,889
Shares and mutual funds (b)	3,371	3,292	284	(205)	3,371
Total securities available for sale	55,260	54,917	634 (c)	(291) (c)	55,260

(*) Amount of NIS 3.8 billion out of the total of foreign currency securities are Supernationals, Sovereign and Agencies (SSA).

	As at 30 September 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	8,649	8,629	32	(12)	8,649
Foreign governments	1,432	1,431	9	(8)	1,432
Financial institutions in Israel	156	156	1	(1)	156
Financial institutions abroad	128	129	-	(1)	128
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	852	844	9	(1)	852
Others in Israel	139	140	-	(1)	139
Others abroad	354	357	1	(4)	354
	11,710	11,686	52	(28)	11,710
Shares and mutual funds	575	687	3	(115)	575
Total securities held for trading	12,285	12,373	55 (d)	(143) (d)	12,285
Total securities (e)	67,545	67,290	689	(434)	67,545

See notes on page 130.

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

(*) Amount of NIS 6.1 billion out of the total of foreign currency securities are Supernationals, Sovereign and Agencies (SSA).

	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 130.

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 964 million (30 September 2015 - NIS 1,309 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, net" 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 accruing interest of NIS 0 million (30 September 2015 - NIS 12 million, 31 December 2015 - NIS 16 million).

General notes:

Securities lent in the amount of NIS 513 million (30 September 2015 - NIS 21 million, 31 December 2015 - NIS 111 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 4,989 million (30 September 2015 - NIS 3,423 million, 31 December 2015 - NIS 3,131 million).

For further information on the 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.

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

	30 September 2016 (Unaudited)									
	Less than 12 months					12 months and more				
		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										
State of Israel	**4,846**	**1**	-	-	**1**	-	-	-	-	-
Foreign governments	**3,078**	**2**	-	-	**2**	**10**	-	-	-	-
Financial institutions abroad	**3,180**	**10**	-	-	**10**	**33**	**4**	-	-	**4**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**3,511**	**31**	-	-	**31**	**61**	- (a)	-	-	-
Others in Israel	**3**	- (a)	-	-	-	-	-	-	-	-
Others abroad	**300**	**1**	-	-	**1**	-	-	-	-	-
Shares and mutual funds	**204**	**8**	-	-	**8**	**86**	- (a)	-	-	-
Total securities available for sale	**15,122**	**53**	-	-	**53**	**190**	**4**	-	-	**4**

(a) Losses less than NIS 1 million.

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)

	30 September 2015 (Unaudited)									
	Less than 12 months					12 months and more				
		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										
State of Israel	4,004	1	-	-	1	-	-	-	-	-
Foreign governments	5,771	2	-	-	2	-	-	-	-	-
Financial institutions abroad	2,137	19	-	-	19	58	1	-	-	1
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	3,867	29	-	-	29	762	14	-	-	14
Others in Israel	100	- (a)	-	-	-	-	-	-	-	-
Others abroad	298	9	11	-	20	79	-	-	-	-
Shares and mutual funds	366	205	-	-	205	-	-	-	-	-
Total securities available for sale	16,543	265	11	-	276	899	15	-	-	15

(a) Losses less than NIS 1million.

	31 December 2015 (Audited)									
	Less than 12 months					12 months and more				
		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										
State of Israel	15,057	7	-	-	7	-	-	-	-	-
Foreign governments	5,730	4	-	-	4	-	-	-	-	-
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 and mutual funds	136	8	-	-	8	91	6	-	-	6
Total securities available for sale	32,651	121	9	-	130	906	34	-	-	34

(a) Losses less than NIS 1million

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Note 5 - Securities (cont'd)

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

	30 September 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)	**809**	**(16)**	**56**	**-** (a)	**865**	**(16)**
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	**2,250**	**(14)**	**-**	**-**	**2,250**	**(14)**
Asset-backed securities (ABS)	**452**	**(1)**	**5**	**-** (a)	**457**	**(1)**
Total	**3,511**	**(31)**	**61**	**-**	**3,572**	**(31)**

	30 September 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)	1,443	(10)	59	- (a)	1,502	(10)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	785	(5)	604	(13)	1,389	(18)
Asset-backed securities (ABS)	1,639	(14)	99	(1)	1,738	(15)
Total	3,867	(29)	762	(14)	4,629	(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 30 September 2016 (Unaudited)			
		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	**253**	**1**	**-**	**254**
Securities issued by FNMA and FHLMC	**1,854**	**13**	**-**	**1,867**
Other securities	**835**	**-**	**(16)**	**819**
Total mortgage-backed pass-through securities	**2,942**	**14**	**(16)**	**2,940**
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**4,594**	**29**	**(13)**	**4,610**
Other mortgage-backed securities	**585**	**5**	**(1)**	**589**
Total other mortgage-backed securities	**5,179**	**34**	**(14)**	**5,199**
Total mortgage-backed securities	**8,121**	**48**	**(30)**	**8,139**
Asset-backed securities (ABS)				
Credit card receivables	**-**	**-**	**-**	**-**
Other credit to private persons	**260**	**1**	**-**	**261**
Credit not to private persons	**1**	**-**	**-**	**1**
CLO-type debentures	**1,594**	**13**	**(1)**	**1,606**
Total asset-backed securities	**1,855**	**14**	**(1)**	**1,868**
Total mortgage-backed and asset-backed debentures available for sale	**9,976**	**62**	**(31)**	**10,007**

(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 30 September 2015 (Unaudited)			
	Amortized cost	Accumulated other comprehensive income (loss) (a)		Fair value
		Profits	Losses	
	(NIS millions)			
1. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	13	-	-	13
Securities issued by FNMA and FHLMC	1,042	1	(7)	1,036
Other securities	737	1	(3)	735
Total mortgage-backed pass-through securities	1,792	2	(10)	1,784
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	3,535	19	(17)	3,537
Other mortgage-backed securities	479	2	(1)	480
Total other mortgage-backed securities	4,014	21	(18)	4,017
Total mortgage-backed securities	5,806	23	(28)	5,801
Asset-backed securities (ABS)				
Credit card receivables	95	-	(1)	94
Other credit to private persons	4	-	-	4
Credit not to private persons	1	-	-	1
CLO-type debentures	2,013	19	(14)	2,018
Total asset-backed securities	2,113	19	(15)	2,117
Total mortgage-backed and asset-backed debentures available for sale	7,919	42	(43)	7,918

(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 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 mortgage-backed pass-through securities	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 asset-backed securities	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 taxes.

Note 5 - Securities (cont'd)

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

	As at 30 September 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	**6**	**-**	**-**	**6**
Total mortgage-backed pass-through securities	**6**	**-**	**-**	**6**
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**-**	**-**	**-**	**-**
Other mortgage-backed securities	**82**	**1**	**(1)**	**82**
Total other mortgage-backed securities	**82**	**1**	**(1)**	**82**
Total mortgage-backed securities (MBS)	**88**	**1**	**(1)**	**88**
Asset-backed securities (ABS)				
Credit card receivables	**12**	**-**	**-**	**12**
Lines of credit for any purpose secured by dwelling	**-**	**-**	**-**	**-**
Credit for purchase of vehicle	**51**	**-**	**-**	**51**
Other credit to private persons	**12**	**-**	**-**	**12**
Credit not to private persons	**-**	**-**	**-**	**-**
Others	**105**	**2**	**(1)**	**106**
Total asset-backed securities	**180**	**2**	**(1)**	**181**
Total mortgage-backed and asset-backed debentures held for trading	**268**	**3**	**(2)**	**269**

(a) Profits (losses) were 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 30 September 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	8	-	-	8
Total mortgage-backed pass-through securities	8	-	-	8
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	441	3	-	444
Other mortgage-backed securities	130	2	(1)	131
Total mortgage-backed securities	571	5	(1)	575
Total mortgage-backed securities (MBS)	579	5	(1)	583
Asset-backed securities (ABS)				
Credit card receivables	19	-	-	19
Lines of credit for any purpose secured by dwelling	1	-	-	1
Credit for purchase of vehicle	58	1	-	59
Other credit to private persons	14	-	-	14
Credit not to private persons	47	-	-	47
Others	126	3	-	129
Total asset-backed securities	265	4	-	269
Total mortgage-backed and asset-backed debentures held for trading	844	9	(1)	852

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

Note 5 - Securities (cont'd)

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

	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 mrtgage-backed pass-through securities	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 other mortgage-backed securities	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 asset-backed securities	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

	30 September 2016 (Unaudited)					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS millions					
Recorded debt balance of debts[a]						
Examined on an individual basis	**109,181**	**47**	**789**	**110,017**	**8,890**	**118,907**
Examined on a collective basis[1]	**38,403**	**81,601**	**37,874**	**157,878**	**3,529**	**161,407**
[1]Of which: the allowance was calculated by extent of arrears	**1,044** (c)	**80,605**	**-**	**81,649**	**-**	**81,649**
Total debts(a)[2]	**147,584**	**81,648**	**38,663**	**267,895**	**12,419**	**280,314**
[2]Of which:						
Debts under restructuring	**1,808**	**-**	**97**	**1,905**	**-**	**1,905**
Other impaired debts	**2,095**	**-**	**74**	**2,169**	**-**	**2,169**
Total impaired debts	**3,903**	**-**	**171**	**4,074**	**-**	**4,074**
Debts in arrears of 90 days or more	**164**	**685**	**112**	**961**	**-**	**961**
Other problem debts	**2,701**	**12**	**374**	**3,087**	**-**	**3,087**
Total impaired debts	**6,768**	**697**	**657**	**8,122**	**-**	**8,122**
Allowance for credit losses for debts[a]:						
Examined on an individual basis	**1,858**	**7**	**28**	**1,893**	**2**	**1,895**
Examined on a collective basis[3]	**440**	**479**	**715**	**1,634**	**-**	**1,634**
[3]Of which the allowance was calculated by extent of arrears	**-**	**476** (b)	**-**	**476**	**-**	**476**
Total allowance for credit losses[4]	**2,298**	**486**	**743**	**3,527**	**2**	**3,529**
[4]Of which in respect of impaired debts	**647**	**-**	**24**	**671**	**-**	**671**

(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 300 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction in the amount of NIS 1,044 million.

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.)

	30 September 2015 (Unaudited)					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS millions					
Recorded debt balance of debts[a]						
Examined on an individual basis	108,132 (d)	46	1,419 (d)	109,597	10,278	119,875
Examined on a collective basis[1]	37,548	80,666	36,011	154,225	2,651	156,876
[1]Of which: the allowance was calculated by extent of arrears	1,214 (c)	79,482	-	80,696	-	80,696
Total debts(a)[2]	145,680	80,712	37,430	263,822	12,929	276,751
[2]Of which:						
Debts under restructuring	2,294	-	91	2,385	-	2,385
Other impaired debts	1,890	-	33	1,923	-	1,923
Total impaired debts	4,184	-	124	4,308	-	4,308
Debts in arrears of 90 days or more	171	748	105	1,024	-	1,024
Other problem debts	3,767	6	237	4,010	-	4,010
Total impaired debts	8,122	754	466	9,342	-	9,342
Allowance for credit losses for debts[a]:						
Examined on an individual basis	2,409	14	69	2,492	3	2,495
Examined on a collective basis[3]	263	503	555	1,321	-	1,321
[3]Of which the allowance was calculated by extent of arrears (b)	1	501 (b)	-	502	-	502
Total allowance for credit losses[4]	2,672	517	624	3,813	3	3,816
[4]Of which in respect of impaired debts	945	-	74	1,019	-	1,019

(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 309 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction in the amount of NIS 1,214 million.

(d) Reclassified.

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					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Recorded debt balance of debts[a]						
Examined on an individual basis	107,182 (d)	45	1,438 (d)	108,665	7,515	116,180
Examined on a collective basis[1]	38,097	81,760	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]	145,279	81,805	37,986	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 (e)	11	299 (e)	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 (b)	-	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 (e)	-	43 (e)	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 in the amount of NIS 1,014 million.

(d) Reclassified.

(e) 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 30 September 2016 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS millions					
Balance of allowance for credit losses at beginning of the reporting period	**2,717**	**513**	**779**	**4,009**	**2**	**4,011**
Expenses (income) in respect of credit losses	**11**	**(5)**	**100**	**106**	**-**	**106**
Accounting write-offs	**(146)**	**(22)**	**(210)**	**(378)**	**-**	**(378)**
Collection of debts written off in previous years	**166**	**-**	**112**	**278**	**-**	**278**
Net accounting write-offs	**20**	**(22)**	**(98)**	**(100)**	**-**	**(100)**
Adjustments from translation of financial statements	**(1)**	**-**	**-**	**(1)**	**-**	**(1)**
Balance of allowance for credit losses at end of the reporting period[1]	**2,747**	**486**	**781**	**4,014**	**2**	**4,016**
[1]Of which: in respect of off-balance sheet credit instruments	**449**	**-**	**38**	**487**	**-**	**487**

	For the three months ended 30 September 2015 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS millions					
Balance of allowance for credit losses at beginning of the reporting period	3,267	516	617	4,400	3	4,403
Expenses (income) in respect of credit losses	(49)	6	116	73	-	73
Accounting write-offs	(130)	(4)	(153)	(287)	-	(287)
Collection of debts written off in previous years	45	-	81	126	-	126
Net accounting write-offs	(85)	(4)	(72)	(161)	-	(161)
Adjustments from translation of financial statements	6	(1)	1	6	-	6
Balance of allowance for credit losses at end of the reporting period[1]	3,139	517	662	4,318	3	4,321
[1]Of which: in respect of off-balance sheet credit instruments	467	-	38	505	-	505

Note 6 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont.)

B. Change in balance of allowance for credit losses (cont.)

	For the nine months ended 30 September 2016 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	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	**(453)**	**1**	**282**	**(170)**	**(1)**	**(171)**
Accounting write-offs	**(367)**	**(27)**	**(516)**	**(910)**	**-**	**(910)**
Collection of debts written off in previous years	**638**	**-**	**309**	**947**	**-**	**947**
Net accounting write-offs	**271**	**(27)**	**(207)**	**37**	**-**	**37**
Adjustments from translation of financial statements	**(4)**	**(1)**	**(1)**	**(6)**	**-**	**(6)**
Balance of allowance for credit losses at end of the reporting period[1]	**2,747**	**486**	**781**	**4,014**	**2**	**4,016**
[1]Of which: in respect of off-balance sheet credit instruments	**449**	**-**	**38**	**487**	**-**	**487**

	For the nine months ended 30 September 2015 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	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	(41)	11	197	167	(1)	166
Accounting write-offs	(392)	(6)	(462)	(860)	-	(860)
Collection of debts written off in previous years	253	-	275	528	-	528
Net accounting write-offs	(139)	(6)	(187)	(332)	-	(332)
Adjustments from translation of financial statements	2	(1)	-	1	-	1
Balance of allowance for credit losses at end of the reporting period[1]	3,139	517	662	4,318	3	4,321
[1]Of which: in respect of off-balance sheet credit instruments	467	-	38	505	-	505

Note 7 – Deposits of the Public

A. Types of deposits by location raised and type of depositor

	30 September		31 December
	2016	2015	2015
	Unaudited		Audited
	NIS millions		
In Israel			
On demand			
Non-interest bearing	**73,213**	67,156	72,060
Interest bearing	**91,723**	76,991	80,521
Total on demand	**164,936**	144,147	152,581
Fixed term	**145,042**	147,667	149,697
Total deposits in Israel[1]	**309,978**	291,814	302,278
Outside Israel			
On demand			
Non-interest bearing	**9,587**	9,475	9,872
Interest bearing	**3,794**	3,661	3,693
Total on demand	**13,381**	13,136	13,565
Fixed term	**13,492**	13,041	12,850
Total deposits outside Israel	**26,873**	26,177	26,415
Total deposits of the public	**336,851**	317,991	328,693
[1]Of which:			
Deposits of private persons	**142,872**	132,544	135,595
Deposits of institutional entities	**54,948**	55,473 (a)	55,889 (a)
Deposits of corporations and others	**112,158**	103,797 (a)	110,794 (a)

(a) Reclassified.

B. Deposits of the public by size

	30 September		31 December
	2016	2015	2015
	Unaudited		Audited
	NIS millions		
Up to 1	**94,963**	94,380	95,789
From 1 to 10	**92,378**	81,779	83,813
From 10 to 100	**57,662**	55,280	58,268
From 100 to 500	**33,215**	31,257	30,868
Above 500	**58,633**	55,295	59,955
Total	**336,851**	317,991	328,693

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 equivalent of those 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 are 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.

Note 8 – Employee Rights (cont.)

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:

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 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.

On 6 June 2016, the Supervisor of Banks published a further letter to the Chairpersons and CEOs of the banking corporations on the subject of the banks' preparation for implementation of the law, in light of the concern which arose among some officeholders and senior employees in the banking corporations, that the law would be interpreted in a way which was liable to cause considerable damage to the retirement rights which they had accumulated for their years of service prior to the date of inception of the law. According to the provisions of the letter, this concern may lead to high-level managers leaving some banking corporations, as well as several mid-level managers at some banking corporations.

In the aforementioned letter, the Supervisor of Banks clarifies that the Bank of Israel agrees with the position according to which the law should apply from the date of inception and not to the employees' past rights. In this context, the letter clarifies that each banking corporation should take the steps required to avoid impairment to its proper governance. It should operate, *inter alia*, based on established legal and accounting opinions, to adapt its employee remuneration terms in accordance with the law, and pursuant thereto, provide a solution to the banking corporation's obligations towards the relevant employees for their past rights, this, according to the purpose of the law, while providing full disclosure to the relevant employees regarding the implications of the proposed outline, so that they can make an informed decision.

The entry of the law into force is expected to have a negative impact, in a more limited manner, on 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. The Bank set a new remuneration policy for office holders in the Bank, which was approved by the Bank's shareholders in a Special General Meeting on 3 November 2016.

Note 8 – Employee Rights (cont.)

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.

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 36 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.

On 1 June 2016, the Association of Banks in Israel filed a petition with the High Court of Justice regarding the Remuneration Limitation Law. The petition requested a ruling that the provisions of the Law will not impair employees' rights for a pension and severance pay deriving from seniority accumulated prior to the enactment of the Law. Additionally, the petition requests canceling the clause which creates an effective salary limit and limits the salary of the highest paid employee in the organization to no more than 35 times the lowest salary.

On 29 September 2016, a ruling was given dismissing the appeal challenging the legality of the ratio restriction provision (ratio of 35). Also, the Court extended the interim order of 11 July 2016, according to which executive employees at corporations could give notice of resignation until 1 January 2017, and not lose their eligibility to receive all rights they would have earned in respect of employer-employee relations or termination of office, had those relations ended within the period of reorganization.

Regarding the rights arising from the accumulated seniority until the legislation, the Court adopted an interpretative approach in principle, according to which the law was intended to apply to remuneration for future work only, and does not apply to rights acquired in return for work performed by the employee before the expiration of the period of reorganization (12 October 2016). On the basis of this principle, it should now be examined whether specific rights and interests of employees are subject to the ratio restriction provision.

Note 8 – Employee Rights (cont.)

C. Streamlining

On 12 January 2016, the Banking Supervision Department published a letter regarding "Operational Streamlining of the Banking System in Israel" (hereinafter – "the Streamlining Provision"). Pursuant to the letter, the board of directors of a banking corporation is to draw up a multi-year efficiency plan. A banking corporation which meets the conditions defined in the letter will receive a relief, according to which it may spread the effect of the costs of the plan over five years on a straight-line basis for the purposes of calculating capital adequacy.

On 1 June 2016, the Board of Directors approved an efficiency plan, subject to receipt of approval in principle from the Banking Supervision Department as required by the Streamlining Provision.

Main points of the Streamlining Provisions and the related changes (hereinafter: "the efficiency plan"):

- Realization of the Plan will be accompanied by a number of operational and organizational changes.
- Pursuant to the plan, 700 employees would be eligible to an early retirement and to receive benefits in connection with the early retirement;
- The benefits to be offered will be: (a) Increased severance pay of up to 270% or (b) An early retirement arrangement until the retirement age according to the law, for those eligible to a defined-benefit pension from the Bank who comply with parameters defined in the plan. Additional non-significant benefits were provided as part of the retirement terms.
- Early retirement will take place, as far as possible, by the end of 2016.

For purposes of implementing of the efficiency plan, as well as the additional voluntary retirement plans, insofar as it will be decided to adopt them as part of the Bank's multi-year streamlining, and to coopt the employees and the employee association in the realization of the plan, the Bank's management came to an agreement with the employee association for a one-time bonus payment ("Signing Up Bonus"). The aforementioned bonus was paid in June 2016 only for the employees organized under collective labor agreements. The total cost of the signing up bonus stands at NIS 155 million.

Below are the main accounting principles included in the financial statements:

- The costs of the actuarial liability for employees due to the efficiency plan, which amounts to about NIS 529 million before tax (NIS 339 million after tax), were treated as an actuarial loss and charged to other comprehensive income (and later these costs will be amortized to profit and loss as detailed in Note 1 to the 2015 financial statements, Principal Accounting Policies, p. 202).
- The costs of the signing up bonus, amounting to NIS 155 million before tax (NIS 99 million after tax), have been charged to profit and loss.

Note 8 – Employee Rights (cont.)

- In accordance with the accounting principles applicable to the Bank, different terms and restrictions have been placed, including quantitative ones, regarding the scope of the efficiency plans. In light of this, the Board of Directors has decided that there will be no changes or extensions to the plan, if they should lead to the plan's accounting, according to the abovementioned, to be impossible.

Pursuant to the Bank of Israel directives, the Bank will enjoy a relief from capital adequacy requirement calculations, for the cost of the efficiency plan, amounting to about NIS 438 million (after tax). Accordingly, the effect of the plan's cost will be spread on a linear basis over five years, from June 2017.

695 employees have signed retirement arrangements in the framework of the efficiency plan, and they are expected to end their employment by 30 December 2016. Furthermore, during the next five years, about 640 additional employees are expected to reach retirement age. The Bank has made preparations for retirement and is investing efforts in adapting organizational structures, filling gaps in critical professions, conducting training and knowledge retention by means of methodology and a plan formulated in the matter.

For further information regarding the efficiency plan, see Note 9.

Note 8 – Employee Rights (cont.)

D. Composition of benefits

1. Employee benefits

	As at 30 September		As at 31 December
	2016	2015	2015
	Unaudited		Audited
	NIS millions		
Post-retirement benefits - pension and severance pay			
Amount of liability	**16,892**	15,421	15,764
Fair value of plan assets	**6,761**	6,959	6,766
Excess liabilities over plan assets (included under other liabilities)	**10,131**	8,462	8,998
Long-service (Jubilee) bonus			
Amount of liability	**123**	533	524
Fair value of plan assets	**-**	-	-
Excess liabilities over plan assets (included under other liabilities)	**123**	533	524
Other benefits			
Amount of liability	**608**	619	549
Fair value of plan assets	**-**	-	-
Excess liabilities over plan assets (included under other liabilities)	**608**	619	549
Total[1]			
Excess liabilities in respect of employee rights over plan assets included under "Other liabilities"	**10,862**	9,614	10,071
[1]Of which: in respect of employee benefits overseas	**129**	211	111

Note 8 – Employee Rights (cont.)

D. Composition of benefits (cont.)

1. Defined benefit pension plan

A. Commitment and state of funding

1. Change in commitment in respect of forecast benefit

	For the three months ended 30 September		For the nine months ended 30 September		As at 31 December
	2016	2015	**2016**	2015	2015
	Unaudited				Audited
	NIS millions				
Commitment in respect of forecast benefit at the beginning of the period	**17,465**	15,540	**15,764**	16,256	16,256
Service cost	**39**	49	**125**	152	198
Interest cost	**169**	196	**515**	550	735
Deposits of plan participants	**14**	11	**37**	35	46
Actuarial loss (profit)	**(540)**	(211)	**1,046**	(1,147)	(701)
Changes in foreign currency exchange rates	**(15)**	(7)	**(38)**	(1)	(9)
Benefits paid	**(240)**	(157)	**(572)**	(424)	(641)
Amendments to plan including structural amendments	**-**	-	**-**	-	(22)
Reductions, disposals, special contractual benefits in respect of dismissal	**-**	-	**-**	-	(98)
Other	**-**	-	**15**	-	-
Commitment in respect of forecast benefit at the end of the period	**16,892**	15,421	**16,892**	15,421	15,764
Commitment in respect of accumulated benefit at the end of the period	**16,273**	14,683	**16,273**	14,683	15,074

(a) Reclassified

2. Change in fair value of plan assets and state of funding of the plan

	For the three months ended 30 September		For the nine months ended 30 September		As at 31 December
	2016	2015	**2016**	2015	2015
	Unaudited				Audited
	NIS millions				
Fair value of plan assets at the beginning of the period	**6,685**	7,146	**6,766**	7,041	7,041
Actual return on plan assets:	**190**	(141)	**147**	4	53
Deposits in the plan by the banking corporation	**32**	71	**96**	134	169
Deposits by plan participants	**14**	11	**37**	35	46
Changes in foreign currency exchange rates	**(14)**	(33)	**(36)**	(2)	(11)
Benefits paid	**(146)**	(95)	**(261)**	(253)	(403)
Amendments to plan including structual changes	**-**	-	**-**	-	(22)
Reductions, disposals, special contractual benefits in respect of dismissal	**-**	-	**-**	-	(107)
Other	**-**	-	**12**	-	-
Fair value of plan assets at the end of the period	**6,761**	6,959	**6,761**	6,959	6,766
State of funding - net liability recognized at the end of the period (included in other liabilities)	**10,131**	8,462	**10,131**	8,462	8,998

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 30 September		As at 31 December
	2016	2015	2015
	Unaudited		Audited
	NIS millions		
Amounts recognized under other assets	**-**	-	-
Amounts recognized under other liabilities	**10,131**	8,462	8,998
Liability net recognized at the end of the period	**10,131**	8,462	8,998

4. Amounts recognized in accumulated other comprehensive income (loss) before the tax effect

	As at 30 September		As at 31 December
	2016	2015	2015
	Unaudited		Audited
	NIS millions		
Net actuarial loss	**3,264**	1,898	2,329
Closing balance in accumulated other income	**3,264**	1,898	2,329

B. Expense for the period

1. Benefit cost components included in profit and loss

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2016	2015	**2016**	2015	2015
	Unaudited				
	NIS millions				
Service cost	**39**	49	**125**	152	198
Interest cost	**169**	196	**515**	550	735
Forecast return on plan assets	**(94)**	(93)	**(276)**	(276)	(392)
Amortization of amounts not recognized - net actuarial loss	**99**	44	**228**	155	206
Reductions, disposals, special contractual benefits in respect of dismissal	**-**	-	**-**	-	9
Other including structural change	**-**	-	**-**	-	30
Total cost of benefit, net	**213**	196	**592**	581	786

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 tax effect

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2016	2015	**2016**	2015	2015
	Unaudited				
	NIS millions				
Net actuarial loss (profit) for the period	**(636)**	23	**1,175**	(875)	(362)
Amortization of amounts not recognized - net actuarial profit	**(99)**	(44)	**(228)**	(155)	(206)
Changes in foreign currency exchange rates	**(3)**	(8)	**(12)**	(5)	(5) (a)
Other including structural change	**-**	-	**-**	-	(30) (a)
Total recognized in other comprehensive income	**(738)**	(29)	**935**	(1,035)	(573)
Net cost of benefit	**213**	196	**592**	581	786
Total recognized in cost of benefit, net, for the period and in other comprehensive income	**(525)**	167	**1,527**	(454)	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 tax effect

	For the three months ending 31 December 2016
	Unaudited
	NIS million
Net actuarial loss	**77**
Total expected to be amortized from accumulated other comprehensive income	**77**

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 on 30 September

1. Basic assumptions used for determining the commitment in respect of the benefit

	As at 30 September		As at 31 December
	2016	2015	2015
	Unaudited		
	Percentage		
Discount rate	**2.48**	2.91	2.68
CPI discount rate	**1.68**	1.82	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**	0-6.3	0-6.3

2. Basic assumptions used for measuring the cost of the benefit net for the period

	As at 30 September		As at 31 December
	2016	2015	2015
	Unaudited		
	Percentage		
Discount rate	**2.23**	2.75	2.91
Forecast return on long-term plan assets	**5.50**	5.50	5.50
Rate of growth in remuneration	**0-6.3**	0-6.3	0-6.3

B. Effect of a change of one percentage point on the commitment in respect of a forecast benefit before tax effect

	Increase of one percentage point			Decrease of one percentage point		
	As at 30 September		As at 31 December	As at 30 September		As at 31 December
	2016	2015	2015	**2016**	2015	2015
	Unaudited					
	NIS millions					
Discount rate	**(2,180)**	(1,922)	(2,059)	**2,733**	2,409	2,577
CPI discount rate	**(123)**	(177)	(206)	**124**	179	210
Employee turnover rate	**220**	241	237	**(238)**	(241)	(256)
Rate of growth in remuneration	**622**	599	661	**(546)**	(538)	(585)

(a) The assumptions relate to Bank figures only.

Note 8 – Employee Rights (cont'd)

D. Composition of benefits (cont.)

The level of the liability for employee rights is affected by several key variables, which 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 30 September		As at 31 December
	2016	2015	2015
	Unaudited		Audited
	NIS millions		
Cash and deposits in banks	**195**	193	183
Shares	**2,533**	2,271	2,363
Government bonds	**1,451**	1,917	1,895
Corporate bonds	**2,208**	2,102	1,838
Other	**374**	476	487
Total	**6,761**	6,959	6,766

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 30 September		As at 31 December
	2016	**2016**	2015	2015
		Unaudited		Audited
	Percentage			
Cash and deposits in banks	**2**	**3**	2	3
Shares	**36**	**37**	33	35
Government bonds	**25**	**21**	28	28
Corporate bonds	**30**	**33**	30	27
Other	**7**	**6**	7	7
Total	**100**	**100**	100	100

Note 8 – Employee Rights (cont'd)

D. Composition of benefits (cont.)

4. Plan assets (cont.)

C. Cash flows

1. Deposits

	Forecast (a)	Actual deposits For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2016	**2016**	2015	**2016**	2015	2015
	Unaudited					Audited
	NIS millions					
Deposits	**177**	**46**	82	**133**	169	215

(a) Estimate of deposits that the Bank expects to pay into a defined benefit pension plan during 2016.

2. Benefits that the Bank expects to pay in the future[(a)]

Year	NIS millions
2016	474
2017	913
2018	590
2019	635
2020	649
2021-2025	4,018
2026 and thereafter	11,309
Total	**18,588**

(a) In discounted values.

Note 9A – Capital

Changes in the Bank's capital

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 information, 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 information, 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, 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 information, 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 and on 20 March 2016 in accordance with an outline published by the Bank on 18 February 2016, (Conversion of employees and office holders' rights), as amended on 23 February 2016. It should be noted that an examination discovered that one employee was mistakenly given 8,084 shares. To correct the aforementioned, the Bank forfeited these shares on 27 June 2016. After forfeiture, these shares became treasury stock.

For further information 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 are no longer 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 the letter of the Banking Supervision Department will come into effect on 1 January 2017. 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 is not expected to be material. If the Tel Aviv Stock Exchange will not be recognized as a qualifying central counterparty, the estimated increase in total risk assets on 30 September 2016 is about NIS 2.8 billion, a decrease of 0.1% 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 in the first quarter to an improvement of approximately 0.23% in the capital adequacy ratio of Tier 1 shareholders' equity as at 31 March 2016.

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 adjusting 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 as at 31 March 2016 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.

The effect of the pension liability discounting rate

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.

On 12 July 2016 the Bank received an approval from the Bank of Israel regarding the calculating method used for calculating the employees' rights in regards with measuring the regulatory capital. In accordance with the approval, the discount rate is to be calculated according to a moving average of the market yields, for a period of eight months ended at the reporting date. The change will apply from the financial reports as at 30 June 2016 until 31 December 2020 (Including). The change in the calculation methodology significantly moderating the volatility that stems from the changes in the discount interest.

On 15 November 2016 the Board of Directors of the Bank decided, based on the recommendation of the Audit Committee, to calculate the pension liabilities to employees based on a fixed margin of bonds that are internationally rated as AA. The effect of this change on the regulatory capital as at 30 September 2016 amounted to NIS 296 million.

For regulatory capital purposed, the pension liability amounts to NIS 15,773 million and Tier 1 shareholders' equity to NIS 32,255 million, compared with the pension liability in the books of NIS 16,797 million and Tier 1 shareholders' equity of NIS 31,592 million.

For further information, see Note 1.A.2.

Note 9B –Capital Adequacy, Leverage and Liquidity (cont.)

	30 September 2016	30 September 2015	31 December 2015
	Unaudited		Audited
	NIS millions		
A. Data			
Capital for purposes of calculating capital ratio			
Tier 1 capital, after regulatory adjustments and deductions	**32,255**	28,708	29,001
Tier 2 capital, after deductions	**12,405**	13,354	12,593
Total capital	**44,660**	42,062	41,594
Weighted balances of risk assets			
Credit risk	**271,243**	281,275	277,034
Market risk	**5,212**	7,045	5,167
Operational risk	**20,518**	20,227	20,432
Total weighted balances of risk assets	**296,973** (b)	308,547	302,633
Ratio of capital to risk components			
Ratio of Tier 1 capital to risk components	**10.86%**	9.30%	9.58%
Ratio of total capital to risk components	**15.04%**	13.63%	13.74%
Minimum Tier 1 capital ratio required by the Supervisor of Banks [(a)]	**9.20%**	9.06%	9.10%
Minimum total capital ratio required by the Supervisor of Banks [(a)]	**12.70%**	12.56%	12.60%
B. Principal subsidiary companies			
Leumi Card Ltd.			
Ratio of Tier 1 capital to risk components	**16.38%**	16.03%	16.89%
Ratio of total capital to risk components	**17.31%**	16.98%	17.82%
Minimum Tier 1 capital ratio required by the Supervisor of Banks	**8.00%**	9.00%	9.00%
Minimum total capital ratio required by the Supervisor of Banks	**11.50%**	12.50%	12.50%
Bank Leumi USA			
Ratio of Tier 1 capital to risk components	**12.29%**	11.04%	12.33%
Ratio of total capital to risk components	**14.94%**	13.88%	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) The minimum Tier 1 shareholders' equity ratio and the minimum total equity ratio required as of 1 January 2015 and until 31 December 2016 are 9% and 12.5%, respectively, and as of 1 January 2017 are 10% and 13.5%, respectively. Added to these ratios, as of 1 January 2015, is a capital requirement at a rate which reflects 1% of the remaining 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 to be required by the Supervisor of Banks as at 1 January 2017, according to data at the reporting date, are 10.27% and 13.77%, respectively.

(b) These figures include adjustments for the efficiency plan, which were determined in accordance with the letter written by the Supervisor of Banks on 12 January 2016, regarding "Operational Streamlining of the Banking System in Israel" (hereinafter: adjustments for the efficiency plan), which are gradually decreasing until 30 June 2021. For further information regarding the impact of the transitional provisions and the adjustments for the efficiency plan, see section C below. Out of the total weighted risk asset balances, a sum of NIS 120 million has been amortized due to adjustments for the efficiency plan.

On 31 December 2015, the Arab Bank was merged with and into Leumi.

Note 9B –Capital Adequacy, Leverage and Liquidity (cont.)

C. Capital components for purposes of calculating the capital ratio (a)

	30 September 2016	30 September 2015	31 December 2015
	(Unaudited)		(Audited)
	(NIS millions)		
1. Tier 1 shareholders' equity			
Equity attributed to shareholders of the Bank	**31,228**	**28,575**	**28,767**
Differences between equity attributed to shareholders of the Bank and Tier 1 shareholders' equity - minority interests	**243**	**262**	**262**
Differences between equity attributed to shareholders of the Bank and Tier 1 shareholders' equity - in respect of employee benefits	**843**	**747**	**894**
Adjustments in respect of the transition from the acounting curve to the 8-quarter curve (a)	**191**	**-**	**-**
Tier 1 shareholders' equity before regulatory adjustments and deductions	**32,505**	**29,584**	**29,923**
Regulatory adjustments and deductions:			
Goodwill and intangible assets	**(264)**	**(273)**	**(273)**
Deferred tax assets	**(367)**	**(603)**	**(643)**
Equity investments in financial corporations that are not consolidated in reports to the public	**-**	**-**	**-**
Regulatory adjustments and other deductions - Tier 1 shareholders' equity	**(12)**	**-**	**(6)**
Total regulatory adjustments and deductions - Tier 1 shareholders' equity	**(643)**	**(876)**	**(922)**
Total adjustments for the efficiency plan	**393**	**-**	**-**
Total Tier 1 shareholders' equity, after regulatory adjustments and deductions	**32,255**	**28,708**	**29,001**
2. Tier 2 capital			
Tier 2 capital: instruments before deductions	**9,215**	**10,194**	**9,450**
Tier 2 capital: provisions before deductions	**3,190**	**3,160**	**3,143**
Total Tier 2 capital before deductions	**12,405**	**13,354**	**12,593**
Deductions:			
Total deductions - Tier 2 capital	**-**	**-**	**-**
Total Tier 2 capital	**12,405**	**13,354**	**12,593**

(a) Pursuant to specific approval of the Banking Supervision Department. For further information, see the Section on "The effect of the discount rate on pension liability " above.

Note:
Calculated in accordance with Proper Conduct of Banking Business Directive No. 201-211, 299 – "Capital Measurement and Adequacy".

D. Effect of the transitional provisions and adjustments due to the efficiency plan on Tier 1 shareholders' equity ratio

	30 September 2016	30 September 2015	31 December 2015
	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 and before the effect of adjustments in respect of the efficiency plan	**10.35%**	8.74%	8.93%
Effect of the transitional provisions	**0.37%**	0.56%	0.65%
Ratio of Tier 1 shareholders' equity to risk components before the effect of adjustments in respect of the efficiency plan	**10.73%**	9.30%	9.58%
Effect of adjustments in respect of the efficiency plan	**0.13%**		
Ratio of Tier 1 shareholders' equity to risk components	**10.86%**	9.30%	9.58%

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.

	30 September 2016	30 September 2015	31 December 2015
	Unaudited		Audited
	NIS millions		
A. In consolidated terms			
Tier 1 capital (a)	**32,255**	28,708	29,001
Total exposures	**473,817**	453,101	462,680
Leverage ratio			
Leverage ratio	**6.81%**	6.34%	6.27%
Minimum leverage ratio required by the Supervisor of Banks	**6.00%**	6.00%	6.00%
B. Significant subsidiary companies			
Leumi Card Ltd.			
Leverage ratio	**11.21%**	11.18%	11.66%
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**	5.00%	5.00%
Bank Leumi USA (b)			
Leverage ratio	**9.42%**	9.24%	9.98%

(a) For the impact of the transitional provisions and the impact of the adjustments due to the efficiency plan, see Section C above.

(b) Implemented in accordance with local regulation, according to which there are no minimum requirements for a leveraging ratio.

G. 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).

Note 9B –Capital Adequacy, Leverage and Liquidity (cont.)

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.

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 "the circular"). As part 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 30 September		For the year ended 31 December
	2016	2015	2015
	Unaudited		Audited
	Percentage		
A. In consolidated terms			
Liquidity cover ratio	**130%**	104%	105%
Minimum liquidity cover ratio required by the Supervisor of Banks	**80%**	60%	60%
B. In terms of the banking corporation			
Liquidity cover ratio	**128%**	102%	103%
Minimum liquidity cover ratio required by the Supervisor of Banks	**80%**	60%	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

	30 September	30 September 2015	31 December 2015[a]
	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	**295**	313	324
Second year	**193**	205	223
Third year	**176**	187	197
Fourth year	**147**	171	164
Fifth year	**116**	135	138
After five years	**1,143**	1,161	1,248
Total	**2,070**	2,172	2,294
(2) Commitments to purchase securities	**671**	770	466
(3) Commitments to invest in buildings, equipment and others	**89**	146	133

(a) Restated.

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 43 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 11 October 2012, the District Court in Tel Aviv received a claim and a petition to approve it as a class action against Bank Leumi, the First International Bank of Israel, Mizrahi Bank and Discount Banks. According to the plaintiffs, payments which were paid by the customers of the banks, against which collection procedures are conducted, directly to the execution portfolios, were updated in their bank accounts at a later date than that on which the payment was made. As a result of the late update on payments in the bank account, the plaintiffs were overcharged for interest. According to the plaintiffs, the amount of the class action claim cannot be assessed at this stage. In a hearing which took place after filing the Attorney General's position, it was suggested to consider appointing an accountant who will examine whether any damage was caused to the customers. A petition was filed on behalf of the banks to allow filing third party messages against the Collection and Enforcement Authority. The parties filed a message regarding their consent to a settlement based on the court's suggestion. The Attorney General filed his position and comments in regards to the settlement.

E. On 27 November 2013, the Central District Court received a petition to approve a class action against the Bank, claiming that the Bank is incorrectly calculating the theoretical worth of warrants traded in the Tel Aviv Stock Exchange. According to the petitioners, the Bank uses the Black and Scholes mathematical model, which is the relevant model for determining the worth of warrants, but it includes an incorrect component regarding the option's expiry date – adding an unnecessary value date to this component. According to the petitioners, they cannot evaluate the damage precisely, but they estimate it to be millions of NIS.
On 22 June 2016, the Court's handed down its decision, accepting the petitioner's petition for withdrawal from the request to approve the claim as a class action and to dismiss his personal claim. Thus, the claim was brought to an end.

F. 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 lenders' 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.

G. 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.

H. On 11 February 2015, a petition was filed in the Tel Aviv District Court for approval of a class action against the Bank for a claimed sum of about NIS 2.3 billion. According to the plaintiff, the Bank allegedly keeps a "black list" of customers, according to which it marks customers with an asterisk in the Bank's systems, for an unlimited period of time, in such a way that harms them or makes things difficult for them, he claims, to receive credit or perform other business activities with the Bank. According to the plaintiff, keeping such a "list" without disclosing criteria is a violation of the law and of legal and behavioral norms. The Bank's response to the petition was filed, wherein the Bank explained, inter alia, that the Bank operates in accordance with the requirements of the Proper Conduct of Banking Business Directives regarding credit risk management. On 10 October 2016, the plaintiff filed a revised petition, wherein the amount of the claim was reduced to NIS 1.5 billion.

I. 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 for outright dismissal was rejected and the case is still under proceedings.

J. 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.

K. 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.

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. 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 respondents, among them the Bank, Bank Leumi USA, Bank Hapoalim, private individuals and various institutions.
The subject of the petition is mainly the claim 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 respondents together was originally $34.5 billion. The legal or economic basis for this amount was not clarified, and no explanation given to relate the petitioners with the unrealistic sum requested in the petition, or details of the damages claimed against the Bank and Bank Leumi USA.
On 1 August 2016, an amended claim was submitted, according to which it would appear that the total amount of the claim against all the defendants together was reduced to US$ 1 billion (or a few billion dollars) although the amended claim is not entirely clear on this point. The legal and factual basis for these claims against the Bank and Bank Leumi USA, and the connection between any damages, insofar as they were caused, and these banks, were not clarified sufficiently also in the amended claim. The Court decided to delay the proceedings and to postpone the dates set for the continuation of the proceedings.

B. On 22 May 2016, a petition was filed in the Central District Court, to approve a class action against the Bank, against Bank Hapoalim Ltd., Israel Discount Bank Ltd. and Bank Mizrahi Tefahot Ltd. The claim alleges that when the respondent banks charge teller transaction fees in cash, they charge the fee specified in the price list, without discounts which, according to the petitioners, should apply to certain population groups, and that they do not take these fees into account while calculating the minimum fee charged in the customers' accounts. According to the petitioners, this alleged behavior is, inter alia, a violation of the law and of a contract between the parties.
The alleged personal damage caused by the Banks to the petitioners is NIS 7.70. According to the petitioners, they cannot evaluate the precise amount which they claim was unlawfully charged by the various respondents from members of the group.

C. On 17 August 2016, a petition was filed in the District Court in Tel Aviv for approval of a class action against the Banks, and against 9 other banks. The subject of the claim is the plaintiffs' claim that the banks collect commissions which are not listed in the binding statutory price list according to the Banking Law (Service to the Customer), 1981) or which are of a different price than the listed price from customers who are not classified as an individual or as a small business, in a manner which is allegedly unlawful. The plaintiffs claim that the amount of damage caused to all members of the group which they purport to represent, of all the respondent banks combined, is about NIS 1 billion (principal) at the very least, with the addition of non-monetary damage estimated by the plaintiffs at about NIS 20 per customer. According to the plaintiffs, the respondents have the full figures and they request to clarify them in the future.

D. On 29 September 2016, a petition for approval of a class action was filed against the Bank for alleged damages caused to the Bank's customers due to the closure of dozens of branches/teller stations. According to the plaintiff, the Bank has closed branches and teller stations over the past few years and has thusly harmed the customers' ability to receive services from the Bank. Furthermore, the plaintiff claims that the digital service solution is not suitable for some of the population. According to the plaintiff, within the special relationship between a bank and its customers, this conduct is a violation, allegedly, of the obligation of good faith, a deception, an unlawful gain of wealth and negligence toward the transferred customers. The alleged personal damage is NIS 1,000 and the group damage is set at NIS 500 million.

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 respondents. 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 respondents stood at NIS 286 million. In the complaint no clear connection of a specific sum was made for each respondent. The petition for approval relates to bonds issued by Keshet, that were issued in NOTES, issued by Lehman Brothers Bankhaus A.G. According to the petition, 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 petitioners claimed that according to the petitioners, no actions were taken to prevent or minimalize, the alleged damage caused to the bond holders. On 16 May 2016, the Court approved a compromise arrangement in the claim. According to the arrangement, 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 Ltd., Isracard Ltd. and Israel Credit Cards Ltd., (hereinafter: "the credit card companies") in the amount of about NIS 1.7 billion, the claim regards the charging 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 under which proceeds of transactions performed with these cards, are transferred to vendors with a delay of some 20 days, is also a unauthorized restrictive arrangement or a discriminating condition in a uniform contract. An amended petition for withdrawal that was submitted within this petition for approval, was approved by the Court in July 2015. A number of petitions were filed with the Court to replace the petitioner and his representative. On 9 March 2016, the Court decreed who will file a revised petition for approval, to replace the abovementioned original petition. The court-appointed petitioner filed a revised petition for approval. The claim as a class action (hereinafter: "the revised petition"). The alleged sum claimed by the petitioner within the revised petition for the group that the petitioner purports to represent, is about NIS 7.1 billion, this against all credit card company combined. In the revised petition, the petitioner claims to a binding arrangement which was made, allegedly, between the credit card companies, which, according to the petitioner, was not approved, regarding immediate debit cards and prepaid cards (cards which are charged in advance). The petitioner's claim in this respect, regard both the interchange fee and the date in which the business is credited for transactions in these cards.

5. For details regarding legal proceedings pertaining to US customers – see Section C.1.A in this Note below.

C. Contingent liabilities and other special commitments

1. The US customer 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. In order to allow the monitor to complete his work, it was agreed during the period of the report with the NYDFS that the period of the monitor's activities will continue until 31 December 2016.

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. Updates which occurred during the report period are detailed below.

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.

On 16 November 2014, the District Court in Tel Aviv (the Financial Division) received a claim containing a request to provide various reliefs regarding the arrangements of the Bank Group with the US authorities. The Bank filed a statement of defense which primarily claims that most of the requested reliefs are no longer relevant in light of signing the arrangements with the US authorities. The Bank also filed a petition to dismiss the claim outright. On 11 July 2016, the Court decided to dismiss the claim outright. Thus, the procedure ended.

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 respondents, 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 respondents, 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.

In February 2015 the Bank's 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 described above, 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 respondent in the request for approval, the officers and managers respondents will pay, 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.

In accordance with the provisions of the settlement agreement, the payment amount from the insurers is final and exhaustive of the Bank's rights towards all of the ensured parties in the policy in connection with any matter pertaining to the US customer affair. It was further established in the settlement agreement, that the Bank irrevocably waives the right to any claim against office holders, employees and advisors in connection with the US customer affair. In light of this, the settlement agreement stipulates that the settlement amount is final and shall be paid to the Bank in any event, even if there will be appeal procedures regarding the settlement approval from the court, and the Bank committed to step into the insurers' shoes in any event of further proceedings, as applicable, inter alia, following an appeal as aforementioned.

In addition, without admitting any claim, and their view, ex gratia, some of the respondents in the claim, the Messrs. Galia Maor, Eitan Raf and Zvi Itzkovitch, shall pay the Bank a total amount of NIS 5.1 million. On 17 March 2016 a request was submitted to the court to approve a compromise agreement requesting to approve the class action detailed above, 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 settlement agreement will be made out of the settlement amount to be paid by the insurers as detailed above.

On 14 September 2016, the District Court in Tel Aviv approved the settlement arrangements and gave them lawful validation, subject to making a number of changes regarding remuneration and fees. Pursuant to the court's decision, the insurance companies paid the Bank the amounts which were determined in the arrangement, amounts which, as aforementioned, are final and independent on the appeal proceedings. On 27 October an appeal was filed against the judgment by a shareholder who filed the claim detailed in Section 2 below.

2. 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 respondent 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 respondent 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 respondent 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 respondent filed with the Court in New York.

B. Examination by the US Securities and Exchange Commission (SEC)

There was 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.

Pursuant to Bank of Israel instructions, the Bank made a provision in the financial statements as at 31 March 2015 in the amount of US$ 5 million. On 18 October 2016, the SEC notified that Bank that it is approving a settlement in order to bring the aforementioned investigation to an end. As part of the settlement, the Bank will pay the SEC a total amount of US$ 1.6 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 respondent 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 respondent, 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 29 June 2014, a petition was filed to the Supreme Court, sitting as a High Court of Justice, against the Supervisor of Banks and the Governor of the Bank, as well as against four companies which were part of the IDB Group (Tomahawk, Ganden Holdings, IDB Holdings, IDB Development) and the banks: Leumi, Hapoalim, Mizrahi and discount were also attached as respondents. According to the petitioners, they have applied to the Supervisor several times so that he would examine the conduct of the banking system vis-à-vis the IDB Group, but they allege that they were not answered, and therefore, they are requesting the grant of a conditional order that the Supervisor be instructed to explain why he would not respond to the issue of the petitioners' applications regarding the exercise of his powers in all matters relating to the debt arrangements with the large corporate groups in the economy, in particular, the IDB Group, and why he would not conduct a comprehensive investigation on the matter of the conduct of the banking system in granting credit to the IDB Group, including the granting of securities, guarantees, recycling of loans, decisions of the credit committees and the debt arrangements of the banking system with the group. The petitioners further claimed that the Supervisor is obliged to draw systemic and personal conclusions from the said investigation, to publish them and take steps according to his power to remedy the deficiencies, including to compel the banks to collect the debts of the IDB Group in their entirety, and to remove those responsible for the deficiencies from their positions. The Supreme Court decided to accept the appellants' petition to postpone the hearing in this case until a decision in the administrative appeal under the Freedom of Information Law submitted against the Bank of Israel and the officer responsible for the Freedom of Information in the Bank of Israel (hereinafter: "The Freedom of Information Petition"). It was determined in the decision that when a verdict will be handed down in the Freedom of Information Petition, the appellant in this High Court of Justice case will notify the court if a hearing is required or not. On 2 June 2016, a verdict was reached, rejecting the Freedom of Information Petition and it was appealed. On 28 June 2016, the Supreme Court decided that the hearing in this High Court of Justice case would be postponed until a verdict is given on the appeal filed on the decision in the Freedom of Information appeal.

C. 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 6 September 2016, the Supreme Court partially accepted the petition for leave to appeal filed by the plaintiff, and instructed the Bank to reveal "any document (out of the document types listed in the petition) in which there is a reference to a value estimate of the collateral during the relevant period". Regarding the remaining documents, the decision of the District Court remains in effect and they are not required to be disclosed. The case was returned to the District Court for further hearing.

D. In March 2012, a letter of indictment was filed against Bank Leumi Romania (hereinafter: "Leumi Romania") and against 4 managers at Leumi Romania, regarding billing activities in a customer's account which, according to the prosecution in Romania, was unlawfully performed. On 7 October 2015, a ruling was reached, according to which the court rejected some of the prosecution's claims but convicted Leumi Romania, as well as the four individual defendants, for the offense of misuse of their positions, for performing the abovementioned billing activities. The ruling sentenced the four individual defendants to a suspended sentence and limitations in fulfilling certain positions (also suspended). Regarding Leumi Romania, the court ruled a fine in the amount of RON 20 thousand as well as an obligation to present the judgement in the Leumi Romania office for a period of two months. Furthermore, it was determined that Leumi Romania and the four individual defendants are to compensate the customer in an amount equal to EUR 10 thousand, and pay the expenses of the proceeding to the state. After the parties in the procedure filed appeals against the ruling, on 2 November 2016, a final decision was made by the court in Romania, which acquitted all defendants from the criminal charges.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates

A. Scope of activity on consolidated basis

	30 September 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	**-**	**3,523**	**-**	**-**	**-**	**3,523**
Total	**-**	**3,523**	**-**	**-**	**-**	**3,523**
Of which: interest rate swap contracts in which the banking institution agreed to rate of interest	**-**	**3,523**	**-**	**-**	**-**	**3,523**
b) ALM derivatives (a)(b)						
Futures contracts	**-**	**78,442**	**55**	**57,288**	**202**	**135,987**
Forward contracts	**12,589**	**5,850**	**196,796**	**439**	**15**	**215,689**
Exchange-traded options						
Options written	**-**	**879**	**16,396**	**21,977**	**118**	**39,370**
Options purchased	**-**	**879**	**16,418**	**21,977**	**118**	**39,392**
Other options						
Options written	**-**	**9,932**	**12,228**	**2,545**	**238**	**24,943**
Options purchased	**-**	**6,369**	**13,227**	**2,489**	**238**	**22,323**
Swaps	**576**	**263,082**	**27,911**	**28,343**	**148**	**320,060**
Total	**13,165**	**365,433**	**283,031**	**135,058**	**1,077**	**797,764**
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	**-**	**141,943**	**-**	**-**	**-**	**141,943**
c) Other derivatives (a)	**-**	**-**	**-**	**-**	**-**	**-**
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	**-**	**-**	**-**	**-**	**20**	**20**
Spot foreign exchange contracts	**-**	**-**	**9,792**	**-**	**-**	**9,792**
Total	**-**	**-**	**9,792**	**-**	**20**	**9,812**
Grand total	**13,165**	**368,956**	**292,823**	**135,058**	**1,097**	**811,099**

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's assets and liabilities management not designated for hedging.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity (cont'd)

	30 September 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	-	3	-	-	-	3
Gross negative fair value	-	184	-	-	-	184
b) ALM derivatives (a)(b)						
Gross positive fair value	365	6,905	2,944	1,389	26	11,629
Gross negative fair value	425	6,668	3,988	1,379	26	12,486
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)	365	6,908	2,944	1,389	26	11,632
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	365	6,908	2,944	1,389	26	11,632
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	46	269	104	-	-	419
Gross negative fair value (c)	425	6,852	3,988	1,379	26	12,670
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative	425	6,852	3,988	1,379	26	12,670
liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	6	221	334	-	5	566

(a) Excluding credit derivatives.
(b) Derivatives constituting part of the Bank's assets and liabilities 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 2 million. Negative gross fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 36 million.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity on consolidated basis (cont'd)

	30 September 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	-	2,614	-	-	-	2,614
Total	-	2,614	-	-	-	2,614
Of which: interest rate swap contracts in which the banking institution agreed to rate of interest	-	2,614	-	-	-	2,614
b) ALM derivatives (a)(b)						
Futures contracts	-	15,831	2	63,539	361	79,733
Forward contracts	13,364	14,600	208,967	423	27	237,381
Exchange-traded options						
Options written	-	789	16,907	13,847	10	31,553
Options purchased	-	789	16,899	13,847	10	31,545
Other options						
Options written	-	10,328	20,566	2,011	100	33,005
Options purchased	-	7,837	20,897	2,571	100	31,405
Swaps	691	286,952	29,641	24,851	349	342,484
Total	14,055	337,126	313,879	121,089	957	787,106
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	144,281	-	-	-	144,281
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	50	50
Spot foreign exchange contracts	-	-	17,507	-	-	17,507
Total	-	-	17,507	-	50	17,557
Grand total	14,055	339,740	331,386	121,089	1,007	807,277

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's assets and liabilities management not designated for hedging.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity on consolidated basis (cont'd)

	30 September 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 positive fair value	-	-	-	-	-	-
Gross negative fair value	-	177	-	-	-	177
b) ALM derivatives (a)(b)						
Gross positive fair value	306	8,403	4,454	2,118	35	15,316
Gross negative fair value	317	8,028	4,197	2,029	43	14,614
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	1	1
e) Total						
Gross positive fair value (c)	306	8,403	4,454	2,118	35	15,316
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	306	8,403	4,454	2,118	35	15,316
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	20	27	481	141	1	670
Gross negative fair value (c)	317	8,205	4,197	2,029	44	14,792
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative	317	8,205	4,197	2,029	44	14,792
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	1	6	478	1	2	488

(a) Excluding credit derivatives.
(b) Derivatives constituting part of the Bank's assets and liabilities 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 2 million. Negative gross fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 26 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 to 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 contracts	-	-	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.
(b) Derivatives constituting part of the Bank's assets and liabilities management 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.
(b) Derivatives constituting part of the Bank's assets and liabilities 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 6 million. 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

	30 September 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)	**110**	**7,173**	**2,119**	**19**	**2,211**	**11,632**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	**-**	**5,780**	**1,614**	**19**	**617**	**8,030**
Mitigation of credit risk in respect of cash collateral received	**-**	**801**	**260**	**-**	**13**	**1,074**
Net amount of assets in respect of derivative instruments	**110**	**592**	**245**	**-**	**1,581**	**2,528**
Off-balance sheet credit risk in respect of derivative instruments (d)	**-**	**3,753**	**1,210**	**69**	**4,945**	**9,977**
Mitigation of off-balance sheet credit risk	**-**	**1,933**	**551**	**42**	**1,638**	**4,164**
Net off-balance sheet credit risk in respect of derivative instruments	**-**	**1,820**	**659**	**27**	**3,307**	**5,813**
Total credit risk in respect of derivative instruments	**110**	**2,412**	**904**	**27**	**4,888**	**8,341**
Book balance of liabilities in respect of derivative instruments (a) (c)	**119**	**6,801**	**2,160**	**44**	**3,546**	**12,670**
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	**-**	**5,780**	**1,614**	**19**	**617**	**8,030**
Cash collateral pledged	**-**	**819**	**290**	**-**	**851**	**1,960**
Net amount of liabilities in respect of derivative instruments	**119**	**202**	**256**	**25**	**2,078**	**2,680**

See notes on the next page.

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)

	30 September 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)	267	7,890	2,436	4	4,719	15,316
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	3,469	1,176	4	718	5,367
Mitigation of credit risk in respect of cash collateral received	-	448	270	-	20	738
Net amount of assets in respect of derivative instruments	267	3,973	990	-	3,981	9,211
Off-balance sheet credit risk in respect of derivative instruments (d)	-	3,896	1,306	92	5,338	10,632
Mitigation of off-balance sheet credit risk	-	278	128	55	714	1,175
Net off-balance sheet credit risk in respect of derivative instruments	-	3,618	1,178	37	4,624	9,457
Total credit risk in respect of derivative instruments	267	7,591	2,168	37	8,605	18,668
Book balance of liabilities in respect of derivative instruments (a) (c)	304	9,353	2,537	115	2,483	14,792
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	3,469	1,176	4	718	5,367
Cash collateral pledged	-	988	289	72	1	1,350
Net amount of liabilities in respect of derivative instruments	304	4,896	1,072	39	1,764	8,075

See notes on next page.

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 11,630 million (at 30 September 2015 - NIS 15,314 million, at 31 December 2015 – NIS 11,250 million).
(c) Of which a book balance of standalone derivative instruments in the amount of NIS 12,634 million (at 30 September 2015 – NIS 14,766 million, at 31 December 2015 – NIS 11,098 million).
(d) Credit risk in respect of off-balance sheet financial instruments (including 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 nine-month period ended 30 September 2016, and 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

	30 September 2016				
	Unaudited				
	Up to 3 months	From 3 months to one year	From one to five years	Over five years	Total
	NIS millions				
Interest contracts:					
Shekel – index	**1,208**	**3,225**	**5,893**	**2,839**	**13,165**
Other	**74,246**	**84,126**	**128,276**	**82,308**	**368,956**
Foreign currency contracts	**181,702**	**76,628**	**27,254**	**7,239**	**292,823**
Contracts in respect of shares	**110,757**	**23,142**	**1,155**	**4**	**135,058**
Commodities and other contracts	**948**	**126**	**23**	**-**	**1,097**
Total	**368,861**	**187,247**	**162,601**	**92,390**	**811,099**
Total 30 September 2015 (Unaudited)	344,980	171,753	192,365	98,179	807,277
Total 31 December 2015 (Audited)	297,910	168,935	166,537	94,628	728,010

Note 12A – 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 amendments to the provisions are designed to require reporting of activity segments according to a uniform and comparable format set by the Banking Supervision Department, which is mainly based on the classification of customers according to their respective activity turnover.

When a banking corporation has no information regarding the turnover of a business customer, who has no indebtedness towards that banking corporation (including credit facilities etc.), the banking corporation may classify that customer under the relevant supervisory activity segment according to the total financial assets after the multiplication thereof by a factor of 10.

Note 12A – Regulatory operating segments (cont'd)

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'd)

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'd)

Information on regulatory operating segments - consolidated

	For the three months ended 30 September 2016				
	Activity in Israel				
	Households	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses
	Unaudited				
	NIS millions				
Interest income from outside entities	1,018	3	569	215	319
Interest expense to outside entities	125	49	20	20	59
Interest income (expenses), net:					
From outside entities	893	(46)	549	195	260
Intersegmental	(254)	66	(84)	(24)	(39)
Total interest income (expenses)	639	20	465	171	221
Total non-interest income (expenses)	451	44	207	81	134
Total income (expenses)	1,090	64	672	252	355
Expenses (income) in respect of credit losses	147	-	56	(29)	(83)
Operating and other expenses:					
To outside entities	1,068	34	385	116	142
Intersegmental	7	1	-	-	-
Total operating and other expenses	1,075	35	385	116	142
Profit (loss) before taxes	(132)	29	231	165	296
Provision for (benefit from) taxes on the profit	(47)	11	82	51	104
Profit (loss) after taxes	(85)	18	149	114	192
Share of the banking corporation in profits of companies included on equity basis	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	(85)	18	149	114	192
Net profit (loss) attributed to non-controlling interests	(8)	-	(1)	-	(2)
Net profit (loss) attributed to shareholders of the banking corporation	(93)	18	148	114	190
Average balance of assets (a)	116,716	632	59,299	25,468	45,725
Of which: Investments in companies included on equity basis (a)	-	-	-	-	-
Average balance of credit to the public (a)	115,667	608	58,804	25,205	45,300
Balance of credit to the public at the end of the reporting period	116,168	616	59,761	25,074	40,875
Balance of impaired debts	249	-	47	564	2,511
Balance of debts in arrears of more than 90 days	737	-	131	6	2
Average balance of liabilities (a)	118,778	28,965	39,211	28,159	43,482
Of which: Average balance of deposits of the public (a)	117,936	28,858	37,339	27,326	43,192
Balance of deposits of the public at the end of the reporting period	114,459	28,413	38,788	27,784	45,490
Average balance of risk assets (a) (b)	105,974	728	48,118	24,359	38,423
Balance of risk assets at the end of the reporting period (b)	112,834	745	42,222	25,041	37,847
Average balance of assets under management (a) (c)	79,782	51,206	36,262	20,317	71,343
Distribution of interest income (expenses), net:					
Margin on credit granting activity	566	2	448	160	212
Margin on deposit taking activity	73	18	17	10	9
Other	-	-	-	1	-
Total interest income (expense), net	639	20	465	171	221

(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				
Instiitutional entities	Financial management segment	Other segment	Total activity in Israel	Private persons	Business activity	Other	Total activity abroad	Total
2	216	-	2,342	14	212	39	265	2,607
121	203	7	604	11	24	(2)	33	637
(119)	13	(7)	1,738	3	188	41	232	1,970
132	223	(6)	14	23	(8)	(29)	(14)	-
13	236	(13)	1,752	26	180	12	218	1,970
47	442	35	1,441	27	32	14	73	1,514
60	678	22	3,193	53	212	26	291	3,484
(5)	6	3	95	(2)	32	(19)	11	106
74	47	(134)	1,732	91	161	(29)	223	1,955
-	39	(101)	(54)	-	-	54	54	-
74	86	(235)	1,678	91	161	25	277	1,955
(9)	586	254	1,420	(36)	19	20	3	1,423
(2)	238	67	504	(7)	21	(4)	10	514
(7)	348	187	916	(29)	(2)	24	(7)	909
-	21	-	21	-	-	-	-	21
(7)	369	187	937	(29)	(2)	24	(7)	930
-	-	-	(11)	-	-	-	-	(11)
(7)	369	187	926	(29)	(2)	24	(7)	919
3,053	141,562	6,129	398,584	2,515	21,211	12,516	36,242	434,826
-	900	-	900	-	-	-	-	900
1,865	-	-	247,449	1,943	21,304	-	23,247	270,696
1,168	-	-	243,662	1,669	22,559	5	24,233	267,895
-	-	-	3,371	123	580	-	703	4,074
-	-	-	876	-	85	-	85	961
59,902	55,357	2,515	376,369	8,675	17,429	1,999	28,103	404,472
55,239	-	-	309,890	8,517	17,181	1,088	26,786	336,676
54,948	-	-	309,882	7,512	19,441	16	26,969	336,851
2,477	44,938	2,332	267,349	2,085	20,159	8,295	30,539	297,888
1,885	41,144	3,510	265,228	2,130	21,544	8,071	31,745	296,973
481,825	39,325	-	780,060	14,511	2,798	3,079	20,388	800,448
2	968	(22)	2,336	2	91	-	93	2,429
11	(740)	2	(600)	28	89	(5)	112	(488)
-	8	7	16	(4)	-	17	13	29
13	236	(13)	1,752	26	180	12	218	1,970

Note 12A – Regulatory operating segments (cont'd)

Information on regulatory operating segments – consolidated (cont'd)

	For the nine months ended 30 September 2015				
	Activity in Israel				
	Households	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses
	Unaudited				
	NIS millions				
Interest income from outside entities	865	-	634	172	385
Interest expense to outside entities	108	40	13	12	36
Interest income, net					
From outside entities	757	(40)	621	160	349
Intersegmental	(133)	55	(238)	(17)	(76)
Total interest income (expenses), net	624	15	383	143	273
Total non-interest income	422	42	208	36	147
Total income	1,046	57	591	179	420
Expenses (income) in respect of credit losses	110	-	136	(20)	(177)
Operating and other expenses (income):					
To outside entities	883	42	385	119	131
Intersegmental	49	1	-	-	-
Total operating and other expenses	932	43	385	119	131
Profit (loss) before taxes	4	14	70	80	466
Provision for (benefit from) taxes on the profit	(3)	6	27	30	176
Profit (loss) after taxes	7	8	43	50	290
Share of the banking corporation in profits (losses) of companies included on equity basis	2	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	9	8	43	50	290
Net profit (loss) attributed to non-controlling interests	(8)	-	(1)	-	(1)
Net profit (loss) attributed to shareholders of the banking corporation	1	8	42	50	289
Average balance of assets (a)	112,547	542	54,982	25,239	47,323
Of which: Investments in companies included on equity basis (a)	3	-	-	-	-
Average balance of credit to the public (a)	111,531	519	54,805	23,969	47,155
Balance of credit to the public at the end of the reporting period	112,970	586	56,468	24,618	44,674
Balance of impaired debts	408	-	1,580	414	896
Balance of debts in arrears of more than 90 days	753	-	133	6	2
Average balance of liabilities (a)	107,901	25,055	38,135	24,068	50,129
Of which: Average balance of deposits of the public (a)	103,402	24,953	35,966	22,850	42,855
Balance of deposits of the public at the end of the reporting period	106,978	25,566	36,930	23,938	42,929
Average balance of risk assets (a) (b)	108,380	432	50,150	26,767	39,896
Balance of risk assets at the end of the reporting period (b)	115,264	869	47,491	27,728	44,808
Average balance of assets under management (a) (c)	88,737	53,890	38,302	21,397	82,821
Distribution of interest income (expenses), net:					
Margin on credit granting activity	563	2	370	139	260
Margin on deposit taking activity	60	13	13	4	13
Other	1	-	-	-	-
Total interest income (expenses), net	624	15	383	143	273

(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				
Instiitutional entities	Financial management segment	Other segment	Total activity in Israel	Private persons	Business activity	Other	Total activity abroad	Total
2	149	-	2,207	22	207	27	256	2,463
117	229	-	555	10	28	(5)	33	588
(115)	(80)	-	1,652	12	179	32	223	1,875
125	304	(14)	6	16	(29)	7	(6)	-
10	224	(14)	1,658	28	150	39	217	1,875
42	338	35	1,270	31	30	13	74	1,344
52	562	21	2,928	59	180	52	291	3,219
(1)	(10)	(3)	35	1	22	15	38	73
69	96	156	1,881	108	121	11	240	2,121
-	(37)	(13)	-	-	-	-	-	-
69	59	143	1,881	108	121	11	240	2,121
(16)	513	(119)	1,012	(50)	37	26	13	1,025
(6)	189	(105)	314	(1)	20	(6)	13	327
(10)	324	(14)	698	(49)	17	32	-	698
-	13	-	15	-	-	-	-	15
(10)	337	(14)	713	(49)	17	32	-	713
-	-	-	(10)	1	-	-	1	(9)
(10)	337	(14)	703	(48)	17	32	1	704
1,601	118,824	7,403	368,461	3,895	19,533	9,959	33,387	401,848
-	892	-	895	-	-	2	2	897
1,361	85	-	239,425	2,459	19,671	34	22,164	261,589
1,120	-	-	240,436	2,104	21,189	93	23,386	263,822
-	-	-	3,298	37	973	-	1,010	4,308
-	-	-	894	18	112	-	130	1,024
55,351	45,896	790	347,325	10,968	14,892	1,018	26,878	374,203
54,163	-	-	284,189	10,712	14,523	137	25,372	309,561
55,473	-	-	291,814	10,257	15,685	235	26,177	317,991
1,964	47,366	4,340	279,295	2,873	19,984	6,091	28,948	308,243
1,628	34,776	5,157	277,721	2,874	20,832	7,120	30,826	308,547
462,889	44,703	-	792,739	17,548	3,029	2,313	22,890	815,629
1	901	(15)	2,221	(4)	93	37	126	2,347
9	(674)	1	(561)	22	64	7	93	(468)
-	(3)	-	(2)	(10)	(7)	(5)	(2)	(4)
10	224	(14)	1,658	28	150	39	217	1,875

Note 12A – Regulatory operating segments (cont'd)

Information on regulatory operating segments – consolidated (cont'd)

	For the nine months ended 30 September 2016				
	Activity in Israel				
	Households	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses
	Unaudited				
	NIS millions				
Interest income from outside entities	2,635	8	1,622	583	894
Interest expense to outside entities	292	93	46	53	152
Interest income, net:					
From outside entities	2,343	(85)	1,576	530	742
Intersegmental	(470)	147	(214)	(51)	(85)
Total interest income (expenses)	1,873	62	1,362	479	657
Total non-interest income (expenses)	1,299	130	624	267	419
Total income (expenses)	3,172	192	1,986	746	1,076
Expenses (income) in respect of credit losses	353	1	194	(98)	(622)
Operating and other expenses:					
To outside entities	3,072	105	1,130	352	406
Intersegmental	18	1	-	-	-
Total operating and other expenses	3,090	106	1,130	352	406
Profit (loss) before taxes	(271)	85	662	492	1,292
Provision for (benefit from) taxes on the profit	(106)	31	236	168	462
Profit (loss) after taxes	(165)	54	426	324	830
Share of the banking corporation in profits of companies included on equity basis	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	(165)	54	426	324	830
Net profit (loss) attributed to non-controlling interests	(23)	-	(3)	(1)	(2)
Net profit (loss) attributed to shareholders of the banking corporation	(188)	54	423	323	828
Average balance of assets (a)	115,791	630	58,224	26,102	46,946
Of which: Investments in companies included on equity basis (a)	-	-	-	-	-
Average balance of credit to the public (a)	114,863	604	57,937	25,372	46,074
Balance of credit to the public at the end of the reporting period	116,168	616	59,761	25,074	40,875
Balance of impaired debts	249	-	47	564	2,511
Balance of debts in arrears of more than 90 days	737	-	131	6	2
Average balance of liabilities (a)	118,021	29,239	39,686	28,193	45,971
Of which: Average balance of deposits of the public (a)	113,916	29,129	38,151	27,451	45,637
Balance of deposits of the public at the end of the reporting period	114,459	28,413	38,788	27,784	45,490
Average balance of risk assets (a) (b)	107,306	289	43,394	21,660	38,228
Balance of risk assets at the end of the reporting period (b)	112,834	745	42,222	25,041	37,847
Average balance of assets under management (a) (c)	79,388	51,643	35,500	20,342	72,156
Distribution of interest income (expenses), net:					
Margin on credit granting activity	1,679	5	1,314	451	629
Margin on deposit taking activity	194	57	48	26	28

(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				
Instiitutional entities	Finnancial management segment	Other segment	Total activity in Israel	Private persons	Business activity	Other	Total activity abroad	Total
5	697	-	6,444	50	644	98	792	7,236
304	542	-	1,482	29	69	(3)	95	1,577
(299)	155	-	4,962	21	575	101	697	5,659
334	393	(25)	29	86	(57)	(58)	(29)	-
35	548	(25)	4,991	107	518	43	668	5,659
159	994	(31)	3,861	95	83	45	223	4,084
194	1,542	(56)	8,852	202	601	88	891	9,743
(2)	24	4	(146)	-	35	(60)	(25)	(171)
198	129	256	5,648	224	355	73	652	6,300
-	113	(186)	(54)	-	-	54	54	-
198	242	70	5,594	224	355	127	706	6,300
(2)	1,276	(130)	3,404	(22)	211	21	210	3,614
(1)	617	(160)	1,247	(12)	71	(14)	45	1,292
(1)	659	30	2,157	(10)	140	35	165	2,322
-	56	-	56	-	-	-	-	56
(1)	715	30	2,213	(10)	140	35	165	2,378
-	(1)	-	(30)	-	-	-	-	(30)
(1)	714	30	2,183	(10)	140	35	165	2,348
2,495	138,191	6,945	395,324	2,854	20,897	11,533	35,284	430,608
-	909	-	909	-	-	-	-	909
1,394	-	-	246,244	2,162	21,005	-	23,167	269,411
1,168	-	-	243,662	1,669	22,559	5	24,233	267,895
-	-	-	3,371	123	580	-	703	4,074
-	-	-	876	-	85	-	85	961
59,299	49,410	3,754	373,573	9,199	16,668	1,649	27,516	401,089
54,863	-	-	309,147	9,007	16,433	590	26,030	335,177
54,948	-	-	309,882	7,512	19,441	16	26,969	336,851
1,392	36,771	3,974	253,014	2,630	18,821	7,486	28,937	281,951
1,885	41,144	3,510	265,228	2,130	21,544	8,071	31,745	296,973
478,504	39,144	-	776,677	14,219	2,484	2,748	19,451	796,128
6	2,388	(24)	6,448	16	277	34	327	6,775
29	(1,867)	(1)	(1,486)	91	239	-	330	(1,156)

Note 12A – Regulatory operating segments (cont'd)
Information on regulatory operating segments – consolidated (cont'd)

	For the nine months ended 30 September 2015				
	Activity in Israel				
	Households	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses
	Unaudited				
	NIS millions				
Interest income from outside entities	2,425	4	1,623	525	1,000
Interest expense to outside entities	240	81	32	28	101
Interest income (expenses), net					
From outside entities	2,185	(77)	1,591	497	899
Intersegmental	(364)	120	(396)	(63)	(169)
Total interest income (expenses)	1,821	43	1,195	434	730
Total non-interest income (expenses)	1,266	139	641	228	418
Total income (expenses)	3,087	182	1,836	662	1,148
Expenses in respect of credit losses	210	(9)	217	(83)	(136)
Operating and other expenses:					
To outside entities	2,978	121	1,128	367	408
Intersegmental	(53)	1	-	-	-
Total operating and other expenses	2,925	122	1,128	367	408
Profit (loss) before taxes	(48)	69	491	378	876
Provision for taxes on the profit	(30)	27	184	141	329
Profit (loss) after taxes	(18)	42	307	237	547
Share of the banking corporation in profits of companies included on equity basis	4	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	(14)	42	307	237	547
Net profit (loss) attributed to non-controlling interests	(21)	-	(3)	(1)	(3)
Net profit (loss) attributed to shareholders of the banking corporation	(35)	42	304	236	544
Average balance of assets	110,679	517	54,136	25,412	45,109
Of which: Investments in companies included on equity basis	-	-	-	-	-
Average balance of credit to the public	109,740	492	53,915	24,253	44,456
Balance of credit to the public at the end of the reporting period	112,970	586	56,468	24,618	44,674
Balance of impaired debts	408	-	1,580	414	896
Balance of debts in arrears of more than 90 days	753	-	133	6	2
Average balance of liabilities (a)	105,729	24,909	36,901	24,055	48,896
Of which: Average balance of deposits of the public (a)	101,250	24,811	34,693	22,838	44,035
Balance of deposits of the public at the end of the reporting period	106,978	25,566	36,930	23,938	42,929
Average balance of risk assets (a) (b)	108,805	337	44,775	25,505	40,076
Balance of risk assets at the end of the reporting period (b)	115,264	869	47,491	27,728	44,808
Average balance of assets under management (a) (c)	90,083	54,693	38,782	21,626	83,137
Distribution of interest income, net:					

(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				
Instiitutional entities	Financial management segment	Other segment	Total activity in Israel	Private persons	Business activity	Other	Total activity abroad	Total
5	454	-	6,036	61	608	78	747	6,783
286	530	-	1,298	33	59	2	94	1,392
(281)	(76)	-	4,738	28	549	76	653	5,391
307	595	(14)	16	83	(81)	(18)	(16)	-
26	519	(14)	4,754	111	468	58	637	5,391
138	1,530	103	4,463	165	86	38	289	4,752
164	2,049	89	9,217	276	554	96	926	10,143
(7)	18	(7)	203	-	3	(40)	(37)	166
191	118	406	5,717	398	348	55	801	6,518
-	91	(40)	(1)	1	-	-	1	-
191	209	366	5,716	399	348	55	802	6,518
(20)	1,822	(270)	3,298	(123)	203	81	161	3,459
(7)	676	(181)	1,139	(8)	74	(16)	50	1,189
(13)	1,146	(89)	2,159	(115)	129	97	111	2,270
-	157	-	161	-	-	-	-	161
(13)	1,303	(89)	2,320	(115)	129	97	111	2,431
-	-	-	(28)	2	-	(1)	1	(27)
(13)	1,303	(89)	2,292	(113)	129	96	112	2,404
1,599	122,443	7,399	367,294	5,357	19,640	9,494	34,491	401,785
-	900	-	900	-	-	1	1	901
1,055	-	-	233,911	2,901	20,009	25	22,935	256,846
1,120	-	-	240,436	2,104	21,189	93	23,386	263,822
-	-	-	3,298	37	973	-	1,010	4,308
-	-	-	894	18	112	-	130	1,024
55,812	48,348	618	345,268	13,332	14,865	1,096	29,293	374,561
53,541	-	-	281,168	13,036	14,718	89	27,843	309,011
55,473	-	-	291,814	10,257	15,685	235	26,177	317,991
1,600	33,027	5,299	259,424	3,083	20,908	5,535	29,526	288,950
1,628	34,776	5,157	277,721	2,874	20,832	7,120	30,826	308,547
465,481	45,863	-	799,665	24,879	3,367	1,879	30,125	829,790

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.

1. 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.
2. 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.
3. 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 Board of Directors and 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'd)

Below is a condensed summary of operating results by management approach

	For the three months ended 30 September 2016 (Unaudited)								
	NIS millions								
	Bank						Subsidiaries in Israel (a)	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	**962**	**229**	**123**	**132**	**223**	**19**	**57**	**225**	**1,970**
Non-interest income	**445**	**100**	**48**	**79**	**471**	**63**	**297**	**11**	**1,514**
Total income	**1,407**	**329**	**171**	**211**	**694**	**82**	**354**	**236**	**3,484**
Expenses (income) in respect of credit losses	**225**	**(19)**	**(31)**	**(78)**	**(12)**	**(7)**	**9**	**19**	**106**
Total operating and other expenses	**1,168**	**176**	**93**	**34**	**140**	**(106)**	**226**	**224**	**1,955**
Profit before tax	**14**	**172**	**109**	**255**	**566**	**195**	**119**	**(7)**	**1,423**
Tax expenses (income)	**10**	**77**	**67**	**123**	**219**	**(28)**	**32**	**14**	**514**
Net profit (loss) attributed to shareholders of the banking corporation*	**4**	**95**	**42**	**132**	**349**	**223**	**95**	**(21)**	**919**

	For the three months ended 30 September 2015 (Unaudited)								
	NIS millions								
	Bank						Subsidiaries in Israel (a)	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	802	201	143	137	245	8	122	217	1,875
Non-interest income	431	92	47	104	(105)	435	291	49	1,344
Total income	1,233	293	190	241	140	443	413	266	3,219
Expenses (income) in respect of credit losses	123	(45)	(46)	20	(4)	(24)	20	29	73
Total operating and other expenses	1,048	179	90	44	79	151	253	277	2,121
Profit (loss) before tax	62	159	146	177	65	316	140	(40)	1,025
Tax expenses (income)	20	66	59	74	31	20	41	16	327
Net profit attributed to shareholders of the banking corporation	42	93	87	103	34	296	105	(56)	704

(a) Figures for the subsidiary Arab Israel Bank were reported in 2015 under subsidiaries in Israel. In the first nine months of 2016, figures for Arab Israel Bank were reported as part of the Bank's single-entity (solo) figures in light of the merger of Arab Israel Bank with and into Leumi at 31 December 2015.

Note 12B – Operating segments – Management Approach (cont'd)

Below is a condensed summary of operating results by management approach (cont'd):

	For the nine months ended 30 September 2016 (Unaudited)								
	NIS millions								
	Bank						Subsidiaries in Israel (a)	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	**2,790**	**667**	**384**	**400**	**543**	**44**	**157**	**674**	**5,659**
Non-interest income	**1,319**	**302**	**159**	**255**	**548**	**597**	**857**	**47**	**4,084**
Total income	**4,109**	**969**	**543**	**655**	**1,091**	**641**	**1,014**	**721**	**9,743**
Expenses (income) in respect of credit losses	**521**	**(20)**	**(334)**	**(309)**	**(41)**	**(14)**	**24**	**2**	**(171)**
Total operating and other expenses	**3,434**	**540**	**288**	**139**	**306**	**271**	**671**	**651**	**6,300**
Profit before tax	**154**	**449**	**589**	**825**	**826**	**384**	**319**	**68**	**3,614**
Tax expenses (income)	**55**	**161**	**212**	**296**	**297**	**29**	**190**	**52**	**1,292**
Net profit (loss) attributed to shareholders of the banking corporation*	**99**	**288**	**377**	**529**	**532**	**355**	**152**	**16**	**2,348**
Balances as at 30 September 2016									
Credit to the public, net	**140,697**	**34,034**	**29,502**	**22,250**	**3,145**	**3,453**	**7,451**	**23,836**	**264,368**
Deposits of the public	**187,441**	**39,458**	**18,077**	**6,887**	**57,886**	**22**	**110**	**26,970**	**336,851**
Assets under management	**178,602**	**26,297**	**18,402**	**1,812**	**354,172**	**23,897**	**185,615**	**20,094**	**808,891**

(a) Figures for the subsidiary Arab Israel Bank were reported in 2015 under subsidiaries in Israel. In the first nine months of 2016, figures for Arab Israel Bank were reported as part of the Bank's single-entity (solo) figures in light of the merger of Arab Israel Bank with and into Leumi at 31 December 2015.

	For the nine months ended 30 September 2015 (Unaudited)								
	NIS millions								
	Bank						Subsidiaries in Israel (a)	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	2,375	603	430	402	561	25	357	638	5,391
Non-interest income	1,317	312	152	281	200	1,091	1,207	192	4,752
Total income	3,692	915	582	683	761	1,116	1,564	830	10,143
Expenses (income) in respect of credit losses	291	(111)	(11)	35	(14)	(32)	26	(18)	166
Total operating and other expenses	3,205	553	279	132	248	443	804	854	6,518
Profit (loss) before tax	196	473	314	516	527	705	734	(6)	3,459
Tax expenses (income)	63	179	119	195	198	159	218	58	1,189
Net profit attributed to shareholders of the banking corporation	133	294	195	321	457	546	522	(64)	2,404
Balances as at 30 September 2015									
Credit to the public, net	131,082	31,249	31,981	25,088	2,917	2,637	11,820	23,235	260,009
Deposits of the public	162,538	38,372	17,519	8,135	59,779	121	5,186	26,341	317,991
Assets under management	183,996	28,660	19,490	2,132	313,998	27,813	188,696	21,534	786,319

(a) Figures for the subsidiary Arab Israel Bank were reported in 2015 under subsidiaries in Israel. In the first nine months of 2016, figures for Arab Israel Bank were reported as part of the Bank's single-entity (solo) figures in light of the merger of Arab Israel Bank with and into Leumi at 31 December 2015.

Note 12B – Operating segments – Management Approach (cont'd)

Below is a condensed summary of operating results by management approach (cont'd):

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	261,399
Deposits of the public	168,774	41,593	20,139	6,859	59,350	166	5,250	26,562	328,693
Assets under management	181,825	28,401	17,381	1,754	336,709	23,854	187,755	19,382	797,061

(a) Figures for the subsidiary Arab Israel Bank were reported in 2015 under subsidiaries in Israel. In the first nine months of 2016, figures for Arab Israel Bank were reported as part of the Bank's single-entity (solo) figures in light of the merger of Arab Israel Bank with and into Leumi at 31 December 2015.

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 30 September 2016 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS millions					
Balance of allowance for credit losses at beginning of the reporting period	**2,717**	**513**	**779**	**4,009**	**2**	**4,011**
Expenses (income) in respect of credit losses	**11**	**(5)**	**100**	**106**	**-**	**106**
Accounting write-offs	**(146)**	**(22)**	**(210)**	**(378)**	**-**	**(378)**
Collection of debts written off in previous years	**166**	**-**	**112**	**278**	**-**	**278**
Net accounting write-offs	**20**	**(22)**	**(98)**	**(100)**	**-**	**(100)**
Adjustments from translation of financial statements	**(1)**	**-**	**-**	**(1)**	**-**	**(1)**
Balance of allowance for credit losses at end of the reporting period[1]	**2,747**	**486**	**781**	**4,014**	**2**	**4,016**
[1]Of which: in respect of off-balance sheet credit instruments	**449**	**-**	**38**	**487**	**-**	**487**

	For the three months ended 30 September 2015 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS millions					
Balance of allowance for credit losses at beginning of the reporting period	3,267	516	617	4,400	3	4,403
Expenses (income) in respect of credit losses	(49)	6	116	73	-	73
Accounting write-offs	(130)	(4)	(153)	(287)	-	(287)
Collection of debts written off in previous years	45	-	81	126	-	126
Net accounting write-offs	(85)	(4)	(72)	(161)	-	(161)
Adjustments from translation of financial statements	6	(1)	1	6	-	6
Balance of allowance for credit losses at end of the reporting period[1]	3,139	517	662	4,318	3	4,321
[1]Of which: in respect of off-balance sheet credit instruments	467	-	38	505	-	505

(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)

A. Debts[a] and off-balance sheet credit instruments (cont'd)

1. Change in balance of allowance for credit losses (cont'd)

	For the nine months ended 30 September 2016 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	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	**(453)**	**1**	**282**	**(170)**	**(1)**	**(171)**
Accounting write-offs	**(367)**	**(27)**	**(516)**	**(910)**	**-**	**(910)**
Collection of debts written off in previous years	**638**	**-**	**309**	**947**	**-**	**947**
Net accounting write-offs	**271**	**(27)**	**(207)**	**37**	**-**	**37**
Adjustments from translation of financial statements	**(4)**	**(1)**	**(1)**	**(6)**	**-**	**(6)**
Balance of allowance for credit losses at end of the reporting period[1]	**2,747**	**486**	**781**	**4,014**	**2**	**4,016**
[1]Of which: in respect of off-balance sheet credit instruments	**449**	**-**	**38**	**487**	**-**	**487**

	For the nine months ended 30 September 2015 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	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	(41)	11	197	167	(1)	166
Accounting write-offs	(392)	(6)	(462)	(860)	-	(860)
Collection of debts written off in previous years	253	-	275	528	-	528
Net accounting write-offs	(139)	(6)	(187)	(332)	-	(332)
Adjustments from translation of financial statements	2	(1)	-	1	-	1
Balance of allowance for credit losses at end of the reporting period[1]	3,139	517	662	4,318	3	4,321
[1]Of which: in respect of off-balance sheet credit instruments	467	-	38	505	-	505

(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)

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

	30 September 2016 (Unaudited)					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS millions					
Recorded debt balance of debts[a]						
Examined on an individual basis	**109,181**	**47**	**789**	**110,017**	**8,890**	**118,907**
Examined on a collective basis[1]	**38,403**	**81,601**	**37,874**	**157,878**	**3,529**	**161,407**
[1]Of which: the allowance was calculated by extent of arrears	**1,044** (c)	**80,605**	**-**	**81,649**	**-**	**81,649**
Total debts(a)	**147,584**	**81,648**	**38,663**	**267,895**	**12,419**	**280,314**
Allowance for credit losses for debts[a]:						
Examined on an individual basis	**1,858**	**7**	**28**	**1,893**	**2**	**1,895**
Examined on a collective basis[2]	**440**	**479**	**715**	**1,634**	**-**	**1,634**
[2]Of which the allowance was calculated by extent of arrears	**-**	**476** (b)	**-**	**476**	**-**	**476**
Total allowance for credit losses[3]	**2,298**	**486**	**743**	**3,527**	**2**	**3,529**
[3]Of which in respect of impaired debts	**647**	**-**	**24**	**671**	**-**	**671**

(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 300 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction in the amount of NIS 1,044 million.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

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

	30 September 2015 (Unaudited)					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS millions					
Recorded debt balance of debts[a]						
Examined on an individual basis	108,132 (d)	46	1,419 (d)	109,597	10,278	119,875
Examined on a collective basis[1]	37,548	80,666	36,011	154,225	2,651	156,876
[1]Of which: the allowance was calculated by extent of arrears	1,214 (c)	79,482	-	80,696	-	80,696
Total debts(a)	145,680	80,712	37,430	263,822	12,929	276,751
Allowance for credit losses for debts[a]:						
Examined on an individual basis	2,409	14	69	2,492	3	2,495
Examined on a collective basis[2]	263	503	555	1,321	-	1,321
[2]Of which the allowance was calculated by extent of arrears (b)	1	501 (b)	-	502	-	502
Total allowance for credit losses[3]	2,672	517	624	3,813	3	3,816
[3]Of which in respect of impaired debts	945	-	74	1,019	-	1,019

(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 309 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction in the amount of NIS 1,214 million.

(d) Reclassified.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

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					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Recorded debt balance of debts[a]						
Examined on an individual basis	107,182 (d)	45	1,438 (d)	108,665	7,515	116,180
Examined on a collective basis[1]	38,097	81,760	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]	145,279	81,805	37,986	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 (e)	11	299 (e)	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 (b)	-	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 (d)	-	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 in the amount of NIS 1,014 million.

(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

	30 September 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)	15,732	255	194	16,181	19	41
Construction & real estate - real estate activities (g)	22,944	347	716	24,007	10	15
Financial services	9,532	4	514	10,050	2	2
Commercial - other	64,826	1,810	1,816	68,452	49	127
Total commercial	113,034	2,416	3,240	118,690	80	185
Private individuals - housing loans (f)	79,897	697	-	80,594	685 (i)	466
Private individuals - other	37,500	484	121	38,105	110	229
Total public - activity in Israel	230,431	3,597	3,361	237,389	875	880
Israeli banks	2,179	-	-	2,179	-	-
Government of Israel	226	-	-	226	-	-
Total activity in Israel	232,836	3,597	3,361	239,794	875	880
Activity of borrowers abroad						
Public - commercial						
Construction & real estate (g)	9,391	25	339	9,755	26	17
Commercial - other	18,391	424	324	19,139	58	179
Total commercial	27,782	449	663	28,894	84	196
Private individuals	1,560	2	50	1,612	2	28
Total public - activity abroad	29,342	451	713	30,506	86	224
Foreign banks	9,617	-	-	9,617	-	-
Foreign governments	397	-	-	397	-	-
Total activity abroad	39,356	451	713	40,520	86	224
Total public	259,773	4,048	4,074	267,895	961	1,104
Total banks	11,796	-	-	11,796	-	-
Total governments	623	-	-	623	-	-
Total	272,192	4,048	4,074	280,314	961	1,104

See notes on page 200.

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)

	30 September 2015 (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	16,071	330	572	16,973	12	64
Construction & real estate - real estate activities	22,529	458	1,195	24,182	9	18
Financial services	9,162	12	65	9,239	1	6
Commercial - other	62,671	2,773	1,348	66,792	37	101
Total commercial	110,433	3,573	3,180	117,186	59	189
Private individuals - housing loans (f)	78,742	754	-	79,496	748	529
Private individuals - other	36,149	323	70	36,542	87	190
Total public - activity in Israel	225,324	4,650	3,250	233,224	894	908
Israeli banks	2,288	-	-	2,288	-	-
Government of Israel	283	-	-	283	-	-
Total activity in Israel	227,895	4,650	3,250	235,795	894	908
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	8,391 (h)	8	515	8,914	5	39
Commercial - other	18,734 (h)	357	489	19,580	107	441
Total commercial	27,125	365	1,004	28,494	112	480
Private individuals	2,031 (h)	19	54	2,104	18	5
Total public - activity abroad	29,156	384	1,058	30,598	130	485
Foreign banks (g)	10,167	-	-	10,167	-	-
Foreign governments	191	-	-	191	-	-
Total activity abroad	39,514	384	1,058	40,956	130	485
Total public	254,480	5,034	4,308	263,822	1,024	1,393
Total banks	12,455	-	-	12,455	-	-
Total governments	474	-	-	474	-	-
Total	267,409	5,034	4,308	276,751	1,024	1,393

See notes on page 200.

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	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	9,071 (h)	66	434	9,571	4	113
Commercial - other	17,785 (h)	368	330	18,483	2	128
Total commercial	26,856	434	764	28,054	6	241
Private individuals	2,096 (h)	19	52	2,167	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 200.

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 584 million were classified as problem debts that are not impaired (30 September 2015 – NIS 575 million, 31 December 2015 – NIS 503 million).
(f) Including balance of housing loans in the amount of NIS 119 million (30 September 2015 – NIS 149 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) 4% 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 30 September 2016, NIS 876 million, is credit granted by the Bank, of which NIS 177 million is for non-housing loans for which the period of arrears is 90-149 days and NIS 688 million for housing loans, of which a total of NIS 142 million is in arrears of up to 149 days, NIS 158 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

	30 September 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	114	19	80	194	612
Construction & real estate - real estate activities	157	76	559	716	1,837
Financial services	2	-	512	514	1,009
Commercial - other	862	352	954	1,816	4,173
Total commercial	1,135	447	2,105	3,240	7,631
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	46	15	75	121	388
Total public - activity in Israel	1,181	462	2,180	3,361	8,019
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,181	462	2,180	3,361	8,019
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	233	118	106	339	473
Commercial - other	257	82	67	324	637
Total commercial	490	200	173	663	1,110
Private individuals	14	9	36	50	108
Total public - activity abroad	504	209	209	713	1,218
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	504	209	209	713	1,218
Total public	1,685	671	2,389	4,074	9,237
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,685	671	2,389	4,074	9,237
Of which:					
Measured by present value of cash flows	1,403	486	1,293	2,696	
Debts under troubled debt restructuring	1,191	148	714	1,905	

(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)

	30 September 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	150	32	422	572	1,107
Construction & real estate - real estate activities	690	292	505	1,195	2,437
Financial services	1	1	64	65	594
Commercial - other	646	271	702	1,348	4,764
Total commercial	1,487	596	1,693	3,180	8,902
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	64	55	6	70	1,935
Total public - activity in Israel	1,551	651	1,699	3,250	10,837
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,551	651	1,699	3,250	10,837
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	357	184	158	515	671
Commercial - other	395	165	94	489	813
Total commercial	752	349	252	1,004	1,484
Private individuals	28	19	26	54	91
Total public - activity abroad	780	368	278	1,058	1,575
Foreign banks	-	-	-	-	1
Foreign governments	-	-	-	-	-
Total activity abroad	780	368	278	1,058	1,576
Total public	2,331	1,019	1,977	4,308	12,412
Total banks	-	-	-	-	1
Total governments	-	-	-	-	-
Total	2,331	1,019	1,977	4,308	12,413
Of which:					
Measured by present value of cash flows	1,500	44	1,084	2,584	
Debts under troubled debt restructuring	1,034	44	1,351	2,385	

(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	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 30 September 2016			For the three months ended 30 September 2015		
	Average balance (b) of impaired debts	Interest income recorded (c)	Of which: recorded on cash basis	Average balance of impaired debts (b)	Interest income recorded (c)	Of which: recorded on cash basis
	Unaudited					
	NIS millions					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**312**	**-**	**1**	589	2	2
Construction & real estate - real estate activities	**693**	**-**	**-**	1,294	2	2
Financial services	**111**	**-**	**-**	23	4	4
Commercial - other	**1,662**	**-**	**-**	1,542	14	7
Total commercial	**2,778**	**-**	**1**	3,448	22	15
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**149**	**11**	**-**	97	5	5
Total public - activity in Israel	**2,927**	**11**	**1**	3,545	27	20
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**2,927**	**11**	**1**	3,545	27	20
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**341**	**85**	**85**	534	3	3
Commercial - other	**302**	**48**	**48**	513	2	2
Total commercial	**643**	**133**	**133**	1,047	5	5
Private individuals	**37**	**21**	**21**	58	1	1
Total public - activity abroad	**680**	**154**	**154**	1,105	6	6
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**680**	**154**	**154**	1,105	6	6
Total public	**3,607**	**165**	**155**	4,650	33	26
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**3,607**	**165**	**155**	4,650	33	26

(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 30 September 2016 in the amount of NIS 236 million (30 September 2015 – NIS 126 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)

b. Average balance and interest income

	For the nine months ended 30 September 2016			For the nine months ended 30 September 2015		
	Average balance (b) of impaired debts	Interest income recorded (c)	Of which: recorded on cash basis	Average balance of impaired debts (b)	Interest income recorded (c)	Of which: recorded on cash basis
	Unaudited					
	NIS millions					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**294**	**-**	**-**	587	11	11
Construction & real estate - real estate activities	**696**	**4**	**1**	1,280	5	5
Financial services	**168**	**-**	**-**	29	4	4
Commercial - other	**1,684**	**10**	**3**	1,514	36	20
Total commercial	**2,842**	**14**	**4**	3,410	56	40
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**145**	**23**	**10**	93	16	16
Total public - activity in Israel	**2,987**	**37**	**14**	3,503	72	56
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**2,987**	**37**	**14**	3,503	72	56
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**289**	**89**	**89**	539	9	9
Commercial - other	**280**	**53**	**52**	518	7	7
Total commercial	**569**	**142**	**141**	1,057	16	16
Private individuals	**26**	**25**	**25**	58	2	2
Total public - activity abroad	**595**	**167**	**166**	1,115	18	18
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**595**	**167**	**166**	1,115	18	18
Total public	**3,582**	**204**	**180**	4,618	90	74
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**3,582**	**204** (d)	**180**	4,618	90 (d)	74

(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 NIS 396 million for 30 September 2016 (30 September 2015 – NIS 267 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]

	30 September 2016				30 September 2015			
	Not accruing interest income	Accruing in arrears of 30 to 89 days	Accruing (b) not in arrears	Total (c)	Not accruing interest income	Accruing in arrears of 30 to 89 days	Accruing (b) not in arrears	Total (c)
	Unaudited							
	NIS millions							
Activity of borrowers in Israel								
Public - commercial								
Construction & real estate - construction	**21**	**-**	**17**	**38**	457	-	13	470
Construction & real estate - real estate activities	**388**	**-**	**53**	**441**	784	-	4	788
Financial services	**305**	**-**	**1**	**306**	-	-	10	10
Commercial - other	**418**	**6**	**226**	**650**	556	-	17	573
Total commercial	**1,132**	**6**	**297**	**1,435**	1,797	-	44	1,841
Private individuals - housing loans	**-**	**-**	**-**	**-**	-	-	-	-
Private individuals - other	**52**	**1**	**19**	**72**	58	-	-	58
Total public - activity in Israel	**1,184**	**7**	**316**	**1,507**	1,855	-	44	1,899
Israeli banks	**-**	**-**	**-**	**-**	-	-	-	-
Government of Israel	**-**	**-**	**-**	**-**	-	-	-	-
Total activity in Israel	**1,184**	**7**	**316**	**1,507**	1,855	-	44	1,899
Activity of borrowers abroad								
Public - commercial								
Construction & real estate	**154**	**-**	**99**	**253**	165	-	141	306
Commercial - other	**29**	**-**	**91**	**120**	58	-	89	147
Total commercial	**183**	**-**	**190**	**373**	223	-	230	453
Private individuals	**4**	**-**	**21**	**25**	8	-	25	33
Total public - activity abroad	**187**	**-**	**211**	**398**	231	-	255	486
Foreign banks	**-**	**-**	**-**	**-**	-	-	-	-
Foreign governments	**-**	**-**	**-**	**-**	-	-	-	-
Total activity abroad	**187**	**-**	**211**	**398**	231	-	255	486
Total public	**1,371**	**7**	**527**	**1,905**	2,086	-	299	2,385
Total banks	**-**	**-**	**-**	**-**	-	-	-	-
Total governments	**-**	**-**	**-**	**-**	-	-	-	-
Total	**1,371**	**7**	**527**	**1,905**	2,086	-	299	2,385

(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) Up to 30 September 2016, troubled debts under restructuring in arrears of 30 to 89 days did not accrue interest. On 30 September 2016, the methodology was updated so that interest accrual would be possible in these cases. The Bank implemented the directive prospectively.

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 30 September 2016 to NIS 24 million (as at 30 September 2015 – NIS 87 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 incomes.
(c) Included in impaired debts.

Commitments to provide additional credit to debtors who underwent troubled debt restructuring, as part of which changes were made to the credit terms, amounted as 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 30 September 2016			For the three months ended 30 September 2015		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	Unaudited					
	NIS millions				NIS millions	
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**68**	**164**	**162**	9	62	18
Construction & real estate - real estate activities	**7**	**139**	**138**	2	16	14
Financial services	**6**	**410**	**405**	-	-	-
Commercial - other	**359**	**30**	**29**	13	27	24
Total commercial	**440**	**743**	**734**	24	105	56
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**1,893**	**23**	**25**	224	2	2
Total public - activity in Israel	**2,333**	**766**	**759**	248	107	58
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**2,333**	**766**	**759**	248	107	58
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**2**	**7**	**6**	6	2	2
Commercial - other	**4**	**5**	**5**	6	5	5
Total commercial	**6**	**12**	**11**	12	7	7
Private individuals	**1**	**1**	**1**	1	1	1
Total public - activity abroad	**7**	**13**	**12**	13	8	8
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**7**	**13**	**12**	13	8	8
Total public	**2,340**	**779**	**771**	261	115	66
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**2,340**	**779**	**771**	261	115	66

(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)

1. Restructurings carried out

	For the nine months ended 30 September 2016			For the nine months ended 30 September 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				NIS millions	
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**163**	**181**	**178**	25	70	68
Construction & real estate - real estate activities	**26**	**144**	**142**	3	24	23
Financial services	**10**	**410**	**405**	-	-	-
Commercial - other	**725**	**73**	**63**	86	94	90
Total commercial	**924**	**808**	**788**	114	188	181
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**4,664**	**62**	**47**	674	7	7
Total public - activity in Israel	**5,588**	**870**	**835**	788	195	188
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**5,588**	**870**	**835**	788	195	188
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**5**	**28**	**27**	13	21	21
Commercial - other	**12**	**34**	**34**	19	73	72
Total commercial	**17**	**62**	**61**	32	94	93
Private individuals	**4**	**1**	**1**	4	1	1
Total public - activity abroad	**21**	**63**	**62**	36	95	94
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**21**	**63**	**62**	36	95	94
Total public	**5,609**	**933**	**897**	824	290	282
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**5,609**	**933**	**897**	824	290	282

(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 30 September 2016		For the three months ended 30 September 2015	
	Number of contracts	Recorded debt balance (c)	Number of contracts	Recorded debt balance (c)
	Unaudited			
	NIS millions			
Public - commercial				
Construction & real estate - construction	**25**	-	4	1
Construction & real estate - real estate activities	**4**	**6**	4	7
Financial services	**-**	**-**	-	-
Commercial - other	**107**	**3**	33	8
Total commercial	**136**	**9**	41	16
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - other	**784**	**4**	148	3
Total public - activity in Israel	**920**	**13**	189	19
Israeli banks	**-**	**-**	-	-
Government of Israel	**-**	**-**	-	-
Total activity in Israel	**920**	**13**	189	19
Activity of borrowers abroad				
Public - commercial				
Construction & real estate	**-**	**-**	2	-
Commercial - other	**1**	**11**	-	-
Total commercial	**1**	**11**	2	-
Total public - activity abroad	**1**	**11**	3	1
Foreign banks	**-**	**-**	-	-
Foreign governments	**-**	**-**	-	-
Total activity abroad	**1**	**11**	3	1
Total public	**921**	**24**	192	20
Total banks	**-**	**(107)**	-	-
Total governments	**-**	**-**	-	-
Total	**921**	**24**	192	20

(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) As of 1 July 2015, the Bank implements the update of the FAQ on impaired debts, credit risk and credit risk allowance, which makes it compulsory inter alia that debts assessed on a collective basis that underwent restructuring, and the restructuring failed, are to be written off after no later than 60 days. The Bank implemented the directive in a prospective manner.

(d) The recorded balance of debt at the end of the quarter in which the default occurred.

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 nine months ended 30 September 2016		For the nine months ended 30 September 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	**53**	**4**	22	13
Construction & real estate - real estate activities	**6**	**6**	6	7
Financial services	**6**	**-**	-	-
Commercial - other	**194**	**16**	77	29
Total commercial	**259**	**26**	105	49
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - other	**1,395**	**9**	393	6
Total public - activity in Israel	**1,654**	**35**	498	55
Israeli banks	**-**	**-**	-	-
Government of Israel	**-**	**-**	-	-
Total activity in Israel	**1,654**	**35**	498	55
Activity of borrowers abroad				
Public - commercial				
Construction & real estate	**4**	**10**	6	1
Commercial - other	**7**	**13**	6	3
Total commercial	**11**	**23**	12	4
Private individuals	**-**	**-**	3	1
Total public - activity abroad	**11**	**23**	15	5
Foreign banks	**-**	**-**	-	-
Foreign governments	**-**	**-**	-	-
Total activity abroad	**11**	**23**	15	5
Total public	**1,665**	**58**	513	60
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**1,665**	**58**	513	60

(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) As of 1 July 2015, the Bank implements the update of the FAQ on impaired debts, credit risk and credit risk allowance, which makes it compulsory inter alia that debts assessed on a collective basis that underwent restructuring, and the restructuring failed, are to be written off after no later than 60 days. The Bank implemented the directive in a prospective manner.

(d) The recorded balance of debt at the end of the quarter in which the default occurred.

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

Balance of housing loans		30 September 2016 (Unaudited) Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total
		NIS millions			
First charge: financing rate	Up to 60%	**52,336**	**3,243**	**35,079**	**1,701**
	More than 60%	**29,299**	**1,118**	**20,811**	**227**
Second charge or no charge		**13**	**-**	**7**	**25**
Total		**81,648**	**4,361**	**55,897**	**1,953**

Balance of housing loans		30 September 2015 (Unaudited) (c) Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total [(c)]
		NIS millions			
First charge: financing rate	Up to 60%	49,761	3,873	35,253	3,130
	More than 60%	30,117	1,212	21,840	977
Second charge or no charge		834	28	611	101
Total		80,712	5,113	57,704	4,208

Balance of housing loans		31 December 2015 (Audited) (c) Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total [(c)]
		NIS millions			
First charge: financing rate	Up to 60%	51,388	3,768	35,715	3,695
	More than 60%	30,372	1,151	21,898	466
Second charge or no charge		45	1	10	56
Total		81,805	4,920	57,623	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) Reclassified.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

C. Off-balance sheet financial instruments

	30 September 2016		30 September 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	**1,568**	**3**	1,640	5	1,759	4
Credit guarantees	**5,867**	**106**	5,809	98	6,136	78
Guarantees to apartment purchasers	**19,360**	**17**	18,883	21	19,313	21
Other guarantees and liabilities (b)	**15,870**	**243**	16,784	205	17,131	228
Unutilized credit card facilities	**25,044**	**24**	28,209	34	24,090	30
Other unutilized revolving credit facilities and credit facilities in accounts on demand	**12,870**	**24**	14,061	44	13,607	37
Irrevocable commitments to provide credit which has been approved and not yet granted[1]	**24,176**	**56**	26,112	79	25,350	68
Commitments to issue guarantees	**14,416**	**14**	14,969	19	14,423	16
Unutilized facilities for activity in derivative instruments	**3,377**	**-**	4,434	-	4,115	-
Approval in principle for a guaranteed rate of interest	**3,464**	**-**	2,768	-	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 225 million (30 September 2015 – NIS 235 million, 31 December 2015 - NIS 234 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 132 million (as at 30 September 2015 and as at 31 December 2015, a sum of NIS 209 million and NIS 218 million, respectively).

Note 14 –Assets and Liabilities by Linkage Basis

	30 September 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	**47,317**	**245**	**7,478**	**837**	**2,928**	**262**	**59,067**
Securities	**40,223**	**5,088**	**30,322**	**3,649**	**1,093**	**2,118**	**82,493**
Securities borrowed or purchased under agreements to resell	**896**	**-**	**-**	**-**	**-**	**-**	**896**
Credit to the public, net (c)	**179,051**	**45,561**	**29,354**	**4,933**	**5,304**	**165**	**264,368**
Credit to governments	**78**	**148**	**341**	**56**	**-**	**-**	**623**
Investments in companies included on equity basis	**-**	**-**	**-**	**-**	**-**	**897**	**897**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**3,044**	**3,044**
Assets in respect of derivative instruments	**7,198**	**123**	**2,448**	**272**	**325**	**1,264**	**11,630**
Other assets	**6,406**	**4**	**1,961**	**12**	**32**	**308**	**8,723**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**17**	**17**
Total assets	**281,169**	**51,169**	**71,904**	**9,759**	**9,682**	**8,075**	**431,758**
Liabilities							
Deposits of the public	**206,373**	**22,284**	**86,752**	**13,432**	**7,556**	**454**	**336,851**
Deposits from banks	**1,515**	**18**	**1,709**	**301**	**46**	**-**	**3,589**
Deposits from governments	**41**	**-**	**614**	**6**	**-**	**-**	**661**
Securities lent or sold under agreements to repurchase	**531**	**-**	**22**	**-**	**-**	**-**	**553**
Debentures, bonds and subordinated notes	**6,539**	**17,176**	**-**	**-**	**-**	**50**	**23,765**
Liabilities in respect of derivative instruments	**7,775**	**173**	**2,560**	**382**	**516**	**1,228**	**12,634**
Other liabilities	**9,254**	**10,682**	**1,636**	**30**	**173**	**342**	**22,117**
Total liabilities	**232,028**	**50,333**	**93,293**	**14,151**	**8,291**	**2,074**	**400,170**
Surplus assets (liabilities) (d)	**49,141**	**836**	**(21,389)**	**(4,392)**	**1,391**	**6,001**	**31,588**
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	**(23,560)**	**(1,480)**	**21,923**	**4,922**	**(1,972)**	**167**	**-**
Options in the money, net (in terms of underlying asset)	**1,296**	**-**	**(970)**	**(311)**	**(15)**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**911**	**-**	**(298)**	**(593)**	**6**	**(26)**	**-**
Total	**27,788**	**(644)**	**(734)**	**(374)**	**(590)**	**6,142**	**31,588**
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	**1,938**	**-**	**(1,428)**	**(484)**	**(26)**	**-**	**-**
Options out of the money, net (discounted par value)	**3,021**	**-**	**(1,169)**	**(1,728)**	**(42)**	**(82)**	**-**

(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 3,527 million.
(d) Shareholders' equity including minority interests.

Note 14 –Assets and Liabilities by Linkage Basis (cont'd)

	30 September 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	40,309	252	8,151	1,473	2,327	50	52,562
Securities	34,896	1,490	23,187	2,363	1,663	3,946	67,545
Securities borrowed or purchased under agreements to resell	1,420	-	-	-	-	-	1,420
Credit to the public, net (c)	169,954	49,413	29,464	5,033	5,848	297	260,009
Credit to governments	89	193	129	63	-	-	474
Investments in companies included on equity basis	-	-	-	-	-	948	948
Buildings and equipment	-	-	-	-	-	2,992	2,992
Assets in respect of derivative instruments	8,358	151	5,198	511	124	972	15,314
Other assets	5,638	4	930	8	22	640	7,242
Intangible assets and goodwill	-	-	-	-	-	18	18
Total assets	260,664	51,503	67,059	9,451	9,984	9,863	408,524
Liabilities							
Deposits of the public	189,886	25,757	79,327	14,335	8,288	398	317,991
Deposits from banks	1,800	32	1,422	286	110	-	3,650
Deposits from governments	39	1	596	8	-	-	644
Securities lent or sold under agreements to repurchase	503	-	-	-	-	-	503
Debentures, bonds and subordinated notes	5,667	16,520	-	-	-	-	22,187
Liabilities in respect of derivative instruments	8,129	213	5,062	452	88	822	14,766
Other liabilities	8,767	9,262	793	38	183	830	19,873
Total liabilities	214,791	51,785	87,200	15,119	8,669	2,050	379,614
Surplus assets (liabilities) (d)	45,873	(282)	(20,141)	(5,668)	1,315	7,813	28,910
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(20,620)	(1,681)	19,160	5,308	(1,975)	(192)	-
Options in the money, net (in terms of underlying asset)	921	-	(763)	(225)	67	-	-
Options out of the money, net (in terms of underlying asset)	188	-	(10)	(241)	50	13	-
Total	26,362	(1,963)	(1,754)	(826)	(543)	7,634	28,910
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	1,638	-	(1,466)	(258)	86	-	-
Options out of the money, net (discounted par value)	(36)	-	145	(676)	567	-	-

(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 3,813 million.
(d) Shareholders' equity including minority interests.

Note 14 –Assets and Liabilities by Linkage Basis (cont'd)

	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	-	-	-	-	-	924	924
Buildings and equipment	-	-	-	-	-	3,095	3,095
Assets in respect of derivative instruments	6,402	115	3,466	308	243	716	11,250
Other assets	6,138	5	896	6	44	577	7,666
Intangible assets and goodwill	-	-	-	-	-	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'd)

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 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'd)

	30 September 2016 (Unaudited)				
	Book	Fair value (a)			
	value	Level 1	Level 2	Level 3	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	**59,067**	**48,553**	**8,566**	**1,991**	**59,110**
Securities (b)	**82,493**	**55,123**	**24,795**	**2,575**	**82,493**
Securities borrowed or purchased under agreements to resell	**896**	**896**	**-**	**-**	**896**
Credit to the public, net	**264,368**	**2,220**	**69,913**	**191,028**	**263,161**
Credit to governments	**623**	**-**	**65**	**574**	**639**
Assets in respect of derivative instruments	**11,630**	**1,044**	**8,914**	**1,672**	**11,630**
Other financial assets	**1,867**	**915**	**-**	**954**	**1,869**
Total financial assets	**420,944 (c)**	**108,751**	**112,253**	**198,794**	**419,798**
Financial liabilities					
Deposits of the public	**336,851**	**2,883**	**219,360**	**116,192**	**338,435**
Deposits from banks	**3,589**	**-**	**3,580**	**10**	**3,590**
Deposits from governments	**661**	**-**	**567**	**106**	**673**
Securities lent or sold under agreements to repurchase	**553**	**553**	**-**	**-**	**553**
Debentures, notes and subordinated notes	**23,765**	**18,770**	**-**	**6,604**	**25,374**
Liabilities in respect of derivative instruments	**12,634**	**1,051**	**11,381**	**202**	**12,634**
Other financial liabilities	**8,351**	**1,275**	**5,581**	**1,495**	**8,351**
Total financial liabilitiies	**386,404 (c)**	**24,532**	**240,469**	**124,609**	**389,610**
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	**352**	**-**	**-**	**352**	**352**
In addition, liabilities in respect of employee rights, gross - pension and severance pay (d)	**16,892**	**-**	**205**	**16,687**	**16,892**

(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 131,468 million and NIS 136,291 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'd)

	30 September 2015 (Unaudited)				
	Book	Fair value (a)			
	value	Level 1	Level 2	Level 3	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	52,562	41,805	9,855	939	52,599
Securities (b)	67,545	47,617	16,598	3,330	67,545
Securities borrowed or purchased under agreements to resell	1,420	1,420	-	-	1,420
Credit to the public, net	260,009	1,799	59,983	196,880	258,662
Credit to governments	474	-	45	445	490
Assets in respect of derivative instruments	15,314	1,586	11,606	2,122	15,314
Other financial assets	1,258	473	11	774	1,258
Total financial assets	398,582 (c)	94,700	98,098	204,490	397,288
Financial liabilities					
Deposits of the public	317,991	1,826	192,047	125,654	319,527
Deposits from banks	3,650	-	3,525	98	3,623
Deposits from governments	644	-	579	92	671
Securities lent or sold under agreements to repurchase	503	503	-	-	503
Debentures, notes and subordinated notes	22,187	18,896	342	4,789	24,027
Liabilities in respect of derivative instruments	14,766	1,588	12,929	249	14,766
Other financial liabilities	7,653	1,368 (d)	4,804 (d)	1,469 (d)	7,641
Total financial liabilitiies	367,394 (c)	24,181	214,226	132,351	370,758
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	341	-	-	341	341
In addition, liabilities in respect of employee rights, gross - pension and severance pay (d)	15,421	-	-	15,421	15,421

(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 124,540 million and NIS 134,842 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.

(e) 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'd)

	31 December 2015 (Audited)				
	Book	Fair value (a)			
	value	Level 1	Level 2	Level 3	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 Note 5 - 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 15B – Items measured at fair value
A. Items measured for fair value on a recurring basis

	As at 30 September 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	37,228	2,121	-	39,349
Foreign government bonds	7,141	1,320	-	8,461
Bonds of Israeli financial institutions	-	36	-	36
Bonds of overseas financial institutions	46	6,996	-	7,042
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	8,396	1,611	10,007
Other bonds in Israel	78	318	-	396
Other bonds abroad	-	2,004	-	2,004
Shares and mutual funds available for sale	1,137	-	-	1,137
Total securities available for sale	45,630	21,191	1,611	68,432
Securities held for trading:				
State of Israelbonds	7,474	54	-	7,528
Foreign government bonds	1,665	2,571	-	4,236
Bonds of financial institutions in Israel	157	-	-	157
Bonds of financial institutions abroad	-	101	-	101
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	269	-	269
Other bonds in Israel	180	-	-	180
Other bonds abroad	-	609	-	609
Shares and mutual funds held for trading	17	-	-	17
Total securities held for trading	9,493	3,604	-	13,097
Assets in respect of derivative instruments:				
Shekel-index contracts	-	193	172	365
Interest contracts	67	6,463	376	6,906
Foreign currency contracts	-	1,806	1,009	2,815
Share contracts	739	444	104	1,287
Commodities and other contracts	7	8	11	26
Activity in Maof market	231	-	-	231
Total assets in respect of derivative instruments:	1,044	8,914	1,672	11,630
Others:				
Credit and deposits in respect of lending of securites	2,220	2	-	2,222
Securities borrowed or purchased under agreements to resell	896	-	-	896
Other	915	-	-	915
Total others	4,031	2	-	4,033
Total assets	60,198	33,711	3,283	97,192

Note 15B – Items measured at fair value (cont'd)
A. Items measured for fair value on a recurring basis (cont'd)

	As at 30 September 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	-	377	48	425
Interest contracts	76	6,776	-	6,852
Foreign currency contracts	-	3,699	154	3,853
Share contracts	739	511	-	1,250
Commodities and other contracts	8	18	-	26
Activity in Maof market	228	-	-	228
Total liabilities in respect of derivative instruments	1,051	11,381	202	12,634
Others:				
Deposits in respect of lending of securites	2,881	14	22	2,917
Securities lent or sold under agreements to repurchase	553	-	-	553
Others	1,275	-	-	1,275
Total others	4,709	14	22	4,745
Total liabilities	5,760	11,395	224	17,379

Note 15B – Items measured at fair value (cont'd)
A. Items measured at fair value on a recurring basis (cont'd)

	As at 30 September 2015 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Assets				
Securities available for sale:				
Israeli government bonds	27,294	1,593	-	28,887
Foreign government bonds	7,186	1,029	-	8,215
Bonds of Israeli financial institutions	-	48	-	48
Bonds of overseas financial institutions	106	4,862	-	4,968
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	5,897	2,021	7,918
Other bonds in Israel	112	484	-	596
Other bonds abroad	51	1,206	-	1,257
Shares and mutual funds available for sale	2,062	-	-	2,062
Total securities available for sale	36,811	15,119	2,021	53,951
Securities held for trading:				
State of Israelbonds	8,524	125	-	8,649
Foreign government bonds	1,412	20	-	1,432
Bonds of financial institutions in Israel	156	-	-	156
Bonds of financial institutions abroad	-	128	-	128
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	852	-	852
Other bonds in Israel	139	-	-	139
Other bonds abroad	-	354	-	354
Shares and mutual funds held for trading	575	-	-	575
Total securities held for trading	10,806	1,479	-	12,285
Assets in respect of derivative instruments:				
Shekel-index contracts	-	123	183	306
Interest contracts	56	7,962	383	8,401
Foreign currency contracts	-	2,961	1,260	4,221
Share contracts	953	556	271	1,780
Commodities and other contracts	6	4	25	35
Activity in Maof market	571	-	-	571
Total assets in respect of derivative instruments	1,586	11,606	2,122	15,314
Others:				
Credit and deposits in respect of lending of securites	1,799	2	-	1,801
Securities borrowed or purchased under agreements to resell	1,420	-	-	1,420
Other	473	11	-	484
Total others	3,692	13	-	3,705
Total assets	52,895	28,217	4,143	85,255

Note 15B – Items measured at fair value (cont'd)
A. Items measured at fair value on a recurring basis (cont'd)

	As at 30 September 2015 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	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	-	277	40	317
Interest contracts	55	8,150	-	8,205
Foreign currency contracts	-	3,725	208	3,933
Share contracts	953	739	1	1,693
Commodities and other contracts	6	38	-	44
Activity in Maof market	574	-	-	574
Total liabilities in respect of derivative instruments	1,588	12,929	249	14,766
Others:				
Deposits in respect of lending of securites	1,827	22	11	1,860
Securities lent or sold under agreements to repurchase	503	-	-	503
Others	1,368 (a)	-	-	1,368
Total others	3,698	22	11	3,731
Total liabilities	5,286	12,951	260	18,497

(a) Restated.

Note 15B – Items measured at fair value (cont'd)
A. Items measured at fair value on a recurring basis (cont'd)

	As at 31 December 2015 (Audited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable (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:				
State of Israelbonds	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 15B – Items measured at fair value (cont'd)
A. Items measured at fair value on a recurring basis (cont'd)

	As at 31 December 2015 (Audited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable (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 15B – Items measured at fair value (cont'd)
B. Items measured for fair value on a non-recurring basis

	As at 30 September 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	**-**	**-**	**1,192**	**1,192**	**271**
Total	**-**	**-**	**1,192**	**1,192**	**271**

	As at 30 September 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	-	-	2,029	2,029	2
Total	-	-	2,029	2,029	2

	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
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 30 September 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 period	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 30 September 2016	Unrealized profits (losses) in respect of instruments held at 30 September
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	**1,776** (c)	**(44)**	**14**	**58**	**(147)**	**(46)**	-	-	-	**1,611**	**(160)**
Total bonds available for sale	**1,776**	**(44)**	**14**	**58**	**(147)**	**(46)**	-	-	-	**1,611**	**(160)**
Total shares available for sale	-	-	-	-	-	-	-	-	-	-	**13**
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Total shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:	-	-	-	-	-	-	-	-	-	-	-
Shekel-index contracts	**178**	**(12)**	-	-	-	-	-	**6**	-	**172**	**(68)**
Interest contracts	**403**	**7**	-	-	-	**(34)**	-	-	-	**376**	**(17)**
Foreign currency contracts	**900**	**28**	-	**81**	-	-	-	-	-	**1,009**	**358**
Share contracts	**192**	**(88)**	-	-	-	-	-	-	-	**104**	**(3)**
Commodities and other contracts	**13**	**(2)**	-	-	-	-	-	-	-	**11**	**6**
Total assets in respect of derivative instruments	**1,686**	**(67)**	-	**81**	-	**(34)**	-	**6**	-	**1,672**	**276**
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	**3,462**	**(111)**	**14**	**139**	**(147)**	**(80)**	-	**6**	-	**3,283**	**129**
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	**46**	**(17)**	-	-	-	-	-	**19**	-	**48**	**33**
Interest contracts	-	-	-	-	-	-	-	-	-	-	-
Foreign currency contracts	**136**	**18**	-	-	-	-	-	-	-	**154**	**17**
Share contracts	**1**	**(1)**	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	**183**	-	-	-	-	-	-	**19**	-	**202**	**50**
Total others	**17**	**5**	-	-	-	-	-	-	-	**22**	**1**
Total liabilities	**200**	**5**	-	-	-	-	-	**19**	-	**224**	**51**

(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'd)

	For the three months ended 30 September 2015 (Unaudited)										
		Realized and unrealized profits (losses), net, included									
	Fair value at beginning of the period	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 30 September 2015	Unrealized profits in respect of instruments held at 30 September 2015
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,890	133	(15)	140	-	(127)	-	-	-	2,021	(12)
Total bonds available for sale	1,890	133	(15)	140	-	(127)	-	-	-	2,021	(12)
Shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	149	5	-	-	-	-	-	29	-	183	45
Interest contracts	360	51	-	-	-	(28)	-	-	-	383	62
Foreign currency contracts	1,750	(1,037)	-	547	-	-	-	-	-	1,260	45
Share contracts	145	126	-	-	-	-	-	-	-	271	180
Commodities and other contracts	26	(1)	-	-	-	-	-	-	-	25	19
Total assets in respect of derivative instruments	2,430	(856)	-	547	-	(28)	-	29	-	2,122	351
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	4,320	(723)	(15)	687	-	(155)	-	29	-	4,143	339
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	38	(16)	-	-	-	-	-	18	-	40	16
Foreign currency contracts	293	(85)	-	-	-	-	-	-	-	208	(86)
Share contracts	-	1	-	-	-	-	-	-	-	1	-
Total liabilities in respect of derivative instruments	331	(100)	-	-	-	-	-	18	-	249	(70)
Total others	16	(5)	-	-	-	-	-	-	-	11	11
Total liabilities	347	(105)	-	-	-	-	-	18	-	260	(59)

(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'd)

	For the nine months ended 30 September 2016 (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	Transfers from Level 3	Fair value at 30 September 2016	Unrealized profits (losses) in respect of instruments held at 30 September 2016
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	**2,003**	**(52)**	**11**	**135**	**(378)**	**(108)**	-	-	-	**1,611**	**(156)**
Total bonds available for sale	**2,003**	**(52)**	**11**	**135**	**(378)**	**(108)**	-	-	-	**1,611**	**(156)**
Total shares available for sale	-	-	-	-	-	-	-	-	-	-	**13**
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Total shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	**174**	**(17)**	-	-	-	-	-	**15**	-	**172**	**(12)**
Interest contracts	**297**	**174**	-	-	-	**(95)**	-	-	-	**376**	**84**
Foreign currency contracts	**770**	**(229)**	-	**468**	-	-	-	-	-	**1,009**	**725** (c)
Share contracts	**129**	**(25)**	-	-	-	-	-	-	-	**104**	**71**
Commodities and other contracts	**33**	**(22)**	-	-	-	-	-	-	-	**11**	**3**
Total assets in respect of derivative instruments	**1,403**	**(119)**	-	**468**	-	**(95)**	-	**15**	-	**1,672**	**871**
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	**3,406**	**(171)**	**11**	**603**	**(378)**	**(203)**	-	**15**	-	**3,283**	**728**
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	**53**	**(36)**	-	-	-	-	-	**31**	-	**48**	**32**
Foreign currency contracts	**199**	**(45)**	-	-	-	-	-	-	-	**154**	**(17)**
Share contracts	-	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	**252**	**(81)**	-	-	-	-	-	**31**	-	**202**	**15**
Total others	**13**	**9**	-	-	-	-	-	-	-	**22**	**5**
Total liabilities	**265**	**(72)**	-	-	-	-	-	**31**	-	**224**	**20**

(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'd)

	For the nine months ended 30 September 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	Transfers from Level 3	Fair value at 30 September 2015	Unrealized profits in respect of instruments held at 30 September 2015
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,009	67	(9)	362	(100)	(308)	-	-	-	2,021	(4)
Total bonds available for sale	2,009	67	(9)	362	(100)	(308)	-	-	-	2,021	(4)
Total shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Total shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	145	4	-	-	-	-	-	34	-	183	54
Interest contracts	423	51	-	-	-	(91)	-	-	-	383	(6)
Foreign currency contracts	2,307	(2,674)	-	1,627	-	-	-	-	-	1,260	404 (c)
Share contracts	64	207	-	-	-	-	-	-	-	271	240
Commodities and other contracts	64	(39)	-	-	-	-	-	-	-	25	18
Total assets in respect of derivative instruments	3,003	(2,451)	-	1,627	-	(91)	-	34	-	2,122	710
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	5,012	(2,384)	(9)	1,989	(100)	(399)	-	34	-	4,143	706
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	41	(32)	-	-	-	-	-	31	-	40	33
Foreign currency contracts	110	98	-	-	-	-	-	-	-	208	93
Share contracts	-	1	-	-	-	-	-	-	-	1	-
Total liabilities in respect of derivative instruments	151	67	-	-	-	-	-	31	-	249	126
Total others	11	-	-	-	-	-	-	-	-	11	11
Total liabilities	162	67	-	-	-	-	-	31	-	260	137

(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'd)

	For the year ended 31 December 2015 (Audited)										
		Realized and unrealized									
	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)
Total bonds available for sale	2,009	48	(11)	508	(138)	(413)	-	-	-	2,003	(250)
Total shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Total 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

A. Quantitative information regarding Level 3 fair value measurement

	30 September 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)	1,611	Discounting cash flows	Margin	70-160 bp	115 bp
			Probability of default	2.5%-6%	4.25%
			Rate of early repayment	20%	20%
			Loss Rate	30%	30%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	105	Discounting cash flows	Inflationary expectations	(0.3)%-0.3%	-
	67	Discounting cash flows	Transaction counterparty risk	0.05%-100% (*)	2.15%
Interest contracts	376	Discounting cash flows	Transaction counterparty risk	0.05%-100% (*)	2.15%
Foreign currency contracts	97	Discounting cash flows	Inflationary expectations	(0.3)%-0.3%	-
	912	Discounting cash flows	Transaction counterparty risk	0.05%-100% (*)	2.15%
Share contracts	104	Discounting cash flows	Transaction counterparty risk	0.05%-100% (*)	2.15%
Commodities contracts	11	Discounting cash flows	Transaction counterparty risk	0.05%-100% (*)	2.15%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Shekel/index interest contracts	48	Discounting cash flows	Inflationary expectations	(0.3)%-0.3%	-
Foreign currency contracts	154	Discounting cash flows	Inflationary expectations	(0.3)%-0.3%	-
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	1,192	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'd)

A. Quantitative information regarding Level 3 fair value measurement (in NIS millions)

	30 September 2015 (Unaudited)				
	Fair value	**Assessment technique**	**Unobservable inputs**	**Range**	**Average (3)**
A. Items measured for fair					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities	2,021	Discounting cash flows	Margin	70-160 bp	115 bp
			Probability of default	2.5%-6%	4.25%
			Rate of early repayment	20%	20%
			Loss Rate	30%	30%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	97	Discounting cash flows	Inflationary expectations	(0.6)%-(0.1)%	-0.35%
	86	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.06%
Interest contracts	383	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.06%
Foreign currency contracts	117	Discounting cash flows	Inflationary expectations	(0.6)%-(0.1)%	-0.35% (*)
	1,143	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.06%
Share contracts	271	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.06%
Commodities contracts	25	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.06%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Shekel/index interest contracts	40	Discounting cash flows	Inflationary expectations	(0.6)%-(0.1)%	-0.35%
Foreign currency contracts	208	Discounting cash flows	Inflationary expectations	(0.6)%-(0.1)%	-0.35%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	2,029	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'd)

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					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities	2,003	Discounting cash flows	Margin	70-160 bp	115 bp
			Probability of default	2.5%-6%	4.25%
			Rate of early repayment	20%	20%
			Loss Rate	30%	30%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	85	Discounting cash flows	Inflationary expectations	0.0%-(0.2)%	(0.1%)
	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	Inflationary expectations	0.0%-(0.2)%	(0.1%)
	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	Inflationary expectations	0.0%-(0.2)%	(0.1%)
Foreign currency contracts	199	Discounting cash flows	Inflationary expectations	0.0%-(0.2)%	(0.1%)
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 balance sheet date and miscellaneous matters

Events after the balance sheet date

a. Menorah Mivtachim Sales Agreement

On 27 September 2016, the Bank signed an agreement with institutional investors from Menora Mivtachim Group ("The sale agreement" and "Menora Mivtachim," respectively), whereby, subject to fulfillment of conditions precedent, the Bank will sell to Menora Mivtachim, effective 31 October 2016 (or another date as agreed between the parties), 80% of the Bank's rights and related obligations in the housing loans portfolio (as set forth in Proper Conduct of Banking Business Directive No. 451) which are secured, *inter alia,* by mortgages on rights in real estate and/or pledges of contractual rights in real estate, as applicable, and which comply with the criteria as set forth in the sale agreement ("the loan portfolio").

The Bank will continue to hold the remaining 20% of the aforementioned loan portfolio, so that the rights and the related obligations to be sold to Menora Mivtachim will be pari passu to those remaining in the Bank. The amount of loans in the loan portfolio is estimated at a total amount of NIS 2 billion, so that the part sold to Menora Mivtachim is estimated at an amount of NIS 1.6 billion. Simultaneously to signing the sale agreement, the Bank signed a management agreement with Menora Mivtachim whereby, after the completion of the transaction, the Bank will manage on behalf of Menora Mivtachim its share of the purchased loan portfolio, against payment to be made to the Bank (the "Management Agreement").

On 27 October 2016, all the conditions precedent stipulated in agreement were met in full. The parties are performing all other actions required to complete the transaction, and upon their completion the transaction will come into effect as of 31 October 2016, according to the provisions set forth in the agreement.

The completion of the transaction is not expected to have a material impact on the financial results of the Bank.

b. Bank Leumi Jersey

On 8 April 2016, the transaction was completed regarding an undertaking of the sub-subsidiary, Bank Leumi Jersey, to sell its holdings of its subsidiary, Leumi Overseas Trust Corporation, after receiving the regulatory authorizations required in order to complete the agreement.

On 3 October 2016, the transaction was completed for selling the activity of Bank Leumi Jersey, the Bank's sub-subsidiary, to EFG Private Bank (Channel Islands) Limited, inter alia, after receiving the regulatory authorizations required to do so.

In light of the relatively small scope of activity of Leumi Jersey, which is not material when compared with the Bank Group's activity, this transaction had no material effect on the Bank's activity.

c. Office Holder Remuneration Policy

On 3 November 2016, the Bank's General Meeting approved a new remuneration policy for office holders at the Bank, which shall apply as of 12 October 2016 and until the end of 2019 (hereinafter: "the New Remuneration Policy"), following the Board of Directors' approval in accordance with the approval and recommendations of the Remuneration Committee. The New Remuneration Policy is based on the provisions of Amendment 20 of the Companies Law regarding the terms of service and employment of office holders at the Bank, on the stipulations of the amended Proper Conduct of Banking Business Directive 301A regarding remuneration policy in a banking corporation and on the provisions of the Remuneration for Officeholders in Financial Corporations Law (Special Approval and Non-recognition as an Allowable Tax Expense due to Exceptional Remuneration), 2016 (hereinafter: **"the Remuneration Limitation Law"**).

The New Remuneration Policy determines the range for the remuneration for office holders at the Bank and includes, inter alia, reference to the components of the fixed remuneration, which is the primary remuneration for the office holders, which includes a fixed salary, social rights and salary related terms, and terms of retirement and termination of employment, as well as to variable remuneration components, which include any non-fixed remuneration, including annual performance-based bonus; personal qualitative bonus; and special bonus in respect of special events. Regarding the members of the Board of Directors, including the Chairman of the Board of Directors, as well as regarding the Bank's President & CEO, it has been determined that they shall not be eligible to a variable annual bonus, however they may be eligible to an additional payment – a fixed component which does not grant them social provisions in an amount equal to the gap between the maximum remuneration which can be paid by law to the cost of their ongoing employment.

The total of the variable bonuses for office holders has been limited to a maximum of 6 monthly salaries per annum (and in addition, one salary as a special bonus) and the Bank's Board of Directors shall have the authority to reduce the performance-based bonus at its discretion. Furthermore, in accordance with Directive 301A, the New Remuneration Policy outlines a variable bonus repayment mechanism, including the criteria for repayment, the circumstances under which the repayment mechanism should be applied and the repayment period.

Furthermore, payment deferral arrangements for the variable bonus for office holders are stipulated as part of the New Remuneration Policy and the terms for releasing deferred bonuses, which shall also apply to bonuses which were deferred prior to the coming into effect of the new remuneration plan.

In addition, the Remuneration Policy includes provisions regarding the protection of rights accumulated for the employment period prior to 12 October 2016, including rights to be paid upon retirement, (such as: increased severance pay, early pension and non-contributory old-age pension) as well as provisions regarding the option of freezing the aforementioned rights and depositing them in an external fund, which will pay the accumulated rights at a date to be determined. The remuneration policy includes provisions regarding the Board of Director's authority to approve the rehiring of office holders, including the CEO, if and when the office holders decide to end their tenure at the Bank, in order to preserve the rights they have accumulated in respect of the employment period prior to 12 October 2016.

For information regarding the Remuneration Policy which was in effect until 12 October 2016, see the 2015 Financial Statement, in the chapter on "Remuneration Policy for Office Holders and Key Employees" (pages 284-291).

Update on the employment terms of the Chairman of the Board of Directors

On 3 November 2016, the Bank's General Meeting approved the terms of service and employment of the Bank's Chairman of the Board of Directors (including indemnification and exemption), after receiving the approval of the Board of Directors in accordance with the approval and recommendations of the Remuneration Committee, in accordance with the new remuneration policy, which are in effect as of 22 July 2016, the date of commencement of his current tenure as Director and Chairman of the Board of Directors.

The terms of service have been approved in accordance with Directive 301A, wherein it was established that the Chairman of the Board of Directors shall be eligible to fixed remuneration only. In light of the Remuneration Limitation Law, the Chairman of the Board of Directors' terms of service and employment have been adjusted and decreased, in order to meet the requirements of the Remuneration Limitation Law. The terms of service correspond with the new remuneration policy.

The main changes in the Chairman of the Board of Directors' service and employment terms compared with his previous service and employment terms are: adjusting the remuneration to the stipulations of the new provisions of the law, including the fact that the Chairman of the Board of Directors shall not be entitled to a variable annual bonus; reducing the Chairman of the Board of Directors' rate of severance pay upon ending his employment (in respect of the employment period of the Chairman of the Board of Directors as of the date of commencement); and payment of a fixed component which does not grant social provisions in respect of the gap between the maximum cost of employment payable to the Chairman in accordance with the provisions of the law, and the cost of his ongoing employment.

Since the new remuneration policy was drafted in accordance with the arrangements which are in the process of being formulated, the new remuneration policy established mechanisms which enable the Remuneration Committee and the Bank's Board of Directors to update the various remuneration components throughout the new policy period, in the event that the circumstances at the time of the update justify, in the opinion of the Remuneration Committee and the Board of Directors, performing the aforementioned updates and subject to the limitations of the Remuneration Limitation Law.

The Chairman of the Board of Directors may be entitled, subject to the approval +of the Remuneration Committee and the Bank's Board of Directors, to an additional fixed payment component (this without having to bring the update to the approval of the General Meeting), provided the cost of the total transaction does not exceed NIS 3.5 million.
Since in light of the aforesaid, the cost of employment of the Chairman of the Board of Directors may exceed NIS 2.5 million due to making the aforementioned updates, it has been approved by the General Meeting by the majority set forth in Section 2(a) of the Remuneration Limitation Law and in Section 267a(b) of the Companies Law.

The Chairman of the Board of Directors may be entitled, in accordance with the terms of his previous tenure, to a variable bonus in respect of the proportionate part of 2016 for the period of 2016 in which the current terms of service apply.

Update on the employment terms of the President & CEO

On 3 November 2016, the Bank's General Meeting approved the terms of service and employment of the Bank's President & CEO (including providing an amended letter of commitment to indemnification and updating the decision regarding an exemption for the CEO), in accordance with the new remuneration policy, which came into effect as of 12 October 2016, and including providing the Board of Directors with the authority to rehire the President & CEO without the need to receive an additional approval from the General Meeting.

The terms of service have been approved in accordance with Directive 301A and with the Remuneration Limitation Law, as part of which various limitations regarding providing remunerations to senior office holders in financial corporations were established. The terms of service correspond with the terms of the new remuneration policy.

The main changes in the President & CEO's service and employment terms compared with her previous service and employment terms are: adjusting the amount of the President & CEO's total remuneration to that stipulated in the Remuneration Limitation Law, including the President & CEO's waiver of her right to employment terms in accordance with the 1st generation format at the Bank and including the President & CEO's waiver of her right to continue to accumulate rights for a non-contributory pension from the Bank in accordance with the 1st generation employment terms at the Bank, in respect of the period following the date of commencement, while freezing and preserving the rights which have already been accumulated in herfavor up to the date of commencement and while providing her with the option to deposit the sums that were accumulated in her favor in respect of the period up to the date of commencement to an external fund which will pay them to the President & CEO on the scheduled date.

In light of the possibility of updating the President & CEO's remuneration terms under the appropriate circumstances, like the Chairman of the Board of Directors, the President & CEO may be entitled, subject to the approval of the Remuneration Committee and the Board of Directors, to an additional fixed payment component (this without having to bring the update to the approval of the General Meeting), provided the cost of the total transaction does not exceed NIS 3.5 million.

Since the cost of employment of the President & CEO may exceed NIS 2.5 million due to the abovementioned updates to the terms of her employment, it has been approved in the General Meeting by the majority stipulated in Section 2(a) of the Remuneration Limitation Law.

For the avoidance of doubt, it should be clarified that even if the President & CEO received the additional fixed payment components, as detailed above, in any case the amount of the additional remuneration component shall be set in such a way that the total remuneration components to the President & CEO (apart from remuneration the expense of which is not predictable in accordance with customary accounting principles), comply with the terms of the Remuneration Limitation Law.

The President & CEO may be entitled, in accordance with the terms of the previous tenure, to a variable bonus for the proportionate part of 2016 for the period of 2016 in which the existing terms of service are in effect. The President & CEO shall be entitled to release a variable bonus which has been deferred in accordance with the provisions of the previous remuneration policy, in accordance with the provisions set forth in the new policy regarding the terms for releasing a deferred variable bonus.

For further information regarding the update to the President & CEO's terms of employment, see the report convening the Bank's Special General Meeting, which was published on 26 September 2016.

Miscellaneous Matters

A. Taxes

Change in Companies Tax – On 5 January 2016, the Income Tax Ordinance Amendment Law (No. 216), 2016 was published, which lowered the rate of Companies Tax from 26.5% to 25%.
The balances of deferred taxes at 31 March 2016 were calculated according to the new rate of tax. The effect of the change on the financial statements at 31 March 2016 is reflected in a reduction of the balance of deferred taxes in the amount of NIS 148 million, of which NIS 122 million was charged to profit and loss and NIS 26 million was charged to capital reserve.

In the second quarter of 2016, a (net) tax income was recorded of NIS 187 million due to liquidation and sale proceedings of subsidiary companies.

B. On 2 November 2016, the subsidiary company Leumi Partners Ltd. (**"Leumi Partners"**) signed an agreement with G.P. Global Power Ltd. (**"Global Power"**) and the Noy Infrastructure & Energy Investment Fund S.M. (**"Noy Fund"**) (**"the Agreement"**). Under the provisions of the agreement, the parties will set up a joint company (**"the new company"**) to stand in the shoes of Global Power as the acquirer under an agreement from 14 July 2016 to purchase about 80% of the shares of Triple M Power Stations Ltd. (**"the acquiree company"**) (**"the purchase agreement"**).

The new company will be set up after signing the agreement and the holdings of the parties will be 80% Global Power, 10% Leumi Partners, and 10% Noy Fund. Leumi Partners and Noy Fund were given an option to increase their holdings in the new company up to 20% each (henceforth: **"the option"**) until the date determined in the agreement.

Leumi Partners and Noy Fund undertook in the agreement to sign an undertaking regarding the Electricity Authority to inject shareholders' equity into the project company in the amount of NIS 169 million each, which will be shareholders' equity of the project company for purposes of complying with the requirements of the regulations for shareholders' equity of 20% of the value of the generating plant (as defined in the project company's license) until no later than the date of the financial closing of the project.

The financial closing and injection of capital into the project company are subject to a list of conditions precedent set out in the agreement and the purchase agreement, which include, inter alia, the approval of the Electricity Authority for a change in control of the project company.

The final amount to be invested by Leumi Partners in the framework of the transaction is unknown at this time. Leumi Partners estimates that this amount will not exceed US$ 50 million.

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Changes in the Board of Directors

On 24 January 2016, Mr. Moshe Dovrat ceased to serve as a director in the Bank.
On 11 July 2016, the Annual General Meeting was held, during which, among other things, the subject of electing three directors to the Bank's Board of Directors with the status of "other director" (a director who is not an external director as stated in Section 11D(a)(3) of the Banking Ordinance 1941, hereinafter: "the Banking Ordinance" and "other director") for a period of three years ("the Annual General Meeting") was discussed. The list of candidates to serve as directors was proposed by the Committee for the Appointment of Directors for Banking Corporations, which was appointed in accordance with Section 36A of the Banking Law (hereinafter "the Committee for Appointment of Directors ") and included (1) Mr. David Brodet, who was expected to complete his tenure on 22 July 2016. (2) Mr. Yoav Nardi, who was expected to complete his tenure on 22 July 2016. (3) Ms. Esther Levanon. (4) Ms. Regina Unger.

In addition, in accordance with the provisions of Section 11D (a)(3) to the Banking Ordinance, the Jewish Colonial Trust (JCT) Ltd., a shareholder holding 4.81% of the Bank's capital, proposed Dr. Yoffi Tirosh as a candidate on its behalf 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).

At the Annual General Meeting, the current directors, Mr. D. Brodet and Mr. Y. Nardi were reelected with the status of "other director" for a period of three years. Ms. E. Levanon was also elected with the status of "other director" for a period of three years. Ms. Levanon began serving as a director at the Bank on 7 September 2016, after receiving the approval of the Supervisor of Banks.

On 7 July 2016, the Board of Directors of the Bank approved the extension of the term of office of Mr. David Brodet as Chairman of the Board of Directors, until the date of receipt of approval or non-objection of the Supervisor of Banks as aforesaid, to the last of the candidates who were elected to a term of office as directors at the Annual General Meeting. On 12 September 2016, the Bank's Board of Directors decided to appoint Mr. David Brodet to serve as Chairman of the Board of Directors, for an additional tenure of three years from the end of his current tenure on 22 July 2016, subject to the approval or non-objection of the Bank of Israel. The aforementioned Bank of Israel approval was on 14 November 2016.

For further details, see Immediate Reports dated 7 July 2016 (Ref. 2016-01-078028) and 12 September 2016 (Ref. 2016-01-121924).

In January - February 2017, Professor G. Shalev, Ms. N. Segal and Mr. S. Hermesh are expected to cease their service as directors in the Bank.

On 26 September 2016, the Bank published an Immediate Report regarding convening a Special General Meeting, on the agenda of which were, inter alia, the following topics: A. The election of two directors to the Bank's Board of Directors with the status of "other director" for a period of three years. The list of candidates to serve as directors with the status of "other director" was proposed by: 1) the Committee for the Appointment of Directors; 2) the Jewish Colonial Trust Ltd., a shareholder holding 4.81% of the Bank's capital, which proposed one candidate on its behalf. B. The election of one external director to the Bank's Board of Directors in accordance with the Companies Law (hereinafter: "E.D."), who also complies with the qualification conditions of an External Director in accordance with the provisions of Proper Conduct of Banking Business Directive No. 301, for a period of three years. The candidates to serve as E.D. were proposed by the Committee for the Appointment of Directors.

On 3 November 2016, the Special General Meeting took place, and elected Mr. Yitzhak Sharir and Ms. Esther Dominsini to serve as directors with the status of "other director" for a period of three years, from and subject to the receipt of consent, or non-objection, of the Supervisor of Banks, and no earlier than 5 January 2017, as well as Mr. Yitzhak Edelman to serve as E.D. for a period of three years, from and subject to the receipt of consent, or non-objection, of the Supervisor of Banks, no earlier than 1 February 2017.

For further details regarding a preliminary notice to call an Annual and Special General meeting, see Immediate Report dated 1 August 2016 (Ref. 2016-01-094978). For additional details regarding the Special General Meeting and regarding the proposed candidates, see Immediate Report dated 26 September 2016 (Ref. 2016-01-128920), 13 October 2016 (Ref. 2016-01-064572) and 21 October 2016 (Ref. 2016-01-066408). For further details regarding the results of the General Meeting, see Immediate Report dated 3 November 2016 (Ref. no. 2016-01-072231).

The Board of Directors currently numbers 15 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 its determination, are included in the financial statements for 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.

The Internal Auditor's Report for the first half of 2016 was submitted to the Audit Committee on 25 August 2016 and was discussed therein on 30 August 2016, and was reported to the Board of Directors on 30 October 2016.

Office Holder Remuneration Policy

On 3 November 2016, the Bank's General Meeting approved a new remuneration policy for office holders at the Bank, which shall apply as of 12 October 2016 and until the end of 2019 (hereinafter: "the new remuneration policy"), following the Board of Directors' approval in accordance with the approval and recommendations of the Remuneration Committee. The new remuneration policy is based on the provisions of Amendment 20 of the Companies Law regarding the terms of service and employment of office holders at the Bank, on the stipulations of the amended Proper Conduct of Banking Business Directive 301A regarding remuneration policy in a banking corporation and on the provisions of the Remuneration for Officeholders in Financial Corporations Law (Special Approval and Non-recognition as an Allowable Tax Expense due to Exceptional Remuneration), 2016 (hereinafter: "the Remuneration Limitation Law").

The new remuneration policy determines the range for the remuneration for office holders at the Bank and includes, inter alia, reference to the components of the fixed remuneration, which is the primary remuneration for the office holders, which includes a fixed salary, social rights and salary related terms, and terms of retirement and termination of employment, as well as to variable remuneration components, which include any non-fixed remuneration, including annual performance-based bonus; personal qualitative bonus; and special bonus in respect of special events. With regard to the Chairman of the Board of Directors, and with regard to the President & CEO of the Bank, it has been determined that they shall not be eligible to a variable annual bonus. However, it is possible that there will be creditors for additional payment – a fixed component which is not eligible for social provisions in an amount equal to the difference the max remuneration which may be payable pursuant to the law and the cost of their current employment.

The total amount of the variable bonuses for office holders has been limited to a maximum of six monthly salaries per annum (an one additional salary given as a special bonus) and the Bank's Board of Directors has the authority to reduce the performance-based bonus at its discretion. Furthermore, in accordance with Directive 301A, the New remuneration policy outlines a variable bonus clawback mechanism, including the criteria for clawback, the circumstances under which the clawback mechanism should be applied and the clawback period.

Furthermore, payment deferral arrangements for the variable bonus for office holders are stipulated as part of the New remuneration policy and the conditions for the release of bonuses which were deferred, which will also apply to bonuses deferred before the inception of the new remuneration plan.

In addition, the remuneration policy includes provisions regarding the protection of rights accumulated for the period of employment prior to 12 October 2016, including rights to be paid on retiring (such as, augmented compensation, early pension and defined benefit old-age pension), and the provisions regarding the option to suspend rights as aforesaid, and deposit them in an external fund, which will pay the accumulated rights at a prescribed date. The remuneration policy includes provisions regarding the power of the Board of Directors to approve the re-employment of office holders, including the President and CEO, if the office holders decide to terminate their term of office in the Bank, for the purpose of retaining the rights accumulated for them in respect of the period of employment until 12 October 2016.

For additional information regarding the new remuneration policy, see the Notice of Convening the Bank's Special General Meeting which was published on 26 September 2016 (Ref. 2016-01-128920).

For information regarding the remuneration policy which was in effect until 12 October 2016, see the 2015 financial statements, chapter on remuneration policy of office holders and key employees (pages 438 –443).

For information regarding the updating of the terms of employment of the Chairman of the Board of Directors and the President & CEO, see the financial statements, Note 16.

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 July 2016 (Ref. 2016-01-077410).

Annual General Meeting and Appointment of Directors

On 11 July 2016, the Annual General Meeting was held, during which, among other things, it was decided to reappoint the external auditors and to appoint Directors for the Bank's Board of Directors, as outlined in the chapter above on "Changes in the Board of Directors".

For information regarding the resolutions approved during the Annual General Meeting, see Immediate Report regarding the results of the General Meeting dated 11 July 2016 (Ref. 2016-01-079798).

On November 3 2016, a Special General Meeting took place, during which decisions were made regarding the following topics: (1) the election of two directors with the status of "other director", as detailed above in the chapter on "Changes in the Board of Directors"; (2) the appointment of one E.D., pursuant to the provisions of the Companies Law, 1999, as detailed above in the chapter on "Changes in the Board of Directors"; (3) the approval of amendments to the Bank's Articles, including in regards to matters of the indemnification for directors and office holders in the Bank, signing the balance sheet and jurisdiction clause; (4) the approval of a new remuneration policy for officeholders in the Bank; (5) the amendment of letters of indemnity of directors in the Bank; (6) the approval the terms of service and employment of the Chairman of the Board of Directors; and (7) the approval of the terms of service and employment of the President & CEO.

For further details, see the Immediate Report regarding the convening of the Special General Meeting dated 26 September 2016 (Ref. 2016-01-128920) 13 October 2016 (Ref. 2016-01-064572) and 21 October 2016 (Ref. 2016-01-066408) and the Immediate Report regarding the results of the Special General Meeting dated 3 November 2016 (Ref. 2016-01-072231) and the Immediate Report regarding the changes in the Articles dated 3 November 2016 (Ref. 2016-01-072234).

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, will continue in her position as Chairman of the Board of Directors of Leumi Card.

Ms. Michal Dana was 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 Secretary of the Bank with the status of an 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, was appointed to the position of CEO of Leumi Card, with effect from 21 August 2016.

Mr. Omer Ziv was appointed Head of the Financial Division and member of Bank Management with the rank of First Executive Vice President with effect from 16 August 2016.

Ms. Bosmat Ben Zvi, Chief of CEO Staff, was appointed Chief of CEO Staff and Strategy Subdivision as of 1 April 2016, and from 1 September 2016 serves as an office holder at the Bank.

Retirements:

Professor Daniel Tsiddon, Deputy CEO, ceased to serve in his position on 31 August 2016 after 12 years of employment in the Bank, three years of which he served as Deputy CEO.

Mr. Itay Ben Ze'ev, member of the Bank's management, gave his notice of termination on 3 November 2016 in light of his upcoming appointment as CEO of the Tel Aviv Stock Exchange. Further to the aforementioned notice of Mr. Ben Ze'ev, on 13 November 2016, it was agreed that he would finish fis term of office in the Bank on 31 December 2016.

Mr. Hagai Heller, CEO of Leumi Card, ceased to serve in his position in August 2016, after 16 years of employment at Leumi Card, three-and-a-half years of which he served as CEO. Mr. Heller is currently employed at the Bank.

Organizational Structure

Digital Banking Division

On 1 January 2016, a new division was set up in Leumi for Digital Banking, subject 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 digital innovation within 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.

Arab Israel Bank

On 31 December 2015, the Arab Israel Bank was merged with Bank Leumi. The merger will enable Leumi Group to increase the group synergy between the retail, commercial and consumer credit activities, and, among other things, lead to decreasing expenses and a streamlining of the allocation of resources within the Group.

Legal Division

On 15 March 2016, the Bank's Secretariat Unit was transferred to the authority of the Head of the Legal Division

Human Resources Division

On 1 July 2016, an organizational change was made in the Human Resources Division, wherein the administrative and professional responsibility for the Human Resources units in the Business Divisions was transferred to the Head of Human Resources Division. The change was made in order to strengthen the Division's professionalism, efficiency and flexibility and to provide the optimal solution for the needs of the business.

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 466 – 488.

A large number of proposals for regulatory changes and changes in various provisions of the law were published during the reporting period, which could 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 Group's overall activity, 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 provided that, in the period from 1 July 2016 to 31 December 2016, an employee will be entitled to 15 vacation days in each of the first four years of his employment, and from 1 January 2017, an employee will be entitled 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 pursuant 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 offenses will be considered as predicate offences under certain conditions and, *inter alia*, if the tax offence exceeded 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 Prohibition of Money Laundering and Financing of Terrorism Authority to the Tax Authority for the purpose the investigation and prevention of crime under the law.

Credit Data Law, 2016

On 12 April 2016 the Credit Data Law, 2016, 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 thirty months from its publication date. The Minister of Justice, subject to the approval of additional entities, will be entitled to defer the inception of the law for additional periods, providing the total delays will not exceed four years from date of publication of the law.

On 21 June 2016, the Banking Supervision Department published a temporary directive regarding the retention of information to be transferred to the credit database. In accordance with the directive, the Bank is required to retain information for the database as of May 2016. Additionally, the directive details the data fields and format for retaining the required information.

On 17 July 2016, the Ministry of Justice published the Draft Credit Data Regulations, 2016, including various directives for implementing the law.

Remuneration for Officeholders in Financial Corporations Law (Special approval and non-recognition as an allowable tax deductible expense due to exceptional remuneration), 2016

On 12 April 2016, the Remuneration for Officeholders in Financial Corporations Law (Special approval and non-recognition as an allowable tax deductible expense due to exceptional remuneration), 2016, (hereinafter: "Remuneration Limitation Law") was published. The law establishes restrictions on the remuneration of office holders and other employees in financial corporations (hereinafter: "the remuneration"), as follows:

- The method for approving the remuneration was established; in respect of which the projected expenditure is expected to exceed NIS 2.5 million per annum.
- No engagement will be approved when the projected expenditure in respect of the remuneration exceeds NIS 2.5 million, unless the ratio of the projected expenditure according to the cost of a full-time position resulting from this remuneration to the expenditure resulting from the lowest remuneration according to the cost of a full-time position that the financial corporation paid directly or indirectly to the employee in the corporation (including a contractor employee) in the year prior to the date of the agreement is less than 35.
- The amount of remuneration of the said employee / office holder, will be calculated on a group basis, i.e. it will also include remuneration from related corporations as defined in this law.
- For the purpose of calculating the taxable income of a financial corporation, it was provided 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 is not exceeding 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 Israel Tax Authority with regard to the remuneration details that exceed the ceiling were provided.
- A sanction was determined, according to which where a corporation does not comply with the rules- the agreement will be regarded as an invalid transaction (pursuant to section 280 of the Companies Law).

With regard to agreements that were approved on the publication date of the Law and thereafter, wage restrictions will come into force from the publication date, while the effect on taxable income of the financial institution and reporting to the tax authority apply as of 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 reporting to the tax authority will apply after 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 regulatory requirements. In addition, the banking corporations were required to examine the need to update obligations regarding employees' rights in the bank's financial statements, given the changes in circumstances.

On 6 June 2016, the Supervisor of Banks published a further letter to the Chairpersons and CEOs of the banking corporations on the subject of the banks' preparation for implementation of the law, in light of the concern which arose among some officeholders and senior employees in the banking corporations, that the law would be interpreted in a way which was liable to cause considerable damage to the retirement rights which they had accumulated for their years of service prior to the date of inception of the law. According to the provisions of the letter, this concern may lead to high-level managers leaving some banking corporations, as well as several mid-level managers at some banking corporations.

In the aforementioned letter, the Supervisor of Banks clarifies that the Bank of Israel agrees with the position according to which the law should apply from the date of inception and not to the employees' past rights. In this context, the letter clarifies that each banking corporation should take the steps required to avoid impairment to its proper governance. It should operate, *inter alia*, based on established legal and accounting opinions, to adapt its employee remuneration terms in accordance with the law, and pursuant thereto, provide a solution to the banking corporation's obligations towards the relevant employees for their past rights, this, according to the purpose of the law, while providing full disclosure to the relevant employees regarding the implications of the proposed outline, so that they can make an informed decision.

When the law comes into effect, it is expected to impair, in a more limited way, certain employment terms of key officeholders at the Bank, who are employed through personal contracts. This anticipated impairment of the employment terms is expected to provide officeholders and key professionals with the right to give notice of terminating their position at the Bank, while being entitled to termination conditions, as stated in their terms of employment at the Bank and grant them various rights, including increased severance pay or entitlement to early retirement, before reaching the legal retirement age. The Bank has determined a new Remuneration Policy for office holders at the Bank, which was approved by the Bank's shareholders at a Special General Meeting on 3 November 2016.

As set forth in Note 23B.3c of the Bank's financial statements for 2015 (page 279), the Bank made a provision for obligations deriving from the termination of employer-employee relations, in accordance with the estimate for the probability of exposure to payment of the aforementioned sum, based on, inter alia, past experience and the expectation that most senior executives would continue their employment at the Bank until retirement age. Against the background of the enactment of the Remuneration Limitation Law, the Bank's management re-estimated the probability of exposure to payment of rights granted to officeholders and key officeholders for the termination of employer-employee relations, conditions of termination, while considering the new legal circumstances and based on various parameters examined.

Against the background of the increasing likelihood, and the changes in schedule, for terminations of service by members of management and additional executives who are employed under personal contracts, due to the expected worsening of their conditions when the law comes into effect; the limitations regarding prospects of promotion; and the rights they had already earned, the Bank's Board of Directors, in light of management's assessment and in accordance with legal opinions, approved adjusting the provision in respect of the termination of employee-employer relations, according to the rights that have accumulated, pursuant to the terms of employment of members of management and other managers who are employed under personal contracts.

In accordance with the abovementioned, the Bank increased the provision in the financial statements as at 31 March 2016 for officeholders and senior employees by NIS 117 million. Out of this amount, a total of NIS 36 million is for members of the management, including the President and Chief Executive Officer. In accordance with the accounting principles and Public Reporting Directives, the updated estimate, as aforesaid, is charged to other comprehensive income. As stated in Note 1 of the financial statements for 2015 (Significant Accounting Policies, page 198), this amount is updated in subsequent reporting periods to the statement of profit and loss.

On 1 June 2016, the Association of Banks in Israel filed a petition with the High Court of Justice regarding the Remuneration Limitation Law. The petition requested a ruling that the provisions of the law will not impair employees' rights to a pension and severance pay deriving from seniority accumulated prior to the enactment of the Law. Additionally, the petition requests the cancelation of the clause which creates an effective salary limit and limits the salary of the highest paid employee in the organization to no more than 35 times the lowest salary.

On 29 September 2016, a ruling was handed down dismissing the petition against the legality of the provisions of the ratio limitation (ratio of 35). Additionally, the Court extended an interim order dated 11 July 2016, according to which the senior employees at corporations can give their notice of resignation until 1 January 2017, without losing their eligibility to all rights they would have earned in respect of employer-employee relations or termination of office, had those relations ended during the period of reorganization.

Regarding rights derived from seniority accumulated prior to the legislation, the Court adopted a conciliatory approach in principle, according to which the law was meant to apply to remuneration for future work only, and does not apply to rights gained for work performed by the employee before the end of the period of reorganization (12 October 2016). On the basis of this principle, it shall be required to examine from now as to whether any specific employee rights and interests are subject to the ratio limitation provision.

Supervision of Financial Services Law (Provident Funds) (Amendment No. 15), 2016

On 7 June 2016, the Supervision of Financial Services Law (Provident Funds) (Amendment No. 15), 2016 was published in the Official Gazette. The Law enables provident fund management companies to establish an additional savings product called "Investment Provident Fund", which is designed for a capital sum payment to a member. The money within the Investment Provident Funds will be liquid, and the saver can withdraw it at any time as a lump sum, without tax benefits, or receive a capital gains tax exemption if they choose to receive it as a pension. The amount of payments permitted for deposit by members in all their Investment Provident Fund accounts must not exceed NIS 70,000 per annum.

Supervision of Financial Services Law (Provident Funds) (Amendment No. 16), 2016

General Collective Agreement (Framework) to Increase Provisions for Pension Insurance in the Economy

On 23 February 2016, a General Collective Agreement (Framework) to Increase Provisions for Pension Insurance in the Economy, which was intended to determine the increase of contribution rates which will apply to all employees and employers within the economy as of 1 July 2016 ("Framework Agreement"), was signed by the Presidium of Business Organizations and the New General Histadrut Employees Organization. On 23 May 2016, an extension order was published regarding increasing the provisions for pension insurance in the economy, extending the incidence of the Framework Agreement to all employees and employers in Israel.

On 16 June 2016, an amendment to the Supervision of Financial Services Law (Provident Funds) (Amendment No. 16), 2016 was published. Section 20 of the Supervision of Financial Services Law (Provident Funds), 2005, was amended following the Framework Agreement, providing that if there is a condition, in the law or in the agreement, according to which the contribution rate for a certain provident fund is a percentage of the employee's salary and includes payment from the employer for purchasing preferred insurance at the rate required to insure 75% of the employee's salary or at a rate of 2.5% of the employee's salary as aforementioned, whichever is lower, and the contribution rate by law or the agreement for a different type of provident fund is lower, the aforementioned condition shall not be deemed an employer's condition with regard to the contribution rate in favor of an employee for a certain type of fund, so long as the employee is entitled to a contribution rate of the employer's payment component which is not less than the predetermined contribution rate (as of 1 July 2016 - 6.25%, as of 1 January 2017 - 6.5%)

The Anti-Terrorism Law, 2016

On 23 June 2016, the Anti-Terrorism Law was published. The law creates a comprehensive legal framework regarding the war on terrorism, including authorities from the criminal, administrative and civilian fields, which thus far were dispersed among many different laws and regulations.

Among other things, the law includes an extension of the definition of a "terrorist organization", to include from now on, both terrorist organizations in the classic sense, and "shell organizations", which do not commit terrorist acts directly, yet encourage and facilitate their activity. Additionally, the law lists a number of new criminal acts related to terrorist organizations, including managing or being a member of such an organization; serving as head of a terrorist organization; being employed in a management or administrative role within a terrorist organization; directing members of the organization to perform terrorist acts; solidarity with a terrorist organization; inciting terrorism; and failure to prevent terrorism. The law stipulates stricter punishment for terrorist activity and for aiding such activity and also establishes that a suspect for terrorist offenses may be detained in custody for 48 hours prior to being brought before a judge for a custody hearing and that such a suspect's right to consult with an attorney can be delayed during this timeframe. The law also enables the use of various means of terrorism prevention, including issuing administrative detention orders and foreign travel prohibition orders, as well as forfeiture of funds and property from individuals and organizations suspected of terrorism offenses.

The law includes mechanisms for declaring terrorist organizations to replace the current mechanisms in the Ordinance for the Prevention of Terrorism; in the Defense Regulations (Time of Emergency), 1945; and in the Prohibition of the Financing of Terrorism, 2005. The new declaration process stipulated in the law includes two tracks: the first, a declaration by the Minister of Defense of a terrorist organization or "shell" organization; and the second, a declaration by the Ministerial Committee for National Security Matters of a foreign terrorist or a foreign terrorist organization which has been declared as such outside of Israel.

The law clarifies that where there is, according to the criteria in the law, an obligation to report property suspected to be terrorism-related, institutions which are subject to the prohibition of money laundering and financing of terrorism regime, which includes banks, are to report it to the Prohibition of Money Laundering and Financing of Terrorism Authority, as well as the Israel Police.

Supervision of Financial Services Law (Regulated Financial Services), 2016 and Memorandum of Supervision of Financial Services Law (Non-Institutional Financial Services) (Amendment), 2016

On 1 August 2016, the Supervision on Financial Services Law (Regulated Financial Services), 2016 was published. As a part of this law, an overall framework was established for regulating the non-banking and non-institutional credit market in Israel for the first time and the currency service providers market regulation was significantly increased.

The main points of the law are as follows:

- A comprehensive regulatory regime has been established for all matters relating to the provision of banking and non-institutional credit, which will apply to credit providing entities which are not subject to another regulator's supervision.
- The Commissioner of the Capital Markets, Insurance and Savings in the Ministry of Finance shall act as the supervisor of financial service providers, and shall have extensive regulatory, supervisory, enforcement and administrative inquiry authorities, including the imposition of financial sanctions.
- The supervision of currency service providers will be significantly increased, so that, alongside the existing obligations regarding money laundering prohibition and financing terrorism, a comprehensive regulatory regime will also apply to this field.
- The definition of "credit provision" in the law is very broad and includes, *inter alia*, the provision of a credit facility, discounting services, the provision of credit by way of financing a purchase or a rental and the provision of a guarantee for another party's liability.
- The definition of "financial assets" has been broadened, compared with the existing definition in the Money Laundering Prohibition Law, explicitly to include prepaid cards and virtual currencies.
- Licensing requirements have been established for financial asset service providers and credit providers, in accordance with their scope of activity, as well as minimum shareholder's equity requirements, corporate governance and reporting obligations which will apply to the license holders.
- Controlling shareholders and interested parties are required to obtain a permit from the Supervisor for controlling or holding means of control.

As a rule, the effective date of the law is 1 June 2017 and with regard to anyone who deals in providing financial asset services, on 1 June 2018.

The law is intended to develop the non-institutional financial service sector, to create an adequate alternative to the banking system in this field, to protect the consumers and prevent offenders from exploiting this sector for unlawful purposes.

Banking Law (Licensing) (Amendment No. 22), 2016

On 16 August 2016, the Banking Law (Licensing) (Amendment No. 22), 2016 was published.

According to the law, a banking corporation that wishes to close a permanent branch shall provide the Supervisor of Banks with a well-reasoned written request. The Supervisor shall notify whether he agrees or is opposed to the closing of the branch within 30 days of receiving the request (and if he has requested additional details necessary to examining the request – within 30 days of receiving said details), and is entitled to set conditions for the branch closure, including postponing the closure date. A decision regarding an objection to the closure of a permanent branch shall be made after the banking corporation has been given the opportunity to state its claims, and following a consultation with the License Committee.

In addition, it is provided that if a decision is made in favor of closing a permanent branch, the banking corporation shall inform its customers in writing, as well as in any method by which it normally notifies said customers, and will only be permitted to close the branch 60 days after notifying the customers. Additionally, it is proposed to determine that the considerations which the Supervisor takes into account when deciding whether to give a branch permit, including considerations of public interest, will also be taken into account in the decision regarding the branch closure request.

Electronic Cheque Clearing

Following the Electronic Cheque Clearing Law, which was published in the Book of Laws on 17 August 2016, and regards regulating the method by which electronic cheque clearing is performed by the banks, the Rules for Electronic Cheque Clearing (Cheque Retention), 2016, which determine the terms for retaining cheques deposited in the Bank for collection, were published.

Additionally, on 9 November 2016, the Rules for Electronic Cheque Clearing (Scanning, Retaining and Producing Digital Cheque Outputs), 2016, were published, which determine the terms for the quality and adequacy of cheque digital scans and require producing outputs of declined digital cheques, should an eligible customer request it.

In accordance with the announcement of the Bank of Israel, as of 8 November 2016, inter-bank clearing will be allowed for cheques deposited using a mobile phone. Depositing by mobile phone is possible for cheques marked "for beneficiary only" and up to a sum of NIS 10,000 per cheque.

Supervision of Financial Services Law (Legislative Amendments), 2016

On 21 August 2016, the Supervision of Financial Services Law (Legislative Amendments), 2016 was published.

Pursuant to the law, the Capital Market Division in the Ministry of Finance will become an authority entitled the Capital Markets, Insurance and Savings Authority, which will operate as an independent unit within the Ministry of Finance, subject to the Minister of Finance.

The Minister of Finance shall appoint, subject to government approval, a Commissioner of the Capital Markets, Insurance and Savings, who will be responsible for fulfilling the Authority's duties and its day-to-day management, this, in order to provide the Commissioner of the Capital Markets, Insurance and Savings with greater independence and administrative latitude.

Legislative proposals

Proposed Law to Broaden Tax Collection and Increase Enforcement (Means to enforce tax payment and deter money laundering) (Legislative Amendments), 2015

On 12 October 2015, the Knesset approved the Proposed Law to Broaden Tax Collection and Increase Enforcement (Means to enforce tax payment and deter money laundering) (Legislative Amendments), 2015. The proposed amended law is under discussion 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 Attorney-General.

Proposed 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, of insolvency proceedings of individuals and corporations. The proposal includes provisions relating to all types of debtors, tog with provisions dealing with the unique aspects of various kinds of debtors –individuals and corporations. The proposal includes, *inter alia*, the following innovations:

- The definition of insolvent will be according to a test of cash flows, and accordingly, an insolvent person 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 the 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. Only after this decision will the court 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 of the general debts.
- 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, pursuant to the recommendations of the Committee to Examine Debt Arrangements in Israel (the Endoren Committee).

  Updated versions of the proposal are discussed in the Knesset's Constitution, Law and Justice committee.

Proposed Law of Admonitory Duty in the Advertising and Marketing of a Loan (Legislation Amendments), 2015

On 4 July 2016 the Knesset's Economic Committee approved the Proposed Law of Admonitory Duty in the Advertising and Marketing of a Loan at its first reading. According to the proposed law, banking corporations or non-banking lenders must not advertise or market in any way which encourages the taking of a loan, unless a warning has been attached that "failure to meet the repayment of the loan may result in interest charges on arrears and enforcement proceedings".

Proposed Securities Law (Amendment No. 60) (Structural Change of the Stock Exchange), 2016

On 25 July 2016, the Knesset plenum approved in a first reading the proposed Securities Law (Amendment No. 60) (Structural Change of the Stock Exchange), 2016.

The bill 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 so that access to trade will no longer be dependent on ownership rights in the stock exchange, but rather on contractual arrangements between the stock exchange and potential members.

In addition, the proposed law discusses the following issues: moving the trading week of the Stock Exchange to Monday through Friday, strengthening the regulatory mechanisms of the stock exchange, stipulating conditions for the provision of a license to open the stock exchange, control permits and corporate governance arrangements.

Proposed Sales Law (Apartments) (Securing Apartment Buyers' Investments) (Amendment no. 8), 2016

On 1 August 2016, a Government bill to amend the Sales Law (Apartments) (Securing Apartment Buyers' Investments) (Amendment no. 8 and Temporary Provision), 2016, was published.

Below are the main points of the amendment:

- The application of the existing requirements of the law regarding a bank that provides financing, as well as an insurer providing project financing, including a payment mechanism by means of vouchers, providing collateral (with an insurer – an insurance policy) within 14 business days and the imposition of a financial sanction.
- As a temporary provision for five years from the effective date of the law, it is provided that the bank guarantee or insurance policy given as collateral pursuant to the law will be issued without the VAT component.

  A fund will be established in the Ministry of Finance which is intended to recover amounts representing the VAT component for purchasers. The fund's articles will be amended by the Comptroller-General, with the consent of the Supervisor of Banks and Supervisor of Insurance.

  The seller's right to receive the refund of the VAT component, in the event of a realization of the collateral, is pledged in a first-ranking lien in favor of the State.

  On realization of the bank guarantee, the fund will return the VAT component to the purchaser via the bank or the insurer which issued the collateral (guarantee or policy) within 14 days of the application of the banking corporation or the insurer. On receipt of the amount from the fund, the banking corporation or the insurer will transfer to the purchaser.

  The Bank or the insurer is obliged to apply to the fund, within two business days of the date of realizing the collateral, with a request to receive the refund of the VAT component.

Proposed Amendment to the Supervision of Financial Services Law (Regulated Financial Services), 2016, as part of the Proposed Economic Plan Law (Legislative Amendments for the Application of the Economic Policy for the Budget Years 2017 and 2018), 2016

On 3 November 2016, the Knesset plenum approved the proposed amendment to the Supervision of Financial Services Law (Regulated Financial Services), 2016, in a first reading.

The proposed amendment includes the regulation of the "Retail Credit" field (micro banking), which includes, inter alia, cooperatives that provide their members with deposit and credit services (credit unions), alongside other services which are basic banking services.

According to the proposed amendment, the Supervisor of Regulated Financial Services will be the regulator entrusted with the regulation and supervision which shall apply to providers of deposit and credit services and to the services provided by them. According to the proposition, a licensing requirement shall be imposed on providing deposit and credit services, which will be divided into license types according to the aforementioned service provider's scope of activity.

Additionally, the proposed amendment establishes regulations regarding the aforementioned licenses, regarding control and holding means of control of deposit and credit service providers, regarding the organs and office holders serving in them, and establishes various limitations and obligations which shall apply to the activity of the regulated license holders and grants supervisory authorities to the Supervisor, all for the purpose of ensuring the proper activity of deposit and credit service providers, as well as protecting their customer's interests.

Another field which the proposed amendment proposes to regulate is credit card issuance by non-banking corporations. Currently, Israel has no legal arrangement for the activity of credit card issuance by entities other than banking corporations.

Proposed Amendment to the Execution Law, 1967, as part of the Proposed Amendment to the Economic Law (Legislative Amendments for the Application of the Economic Policy for the Budget Years 2017 and 2018), 2016.

On 3 November 2016, the Knesset plenum approved the proposed amendment to the Execution Law, 1967 in a first reading. As part of the amendment, it is proposed to increase the amount of debt which is collected as part of the Execution Office's Fast Track in the amount of NIS 50,000 in regular debts (in lieu of NIS 10,000). Furthermore, it is proposed that, in charges collected by one corporation from another of up to NIS 200,000, the track will be set as an obligatory track.
In addition, it is proposed to extend the proceedings in which the fast track can be chosen regarding debts of over NIS 10,000, in accordance with the rules stipulated by the Execution Office System Manager, as well as to extend the time period for commencement of proceedings in the fast track with regard to debts of more than NIS 10,000, to a period of 18 months (instead of 8 months today).

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 signage of the Bank or via a branch that is mobile and operated from various sites, including from within a suitable vehicle. The branch will operate at a regular frequency, as set by the Bank, and at least once a month.

The services in the branch will only be available to customers who are individuals or small businesses.

A bank will be entitled to provide all banking services in the said branch, excluding signing guarantees, extending housing loans and investment consulting and marketing.

Amendment to the Proper Conduct of Banking Business Directive No. 329 on the subject of restrictions on the provision of housing loans

On 1 May 2016, the Bank of Israel published an amendment to Directive 329 on the subject of restrictions on the provision of housing loans.

As part of the amendment, it was determined that, for the purpose of calculating the financing rate of housing loans to those eligible for housing in projects for which the Government gives a discount on the land, such as "a target price" and "a homeowner 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 are levied in respect of a breach of the terms of the plan in these projects, 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 No. 472 "Clearers and the clearing of debit card transactions"

On 1 May 2016, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 472, "Clearers and the clearing of debit card transactions".

This directive relates particularly for the first time 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 companies and clearers, and also alleviates the capital requirements from a clearer, distinguishing between clearers whose scope of credit activity is not material, and other clearers.

In addition, the directive discusses the following subjects: the existence of an adequate infrastructure of corporate governance; risk management; internal control and IT management; the protection of funds in clearing; management of vendor accounts, clearer-vendor relations, the transfer of funds in immediate debit transactions; the use of the EMV standard, a mechanism for diverting responsibility, the rental of terminal equipment adapted to new technology (EMV) to merchants and details of the provisions of the Proper Conduct of Banking Business Directives which apply to clearers.

In defining the directive, the relevant sections that apply to clearers were transferred from Proper Conduct of Banking Business Directive No. 470 – Debit Cards, to this directive.

The directive comes into effect gradually from 1 June 2016, and until 1 January 2018.

Amendment to Proper Conduct of Banking Business Directive Nos. 203 & 204

On 22 October 2015, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive nos. 203 and 204 regarding the capital requirements for exposures to key counterparties.

Within the amendment, Appendix C to Directive no. 203 was updated to include a detailed framework regarding the capital requirements for exposures of banking corporations to key counterparties, including the

Tel Aviv Stock Exchange. The directive differentiates between an ineligible key counterparty and eligible key counterparties, the latter requiring reduced capital requirements.

Furthermore, it was established that the new directives shall apply to exposures to key counterparties caused by OTC derivatives, quoted derivatives transactions and securities financing transactions.

On 9 June 2016, the Banking Supervision Department published a letter delaying the effective date of the aforementioned amendment, so that it will come into effect on 1 January 2017. Up to 30 June 2017, the Tel Aviv Stock Exchange can be regarded as an eligible key counterparty, even though it has not yet been declared as eligible.

Update to Proper Conduct of Banking Business Directive No. 454 "Early repayment of a non-housing loan"

On 11 July 2016, the Bank of Israel published an update to Proper Conduct of Banking Business Directive no. 454 regarding early repayment of a non-housing loan.

The update includes an amendment to the text of the amended directive, which came into effect on 1 April 2016.

Among other things, the amendment stipulates that the information sheet given to the customer regarding early repayment can be included as an appendix to the loan agreement or to the facility agreement, providing it appears prominently in bold lettering, in order to avoid duplication.

Furthermore, it stipulates that rather than presenting the formula and method of calculation of the discounting component in the information sheet, the banking corporations should present a link to the banking corporation's website, in which the formula and method of calculation of the discounting component must be clearly displayed. The link should lead directly to the location on the website where the formula and method of calculation of the discounting component appear. Furthermore, the banking corporation must provide the formula and method of calculation of the discounting component to any borrower who wishes, in the same manner by which it sends notices to the customer, or by any other acceptable manner which the customer choses.

Additionally, the directive includes various clarifications regarding the information to be included in the information sheet provided to the customer, and regarding the borrower's classification.

Update to Proper Conduct of Banking Business Directive No. 403 regarding non-banking benefits to customers

On 11 July 2016, the Bank of Israel published an update to Proper Conduct of Banking Business Directive No. 403 "Non-banking benefits to customers".

This directive regulates the rules for providing banking corporations' non-banking benefits to their customers. The amendment expands the possibilities that the banking corporations have for providing non-banking benefits to their customers with regard to the day-to-day conduct of the customer within a current account, including signing up for and using online banking services.

The amendment does not allow banking corporations to provide a non-banking benefit with regard to opening a current account (aside from a small monetary payment or item for purposes of marketing by the banking corporation) or when selling other banking products, including making a deposit, extending or utilizing credit, opening and managing an investment portfolio and investment consulting or pension consulting.

The Banking Rules (Service to the Customer) (Commissions) (Amendment), 2016 and the Banking Order (Service to the Customer) (Supervision of Standard Report Service at the Customer's Request), 2016

On 19 July 2016, the Banking Rules (Service to the Customer) (Commissions) (Amendment), 2016 and the Banking Order (Service to the Customer) (Supervision of Standard Report Service at the Customer's Request), 2016 were published, including various amendments in commissions, as detailed below:

- Enrolling a senior citizen or a person with disabilities to the basic track service;

- Customers who closed their account – will be entitled by law to receive copies of notices sent to them through online banking services during the period of 6 months prior to closing the account, on a non-recurring basis, free of charge.
- Including the "letter of reference " report type within report issuance services involved in receiving information;
- The commission for changing a housing loan repayment date must not exceed the service price of a single transaction by a bank employee for each loan, for each of the first four changes each year;
- Declaring the report issuance service at a customer's request as a service under supervision, and setting its maximum cost at NIS 15 per report.

Proper Conduct of Banking Business Directive No. 367 "Online banking"

On 21 July 2016, the Banking Supervision Department published a new Proper Conduct of Banking Business Directive regarding online banking. The directive, inter alia, deals with the following topics:

- Opening an account online;
- Enrolling in Internet banking services online;
- A customer enrolling 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 visit the branch as has been required until now;
- The restrictions that have been imposed until now, with regard to ceilings on the amounts of transfers by customers to unlisted beneficiaries, will be removed - along with determining ceilings by the banking corporation, according to the risk management policy that will be determined 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 information collation 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 collated.

Alongside these reliefs, the banks are obliged to manage the data security aspects and the risks involved in implementing the directive, as well as operating expanded controls.

The directive will come into effect on 1 January 2017, apart from the section regarding functional support for performing smart card transactions at automated self-service stations, used for cash withdrawal, which will come into effect on 1 January 2018.

A banking corporation is permitted to act in accordance with the directive at an earlier date, under specific circumstances listed in the directive.

Update to Proper Conduct of Banking Business Directive No. 420 "Sending information through electronic means"

On 25 July 2016, the Banking Supervision Department published an update to Proper Conduct of Banking Business Directive No. 420 "Sending information through electronic means". According to the directive, 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 (text messages, SMS) or by e-mail.

Furthermore, the directive requires the bank to send a text message (SMS) to a customer who has had five cheques that have been refused in his account or for whom restrictions have been imposed on his account.

The amendments to the directives take effect on their date of publication, excluding a number of sections, which will come into effect gradually, before 1 July 2017.

Instruction regarding account types and terms under which the customer will not be required to sign an agreement

On 7 August 2016, the Banking Supervision Department published an instruction regarding account types and terms under which the customer will not be required to sign an agreement.

The instruction broadens the types of agreements which will not require the customer's signature at the branch.

Proper Conduct of Banking Business Directive No. 436 regarding a project for locating inactive deposits and accounts of deceased persons

On 12 September 2016, the Banking Supervision Department published Proper Conduct of Banking Management Directive No. 436, "Project for locating inactive deposits and accounts of deceased persons".

In order to assist banks' customers in locating inactive deposits and accounts of deceased persons, an online platform was established, enabling owners of inactive deposits and heirs of accounts of the bank's deceased customers, to receive information regarding the aforementioned deposits and accounts.

The Directive includes provisions which are intended to regulate various aspects regarding the project, including: the definition of an "inactive deposit" for the purposes of the project; the obligation to display a link on the bank's homepage to a designated page on the bank's website which deals with inquiries from the public in the matter; the obligation to appoint a designated party for handling customer inquiries regarding inactive deposits and accounts of deceased persons; the obligation to set forth the customer or heir identification process within the bank's procedures; removing information regarding customers from the project.

Bank Ownership Permits for Entities which Manage Customer Funds – Policy Update

Amendment to Proper Conduct of Banking Business Directive No. 312 – Business of a Banking Corporation with Related Parties

On 16 June 2016, the Bank of Israel published a letter updating its policy regarding bank ownership permits for entities which manage customer funds. According to the updated policy, a controlling shareholder of an entity which manages customer funds (provident funds, insurance companies, mutual funds, and ETFs) will be permitted to own up to 7.5% of the means of control of a banking corporation, subject to receiving a permit from the Governor of the Bank of Israel and subject to conditions to be determined.

Following the abovementioned, on 29 September 2016, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 312, in order to provide an exemption from the definition "related party" to anyone holding more than 5% of any kind of means of control of a banking corporation or of a corporation which controls the banking corporation, in accordance with a permit provided accordingly to the abovementioned letter.

Provision for making banking services accessible to people with disabilities - Business continuity

On 29 September 2016, the Banking Supervision Department published a provision for making banking services accessible to people with disabilities – business continuity.

The banking corporations are required to treat the manner of making banking services accessible and giving assistance in reaching a secured emergency area, as part of managing business continuity. They are to thoroughly examine the method of making banking services accessible during operational disruptions and various emergencies, and make an effort to ensure that the assistance provided to people with disabilities in times of emergency and reaching the secured emergency area are performed swiftly, comfortably and with the required safety, while maintaining human dignity.

Amendment to Proper Conduct of Banking Business Directive No. 351 – Embezzlements by Employees and Office Holders

On 29 September 2016, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 351 – Embezzlements by Employees and Office Holders**.**

As part of the amendment, it has been clarified that any event reported by the banking corporation to the police or to any other supervision and reinforcement authorities shall be considered a "material event" in respect of the Directive.

Amendment to Proper Conduct of Banking Business Directive No. 315 regarding additional provision for doubtful debts

On 29 September 2016, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 315 regarding additional provision for doubtful debts. According to the amendment, the method by which an industry sector concentration of indebtedness is calculated shall be changed, so that the credit risk, deriving from banking housing guarantees (sales guarantees) against which the banks took out insurance with overseas insurance companies, shall be classified, in regard to this Directive, mainly under the financial services sector, rather than under credit for the real estate sector.

Amendment to Proper Conduct of Banking Business Directive No. 301A regarding the Remuneration Policy at a Banking Corporation

On 29 September 2016, the Bank of Israel published an amendment to Proper Conduct of Banking Business Directive No. 301A regarding the remuneration policy at a banking corporation.

The need for amending the directive arose following the publication of the Remuneration for Office holders in Financial Corporations Law (Special approval and non-recognition as an allowable tax deductible expense due to exceptional remuneration), 2016.

Below are the main points of the proposed amendment:

- Reducing the minimum key employee group.
- Changing the definition of "fixed remuneration" so that shares which are blocked at the time of their allotting might be recognized as fixed remuneration.
- In all matters relating to the manner of granting and paying the variable component, it was decided that predetermined criteria can include a discretionary component, providing the amount of this component does not exceed three monthly salaries per year. This amendment has, in fact, effected an amendment made to the Companies Law regarding the CEO, as well as the other key employees.
- Cancelling the requirement for a minimum holding or maturity period for capital instruments which are paid as variable non-deferred remuneration.
- Delaying the variable remuneration payment over a number of years - clarification of the fact that the payment deferrals set forth in the section shall also apply to variable remuneration which has been provided in the form of shares and share-based instruments. In addition, the threshold for variable remuneration exempt from the payment deferral requirement has been raised.

Amendment to Proper Conduct of Banking Business Directive No. 411 – Prevention of Money Laundering and Terrorism Financing, and Customer Identification

On 30 October 2016, the Banking Supervisions Department published an Amendment to Proper Conduct of Banking Business Directive No. 411 – Prevention of Money Laundering and Terrorism Financing, and Customer Identification.

As part of the amendment, it has been clarified that in trusts which are managed by a company with a trading arena license for its own account, for its customers in a banking corporation in Israel, there is no need to record beneficiaries.

Material Drafts of the Bank of Israel

Draft outline for establishing a new bank

On 14 June 2016, the Banking Supervision Department published a draft outline for establishing a new bank in Israel.

The outline includes a comprehensive regulatory infrastructure, which will enable and support the establishment of new banks, while significantly reducing the existing entry barriers. The first part of the document focuses on an outline for providing banking licenses to credit card companies, and the second part of the document focuses on the required terms and the reliefs for establishing a new bank from the ground up.

Among other things, the outline stipulates removing the barrier of requiring separate automation and operation infrastructure systems for each bank; significant reliefs regarding the capital requirements; easing the possibility of operating online banking and creating an infrastructure for establishing a branchless digital bank; giving digital banks the option to market insurance; and constructing a supervisory model and regulation suited to new and small banks.

Preparedness for management of compliance risks in view of the determination of tax offenses as predicate offenses

On 13 November 2016, the Banking Supervision Department published a draft letter, regarding preparedness for the management of compliance risks in view of the determination of tax offenses as predicate offenses.

Pursuant to the draft letter, all the provisions pertaining to the prohibition of money laundering that apply to banking corporations, shall henceforth also apply to tax offenses committed by the customer, particularly the provisions regarding those relating to "Know Your Customer", controls, monitoring and locating irregular activity.

According to the draft letter, the banking corporations are required to examine the necessary changes in the policy and in the risk assessment, to update the controls and the training arrangements, etc. In addition, the letter details a list of "red flags" – courses of action that may indicate tax offenses committed by the customers, which the bank must identify and request suitable explanations from the customers.

Pension Consulting

Circular on Explanatory Document

On 10 April 2016, the Commissioner of the Capital Market, Insurance and Savings Department in the Ministry of Finance published an updated version of an explanatory document, which is aimed at determining a new and uniform version of the explanatory document to be given to customers during pension consulting or marketing. The circular is applicable from 1 January 2017, except for the regulation included regarding a new licensee's obligation to identify the products owned by a customer using a central pension clearing system when a complete explanatory document is required to be completed, which came into effect on 1 December 2015. A licensee is permitted to apply the circular's instructions as of its date of publication.

On 31 August 2016, an updated version of the Explanatory Document Circular was published, as part of which, the provisions of the Circular shall apply to provident funds for investment as well, and on 31 October 2016, a new version was published, stipulating that the effective date of the provisions in the circular shall be on 1 July 2017.

Instructions for payment of a pension by a savings provident fund

On 20 April 2016, the Commissioner of the Capital Market, Insurance and Savings Department in the Ministry of Finance published a draft circular regarding instructions for pension payments by a savings provident fund. This draft circular was published following an amendment which was made as part of the Supervision of Financial Services Law (Provident Funds) (Amendment No. 13 and Temporary Provision), 2015 in which the definition of a provident fund not paying a pension was cancelled, and a new provident fund was defined, entitled a savings provident fund. The purpose of the aforementioned draft circular is to establish the terms and directives under which a managing company can pay a pension from a savings provident fund.

Circular on Provident Fund Encoding

On 21 April 2016 and on 13 June 2016, the Commissioner of the Capital Market, Insurance and Savings Department in the Ministry of Finance published a draft update to the instructions in the circular on provident fund encoding, which is designed to implement a uniform coding system which enables monovalent identification for each of the pension savings products, for communication between financial institutions, licensees and various information consumers.

Circular of engagement of an institutional entity with a license holder

On 3 August 2016, the Commissioner of the Capital Market, Insurance and Savings Department published an updated version of a circular of engagement of an institutional entity with a license holder, which is intended to establish directives regarding the duties imposed on license holders as part of transferring deposits of a policy holder or his employer to the institutional entities.

The provisions of the updated circular will also apply to all engagements which will be in force from 1 November 2016.

Circular on Computerized Signatures

On 31 August 2016, the Commissioner of the Capital Market, Insurance and Savings Department in the Ministry of Finance published a circular on computerized signatures, which updates the circular on computerized graphic signature. This is due to developments over recent years regarding the technological means which enable confirming the customer's identity and document content security. This circular enables customer identification through a "computerized confirmation", in accordance with the terms set for therein.

Circular on uniform structure for transferring information and data in the pension savings market

On 31 August 2016, the Commissioner of the Capital Market, Insurance and Savings Department in the Ministry of Finance published an updated version of the provisions of the circular on the uniform structure for transferring information and data in the pension savings market, which aims to expand the investment track fields as part of the uniform structure interfaces. The uniform structure circular stipulates a "unified record" structure, to be used by the various parties in the pension savings market as part of the various business transactions performed between them. The drafts include an update of fields and interfaces which are detailed in the circular.

Directives and additional issues

The Supervision of Financial Services Regulations (Provident Funds) (Purchase, Sale and Holding of Securities)

On 24 May 2016, the Capital Market, Insurance and Savings Department in the Ministry of Finance published an updated draft to the Supervision of Financial Services Regulations (Provident Funds) (Purchase, Sale and Holding of Securities) (Amendment), 2016. This draft updates and amends the version of draft regulations published on 29 July 2015, such that the current draft regulations do not refer to the obligation of separation between the operational services provided by banking corporations to financial institutions and securities purchase and sale services to those entities.

The updated version of the draft regulations includes instructions according to which, when choosing the entity which provides securities purchase and sale services as well as securities holding services, the financial institution must conduct a competitive process according to the dates and rules detailed in the draft regulations.

Recommendations of the Committee for Increasing Competition in Common Banking and Financial Services in Israel (the Strum Committee) and a proposed Law for Increasing Competition and Reducing Concentrations in the Banking Market in Israel (Legislative Amendments), 2016

On 3 June 2015, the Minister of Finance appointed the Committee for Increasing Competition in Common Banking and Financial Services in Israel (the Strum Committee). On 6 July 2016, the committee published its final recommendations, and on 1 September 2016, the Committee's final report was published. On 4 August 2016, the Knesset plenum approved the proposed Law for Increasing Competition and Reducing Concentrations in the Banking Market in Israel (Legislative Amendments), 2016, which includes provisions for implementing some of the committee's recommendations, and on 21 September 2016, an update to the proposed law was published. The revised versions of the proposal are being discussed at the Special Knesset Committee to Discuss the Bill of Increasing Competition and Reducing Concentration in Israel's Banking Market.

Below are the main points of the proposed law:

Separation of control of the credit card companies of banks:

- Within 3 years of publishing the law – cancelation of the ownership and control of banks with a broad scope of activity of the credit card companies. This date will be postponed for another year if the bank's shareholding in the means of control of the credit card company has been diminished throughout the aforementioned three years to 40% or less, providing at least 25% of the means of control were issued to the public.
  "A bank with a broad scope of activity" – a bank whose asset value exceeds 20% of the asset value of all banks in Israel.
- A bank with a broad scope of activity will not engage in issue of debit cards, will not deal with clearing, will not control and will not own the means of control in a corporation which is engaged in issuing or clearing as aforesaid. Nevertheless, such a bank will be permitted to engage in debit card issuances through a third party or to enter into an engagement with a clearinghouse.
- A bank, a large institutional entity and a significant non-banking corporation may not purchase the means of control of a debit card company from a bank with a broad scope of activity.
- Within four years of the date of publication of the law and until six years from that date, the Minister of Finance, subject to the consent of the Governor and the approval of the Knesset's Finance Committee, is entitled to provide in the regulations that the credit card companies will also be separated from a bank whose asset rate is lower than 20% of the asset value of all banks in Israel, providing that it is not less than 10%, taking into consideration, among other things, the state of the competition in the credit market.

- **Limitations that will apply to a bank issuing debit cards during the transitional period:**

  "The transitional period" – the period from the date of publication of the law until five years after that date, and, with regard to a bank with a broad scope of activity – until three years after the date on which the bank has ceased to control and hold the means of control in a debit card company, or until five years after the date on which the law was published, whichever is the later.

  - A bank that issues debit cards, which, prior to the date of publication of the law, controlled the debit card company, will engage in debit card issuance operations through an operating company.
  - After two years of the date of publication of the law until the end of the transitional period, a bank will not engage in issuance through an operating company, of more than 52% of the sum of new debit cards that it issues to its customers.

- **Additional restrictions that will apply in the transitional period only to a bank with a broad scope of activity which issues debit cards:**
  - The division of income deriving from debit card issuance and from customer activity in debit cards, between the bank and the debit card companies will be according to the engagement agreement between them, which came into effect on 3 June 2015, unless otherwise instructed by the Supervisor of Banks.
  - The bank is entitled to contact the customer regarding credit card renewal only within 45 days before the end of the credit card contract. However, it is permitted to contact the customer before the aforementioned period, in the following cases: (1) There has been a significant change in the customer's financial position; (2) The existing credit card cannot be used. The terms of the new credit card contract will be identical to the terms of the existing credit card contract.
  - After four years from the date of publication of the law until after seven years from the date of publication thereof, the total credit facility in the credit cards of the Bank's customers, in any given year, shall not exceed 50% the total credit facility in the credit cards of the Bank's customers, as it was in the year 2015.
- During the transitional period, a debit card company is permitted to use a customer's name, address and telephone number, which has been lawfully obtained before the publication of the law or during the transitional period, through the engagement in debit card issuance for a bank, in order to contact the customer for offering to provide issuance services or for offering to provide credit, even without the customer's consent. If a customer has requested that a debit card company not use his information, the company shall not be permitted to hold or use the information.
- A banking corporation will not deny a financial entity engaged in issuance of debit card issued by the banking corporation, the possibility of providing financial services, including the provision of credit to the customers of the banking corporation, and will not limit the said entity in the provision of the aforementioned services.
- A banking corporation will not adversely change the terms of the engagement agreement with a customer solely because the client has signed such an agreement or is interested in signing such an agreement for receiving services from another financial entity.
- After one year from the date of publication of the law, if a customer has contacted a banking corporation with a request to sign a credit card contract with it, or if a banking corporation has contacted a customer with such an offer, the banking corporation will distribute the credit cards of the issuers with whom it has a distribution agreement. The banking corporation will not unreasonably refuse a distribution agreement with an issuer.
- After one year from the publication of the law, a banking corporation will present information regarding the customer's debit card transactions to the customer, upon the customer's request. Presenting the information regarding transactions performed with debit cards issued by another issuer, will be identical to the presenting of information regarding transactions performed with debit cards issued by the banking corporation.
- Automatic Bank Services – the ownership structure of the interface system operator (the audited system which constitutes an interface between the issuer and the clearer for approving debit card transactions) will change, in such a way that, as of 1 June 2017, no person shall control or hold more than 10% of a certain type of the operator's means of control.

That said, anyone who controlled or held more than 10% of the operator as aforementioned prior to the publication of the law, shall be permitted to continue to control or hold said means of control, up to 4 years from the date on which the law was published, as long as, throughout this period, the means of control which the individual holds over 10% shall not grant the individual management rights, but capital rights only.

In addition, it is proposed that after one year from the publication of the law, provisions will apply to the operating company with regard to the appointment of directors, their tenure and the termination of their tenure, as long as those participating in an interface system control or hold 50% or more of a specific type of means of control or as long as there is no competing system.

Additional issues included in the proposed law:

- An advisory committee will be established, which will follow the implementation of the law, within six years from the date of publication of the law.
- After a year from the publication date of the law, if a customer requests a banking corporation the information regarding the balance in his current account in the banking corporation be furnished to a financial entity, each day or each longer period, the banking corporation will furnish the information to that entity.
- A bank will be permitted to sell computing services, which are mostly used by the bank, and the operating thereof, and lease land which the bank uses for computing and operating needs, to a lessee who will use it for that purpose. This recommendation is meant to enable banks and financial entities with a narrow scope of activity to share an existing bank.

Additional recommendation included in the Committee's report:

- Lowering the regulatory barriers for new banks entering the retail field.
- Investment houses, institutional entities and companies related to institutions will be provided with incentives to offer consumers retail credit.
- The completion of the regulation which will apply to non-banking financing companies (including P2P). Companies under supervision will be able to be linked to the payment systems.
- Increasing competition between existing banks –banks that are not large banks will be permitted to cooperate among themselves, as well as with other non-banking entities, in pooling IT resources.
- Setting a horizon and reliefs for new competitors – the Government assistance in computer services and setting mitigating terms for credit associations, including all things pertaining to minimum capital requirements.
- Determining the customer's right to register an additional lien in order to receive credit from an additional financer, while prohibiting the bank which holds an existing lien to set unreasonable conditions for the customer's right to pledge an additional lien.
- Determining insurance for deposits made in banks – all the banks will be obliged to insure the deposits made with them in the insuring authority. The parameters of the insurance will be determined, *inter alia*, on the basis of the Bank's risk level and systemic risk. A ceiling ill established for the amount of a single customer's insured deposit in each bank. At the same time, the construction of the protection scheme for risk assets in regulated financial entities will be examined.
- Regulating payment services in accordance with principles generally accepted around the world, adapting them to the domestic market, and determining terms of access to the controlled payment systems.
- Customers will be able to consume any banking or financial service in credit, deposits and payments, not only from the parent company of the bank where their accounts are held.
- Designing technological tools for the consumer for searching and comparing costs digitally.
- Authorizing supervised entities to perform financial shopping for the customer.

Pursuant to the committee's recommendations, the following provisions have been published:

- With regard to the lowering of the regulatory barriers for new banks entering the retail field, on 14 June 2016, the Banking Supervision Department has published a draft outline for establishing a new bank in Israel, including a comprehensive and facilitating regulatory infrastructure for establishing new banks.
- As part of promoting competition in the debit card market, on 18 July 2016, the Bank of Israel published a protocol for entering into transactions through debit cards and using them. The protocol reflects the professional and technical rationale according to which debit card transactions are carried out, and its publication is intended to enable additional players to operate within different market segments.
- With regard to the regulation of the payment services, on 31 July 2016, the Bank of Israel published the terms for accessing the controlled payment systems.

Implementing the abovementioned recommendations will oblige the Bank to sell its holdings in Leumi Card. The implementation of all of these recommendation could significantly harm the Bank's sources of income, as well as create inferiority, due to regulatory directives, compared with competitors in some of the areas of activity.

The Committee for Promoting Advanced Electronic Means of Payment – Statement of Principles for the Regulation of Payment Services

On 5 October 216, the Committee for Promoting Advanced Electronic Means of Payment published a Statement of Principles for the Regulation of Payment Services. The Statement is intended to serve as a basis for the memorandum to the Payment Services Law.

According to the Statement of Principles, the payment services to be regulated in the memorandum to the law are managing a payment account (current account); performing payment transactions from a payment account or to a payment account, such as deposits, withdrawals and money transfers; issuing means of payment and clearing of payment transactions.

The regulation of the payment services is intended to enable non-banking entities to manage accounts for their customers and provide them with payment services, including issuing methods of payment, clearing payment transactions and transferring payments.

The Statement of Principles refers to two main issues:

a. Licensing the activity of entities which are interested in providing payment services.
b. Protecting the interests of the customers of the aforementioned entities, including determining uniform terms of service and consumer protections to customers, and ensuring the customers' money.

The Committee's work was based on the European Directive on Payment Services (PSD2) with the required adjustments for the local market.

The Treasury Plan – long term savings for children.

On 22 June 2016, the Ministry of Finance published a draft memorandum National Insurance Regulations (Long-term Savings for a Child), 2016. According to the regulations, as of January 2017, the National Insurance Institute will deposit NIS 50 per month for every child under the age of 18, into a designated savings account in the child's name.

The regulations were published pursuant to the amendment to the National Insurance Law dated 30 November 2015, which stipulated that the National Insurance Institute will transfer NIS 50 per month for children for which child allowance is paid for long term saving for the child, and the child's parent shall be permitted to instruct the National Insurance Institute to add an additional sum to this amount each month, out of the child allowance amount. According to the National Insurance Ordinance – (The Additional Savings Amount), 2016, published on 5 September 2015, the additional amount shall be NIS 50. The draft regulations address the method of choosing the entity which shall manage the savings – provident fund or bank, as well as choosing investment tracks.

On 26 September 2016, the Ministry of Finance published a request for proposals for choosing banks and provident funds as managers of the long term saving fund.

Memorandum Joint Investments in Trust Law (Amendment No.)(Exchange Traded Funds), 2016.

On 6 October 2016, the Ministry of Finance published the Memorandum Joint Investments in Trust Law (Amendment No.) (Exchange Traded Funds), 2016.

In the memorandum, it is proposed to apply the Joint Investments in Trust Law to exchange traded funds and currency funds (together, hereinafter – "ETFs"), to close the regulatory gap which currently exists between ETF activity and the mutual fund activity.

Furthermore, is it proposed to lay down the legal infrastructure for the establishment of a new investment product, an "Exchange Traded" type of mutual fund, which is similar to the tradable mutual funds (ETFs) that are customary in many countries in the world, and to give the Minister of Finance the authority to determine which provisions will apply to ETFs.

International regulation

Base Erosion Profit Shifting (BEPS)

BEPS is a program initiated by the G20 Forum, in cooperation with the OECD, in order to cope with the international tax plans of global companies, which transfer their profits to territories with beneficial tax authorities, and in many cases, even to tax havens, where there is no tax whatsoever. The project includes a comprehensive work plan which will provide information, analysis, courses of action and recommendations for dealing with the phenomenon. Courses of action have been developed in order to provide governments with tools for handling, on a local and international scale, the tax plans and assisting countries in ensuring that the profits will be taxable in the location in which the corporation's financial activity takes place and the value is produced, and provide businesses with a greater certainty as a result of reducing disputes regarding international taxation. The BEPS's action plan includes 15 operative recommendations, divided into three categories: consistency, content and transparency. As part of the transparency category, the OECD recommends obligating multi-national corporations with a turnover of over 750 million euros to hand over to the relevant tax authorities reports which are intended to enable the tax authorities in the relevant countries to examine whether a justified diversion of profits has been made between the linked corporations. The recommendations will most likely be expressed in a local legislation. On 13 May 2016, Israel signed up to the implementation of the multilateral convention for country-by-country reporting ("CBC"). The Bank has begun preparing for implementing the recommendations.

FATCA and the OECD uniform reporting standard for automatic exchange of information

A law for amending the Income Tax Ordinance (No. 227), 2016, regarding implementing the FATCA agreement and the information exchange agreements between Israel and the OECD countries.

As part of implementing the FATCA agreement and preparing to sign agreements in accordance with the uniform reporting standard for automatic exchanging of information regarding the OECD financial accounts, the CRS Standard (regarding the Standard – see details below), the Law to Amend the Income Tax Ordinance (No. 227), 2016 was published on 14 July 2016. Its main points are:

A. Amendments to the Income Tax Ordinance:

- Authorizing the Finance Minister to provide directives in the regulations regarding actions that are to be performed by a reporting Israeli financial institution.
- Authorizing the Finance Minister to establish terms in the regulations that, if met, a reporting Israeli financial institution will close a new account opened after 30 June 2014, where, in respect thereof, the financial institution was unsuccessful in obtaining declarations or documents.
- Placing financial sanctions on financial institutions for failing to perform an identification process of an account holder as required, and for withholding information/sending partial information regarding accounts held with them.
- A temporary provision was established, including reliefs regarding financial sanctions for violations by the financial institution.
- Authorizing the Israel Tax Authority to divulge information to the tax authorities of another country in accordance with an international agreement.

  For further information, see the Law to Amend the Income Tax Ordinance (No. 207), 2015
- The Finance Minister will be given the authority, in certain cases, to provide directives regarding an Israeli financial institution, notifying the customers that they are to be included in a report to a foreign tax authority.

B. Amendments to the Prohibition of Money Laundering Law:

- A financial institution will be permitted to make use of identifying information which it obtained through the Prohibition of Money Laundering Law, while performing their duty, for purposes of FATCA or for upholding an international agreement.

- Adapting the term "control" within the Prohibition of Money Laundering Law to the recommendations of the Financial Action Task Force (FATF):
    1. Clarifying that there is a need to locate the individual who is the controlling shareholder of a corporation.
    2. Determining a presumption according to which the holding of 25% of a certain type of control in a corporation, rather than the 50% currently required, is sufficient in order to consider the owner a "controlling shareholder", if there is no other person who owns a higher percentage.
    3. Determining that in cases where there is no single controlling shareholder, the chairman of the board of directors and the chief executive officer will be considered as controlling shareholders, and if there are no such officeholders – the officeholder who has effective control of the corporation.

The law will come into effect on the date of publication of the regulations which will come into effect under this law. The subject of the monetary sanctions and the amendment of the definition of "controlling shareholder" in the Prohibition of Money Laundering Law will come into effect six months from the date of the publication of the regulations – published 4 August 2016. In order for the law to be applied, a temporary provision has stipulated the definition of a controlling shareholder, which shall apply for a period of six months as of the day of commencement.

Standard for Automatic Exchange of Financial Account Information - OECD

The OECD published a standard for implementing uniform reporting for automatic exchange of financial account information between countries (hereinafter, "the standard"). This standard was created with the U.S. FATCA in mind, and was designed to increase the transparency and the supervision of the tax reports of residents in the OECD countries. The model was approved in principle by the G-20 Committee in September 2013. On 21 July 2014, the OECD published a guide for implementing the Standard.

The reporting standard is comprised of two parts:

1. The CRS (Common Reporting Standard) model, which obligates financial institutions to identify and report reportable financial accounts managed by them. The model determines the financial institutions which are obliged to report, the account types that are to be reported, the type of information that must be transferred and the due diligence processes that the financial institutions must apply.
2. The CAA (Competent Authority Agreement) model, which is the foundation for the legal agreements to be signed between the various countries for the exchange of information that will be received from the financial institutions.

Currently, over 90 countries have committed to the Standard, 60 of which have committed to early adoption of the Standard (implementation began on 1 January 2016, and initial reporting in September 2017). Israel is not among the early adopting countries. In October 2014, the Ministry of Finance stated that "Israel shall adopt the procedure for automatic exchanging of financial account information for tax purposes by the end of 2018". On 24 November 2015, Israel joined the multilateral convention regarding mutual administrative assistance for tax matters. Israel is the 91st country to join the convention. Signing the convention is yet another important step towards adopting the CRS Standard is Israel and enhancing Israel's status as a country striving to improve global transparency for tax purposes.

On 13 May 2016, the Israel Tax Authority Manager, Moshe Asher, signed to enroll Israel in the Competent Authority Agreement for the implementation of the multilateral convention for the automatic exchange of financial information ("CRS") and for the implementation of the multilateral convention for country-by-country reporting ("CRS").

The agreement and the standard provide, *inter alia*, directives regarding the type of information that the countries shall divulge, the date on which to divulge the information and the financial entities that will be obliged to divulge the information to the tax authorities. The implementation of the agreement and the standard will commence on 1 January 2017, with the first report by the State of Israel expected in September 2018.

For the purpose of implementing the Standard, on 26 November 2015, the Law to Amend the Income Tax Ordinance (No. 207) was enacted, authorizing the Ministry of Finance to sign the agreements with the other countries, obligate the financial entities to divulge the information to the Israel Tax Authority, and transfer the information to the relevant countries.

Leumi continues to implement the FATCA requirements and to make preparations for meeting the requirements of the OECD Standard for Automatic Exchange of Information (CRS).

Credit Rating

The table below shows the credit ratings of Israel and of the Bank on 10 November 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+	stable	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 Bank 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 from stable to positive.

On 5 August 2016, S&P credit rating agency affirmed the rating of the State of Israel and the rating outlook.

On 1 September 2016, Fitch rating agency affirmed the Bank's rating and rating outlook.

On 26 September 2016, Moody's rating agency affirmed the Bank's rating and rating outlook.

On 11 November 2016, Fitch rating agency raised the rating of the State of Israel. The rating of the State of Israel for the long term was raised to A+ and for the short term to F1+. The rating outlook was updated to stable.

David Brodet

Chairman of the Board of Directors

Rakefet Russak-Aminoach

President and Chief Executive Officer

Appendix 1 - Rates of Income and Expenses[a] and an Analysis of the Changes in Income and Expenses

Part A – Average balances and interest rates - assets

	For the three months ended 30 September					
	2016			2015		
	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	**240,039**	**2,154**	**3.64**	231,949	2,075	3.63
Outside Israel	**23,188**	**229**	**4.01**	22,105	236	4.34
Total (i)	**263,227**	**2,383**	**3.67**	254,054	2,311	3.69
Credit to the Government						
In Israel	**543**	**6**	**4.49**	438	5	4.64
Outside Israel	**22**	**-**	**-**	-	-	-
Total	**565**	**6**	**4.32**	438	5	4.64
Deposits in banks						
In Israel	**7,486**	**19**	**1.02**	9,613	12	0.50
Outside Israel	**723**	**5**	**2.80**	743	2	1.08
Total	**8,209**	**24**	**1.17**	10,356	14	0.54
Deposits in central banks						
In Israel	**32,991**	**9**	**0.11**	26,053	7	0.11
Outside Israel	**6,083**	**1**	**0.07**	4,824	(2)	(0.17)
Total	**39,074**	**10**	**0.10**	30,877	5	0.06
Securities borrowed or purchased under resale agreements						
In Israel	**1,243**	**1**	**0.32**	1,389	1	0.29
Total	**1,243**	**1**	**0.32**	1,389	1	0.29
Bonds available for sale (d)						
In Israel	**65,008**	**146**	**0.90**	44,080	81	0.74
Outside Israel	**5,122**	**27**	**2.13**	4,306	22	2.06
Total	**70,130**	**173**	**0.99**	48,386	103	0.85
Bonds for trading (d)						
In Israel	**12,103**	**8**	**0.26**	10,592	24	0.91
Outside Israel	**86**	**2**	**9.63**	330	-	-
Total	**12,189**	**10**	**0.33**	10,922	24	0.88
Total interest-bearing assets	**394,637**	**2,607**	**2.67**	356,422	2,463	2.79
Receivables for non-interest bearing credit ca	**6,979**			7,045(j)		
Other non-interest bearing assets (e)	**33,210**			38,381(j)		
Total assets	**434,826**	**2,607**	**-**	401,848	2,463	-
Total income-bearing assets attributable to activity outside Israel	**35,224**	**264**	**3.03**	32,308	258	3.23

See notes on page #243.

Part B – Average balances and interest rates – liabilities and equity

	For the three months ended 30 September					
	2016			2015		
	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	**238,294**	**(346)**	**(0.58)**	221,799	(293)	(0.53)
On demand	**70,744**	**(6)**	**(0.03)**	59,660	(3)	(0.02)
Fixed term	**167,550**	**(340)**	**(0.81)**	162,139	(290)	(0.71)
Outside Israel	**17,920**	**(34)**	**(0.76)**	15,432	(32)	(0.83)
On demand	**4,360**	**(2)**	**(0.18)**	2,452	(2)	(0.33)
Fixed term	**13,560**	**(32)**	**(0.95)**	12,980	(30)	(0.92)
Total	**256,214**	**(380)**	**(0.59)**	237,231	(325)	(0.55)
Deposits of the Government						
In Israel	**147**	**(1)**	**(2.75)**	158	(1)	(2.51)
Outside Israel	**551**	**-**	**-**	487	-	-
Total	**698**	**(1)**	**(0.57)**	645	(1)	(0.62)
Deposits from central banks						
In Israel	**8**	**-**	**-**	-	-	-
Total	**8**	**-**	**-**	-	-	-
Deposits from banks						
In Israel	**4,696**	**(3)**	**(0.26)**	5,514	(4)	(0.29)
Outside Israel	**21**	**-**	**-**	30	-	-
Total	**4,717**	**(3)**	**(0.25)**	5,544	(4)	(0.29)
Securities lent or sold under resale						
In Israel	**672**	**(1)**	**(0.59)**	630	(1)	(0.63)
Total	**672**	**(1)**	**(0.59)**	630	(1)	(0.63)
Bonds						
In Israel	**23,980**	**(252)**	**(4.27)**	21,598 (j)	(257)	(4.85)
Total	**23,980**	**(252)**	**(4.27)**	21,598	(257)	(4.85)
Total interest-bearing liabilities	**286,289**	**(637)**	**(0.89)**	265,648	(588)	(0.88)
Non-interest bearing deposits of the public	**80,462**	**-**	**-**	72,330 (j)	-	-
Payables for non-interest bearing credit	**6,496**	**-**	**-**	7,215 (j)	-	-
Other non-interest bearing liabilities (f)	**31,225**	**-**	**-**	29,010	-	-
Total liabilities	**404,472**	**(637)**	**-**	374,203	(588)	-
Total capital means	**30,354**	**-**	**-**	27,644	-	-
Total liabilities and capital means	**434,826**	**(637)**	**-**	401,847	(588)	-
Interest margin	**-**	**1,970**	**1.78**	-	1,875	1.91
Net yield (g) on income-bearing assets						
In Israel	**359,413**	**1,740**	**1.95**	324,114	1,649	2.05
Outside Israel	**35,224**	**230**	**2.64**	32,308	226	2.83
Total	**394,637**	**1,970**	**2.01**	356,422	1,875	2.12
Total income-bearing liabilities attributable to activity outside Israel	**18,492**	**(34)**	**(0.74)**	15,949	(32)	(0.80)

See notes on page #243.

Part A – Average balances and interest rates – assets

	For the nine months ended 30 September					
	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	**239,641**	**5,885**	**3.29**	227,288	5,644	3.32
Outside Israel	**23,096**	**693**	**4.02**	22,864	673	3.94
Total (i)	**262,737**	**6,578**	**3.35**	250,152	6,317	3.38
Credit to the Government						
In Israel	**468**	**13**	**3.72**	442	12	3.64
Outside Israel	**7**	**-**	**-**	17	-	-
Total	**475**	**13**	**3.67**	459	12	3.50
Deposits in banks						
In Israel	**8,036**	**50**	**0.83**	9,891	48	0.65
Outside Israel	**696**	**13**	**2.50**	953	11	1.54
Total	**8,732**	**63**	**0.96**	10,844	59	0.73
Deposits in central banks						
In Israel	**32,640**	**26**	**0.11**	27,013	28	0.14
Outside Israel	**5,520**	**3**	**0.07**	4,855	3	0.08
Total	**38,160**	**29**	**0.10**	31,868	31	0.13
Securities borrowed or purchased under resale agreements						
In Israel	**1,488**	**2**	**0.18**	1,787	3	0.22
Total	**1,488**	**2**	**0.18**	1,787	3	0.22
Bonds available for sale (d)						
In Israel	**60,228**	**422**	**0.94**	41,365	240	0.77
Outside Israel	**4,935**	**74**	**2.00**	4,672	56	1.60
Total	**65,163**	**496**	**1.02**	46,037	296	0.86
Bonds for trading (d)						
In Israel	**10,764**	**48**	**0.60**	11,260	61	0.72
Outside Israel	**49**	**7**	**19.49**	308	4	1.74
Total	**10,813**	**55**	**0.68**	11,568	65	0.75
Total interest-bearing assets	**387,568**	**7,236**	**2.50**	352,715	6,783	2.58
Receivables for non-interest bearing credit ca	**6,114**			6,134 (j)		
Other non-interest bearing assets (e)	**36,926**			42,936 (j)		
Total assets	**430,608**	**7,236**	**-**	401,785	6,783	-
Total income-bearing assets attributable to activity outside Israel	**34,303**	**790**	**3.08**	33,669	747	2.97

See notes on page #243.

Part B – Average balances and interest rates – liabilities and equity

	For the nine months ended 30 September					
	2016			2015		
	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	**239,952**	**(848)**	**(0.47)**	221,478	(688)	(0.41)
On demand	**71,383**	**(10)**	**(0.02)**	59,557	(10)	(0.02)
Fixed term	**168,569**	**(838)**	**(0.66)**	161,921	(678)	(0.56)
Outside Israel	**16,614**	**(96)**	**(0.77)**	16,513	(93)	(0.75)
On demand	**3,633**	**(6)**	**(0.22)**	2,714	(5)	(0.25)
Fixed term	**12,981**	**(90)**	**(0.93)**	13,799	(88)	(0.85)
Total	**256,566**	**(944)**	**(0.49)**	237,991	(781)	(0.44)
Deposits of the Government						
In Israel	**153**	**(3)**	**(2.62)**	147	(3)	(2.71)
Outside Israel	**602**	**-**	**-**	401	-	-
Total	**755**	**(3)**	**(0.53)**	548	(3)	(0.73)
Deposits from central banks						
In Israel	**3**	**-**	**-**	-	-	-
Total	**3**	**-**	**-**	-	-	-
Deposits from banks						
In Israel	**4,465**	**(8)**	**(0.24)**	5,006	(11)	(0.29)
Outside Israel	**17**	**-**	**-**	43	-	-
Total	**4,482**	**(8)**	**(0.24)**	5,049	(11)	(0.29)
Securities lent or sold under resale agreements						
In Israel	**854**	**(2)**	**(0.31)**	1,009	(3)	(0.40)
Total	**854**	**(2)**	**(0.31)**	1,009	(3)	(0.40)
Bonds						
In Israel	**24,429**	**(620)**	**(3.40)**	21,018(j)	(594)	(3.79)
Outside Israel	**-**	**-**	**-**	-(j)	-	-
Total	**24,429**	**(620)**	**(3.40)**	21,018	(594)	(3.79)
Total interest-bearing liabilities	**287,089**	**(1,577)**	**(0.73)**	265,615	(1,392)	(0.70)
Non-interest bearing deposits of the public	**78,611**	**-**	**-**	71,020	-	-
Payables for non-interest bearing credit cards	**6,152**	**-**	**-**	6,766(j)	-	-
Other non-interest bearing liabilities (f)	**29,237**	**-**	**-**	31,160(j)	-	-
Total liabilities	**401,089**	**(1,577)**	**-**	374,561	(1,392)	-
Total capital means	**29,520**	**-**	**-**	27,225	-	-
Total liabilities and capital means	**430,609**	**(1,577)**	**-**	401,786	(1,392)	-
Interest margin	**-**	**5,659**	**1.76**	-	5,391	1.88
Net yield (g) on income-bearing assets						
In Israel	**353,265**	**4,965**	**1.88**	319,046	4,737	1.98
Outside Israel	**34,303**	**694**	**2.71**	33,669	654	2.60
Total	**387,568**	**5,659**	**1.95**	352,715	5,391	2.04
Total income-bearing liabilities attributable to activity outside Israel	**17,233**	**(96)**	**(0.74)**	16,957	(93)	(0.73)

See notes on page #243.

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 30 September					
	2016			2015		
	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	**51,941**	**600**	**4.70**	52,285	577	4.49
Total interest-bearing liabilities	**40,828**	**(359)**	**(3.56)**	41,869	(384)	(3.72)
Interest margin			**1.14**			0.77
Unlinked Israeli currency						
Total interest-bearing assets	**254,690**	**1,503**	**2.38**	227,027	1,426	2.54
Total interest-bearing liabilities	**184,940**	**(163)**	**(0.35)**	173,644 (j)	(126)	(0.29)
Interest margin			**2.03**			2.25
Foreign currency						
Total interest-bearing assets	**52,782**	**240**	**1.83**	44,802	202	1.82
Total interest-bearing liabilities	**42,029**	**(81)**	**(0.77)**	34,186 (j)	(46)	(0.56)
Interest margin			**1.06**			1.26
Total activity in Israel						
Total interest-bearing assets	**359,413**	**2,343**	**2.63**	324,114	2,205	2.75
Total interest-bearing liabilities	**267,797**	**(603)**	**(0.90)**	249,699 (j)	(556)	(0.90)
Interest margin			**1.73**			1.85

See notes on page #243.

Part C – Average balances and interest rates – additional information on interest-bearing assets and liabilities attributed to activity in Israel

	For the nine months ended 30 September					
	2016			2015		
	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	**51,380**	**1,227**	**3.20**	53,080	1,220	3.08
Total interest-bearing liabilities	**42,291**	**(780)**	**(2.47)**	42,656(j)	(800)	(2.46)
Interest margin			**0.73**			0.62
Unlinked Israeli currency						
Total interest-bearing assets	**250,707**	**4,504**	**2.40**	218,760	4,189	2.56
Total interest-bearing liabilities	**185,562**	**(467)**	**(0.34)**	168,824(j)	(373)	(0.29)
Interest margin			**2.06**			2.27
Foreign currency						
Total interest-bearing assets	**51,178**	**715**	**1.87**	47,206	627	1.77
Total interest-bearing liabilities	**42,003**	**(234)**	**(0.74)**	37,178	(126)	(0.45)
Interest margin			**1.13**			1.32
Total activity in Israel						
Total interest-bearing assets	**353,265**	**6,446**	**2.44**	319,046	6,036	2.53
Total interest-bearing liabilities	**269,856**	**(1,481)**	**(0.73)**	248,658(j)	(1,299)	(0.70)
Interest margin			**1.71**			1.83

See notes on page #243.

Part 1 - Rates of Income and Expenses(a) and an Analysis of the Changes in Income and Expenses (cont.)

Part D – Analysis of changes in interest income and interest expenses

	2016 compared to 2015			2016 compared to 2015		
	For the three months ended 30 September			For the nine months ended 30 September		
	Increase (decrease) due to change (h)		Net change	Increase (decrease) due to change (h)		Net change
	Amount	Price		Amount	Price	
	(NIS millions)			(NIS millions)		
Interest-bearing assets						
Credit to the public						
In Israel	**73**	**6**	**79**	**303**	**(62)**	**241**
Outside Israel	**11**	**(18)**	**(7)**	**7**	**13**	**20**
Total	**84**	**(12)**	**72**	**310**	**(49)**	**261**
Other interest-bearing assets						
In Israel	**43**	**16**	**59**	**108**	**61**	**169**
Outside Israel	**5**	**8**	**13**	**3**	**20**	**23**
Total	**48**	**24**	**72**	**111**	**81**	**192**
Total interest income	**132**	**12**	**144**	**421**	**32**	**453**
Interest-bearing liabilities						
Deposits of the public						
In Israel	**24**	**29**	**53**	**65**	**95**	**160**
Outside Israel	**5**	**(3)**	**2**	**1**	**2**	**3**
Total	**29**	**26**	**55**	**66**	**97**	**163**
Other interest-bearing liabilities						
In Israel	**14**	**(20)**	**(6)**	**58**	**(36)**	**22**
Total	**14**	**(20)**	**(6)**	**58**	**(36)**	**22**
Total interest expenses	**43**	**6**	**49**	**124**	**61**	**185**

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 619 million respectively (30 September 2015 – NIS 485 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-month and six-month period in an amount of NIS 125 million and NIS 227 million, respectively, have been included in interest income from credit to the public (30 September 2015 – NIS 117 million and NIS 366 million, respectively).

(j) Reclassified.